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LCA  
REGIONAL SEMINAR ON "COOPERATIVE CREDIT WITH  
SPECIAL REFERENCE TO JAPAN"

Tokyo, Japan - 10 - 28 April, 1973



C O N T E N T S

Page

I.	CONCLUSIONS AND RECOMMENDATIONS	...	1
II.	PROGRAMME	...	10
III.	LIST OF PARTICIPANTS	...	14
IV.	BACKGROUND PAPERS		
1.	Bangladesh - Paper on Cooperative Credit Movement in Bangladesh by participants from Bangladesh	...	20
2.	India - Cooperative Movement in India by Mr J.B.Patil	...	37
3.	India - Cooperative Long Term Credit in Andhra Pradesh by Mr G.V.C. Reddy	...	46
4.	India - Background Paper by Mr R.Srinivasan	...	58
5.	Indonesia - Credit System and Credit Cooperatives by Mr Christophorus Partowidodo	...	81
6.	Indonesia - Cooperative Development in Indonesia by Mr Rochijat Mangkoetenojo	...	94
7.	Iran - Iranian Cooperative Movement - with special Reference to Credit Activity	...	112
8.	Japan - Cooperative Credit Movement in Japan by Mr H. Ohmi	...	116
9.	Rep. of Korea - Background Paper by participants from the Republic of Korea	...	120
10.	Malaysia - Cooperative Credit Movement in Malaysia by Encik P. Ramasamy	...	134
11.	Malaysia - Cooperative Credit in Malaysia by Mr Ariffin bin Noor Mohammad	...	160
12.	Nepal - The Cooperative Credit Movement in Nepal by Mr P. Lal	...	173

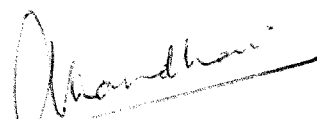
Background Papers (Contd.)

13.	Pakistan - Cooperative Credit Movement in West Pakistan by Mr Muhammad Rafique	...	180
14.	Cooperative Credit Movement in the Philippines by participants from the Philippines	...	191
15.	Singapore - Cooperative Credit Movement in Singapore by participants from Singapore	...	204
16.	Thailand - Agricultural Cooperative Credit Movement in Thailand - Mr V. Inthachat	...	216
17.	Thailand - Progress of the Thrift and Loan Societies in Thailand by Mr Pradit Machima	...	230
V.	OBSERVATIONS ON STUDY VISITS	...	234
VI.	GROUP REPORTS I	...	241
	GROUP REPORTS II	...	254
	GROUP REPORTS III	...	264
VII.	WORKING PAPERS		
1.	Aims and Principles of Cooperation and their application in different countries by Mr J.M. Rana	...	272
2.	Contribution of Cooperative Credit to Agricultural Development in India by Dr C.D. Datey	...	298
3.	Loaning Policies and Practices of District Cooperative Banks and the Primary Societies in Respect of Farmers in India by Dr C.D. Datey	...	319
4.	Factors Responsible for Success or Otherwise of Rural Credit Cooperatives in India by Dr C.D. Datey	...	334
5.	Problems of Agricultural Cooperative Credit in South-East Asia by Mr Lionel Gunawardana	...	353
6.	Mobilisation of Resources in the South-East Asian Region (ACDB Proposal) by Mr M.V. Madane	...	385
7.	Introduction to Agricultural Cooperatives of Japan by Mr Shiro Futagami	...	403
8.	Introduction to Agricultural Finance by Mr Kanichi Suzuki	...	408

Working Papers (Contd.)

9.	Development of Credit Through Agricultural Cooperatives by Mr Shozo Nagata	...	410
10.	Present situation of Agricultural Cooperative Credit by Mr Misao Saito	...	416
11.	System and Practice of Agricultural Cooperative Financing with Special Reference to Member Farmers by Mr Kenji Yamashita	...	419
12.	System and Practice of Agricultural Cooperative Loaning and its Control by Mr Kozo Nakamura	...	423
13.	System and Practice of Agricultural Cooperative's Loanings and its Control by Mr Kozo Nakamura	...	425
14.	Problems and Tasks of Agricultural Cooperative Credit Activities by Mr Yuzo Tanaka	...	432

New Delhi  
June 4, 1973

  
Ashok Kandhari  
Seminar Secretary

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INTERNATIONAL COOPERATIVE ALLIANCE  
Regional Office & Education Centre  
for South-East Asia, PO Box 3312,  
43 Friends' Colony, New Delhi-14, India

C/o IDACA/Tokyo

April 30, 1973

Dear Cooperator,

The International Co-operative Alliance Regional Office and Education Centre for South-East Asia held in Tokyo, Japan, from 10-28 April, 1973 a Regional Seminar on Co-operative Credit with Special Reference to Japan. This seminar was held in collaboration with the Central Union of Agricultural Cooperatives of Japan and the Institute for the Development of Agricultural Cooperation in Asia (IDACA). I take pleasure in sending herewith a set of documentation presented at the seminar for the use of your movement.

2. The report of the seminar will be forwarded to you later on.

With best wishes,

Yours sincerely,



J.M. Rana  
Director (Education)

cc: Other member-organisations in the country.  
cc: Member/Advisory Council  
cc: FAO, Rome/ ILO Geneva/ ILO Bangkok/ ECAFE Bangkok

REGIONAL SEMINAR ON CO-OPERATIVE CREDIT WITH SPECIAL  
REFERENCE TO JAPAN, Tokyo, Japan : 10-28 April, 1973

CONCLUSIONS AND RECOMMENDATIONS

The Regional Seminar on Cooperative Credit with special reference to Japan was held from 10th to 28th April, 1973 at the premises of the Institute for the Development of Agricultural Cooperation in Asia (IDACA). The seminar was jointly held by the International Co-operative Alliance Regional Office & Education Centre for South-East Asia, the Central Union of Agricultural Cooperatives of Japan and the Institute for the Development of Agricultural Cooperation in Asia, Tokyo. Twenty-five participants from Bangladesh, India, Indonesia, Iran, Japan, the Republic of Korea, Malaysia, Nepal, Pakistan, the Philippines, Singapore and Thailand attended the seminar. Dr S.G. Madiman, Senior Officer, Marketing and Credit Service, Agricultural Services Division of the F.A.O., Rome, and Dr Mohinder Singh, Deputy Chief, UN/ECAFE, Bangkok attended the seminar for few days as observers.

2. The seminar was preceded by a five day study visits of agricultural cooperatives in the Republic of Korea.
3. This document is not the full report of the discussions which took place at the seminar. It gives only the major conclusions and recommendations.
4. The seminar recommended the adoption of an integrated approach to rural development. For this purpose it was suggested that the organisation at the grass-roots level in the rural areas should be the multi-purpose cooperative society covering both farmers as well as non-farmers as members in its area of operations. The society should provide a package of services needed by the farmers such as credit, agricultural inputs, joint utilisation of agricultural machinery, marketing facilities, and extension advice for improving agricultural productivity as well

as home life. The society would also supply consumer articles and other services needed by the non-farmer members such as artisans, teachers, etc. However, the main emphasis in the activities of the societies should be on the provision of services to farmer members.

5. The seminar was of the opinion that while both farmers and non-farmers should be allowed to join as members in a multi-purpose cooperative society, the bulk of members should comprise farmers having identical interests. However, the seminar emphasised that private money-lenders, traders and other persons whose interests conflict with those of the members of the societies should be excluded from membership of the cooperative society.

6. The seminar recommended that in order that multi-purpose societies are able to provide services effectively, it was essential that the size of the primary society should be large enough so as to make it viable. The size of the society should be determined keeping in view also the need for sustaining which is consistent with member interest and member participation. The seminar suggested that, wherever necessary, amalgamation of societies be carried out to make them viable and to provide for their future development.

7.1 The seminar was of the opinion that the state should provide adequate support to agriculture and agricultural cooperatives in order to ensure the development of the farm economy and to promote the economic and social welfare of the farmers. The experience of Japan indicated that a well formulated and implemented policy for promoting agricultural development would create the climate and conditions so very necessary for the development of agricultural cooperatives.

The main measures suggested by the seminar for state support to agriculture comprised the following :

- i) A rational land tenure system which would ensure ownership of the land by the cultivators, thus eliminating absentee landlords,

- ii) Programmes for land development such as land consolidation, reclamation of land, and provision of irrigation and drainage facilities,
- iii) Formulation and implementation of programmes for diversification of agriculture such as development of live-stock rearing, dairying and fruits and vegetables cultivation,
- iv) Provision of adequate volume of long-term loans of the duration of 20 - 30 years at concessional rates as in Japan for (ii) and (iii) mentioned above,
- v) Price support policies, aimed at guaranteeing the farmer minimum prices for his produce,
- vi) Provision of adequate agricultural extension services, and
- vii) Development of infra-structure.

7.2 The seminar recommended that appropriate policies in the above areas should be formulated by the State in order to ensure sustained growth of agriculture. Agricultural development policies should be formulated on a long-term basis after carrying out careful studies and these policies should be administered consistently. It is only when such steps are taken that a proper economic and social climate would be created for achieving successful and speedy agricultural development.

8.1 The seminar recommended that all policies aimed at developing agricultural cooperatives should be such as would promote genuine cooperative organisations in accordance with the principles of Cooperation adopted by the I.C.A. Congress held in 1966.

8.2 The seminar felt that substantial financial aid from the government was necessary to promote the development of agricultural cooperatives. However, when such aid is provided it should be given in such a manner that cooperatives can function as autonomous bodies without any increase of government control in the form of nominations on the Board of Directors of cooperatives, etc. The

seminar felt that the government should utilise the existing machinery which is adequate to safeguard the proper use of funds provided by it.

8.3 The seminar felt that one of the effective ways in which government could assist cooperative development was through provision of equity capital to agricultural cooperatives on a matching basis. However, even in such cases the seminar did not consider it necessary to have any government nominations on the Board of Directors. The available experience suggested that, where such nominations were made, they did not strengthen the management of cooperatives. On the other hand, this practice brought in its wake increased political problems in regard to the operations of cooperative organisations and led to passivity on the part of the elected board members.

8.4 Other forms of financial aid to agricultural cooperatives recommended by the seminar were as follows :

- i) grants-in-aid and low interest loans, on a long-term basis for construction of warehouses at the local, regional and national levels,
- ii) establishing agro-based industries on cooperative basis for processing of agricultural produce and production of agricultural requisites such as fertilizers and agricultural chemicals,
- iii) purchase of trucks and other vehicles for transport purposes,
- iv) purchase of agricultural machinery and equipment such as tractors, insecticides, sprayers and harvester combines for joint use by the farmer members.

9. The seminar was of the view that one of the most important factors for the success of cooperative enterprises was leadership. In this connection the seminar recommended that the government and national/regional federations of cooperatives should give high priority to education of members in farming techniques and in cooperative matters so as to create a well-informed membership and so as to create conditions for the emergence of proper leadership. In the



context of the low educational levels among the members in most countries of the region, it should also be the task of the authorities responsible for cooperative development - governmental and non-governmental - to identify progressive leaders and to assist them to come to the fore. These authorities should also ensure that vested interests do not acquire control of cooperatives for the purpose of serving their personal ends. The seminar also recommended that objective criteria should be formulated by the cooperative Unions/federations and the Registrar of Cooperative Societies for evaluation of the performance of elected committee members by the annual general body meeting. The report of the Committee of Management for the annual general body meeting should include how they have performed vis-a-vis these criteria.

10. The seminar felt that the weakest link in the agricultural cooperative credit movement was the cooperative society at the primary level. There was great need to strengthen the primary society by making it viable as suggested earlier and through employment of competent personnel.

11. The seminar felt that the agricultural cooperative movement in Japan kept the farmer as the focal point in formulating the programmes of cooperative development and recommended that the governments and the cooperative movements in the Region should emulate this example. All planning for agricultural cooperative development should center around the farmer and should be such as would serve the needs of the farmer in his capacity both as producer and consumer. The movement should also aim at improving the environment in which the farmer lives through undertaking community development projects, improving housing, etc.

12. The seminar felt that the tremendous development by the agricultural cooperative movement in Japan was made possible because of the close and coordinated working of the government and the agricultural cooperative movement in the interest of the farmers. There is a close coordination and continuous inter-action between the governmental authorities on the one hand and the

authorities of the national cooperative organisations on the other in planning and directing the growth of the cooperatives and in formulating the various programmes for improving agricultural productivity and farmers' living conditions. An approach of this nature was essential in other countries of the Region as well.

13. As regards loaning policies were concerned two systems were presented at the seminar viz. i) The crop loan system practiced in India which was aimed at providing loans to a large mass of farmers on the basis of average amounts of loanable funds required per acre of different crops. ii) The system followed in Japan which was based on a investigation of the farmers' economic position and which was similar to the supervised credit system. The seminar did not make any recommendation on this subject but noted that the system practiced in Japan was exceedingly well developed but was expensive and might be beyond the financial capabilities of most cooperative credit institutions in the Region.

14.1 An important problem emphasised by the seminar was the substantial increase that has taken place in the overdues of agricultural cooperative credit institutions. These overdues were on account of three factors :

- i) natural calamities,
- ii) internal weaknesses of the movement, and
- iii) political interference.

14.2 As regards natural calamities were concerned, the seminar suggested that a mechanism should be developed whereby the impact of natural calamities could be minimised both on the farmers and on the cooperative credit institutions. In cases where the natural calamities are too severe, outright relief should be provided. However, in other cases short-term loans advanced to members should be rephased into medium-term loans so as to enable the farmer members to repay the

loans over a period of three or four years which could not be repaid by them on due dates on account of natural calamity.

14.3 As regards internal aspects were concerned the seminar recommended that loaning policies and procedures should be improved so that the farmers get loans in adequate amount and on time so that appropriate use could be made of these loans for productivity purposes. Loan application forms and other formalities also need to be simplified for this purpose. Managerial personnel of better calibre was also required. The seminar recommended that the district cooperative banks and four or five primary societies together should employ farm guidance advisers who could assist the farmer members in improving farm management and thereby productivity, and marketing arrangements.

14.4 The seminar suggested that the staff of the primary societies should take up recovery work at the right time when market arrivals take place. It was also important that the cooperative movement develop proper marketing facilities for farmers so that they are able to obtain better returns for their produce. This would enable the farmers to repay the loans in time.

14.5 As regards political interference was concerned, the seminar emphasised the importance of member education as a long-term remedy. In the opinion of the seminar this problem was difficult to solve and it deserved the utmost serious consideration by leaders of the cooperative movement.

15. The seminar discussed the possibility of establishing an Asian Cooperative Development Bank (ACDB) for providing finance for cooperative development projects and for international cooperative trade. The seminar felt that the proposal was in principle a good one and needed to be given a more concrete shape. The seminar suggested that the feasibility of establishing the ACDB should be carefully studied with regard to availability of equity capital from cooperative organisations in the Region, securing loan funds from the financing institutions, and developing arrangements whereby technical

scrutiny of the cooperative projects could be made. The seminar was of the view that it would be necessary to secure approval of the proposal by the governments of those countries from which cooperative organisations wanted to become members of the ACDB. The seminar suggested that the Bank should begin with a small capital base and with activities directed to finance export-import trade and gradually increase its financial and operational strength. The cooperative movements from Western countries should be invited to participate in the equity capital. The seminar also suggested that close coordination should be developed with the International Cooperative Bank (INGEBA) for securing adequate working capital.

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# 10

## P R O G R A M M E

### OF THE REGIONAL SEMINAR ON "COOPERATIVE CREDIT WITH SPECIAL REFERENCE TO JAPAN"

Tokyo, Japan. 9 to 28 April 1973

ICA RO & EC  
IDACA

Mon, 9th April

Arrival of participants in Tokyo, Japan

Tue. 10th April

10.00 - 11.00

Inauguration

11.30 - 13.00

Introduction of the I.C.A.

14.30 - 17.00

Objectives and Working Methods of the Seminar  
Presentation of Background Papers

Wed. 11th April

09.00 - 11.00

Aims and Principles of Cooperation by Mr J.M. Rana  
Director (Education), ICA RO & EC, New Delhi

11.30 - 13.00

Presentation of Background Papers

14.30 - 17.00

Presentation of Background Papers

Thursday, 12th April

09.00 - 10.00

Lecture: Contribution of Cooperative Credit to  
Agricultural Development in India

Lecture: Dr. C.D. Datey, Chief Officer,  
Reserve Bank of India, Bombay.

10.15 - 11.15

Lecture: Loaning Policies and Practices of District  
Cooperative Banks and Primary Societies in  
respecto of farmers in India.

Lecturer: Dr. C.D. Datey

11.30 - 12.00

Discussion

Afternoon

Visit to the Central Cooperative Bank and the  
Labour Bank

Friday, 13th April

09.00 - 10.00

Lecture : Factors responsible for success or otherwise  
for rural credit cooperatives in India.

Lecturer; Dr. C.D. Datey

10.15 - 11.15

Discussion

11.45 - 12.30

Lecture : Problems of Rural Cooperative Credit in  
South-East Asia

Lecturer: Mr Lionel Gunawardana

Joint Director, ICA Regional Office, New Delhi

12.30 - 13.00

Discussion

Afternoon

Free

Saturday, 14th April

- 09.00 - 10.00 Lecture: Proposal of Establishing an Asian  
Cooperative Development Bank  
Lecturer: Mr. M.V. Madan  
Joint Director, ICA Regional Office, New Delhi
- 10.00 - 12.00 Discussion
- 12.00 - 13.00 Group Discussion on Problems of Cooperative Credit in  
South-East Asia (Rural and Urban)
- 14.30 - 17.00 Group Discussion (Contd.)

Sunday, 15th April

Sight-seeing in Tokyo.

Monday, 16th April

- 09.00 - 11.00 Lecture : Introduction of Japanese Agricultural  
Cooperative Movement.  
Lecturer : Mr. Shiro Futagami  
Assistant Manager  
International Department  
The Central Union of Agricultural Cooperatives
- 11.15 - 13.00 Lecture : Introduction to Agricultural Finance  
Lecturer : Mr. Kanichi Suzuki  
Assistant Manager  
General Planning Department  
Central Cooperative Bank
- 14.30 - 15.00 Discussion
- 15.00 - 17.00 Plenary on Group Discussions

Tuesday, 17th April

- 09.00 - 11.00 Lecture: Development of Credit through  
Agricultural Cooperatives  
Lecturer: Mr. Shozo Nagata  
Deputy Director  
Economic Research Department  
Central Cooperative Bank
- 11.30 - 13.00 Group Discussion
- 14.30 - 17.00 Lecture: Present Situation of Agricultural Cooperative Credit  
Lecturer: Mr. Misao Saito  
Assistant Manager  
Economic Research Department  
Central Cooperative Bank

Wednesday, 18th April

- 09.00 - 13.00 Lecture: System and Practice of Agricultural  
Cooperative Financing with special  
reference to member farmers.  
Lecturer: Mr. Kenji Yamashita  
Assistant Manager  
Cooperative Finance Promotion Dept.  
Central Cooperative Bank
- 14.30 - 17.00 Group Discussion

Thursday, 19th April

- 09.00 - 13.00      Lecture : System and Practice of Agricultural  
Cooperative Loaning and its control.  
Lecturer : Mr. Kozo Nakamura  
Assistant Manager  
Agr. Loaning Dept.  
Central Cooperative Bank
- 14.30 - 17.00      Plenary on Group Discussions.

Fri. 20th April to  
Tue. 24th April

## S T U D Y    V I S I T S

Wednesday, 25th April

- Morning              Discussion on Study Visits at Kyoto  
Return to Tokyo

Thursday, 26th April

- 09:00 - 13.00      Lecture: Problems and Tasks of Agricultural Cooperative  
Credit Activities  
Lecturer: Mr. Yuzo Tanaka  
Director  
Economic Research Department  
Central Cooperative Bank
- 14.30 - 17.00      Lecture : Rural Community Development and the Role  
of Agricultural Cooperatives with Special  
reference to financing  
Lecturer : Mr. Shinkichi Katayanagi  
President  
Central Cooperative Bank

Friday, 27th April      Preparation of Seminar Report.Saturday, 28th April

- Final Plenary  
Discussion on Draft Report  
Evaluation of the Seminar

## Sunday, 29th April      Departure of Participants.

Programme of the Study Visits in Kyoto, Osaka and Shiga Prefecture

( April 20 - 26, 1973)

APRIL 1973

- |           |             |  |
|-----------|-------------|--|
| 20 (Fri.) | 9:00        | Leave IDACA by bus.                                  |
|           | 17:00       | Arrive at Kyoto Station Hotel.                       |
| 21 (Sat.) | 9:00        | Leave Hotel  |
|           | 10:00-12:00 | Osaka Branch Office of Central Coop. Bank.           |
|           | 12:00-13:30 | Lunch  |
|           | 13:30-15:30 | Visit Osaka Castle.                                  |
|           | 17:00       | Back to the Hotel.                                   |
| 22 (Sun.) | 10:00       | Leave Hotel for Sight-seeing in Kyoto.               |
|           | 17:00       | Back to Hotel.                                       |
| 23 (Mon.) | 8:30        | Leave hotel.   |
|           | 10:00-14:00 | Minakuchi Primary Multi-purpose Agr. Coop. Society.  |
|           | 14:00-16:00 | Visit Facilities of the Society.                     |
|           | 17:30       | Visit Farmers  |
|           |             | And then back to the Hotel.                          |
| 24 (Tue.) | 8:30        | leave Hotel.   |
|           | 10:00-12:00 | Dainakanoko Primary Multi-purpose Agr. Coop. Society |
|           | 12:00-13:30 | Lunch at Ohmi-hachiman                               |
|           | 13:30-15:30 | Sight-seeing around Lake,                            |
|           | 15:30-16:00 | Visit Prefectural Coop. Building.                    |
|           | 17:00       | Back to Hotel.                                       |
| 25 (Wed.) | 9:00        | Leave Hotel.   |
|           | 10:00-12:00 | Discussion in Ohtsu City.                            |
|           | 13:30       | Leave Ohtsu for Tokyo.                               |
|           | 20:00       | Arrive at IDACA.                                     |



REGIONAL SEMINAR ON "COOPERATIVE CREDIT WITH SPECIAL  
REFERENCE TO JAPAN." TOKYO, JAPAN : 9-28 April, 1973

LIST OF PARTICIPANTS

BANGLADESH

1. Mr M.A. Jalil  
General Manager  
Bangladesh Jatiya Samabaya Bank  
9/D Motijheel Commercial Area  
Dacca-2
2. Mr Md. M.R. Choudhury  
Joint Secretary  
Bangladesh Jatiya Samabaya Union Ltd.  
9/D Motijheel Commercial Area  
Dacca-2

INDIA

3. Mr B.S. Mandloi  
President  
Indore Premier Cooperative Bank Ltd.  
21 Maharani Road  
Indore (M.P.)
4. Mr J.B. Patil  
Joint Manager  
Sangli District Central Cooperative Bank  
High School Road  
Sangli (Maharashtra)
5. Mr G.V. Chandrasekhar Reddy  
President  
Andhra Pradesh Central Cooperative Land  
Mortgage Bank  
3-4-447/448 Sahakara Bhavan  
Barkatpura  
Hyderabad (A.P.)
6. Mr R. Srinivasan  
Deputy Secretary  
Ministry of Agriculture  
Department of Cooperation  
Government of India  
Krishi Bhavan  
New Delhi

- INDIA
7. Mr S.V. Sharan  
Registrar of Cooperative Societies  
Patna (Bihar State)
- INDONESIA
8. Mr C. Partowidodo  
Chairman  
Credit Cooperative "NUSANTARA"  
Djakarta
9. Mr R. Mangkoetenojo  
Administrator  
Institution for Cooperative Credit Guarantee Fund  
Directorate General of Cooperatives  
Jalan Letjen Harjono MI,  
Djakarta
- IRAN
10. Mr Muhammad Reza Ezatian  
Area Supervisor of Rural Cooperatives  
Central Organisation for Rural Cooperatives  
of Iran  
357 Pahlavi Avenue  
Teheran
11. Mr Abdol Karim Salari  
Area Supervisor of Rural Cooperatives  
Central Organisation for Rural Cooperatives of Iran  
357 Pahlavi Avenue  
Teheran
- JAPAN
12. Mr H. Ohmi  
Assistant Manager  
Planning, Headquarters  
Central Cooperative Bank for Agriculture  
and Forestry  
8-3, 1-chome Otemachi, Chiyoda-ku,  
Tokyo
- REPUBLIC OF KOREA
13. Mr Jung Soo Han  
Planning Officer  
Loan Department  
National Agricultural Cooperative Federation  
75, 1st-ka, Choongjung-Ro, Sudaemoon-ku,  
Seoul
14. Mr Myung Jae Park  
Chief of Fund Operation Division  
Fund Operations Department  
National Agricultural Cooperative Federation  
75, 1st-ka Choongjung-Ro, Sudaemoon-ku,  
Seoul

- MALAYSIA**
15. Mr P. Ramasamy  
Council Member  
Postal & Telecommunication Cooperative Thrift  
and Loan Society  
West Malaysia Limited  
Nos. 66 & 68 Jalan Pasar Bahru, Pudu,  
Kuala Lumpur
16. Mohd. Noor Ariffin Bin Mohamed  
Secretary  
State Angkasa Committee, Kelantan  
c/o Road Transport Department  
Kota Bharu,  
Kelantan
- NEPAL**
17. Mr Pradyumna Lal  
Registrar  
Department of Cooperatives  
His Majesty's Government of Nepal,  
Singha Durbar  
Kathamandu
- PAKISTAN**
18. Mr Muhammad Rafique  
President  
West Pakistan Cooperative Union Ltd.  
11 Masson Street  
Lahore
- PHILIPPINES**
19. Mr Benjamin Cruz  
Director  
Central Cooperative Exchange, Inc.  
P.O. Box 1968  
Manila
20. Mr Candido L. Guiam  
Governor  
Agricultural Credit Administration  
Taft Avenue  
Manila
- SINGAPORE**
21. Mr P.K. Panadam  
Hon. Treasurer  
Singapore Teachers Multi-purpose Cooperative  
Society Ltd.  
38 Kerbau Road,  
Singapore-8
22. Mr M. Kulasegaram  
Chairman  
Singapore Govt. Servants' Cooperative Thrift  
and Loan Society Ltd.  
Rooms 4-B and 4-C,  
11 Penang Lane  
Singapore-9

## THAILAND

23. Mr Pradit Machima  
Director  
Cooperative League of Thailand  
4 Pichai Road  
Dusit  
Bangkok
24. Mr Vichien Inthachat  
Acting Chief,  
Agricultural Cooperative Division  
C/o Department of Cooperative Promotion  
Ministry of Agriculture & Cooperatives  
Bangkok
- 

## OBSERVERS

25. Dr S.G. Madiman  
Senior Officer  
Marketing and Credit Service  
Agricultural Services Division  
Food & Agriculture Organization of the  
United Nations (FAO)  
Rome  
Italy
26. Dr Mohinder Singh  
Deputy Chief  
UN/ECAFE  
Sala Santitham  
Bangkok  
Thailand
- 

## LECTURERS

27. Dr C.D. Datey  
Chief Officer  
Agricultural Credit Department  
Reserve Bank of India  
Garment House, P.B. No.16575  
Bombay 18 WB  
India
28. Mr Shiro Futagami  
Assistant Manager  
International Department  
The Central Union of Agricultural Cooperatives  
8-3, 1-chome Otemachi, Chiyoda-ku,  
Tokyo (Japan)
29. Mr Kanichi Suzuki  
Assistant Manager  
General Planning Department  
Central Cooperative Bank  
8-3, 1-chome Otemachi, Chiyoda-ku,  
Tokyo (Japan)

- LECTURERS (Contd.)
30. Mr Shozo Nagata  
Deputy Director  
Economic Research Department  
Central Cooperative Bank  
8-3, 1-chome Otemachi, Chiyoda-ku,  
Tokyo (Japan)
31. Mr Misao Saito  
Assistant Manager  
Economic Research Department  
Central Cooperative Bank  
Tokyo (Japan)
32. Mr Kenji Yamashita  
Assistant Manager  
Cooperative Finance Promotion Department  
Central Cooperative Bank  
Tokyo (Japan)
33. Mr Kozo Nakamura  
Assistant Manager  
Agr. Loaning Department  
Central Cooperative Bank  
Tokyo (Japan)
34. Mr Yuzo Tanaka  
Director  
Economic Research Department  
Central Cooperative Bank  
Tokyo (Japan)
35. Mr Shinkichi Katayanagi  
President  
Central Cooperative Bank  
Tokyo (Japan)
- 
- IDACA/TOKYO
36. Mr H. Togawa  
Managing Director  
Institute for the Development of Agricultural  
Cooperation in Asia (IDACA)  
24-9, 6-chome, Funabashi, Setagaya-ku,  
Tokyo (Japan)
37. Mr U. Tsuda  
IDACA/Tokyo  
Japan
-

- ICA REGIONAL OFFICE & EDUCATION CENTRE,  
NEW DELHI
38. Mr J.M. Rana  
Director (Education)  
ICA Regional Office & Education Centre for  
South-East Asia, PO Box 3312,  
43 Friends' Colony, New Delhi-14,  
India
39. Mr Lionel Gunawardana  
Joint Director, P&PR  
ICA Regional Office  
New Delhi
40. Mr M.V. Madane  
Joint Director, TA&T  
ICA Regional Office  
New Delhi
- 
- SEMINAR SECRETARIAT
41. Mr Ashok Kandhari  
Seminar Secretary  
ICA Regional Office  
New Delhi

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P A P E R  
ON  
CO-OPERATIVE CREDIT MOVEMENT  
IN BANGLADESH

F O R  
REGIONAL SEMINAR ON CO-OPERATIVE CREDIT  
WITH SPECIAL REFERENCE TO JAPAN

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BY  
PARTICIPANTS FROM BANGLADESH

M.A. JALIL, GENERAL MANAGER  
BANGLADESH JATIYA SAMABAYA BANK  
9/D, MOTIJHEEL COMMERCIAL AREA  
DACCA-2, BANGLADESH

M.R. CHOWDHURY, VICE-CHAIRMAN  
BANGLADESH JATIYA SAMABAYA UNION  
9/D, MOTIJHEEL COMMERCIAL AREA  
DACC-2, BANGLADESH

C O N T E N T S

## CO-OPERATIVE CREDIT MOVEMENT IN BANGLADESH

	<u>Page</u>
I. Introduction - Brief background	1
II. Structure of Cooperative Movement:	1
(a) Agriculture .. ..	2
(b) Fishermen .. ..	3
(c) Industrial .. ..	4
(d) Commercial & Marketing ..	5
III. Cooperative Credit Structure: ..	6
Volume of Credit .. ..	6
Credit System .. ..	7
Loaning Policy & Procedures ..	9
Interest Rates .. ..	10
Recovery Problems .. ..	11
Management Performance ..	12
IV. Government Support to Cooperatives	13
V. Achievements .. ..	15



COOPERATIVE CREDIT MOVEMENT IN BANGLADESH

The Cooperative Movement in our country dates back to the close of nineteenth century. An Act called " Cooperative Societies Act "was passed in 1904. The main object of the movement was to provide credit to the farmers who were heavily indebted to the money lenders. The village peasantry were subjected to financial exploitation by usurious rate of interest charged by money lenders. The present Cooperative movement in the country is governed by comprehensive Cooperative Laws enacted under " Bengal Cooperative Societies Act of 1940" with amendments made from time to time.

The Cooperative credit structure comprises of three-tier credit system in Bangladesh with Bangladesh Jatiya Samabaya Bank(National Cooperative Bank) an apex credit institution, at the top, the Central Cooperative Banks/Association/Societies at intermediate level and the primary societies at the base. The Cooperative Movement has in recent years shown steady improvement and the agencies are being employed in the various fields of rural development and the credit operations are being linked with production, marketing and supply activities. The break up of structure of Cooperative societies according to their types, functions and tiers as follows:

<u>Exclusive Credit Societies</u>	<u>No.</u>
Apex Bank . . . . .	1
Central Cooperative Bank	62
Central Cooperative Association/Societies	84
Primary Agricultural Societies . . . . .	30,000

Contd...2

Societies with Credit and Non-credit operations combined

	Agri- culture	Fishe ries	Industri al	Commer- cial & Marke- ting	Multi -pur- pose	Others
Apex	1	1	4	1	-	-
Central	14	32	30	2	82	23
Primary Society	548	2800	2000	1480	4107	89

From the position given above it would appear that the Cooperative Movement has diversified its activities to various fields of production, marketing and supplies. The short-background of classified activities are given here.

(a) Agriculture

Our country heavily suffers from food shortage and the need for increasing the production of food crops has assumed top priority. Population of Bangladesh is 75 million and about 85% of them <sup>are</sup> dependent on agriculture. The total area of cultivable land is about 30 million <sup>acres</sup> of which rice producing area is about 24 million acres. The major agricultural crops are rice and jute. The total rice production is about 11.6 million tons and jute production is about 7 million bales. The total agricultural production has to be raised substantially to meet the needs of huge population. There are continuous efforts towards increasing production and the role of agricultural Cooperatives have been as follows :

- i) Increase of per acre yield of crops by improved method of cultivation and use of modern inputs like seed, fertilizer, pesticides etc. There is effective combination of credit and supplies of inputs channelised through Cooperatives to help increase of production.
- ii) The irrigation facilities in use of surface water and deep tube-well water and practice of mechanised system of cultivation where possible, are provided through cooperatives.
- iii) There are arrangements for training of farmers in the modern technique of cultivation in use of inputs and mechanised system.
- iv) The farmers are encouraged to contribute to formation of small capital by their share money, thrift and savings. About 3 million farmer families are now being served by Cooperatives and there are programme for expansion of the activities further under the various schemes for development of rural economy.

(b) Fisheries

Under the leadership of one apex society named Bangladesh Matshajibi Samabaya Samity ( National Cooperative Fishermen Society) there are 32 Central Societies, 2800 Primary Societies who serve about 1 million fishermen. The fishermen community in this country are one of the poorest class who have been so long subjected to exploitation by wealthier people. To save <sup>them</sup> from distress the assistance so far provided are as follows :

Page-4.

- i) Supply of mechanised boats for facilities of catching fish in the sea.
- ii) Ice and Cold storage plant for preservation of fish.
- iii) Supply of nylon yarn and other materials for making of fishing nets at fair prices.
- iv) Arrangement of marketing facilities of fish for reasonable prices.
- v) Credit for lease of fishing tanks and fishing areas.

In order to make the fishermen community free from exploitation there is proposal for exclusion of non-fishermen from the fishermen cooperatives.

(c) Industrial Cooperatives.

Cooperative Industrial enterprises comprise of small and cottage industries. The handloom weaving industries have made tremendous expansion recently. The scarcity of cotton textiles in this country have created favourable scope for the poor weavers to get reasonable margin of profit over the cost of production of handloom cloth. The distribution of yarn ( which is also of scarce supply) is channelised through Cooperatives under the leadership of one apex industrial society. There are 30 regional Central Societies and 2000 primary weavers societies. The weavers get distribution of yarn at fair prices through Cooperatives. Their manufactures are also sold through the Cooperative Sales Centres at fair price which is comparatively lower than prevalent market price.

Contd..5

Some of the medium sized industrial units constituted as Central Societies are as follows :

- |  |    |     |
|--|----|-----|
| 1. Cooperative Milk Processing Society | -  | 1   |
| 2. Cooperative Rice and Milk Society   | -  | 3   |
| 3. Cooperative Dairy Society           | .. | - 1 |
| 4. Cooperative Salt Society            | .. | - 1 |

With regard to disposal of products manufactured or processed through the above units these are sold through the marketing cooperatives or directly by them to the consumers. While many private industries take advantage of high market prices of their commodities, the Cooperatives sell their products at reasonable low profit and the goods are available to consumers at fair prices.

(d) Commercial and Marketing Cooperatives.

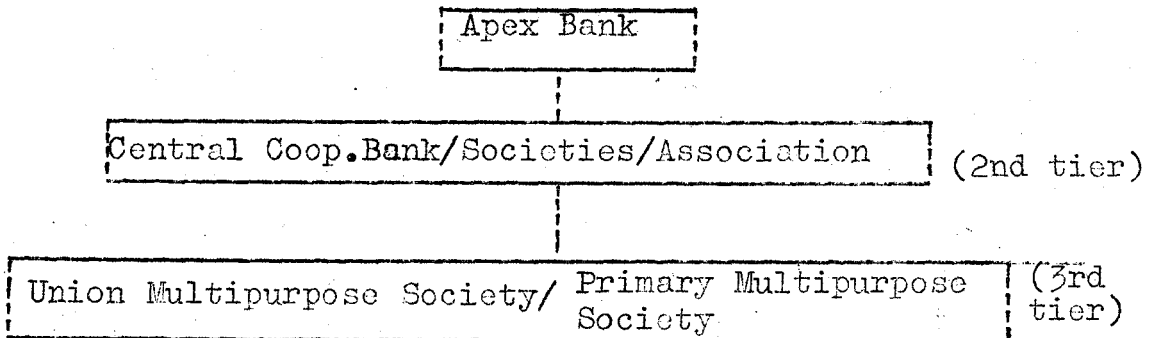
The marketing arrangement of agricultural produce from the sectors served by Cooperative agricultural credit system could not yet been fully developed due to lack of connected facilities. Cooperatives however, handle distribution of consumers goods of various types produced within the country and also those imported from abroad. An apex society named " Bangladesh Cooperative Marketing Society" undertakes the function to establish link with the supply sources of readily consumable goods. They channelise the distribution through regional societies and other consumers Cooperatives.

The marketing units in many places have their shops and display centres and godowns for storage of consumers goods. The major credit requirement by marketing Cooperatives have been provided either by Govt. or Commercial banks. The credit from the Cooperative banking channel is not very significant.

With an integrated programme of marketing system in close link with the credit system, the Cooperatives can develop an effective marketing and commercial channel throughout the country. The progress in marketing will not only benefit the consumers but also will help stable growth of small cottage and other industries as well as trading and commercial enterprises.

C R E D I T     S T R U C T U R E

Cooperative movement in our country remained credit oriented. As mentioned earlier the movement originated with the object of providing credit to the farmers. Therefore, agricultural finance remains dominant in the cooperative credit system. The organisational set up for operation in agricultural credit is given hereunder:



Volume of Credit

The volume of credit deployed in agricultural sector has so far remained far below the optimum level of requirement. The institutional credit flow is estimated to be about 8 to 10% of the total requirement. The total annual turnover of institutional agricultural credit is around Tk.300 million in which the share of

Page-7

Cooperatives is about 60%. The expansion of credit to a sizeable extent would depend not merely on increased supply of credit but also on factors inter-alia the following :

- i) Institutional expansion capable of efficient administration and servicing of credit.
- ii) Integrated Programme for overall development of agriculture to attain capacity to absorb larger volume of credit which would be directly helpful to increase of production.
- iii) Land reform and other measures for economic utilisation of land in improved cultivation by removing the bottlenecks in the existing fragmented holdings of land.
- iv) Effective motivation in educative work in rural environment to develop sense of credit discipline.

The above measures will require extensive organisational work and employment of huge resources which is at present beyond the capacity of the war-ravaged economy of Bangladesh. However, agriculture sector is receiving top priority and the internal resources and external assistance from friendly countries are being utilised in best possible way.

Credit System

The agricultural credit operation in our country could not yet been made economically self-supported viable business due to the following reasons :

- i) There are inherent hazards in agriculture in; uncertainty of crop production owing to natural calamities like floods, drought, cyclone, hailstorm etc. ....

Contd...8

- ii) There is no provision for risk cover either against crop or against credit by any institutional underwriting arrangement.
- iii) Majority of our agriculturists are farmers of subsistence level who hardly have any surplus resources to meet credit obligation in the event of crop failure. Their credit absorbing capacity is limited to the proportion of their size of land holding. As a result the servicing of small amounts of credit becomes uneconomic to the credit agencies
- iv) The farmers cannot offer any readily realisable security other than the land. It is difficult to realise outstanding loan by disposal of land offered as security.
- v) The farmers are not educated and motivated towards credit obligation which make the recovery of loan difficult.

Notwithstanding the adverse factors enumerated above the necessity of helping food production has been strongly felt and the institutional arrangements for productive credit were to be strengthened in the national interest. Since the proposition for agricultural credit is not attractive to financial organisations on commercial consideration, the facilities to the farmers are to be maintained on subsidised basis. Funds required for credit operation are made available as loan from Bangladesh Bank, the Central Bank of the country, at a concessional rate of interest over the prevalent bank rate in the country. As against the Bank rate of 5% the agricultural credit funds are provided to Cooperatives at 3%. The identical facilities are also available to another agricultural credit agency, Agricultural Development Bank.



Counter-finance by Bangladesh Bank against agricultural credit operated by Cooperative banking channel is allowed against the Govt. guarantee. This is in accordance with the statutory requirement of the Central Bank as their outlay of funds obviously remain unsecured. Resources employed in agricultural credit are exclusively the funds borrowed from the Central Bank. Funds built up in Cooperative banking channel are share capital and thrift and savings money realised in accordance with the statutory requirement of loan operation under the Cooperative Acts and Rules.

The apex Bank, Bangladesh National Cooperative Bank undertakes banking business in deposits mobilisation both from members and non-members. There is no banking work at the second tier i.e. Central Cooperative Banks/ Association/Societies except loan operation. The primary societies at the village level where the loan is actually utilised by the farmers, are not viable units. Since however, the Central Banks/Association/Societies cannot establish direct contact with the individual loanee, the primary societies render service in loan operation in group formation under local leadership.

#### Loaning policy and procedures

The Cooperative Credit System provides the following types of loans :

- a) Short-term loan for crop production for a period of 6 months to 12 months.
- b) Medium-term loan for fisheries, sugarcane cultivation, purchase of plough cattle for a period from 1 year to 3 years.
- c) Long-term loan for land development and redemption of old debts of farmers allowed against mortgage of land for period upto 10 to 15 years.
- d) Marketing loans to marketing organisations and

Page-10.

Cooperative Industrial Enterprises for production, processing and marketing facilities.

On assessing the requirement of every item of seasonal production credit, the apex Cooperative Bank secure counter-finance limit from Bangladesh Bank under Govt. guarantee ( which covers 50% for Short-term loan and 100% for Medium-term loan). The apex bank make allocation of loan limit to Central Banks/Societies/Associations according to the genuine needs. They, in turn, issue loans to primary societies for ultimate disbursement to individual farmer members. The terms and conditions for individual loan are laid down by the apex bank. The supervision, control and servicing of loan are done by staff at the second tier organisation in collaboration with the field staff of Cooperative Department based at Thana level. To ensure proper utilisation of loan the disbursement is preferred in kind as input supplies instead of cash money.

#### Interest Rates

The cost of fund in borrowings from Bangladesh Bank is 3% and the rate at which the money is lent to the individual farmer is 9%. This 6% differential is shared by channel of tiers as, apex bank 1%, second tier agencies 2% and primary societies 3%. If the loan remains unpaid on due dates additional penal interest is charged on overdue loans at 3%.

Contd..11

Recovery Problems.

Apart from the inherent draw-backs in the credit system mentioned earlier, the recovery problems arise out of the following :

- i) Inadequate supervision in the matter of issue, disbursement and collection of loan. The primary societies where the credits are actually utilised are not dependable units. The second tier credit agencies do not have any access to the field of operation due to lack of proximity.
- ii) Lack of credit discipline at the level of utilisation. To bring credit discipline there should be positive improvement in the working of the credit system and the institutional framework should be activated. This will need comprehensive integrated planning with effective motivation to the credit channel. The existing level of credit dimension can hardly absorb the management cost unless adequate sub-sidies can be arranged.
- iii) Recovery would be more effective if the loan collection can be tied up with organised marketing facilities for disposal of agricultural produce at fair price. The effective marketing system would require infrastructural arrangements like storage godown, transportation, additional financial investment etc.
- iv) Recovery mainly depends on loanees means of repayment. General economic conditions of subsistence level farmers ( who are financed for agricultural production) are so poor that they are often forced to disinvest their production or land to meet the emergency domestic needs. Such disinvestment reduce

their repayment capacity. Had there been arrangement for institutional credit to meet the genuine needs to prevent disinvestment at heavy loss, this would have helped improvement of their economic condition.

- v) Liberation war in this country has caused heavy loss to the farmers community and has created dislocation to their normal living condition. Till such time they are completely rehabilitated there cannot be any unusual pressure on them for repayment of loan.

Management Performance of Cooperative Credit System.

The Cooperative Movement in this country should be made production oriented instead of credit oriented. The credit system also remains too much dependent on Govt. assistance instead of generating resources for credit from the institutional channel. The cooperatives can evolve full fledged banking system with network of operating offices throughout the country which will facilitate -

- a) improvement of credit operation,
- b) banking service to the Cooperative sectors,
- c) mobilisation of resources to reduce dependence on Govt. assistance.

Revitalisation of the Cooperative banking system is under consideration. The implementation will need structural re-organisation of the agencies functioning in credit operation.

While studying proposals for reorganising the Cooperative banking structure it has been felt that the credit and banking should be separated from service,

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supply and extension work. The Cooperative suffers from the shortage of local managerial expertise in credit. This is mostly due to the fact that the income capacity for the credit agencies is limited to absorb high salaried people with requisite managerial abilities with their earnings derived from the credit operation. There should be arrangement of massive Management Training Programme which may not be feasible without Govt. support or external assistance. When the man-power with requisite managerial ability is provided credit agencies will be able to improve their working efficiency.

Integrated development in the banking and credit system will not only help financial stability in Cooperative sector but also will help growth of viable institution to form a strong base of our Cooperative Movement. With changing pattern of our economy towards socialistic goals, the cooperative movement is sure to gain momentum in all-round activities particularly towards improving the economic condition of the large rural population of Bangladesh

✓ GOVERNMENT SUPPORT TO COOPERATIVE CREDIT INSTITUTIONS

At present the Government support to the Cooperative Credit Institutions are available in the following forms:

- i) Funds for credit operation are provided from the Central Bank of the country at a concessional rate of interest under the Govt. guarantee
- ii) Govt. themselves provide working capital funds for certain credit operation
- iii) Govt. provide their staff for servicing of credit operation in certain tiers at their cost.

Page-14.

- iv) The Cooperative Directorate of the Government provide lot of assistance and encouragement towards growth and development of the movement and management of organisation. For effective utilisation of production credit it requires effective combination of inputs and other supplies, Govt. provide facilities in supply inputs and other items either at their cost or at the cost subsidised by them
- v) Cooperative organisation enjoys some special preference in exemption of income-tax and stamp duty.

The above facilities are no doubt attractive to encourage healthy growth of movement and there has widespread progress. It is felt, however, that support and sub-sidisation has lost the spirit of self-help and has created a tendency of ever-dependence. This is basic reason of failure of many organisations to attain their economic viability even who have standing of a few decades of their existance. It needs redirection of Govt. assistance towards making institutions self-supported diverting them from everdependence.

Page-15

A C H I E V E M E N T S

As mentioned at the outset the Cooperative Movement in this country originated to assist small farmers. From the progress made from time to time it will appear that activities have expanded to various fields of the economy. Cooperative Movement have now significant role in Industrial, Commercial, Social and Cultural activities. Prior to liberation the economy of the country was of capitalist control. In a capitalist society where wealthier sections of people exploit the poor, the growth of entrepreneurship in Cooperative formation is bound to suffer from competition or influence. The democratic political movement in the country is committed to build up exploitation-free society where Cooperative Movement will get scope to play its role freely. A note-worthy achievement of recent time is that the Cooperative administration in potential organisations including the Credit Structure, has been democratised.

The general trend in cooperative feelings amongst people in our country is encouraging. The success would depend on practical efforts. The main problem is the lack of initiative and determination of people for becoming self-supported. The motivation work should be undertaken on a vigorous drive to create a sense of responsibility amongst our people to stand in their own feet instead of depending on subsidies and assistance.

Back - ground paper on

Co-Operative Movement in INDIA.

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*J. B. Patil  
Joint Member  
Angli Dec Board*

I) INTRODUCTION:

"Co-operative movement in India originated in the desire to organise and develop a Special Institutional Agency for the provision of credit for Agriculture." The chief object was to make a break through in the stagnation of the agriculturist class which was growing under heavy weight of indebtedness. During the last seven decades many sided progress & achievements are seen by this movement. But emphasis on credit especially, agricultural has never been ceased. Every now & then all the committees and study groups appointed by the Central & State Governments to review & to recommend new methods & techniques in this movement have always suggested & strongly recommended suitable arrangements for more adequate agricultural credit through Cooperative agency. The Primary Cooperative Credit society forms the base of the Cooperative Credit structure in India.

The Movement was introduced in India in 1904, primarily to tackle the problem of agricultural credit and to encourage thrift, self-help & co-operation among the agriculturists. At the base level, the village primary Cooperative Society meets the Short term & Medium term needs of agricultural Credits & Primary Land Development Bank looks after long term credit requirements of agriculture.

(a) Brief History & Progress of The Movement:

1904 As stated above the movement started in the year with the introduction of cooperative credit societies Act of 1904. The main objects of this Act were -

- 1) To provide for the constitution and control of the Cooperative credit Societies by an enactment specially adapted to their organisation & aims.
- 2) To confer special statutory privilages and concessions upon them with a view to encouraging their formation & assisting their operations &
- 3) To ensure that they were co-operative in name as well as in spirit.

The first initial stage of the movement falls between the years 1904 to 1911. The Act of 1904 hailed as turning point in economic & social history of India. Agricultural Community. The Cooperative movement was termed as "the Way from poverty to plenty" In the year 1906-07, there were 843, societies with a membership of 0.90/- lacs and working capital Rs.23.72/- lacs. By the year 1910-11, the number of societies increased to 5321 with a membership of 3.05/- lacs & working capital of Rs.203.5/- lacs.



It will be seen that the Credit movement in the initial stages made a significant progress. However, the provisions of the Act of 1904 found to be in-sufficient to meet the increasing needs of the Movement, especially in respect of formation of other types of societies, Central Financing Agencies & Development of rural & urban nature of movement. The Act of 1912 marked the Second stage of the Movement. This Act gave fresh impetus to the growth of the Movement. The second stage is normally recognised between the year 1911-12 to 1917-18. In the year 1917-18, there were 25912 societies having membership of 10.9/- lacs & working capital of Rs.760.09/- lacs.

The third stage of the Movement falls between the years 1919 to 1929. This stage is called "The period of Unplanned Expansion". By the year 1928-29, there were 87991, Cooperative societies having membership 30.04 lacs & working capital of Rs. 32.38/- Crores. In addition there were 9761, Non Credit Cooperative societies with a membership of 9.98/- lacs & working capital of Rs.13.63/- lacs.

The fourth stage of the movement falls between the years 1929-30 to 1938-39. This period is called the period of "Consolidation & Reorganisation". This period is marked by the Great Depression of thirties resulting in catastrophic fall in prices of agricultural commodities which adversely affected the economic conditions of agriculturists. The demand for loans increased while overdues mounted up. This gave rise to various complicated problems, however, the period of recovery started immediately and the movement regained its ground by the year 1946.

In the year 1946, there were 1.72/- lacs societies with membership of 91.6/- lacs having working capital of Rs.164/- Crores. After the Independence, the Cooperative Movement witnessed around progress in various sectors like Marketing, Processing & Non-credit societies.

The Government of India appointed various committees & working groups like Agricultural Finance Sub-committee, Coop-Planning Committee, 1945, Committee on Co-operative law 1955, Working Group on Cooperative Policy, Committee on Cooperative Credit, etc., to go through the progress of the Movement and to suggest effective ways & means for its growth. Then the period of "Five years Planning" started in the country.

In the first five year Plan, the Planning Commission observed that in this sphere "Co-operation has a very significant contribution to make, Cooperation can help to increase effectiveness of extension work. Other services which a cultivators needs for efficient utilisation of their lands can also be made available through Cooperative Agencies. Such aids as seeds, fertilisers and implements on which depends the profitiable exploitation of the resources of the soil can be effectively placed at the disposal even of the small farmer by Cooperative societies."

During the First, Second and Third Five Year Plans, the Movement strengthened to a greater extent. The All India Rural Credit Survey Committee 1954 recommended far reaching suggestions for the development and improvement of the Co-operative Credit Movement. Thereafter various Committees like Working Group on Cooperation 1961, Study Team on Cooperative Marketing-1964, India Rural Credit Review Committee 1968, /all

The implementation of the suggestion & recommendations of these committees by the Government helped to create proper atmosphere for development of the Cooperative Movement. In the year 1955-56, there were 2.40/- lacs societies having membership of 176/- lacs and share capital of Rs.77/- crores & working capital of Rs.469/- crores. In the year 1960-61 the position was increased to 3.32/- lacs societies, 342 lacs members & Rs.221/~~crores~~ share capital and Rs.1312 crores working capital.

In the year 1970-71 about 94 % of the villages are covered by the Agricultural Credit Societies catering to 36 % of the village population meeting about 33 % of the Credit needs of the farmers. In addition there were 3261 primary Marketing Societies, 159 District level Marketing societies, handling about Rs.650 crores of agricultural produce. In the sphere of processing also, there is a marked progress. In the year 1971-72 there were 123 licensed Cooperative Sugar Factories, which produced 42 % of the total sugar produced in the country. Supplies, consumers & other cooperative activities marked a significant increase.

(b) Structure of the Co-operative Movement:

The structure of the Cooperative movement in India falls into three broad categories i.e.

- i) Co-operative Department of the State Government looking after the work of organisation of societies, guidance, inspection, audit, supervision & control, etc.
- ii) National Cooperative Union of India looking after training, education & propaganda of the Cooperative Movement.
- iii) Apex Cooperative Bank supplies credit needs of the cooperative movement under the guidance of and supervision of Agricultural Credit Department of Reserve Bank of India.

i) Co-operative Department of the State:

Cooperation is a state subject included in its portfolio. There is a Cooperative Ministry in the States with the Cooperative Department having the Registrar of Cooperative Societies as its Head. The Registrar is assisted by various officers like Additional Registrar, Joint Registrar at the State level & Deputy Registrar and Assistant Registrar at the District level on one hand and the Special Auditors, Auditors at the District level to look after the audit of the Co-operative societies, on the other.

ii) National Cooperative Union of India :

On the side of Cooperative Training & Education, there is a District Cooperative Board for each District and the State Cooperative Union for each state working under over-all guidance of National Cooperative Union of India. These District level and State level bodies are federal bodies. They are responsible for training of personnel and education of members & propaganda of the movement among the people.

iii) State Apex Cooperative Bank:

On the credit side the Reserve Bank of India of the country has got separate Agricultural Credit Department to look after the credit needs of the cooperative movement. There is a State Cooperative Bank in each State of the country, which is called the Apex Cooperative Bank & which is responsible for Short term, Medium term and non-Agricultural credit needs of the movement in the State, channelising credit-flow through District Central Cooperative Banks of each District & Primary Cooperative societies at the village level ultimately to the borrower. For long term credit requirements, there is a State level Land Development Bank for each State catering to the needs of long term agricultural finance through Primary Land Development Banks. The State Cooperative Bank has to play a basic role in agricultural financing. It is a federal body. It has to guide and provide financial assistance to the Cooperative movement through Central Cooperative Banks. The Apex Land Development Bank has also to provide finance and necessary guidance to Primary Land Development Bank.

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II) Operations of Co-operative Credit Societies at various levels:

(a) Loaning Policies, Financial resources, Mobilisation of Deposits, etc..

The short term and Medium term loans are disbursed under three tier system and long term loans under two tier system. The Cooperative credit movement falls into two main parts: i.e. (a) Agricultural credit and (b) non-Agricultural Credit. On the side of agricultural credit, there are Short term, Medium term & Long term loans. On the short term and medium term side of the credit at the State level, there is State Cooperative Bank, at the District level there is Central Financing Agency and at village level, the village primary Cooperative society. On the long term Credit side there is Central Land Development Bank at the State level & Primary Land Development Bank at the District level.

- i) Short term credit is required for raising & marketing of crop;
- ii) Medium term credit is required for minor developments of land and auxiliary occupations, such as purchase of milch cattles, poultry farm etc.;
- iii) Long term credits are required <sup>for</sup> major land developments, such as : digging of wells, purchase of implements, installation of pump sets and minor lift irrigation schemes, etc.

The Non-agricultural Credit requirements are met by the State Cooperative Bank through Central Financing Agencies. The Central Financing Agency in turn provides this finance to the primary non-agricultural credit societies, such as Industrial cooperatives, weavers cooperatives, Urban cooperatives, Consumers cooperatives, etc. The Reserve Bank of India provides financial accommodation to the Cooperative movement for seasonal Agricultural operations & marketing of crops as well as for ~~certain~~ Non-Agricultural purposes through the State Cooperative Bank.

The Reserve Bank of India is providing Short term and Medium term credit needs through Apex Cooperative Bank at a concessional rate of interest, which is 2% & 1½% respectively, below the Bank-rate. The District Central Cooperative Bank ( Central Financing Agency ) provides short term loans to societies for being advanced to their members as per scales fixed every year for raising of different crops. The rate of interest to the society is 6% and to the member 9% in case of Short term loans and 5½% and 9½% respectively in case of Medium term loans.

The scales of finance per acre of each crop is fixed after taking into consideration the expenditure involved in raising the crops and average yield per acre; so that, it is within the repaying capacity. The scale also varies depending on fertility of soil and climatic conditions such as rainfall, irrigation facilities, etc. The scale of finance includes cash and kind component. Cash component represents charges for labour and kind component represents the inputs required.

Medium term loans: The Central Financing Agency provides medium term loan for the following purposes repayable with a period of three to five years:

- 1) Repairs to old wells, (2) Purchase of oil engines, electric motors, etc., (3) Purchase of milch cattle, (4) Purchase of shares in Cooperative processing societies, (5) Purchase of other small agricultural implements, etc.

The period of Medium term loans for the purpose such as oil engines, electric motors, etc. is 5 years. As stated above there is a three tier system of Cooperative credit movement in existence in almost all the States of India. The stages are:

- i) The Primary credit society at the village level,
- ii) The Central Cooperative Bank at the District level; &
- iii) The Apex Cooperative Bank at the State level.

Primary Agricultural Credit societies are financed by District Central Cooperative Bank and the Central Financing Agencies are provided finance by the State Cooperative Bank; on the application by the member to the society, the society to the Central Cooperative Bank and the Central Cooperative Bank to the Apex Cooperative Bank respectively. The loaning policy is fixed by the Field Workers' Conference of the District held in every year in the month of October- November. Every year loan limits are fixed up on the cropping pattern of the members. Cropwise loan policy is fixed up. According to the recommendations of the Field Workers' Conference, the Board of Directors of the District Bank sanctions loan limits to every society. The loan limits are based on the Normal Credit statements which are prepared by every society. The same are scrutinised by the Bank-Inspectors and forwarded to the Bank for sanction. The Board of Directors sanctions loan limits of the society and the loan application of the society is returned to the society alongwith a copy of the Normal Credit Statement for disbursement to the members. On the strength of this Normal Credit statement sanctioned by the Bank the society disburses the loans to its members.

Long term Finance:

The business of agriculture needs long term finance for major land developments; such as digging up of new wells, tube-wells, installation of pump sets, oil engines, purchase of Tractors & other agricultural implements. Loan accommodation for the purposes is made available by the State (Apex) Land Development Bank through their District Primary Land Development Banks. This is a two-tier system of disbursing long term credit. The Agriculturists desirous of above type of loans apply directly to the Primary Land Development Bank with necessary details of their projects. The Bank in turn, gets the approval of the Apex Land Development Bank & provides necessary credit. Cooperative lift irrigation societies and Joint Lift Irrigation schemes undertaken by the group of farmers, are also financed by the Land Development Bank. The State Land Development Bank raises its financial resources by raising share capital and floating debentures. The debentures are guaranteed by the State Governments. The Reserve Bank also purchases the debentures under the provisions of Section 46(A) of the Reserve Bank of India Act.

The purposes for which the loans are allowed by the Land Development Banks are as under:

- 1) New wells & tube wells, (2) Major well repairs, (3) Oil Engines and Electric motors (4) Installation of lift irrigation schemes, (5) Purchase of tractor, cement pipes and (6) Land improvement and Horticulture, etc.

The period of the loan varies between 7 to 12 years depending upon the nature of the investment.

Loans are granted against the security of lands, taken in mortgage. Engine, electric motor, tractors, etc., are also taken as an additional security. At present the rate of interest to these loans is 9%, for the member. The Central/State Land Development Bank gives loan to the Primary/District Land Development Bank at the rate of 7½%. The utilisation of these loans is supervised by the Primary Land Development Bank.

Financial resources are usually raised by almost all the institutions by the following:

- a) by entrance fees, (b) by issue of shares, (c) by accepting deposits from members (d) by loans from the State & Central Banks, (e) by guarantees from the State Government.

As regards the mobilisation of deposits Apex Banks and Central Financing Agencies have succeeded to some extent in tapping deposits. The positions of deposits and other resources with these institutions for the year 1968-69 was as under:

	<u>Dist. Central Banks</u> 1968-69 (Rs. in crores.)	<u>State Coop. Bank.</u> 1967-68 (Rs. in crores.)
1) Share capital	114.00	37.30
2) Reserve funds	31.38	33.31
3) Deposits..	335.10	179.60

The village primary & other societies have not made progress in this behalf to the desired extent.

(b) Recovery Problems:

Alongwith the increase in Cooperative credit, the problem of recovery of dues is faced by the movement. As on 30th June, 1971 the percentage of overdues to the total outstanding was 41.1% in case of Short term loans.

There are various reasons for the increasing position of overdues. Agriculturists are put to difficulties on account of wide price fluctuations of their produce. Climatic conditions and uncertain rainfall affect the yield of agriculture, thereby reducing the income of the farmer, who is unable to repay his dues. To some what extent lack of effective supervision and timely action for recovery of dues have been also factors for mounting overdues. The District Central Cooperative Banks and the societies are advancing loans, but for recovery of overdues Government machinery is required. Some times lack of co-ordination between these various agencies has been also a cause of overdues. The procedure of recovery of overdues by way of co-ercive measures has been made simple in almost all the States. Consolidated efforts by various agencies working in the Cooperative movement will help to reduce the position of overdues.

(c) Management performance:

The Management of Cooperative institutions is left with members themselves. The members are to elect their Managing Committee members who look after the day to day working of the Society. The committee has to assess credit requirements of each & every member and obtain approval of their General Body. On the strength of this assessment, it has to get credits from the Central Financing Agency. The Managing Committee has also to look after day to day working of the society, to strengthen the financial position of the society and thereby contributing to the Cooperative development and financial soundness.

Though the supreme authority vests in the General Body of the society actual working and development of business of the society rests with the Managing Committee. On the side of meeting credit needs of members; it can be said that the management is performing better service. However, it may happen that some members may be denied of credit facilities. On account of factions or otherwise. This is a hurdle which can be done away with careful watch of the Cooperative Department and Central Financing Agency. As regards Cooperative development and other matters, the management of cooperatives has yet to learn and imbibe so many other things and they have to increase deposit resources from their members and impart knowledge of Banking.

Many of the societies are now doing the business of distribution of inputs & other requirements of agriculture. This activity still has to develop to a larger extent. The Central Financing Agencies and Primary Land Development Banks have to equip with themselves to give technical guidance to the farmers. This involves application of chemical fertilisers, its doses, control of pesticides, guidance regarding new schemes of land development, etc. It will be necessary for these institutions to have technical personnel on their pay role, such as Agricultural graduates, engineers, veterinarians, etc. to guide the farmers in respective fields.

### III) Forms of State Government aid in India:

State aid which is now a recognised features of the cooperative movement has taken the following forms:

- 1) Legislatives: Cooperative societies were given a judicial recognition under the Indian Cooperative societies Act. Most States have enacted their own laws to give better apportunities to the movement to development. For facilitating the working of the Land Development Bank, special laws have been passed. The Acts confer numerous privileges to promote and stream line the working of coop.societies.
- 2) Administrative: The Registrar, Cooperative societies and his staff are called the "Friend, Philosopher & Guide of the Cooperative Movement". The Registrar initiates the organisation of societies, guides their affairs and arrange their inspection, audit and arbitration. The Government thus provides a major part of the supervisory set up of the societies.
- 3) Financial: (a) Cooperative societies have to a great extent been exempted from the payment of income-tax, super tax, registration fees and stamp duties on documents pertaining to their business and executed between the society and its members.  
(b) The Government sanctions managerial assistance to credit as well as non-credit institutions in their initials stages. This assistance is being given on a sliding scale, so that as soon as possible a society may be able to stand on its own legs.  
(c) Grants and loans are sanctioned for the credit societies, for marketing societies, marketing federations and various other types of societies for the construction of godowns.  
(d) In the case of Land Development Bank, the Government guarantees debentures as to their repayment of principle as well as interest, & is providing temporary accommodation to the Central Land Development Bank to issue loans and to create mortgage security sufficient to float debentures, has exempted its documents from the payment of stamp & registration fees and is giving special assistance in backward areas to make land Development Banks economic units.  
(e) The Government of India, the Reserve Bank of India, and the State Government have created various funds for the benefit of Cooperative movement.  
(f) The Government of India has taken up the responsibility for financing training programmes of the Cooperative personel at the higher and intermediate levels. The State Government have taken up responsibility for training the subordinate personnel. Participation of the State creates the necessary confidence in the members as well as non-members in the Cooperative institutions.

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### IV) Achievements & Problems:

The Cooperative movement in India has made tremendous progress particularly in Cooperative credit and other consumers business, Marketing, industries, etc.. As stated above during the year 1971-72, the Cooperative Sugar Factories produced 42 % of the total sugar of the country, which will alone high-light the achievements of the movement.

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The following figures will give some idea about the progress of the Cooperative Credit movement (1970-71)

(Rs. in crores)

Particulars:	State Coop. Banks	Central Coop. Banks
Number of socys.	.. 25	390
Owned funds	.. 92	193
Deposits	.. 279	419
Borrowings	.. 245	-
Working capital	.. 685	1030
Loans issued	.. 723	-
Loans outstanding	.. 287	638

clutches

Cooperative Credit movement has helped the agriculturists to come out of private money lenders. There are 160780, primary societies spread all over the country as on 30th June, 1971. All the societies through their business and working are educating their members the principle of cooperation, thrift, self help, & democracy. Knowledge of new methods, techniques of agriculture are also being given to the farmers. The system of Banking is also being popularised through the society. As on 30th June 1971, the deposits of these societies were Rs.69.05, crores, & owned funds of Rs.265.03 crores. The above figures will give an idea about the achievements of the Cooperative Credit movement. Even with these significant achievements, we have still to go far. In the field of Agricultural credit, the movement has played a major role. Now after the Nationalisation of big Banks, the commercial and Nationalised Banks are entering into the field of Agril. credit. The Cooperative credit movement has to raise itself to face the new situation.

The Agricultural business in India is fast developing. The problems of supply of seeds, inputs, application of new methods are to be tackled with a new outlook and vigour. The Reserve Bank through its Agricultural Credit Department is taking keen interest in the development of credit structure in the Cooperative movement, thereby helping to increase Agril. production in the country.

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REGIONAL SEMINAR ON CO-OPERATIVE CREDIT IN JAPAN.

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Paper presented by  
Sri G.V.Chandrasekhara Reddy, B.A., B.L.,  
The Andhra Pradesh Co-operative Central Land Mort-  
gage Bank Ltd., Hyderabad-27 (India).

CO-OPERATIVE LONG TERM CREDIT IN ANDHRA PRADESHINTRODUCTION:

The Co-operative movement in India may be said to originated with the recommendations of the Indian Famine Commission of 1901 which advocated the organisation of mutual credit associations on the lines of those obtaining in Germany. The recommendations of the Commission eventually took shape in the Co-operative Credit Societies Act, 1904. The enactment was largely due to the anxiety of the Government to ameliorate the conditions of the people burdened with crushing load of hereditary debt which was far beyond their power to redeem.

disbursement  
Credit was the first function taken up by the co-operatives. The credit needs of an agriculturist may be broadly divided into three main categories: short-term, medium term and long term. Short-term credit is required to meet the seasonal production requirements. Medium term credit is required for purchase of bullocks and minor implements, servicing and maintenance of capital investments, long term credit is needed for effecting permanent improvements like sinking of wells, purchase of machinery, development of land etc. In the co-operative sector the Service Co-operative Societies at the village level provide the short term and medium term credit. They are federated into Central Co-operative Banks generally at the District level, which are in turn federated into the State Co-operative Banks. The long term credit is provided by the Co-operative Land Mortgage Banks which are now known as Land Development Banks in some States.

The first co-operative land mortgage bank was started in India (excluding Pakistan) in 1925 at Gudlavalleru in Andhra Pradesh (erstwhile Madras State) and a few more banks came into existence in the years before the beginning of the great depression. The Great Depression had its terrific impact on these infant banks and functioning of most of them was far from satisfactory. The real beginning of co-operative land mortgage banking was marked by the establishment of the Co-operative Central Land Mortgage Bank in 1929 in Madras in order to centralise the functioning of raising of resources by floatation of debentures and for co-ordinating the working of the primary land mortgage banks. This gave an impetus to the organisation of new primary banks and Central Land Mortgage Banks in other parts of India. Presently, there are 19 Central Land Mortgage/Development Banks in India almost at the rate of one for each State. They are mostly federal in structure.

An attempt is made hereunder to analyse the organisation and functioning of one of the important Central Land Mortgage Banks in India viz. The Andhra Pradesh Co-operative Central Land Mortgage Bank, to understand the long term credit movement.

ANDHRA PRADESH CO-OPERATIVE CENTRAL LAND MORTGAGE BANK:

The Andhra Pradesh Co-operative Central Land Mortgage Bank is the sole purveyor of long term credit in the State of Andhra Pradesh. This was constituted in 1962 by amalgamating the Andhra and Hyderabad Central Land Mortgage Banks to serve the entire State. As on 28-2-1973 it had a paid up share capital of Rs.613 lakhs of which 106 lakhs were contributed by the Government of Andhra Pradesh. The loans outstanding on that date amount to Rs.10,056 lakhs of which Rs.2,406 lakhs relate to the schemes financed by the Agricultural Refinance Corporation.

STRUCTURE:

The Andhra Pradesh Co-operative Central Land Mortgage Bank has a federal set up with 184 Primary Banks federated to it. Primary Banks have been organised in the State almost in all taluks. Thus the primary unit serves an area of about 125 villages more or less compact and at a level convenient to the borrowers to approach. As on 30-6-1972 the primary banks had a paid up share capital of Rs.837 lakhs and their loans outstanding amount to Rs.9,761 lakhs disbursed to 4.22 lakh cultivators in the State, the total number of farmers in the State being about 75 lakhs.

In order to quicken the disbursements and to plan the loaning programme from gross roots the Central Land Mortgage Bank has decentralised the functions by setting up ten branches in November, 1972. These branches perform most of the functions of the Central Land Mortgage Bank and each branch looks after the requirements of two districts.

RESOURCES:

The loaning programme of the Bank falls under two broad categories: normal loaning and special development schemes refinanced by the Agricultural Refinance Corporation. The Bank's working capital is made up of the share capital of the primaries and Government's contribution, in addition to miscellaneous funds. Overdrafts from commercial banks are obtained to meet the requirements of loan disbursements. The chunk of the resources is made up of debentures floated by the Bank from time to time on the basis of effective mortgages acquired. The debentures floated confirm to the loans issued under the normal programme and special development programme. The contributors to the debentures are mainly the Life Insurance Corporation of India, State Bank of India, Commercial Banks and sister

institutions in the State. The Bank also floats rural debentures and accepts Fixed Deposits from individuals for periods not exceeding two years as a measure of self help programme.

#### LOANING OPERATIONS:

Till the commencement of planning era in 1951, the land mortgage banks were mainly advancing loans to the farmers for helping them to liquidate their old debts. During the First Five Year Plan period these banks adopted policies in order to advance loans for productive purposes. The Second Plan period saw further refinements in their loaning policies. In the Third Plan period radical changes occurred in their loaning policies and procedures. It was during this period a steep increase was recorded in the issue of loans. They started evincing interest in financing the small and medium size farms and rationalised their procedures.

The Bank lends 70 per cent of its disbursements for easily identifiable productive purposes and the remaining for not easily identifiable productive purposes. Very small amount is ear-marked for financing the cultivators to redeem their old institutional debts.

By the end of December, 1970 the advances of the Bank exceeded Rs.100 crores and the components of the loan portfolio then are given below:

PURPOSE	No.	Amount (Rs. in crores)
1. Wells	1,01,215	28.1
2. Oil engines & Electric Motors	64,600	18.4
3. Tractors & Power tillers	3,532	5.5
4. Ayacut development	4,09,052 Acres	13.1
5. Other developmental purposes	--	26.7
6. Discharge of prior debts	--	8.2
		----- 100.0 -----

YEARWISE OPERATIONS:

Annexure-I indicates the overall operations of the Bank since its inception upto the co-operative year 1971-'72.

The share capital collections went up by 627 per cent in 1971-'72 compared with the position in the year of inception while the loans advanced increased by 459 per cent. The loans outstanding rose to 97.01 crores in 1971-'72 from Rs.9.74 crores in 1961-'62 recording an increase of 995 per cent.

FOURTH FIVE YEAR PLAN:

The Fourth Plan of the Bank was prepared with an estimated advances of Rs.100.00 crores for disbursement commencing from 1969-'70. The achievements purposewise during the first three years and the anticipated achievements for the last two years of the Plan period are given below:

(Rs. in lakhs)

PURPOSES	YEARS									
	1969-70		1970-71		1971-72		1972-73		1973-74	
	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.
Wells	26740	896	24380	1003	14990	648	17500	1050	13000	800
Pumpsets	15020	398	10010	290	8650	250	13000	400	13500	480
Tractors & Power Tillers	710	113	450	83	500	107	200	60	200	60
Ayacut development Acres	47930	144	44660	218	30000	62	40000	160	40000	160
Other developmental purposes	--	368	--	383	--	654	--	530	--	683
		1919		1917		1721		2200		2183

During the first two years of the Fourth Plan loaning was around 20 crores per annum. From June, 1971 the Bank started implementing International Development Association Credit Project. The Project brought in its wake certain radical changes in the loaning policy involving technical clearance for minor irrigation programmes and economic feasibility for all investments. The farmers have to pay a portion of the investment cost. This has resulted in slowing down of the loaning.

The Bank has recently prepared its tentative programme at an outlay of Rs.130 crores for implementation during the Fifth Five Year Plan period commencing from 1973-'74.

INTERNATIONAL DEVELOPMENT ASSOCIATION AGRICULTURAL CREDIT PROJECT

The Andhra Pradesh Agricultural Credit Project financed by International Development Association at a financial outlay of Rs.33.8 crores contemplates a lending programme of Rs.26.42 crores to about 45,000 farmers in 2½ years for the purpose of capital investments in agriculture in the State. The Project envisages advancing of long term loans to the farmers for the purpose of minor irrigation investments like sinking of wells and installation of pumpsets, land levelling investments under Nagarjuna Sagar Project and Fochampad Project to make the lands fit for irrigated cultivation and farm mechanisation by importing tractors.

The Project Agreements were executed between International Development Association and Government of India, Government of Andhra Pradesh, Agricultural Refinance Corporation and the Andhra Pradesh Co-operative Central Land Mortgage Bank on 8-1-1971. The details of the physical and financial programme to be covered under the Project area as under:

Item of development (1)	Physical programme (2)	Loans to be advanced (Rs. in crores) (3)
I. Minor irrigation investments:		17.02
a) Tube wells	1,350	
b) Dug wells	14,000	
c) Development of wells	5,000	
d) Diesel Engines	7,700	
e) Electric Motors	12,000	
f) Land Development under wells	37,050 Acres	
II. Land levelling investments:		5.06
a) Nagarjunasagar Project	74,100 Acres	
b) Pochampad Project	25,132 Acres	
III. Farm Mechanisation:		4.34
Tractors	1,500	
Total:		26.42

The Andhra Pradesh Co-operative Central Land Mortgage Bank is the principal agency providing credit under the Project to the farmers. A small part of the project has been allotted to 11 Commercial Banks.

(Rs. in crores)

Investment	Project outlay	Target set for LMBs	Loans advanced by LMBs	Balance
a) Minor irrigation	17.20	12.67	10.09	2.57
b) Land development	5.06	5.07	1.28	3.77
c) Farm mechanisation	4.34	2.54	--	2.54
26.42		20.27	11.37	8.89



It is expected that the balance programme would be covered before the targeted date with necessary modification of outlays under various heads.

SMALL FARMERS:

The problems of small farmers have come to the forefront in recent years. They have not been properly cared for by the credit institutions till recently for various reasons. The All India Rural Credit Review Committee observed that the small farmers have been large in the Country in general and particularly in States like Andhra Pradesh and that they are handicapped in the matter of access to co-operative credit to effect capital improvements on their holdings. The main inhibitions of the small farmers in approaching the land mortgage banks or for that matter any institution disbursing credit have been lack of knowledge about the existence of these institutions and the advantages that accrue if they borrow from institutions like co-operatives. Traditional apprehensions coupled with the distance from their native place to the Bank, the time taken for disbursement of the credit, the procedures and conservative methods of valuation also impeded their approach to the land mortgage banks. The Banks have taken many effective steps in order to enable the small farmers to obtain their requirements of credit. Primary Banks have been organised at taluk level so that the distance could be reduced. The supervisors of the Banks have been charged with extension functions and are visiting the villages frequently and establishing rapport with the small farmers so that they feel at home to approach the banks and express their requirements. The valuation system has been tilted in their favour by making 75 per cent of the value of hypotheca as loan eligibility.

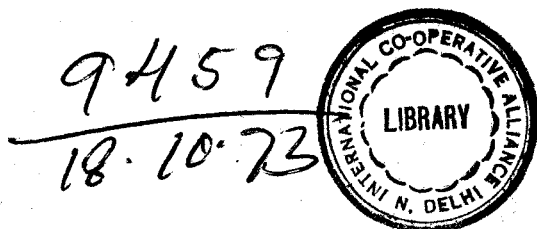
Loan procedures have also been simplified and enough care taken to quicken the disbursements. The small farmers in the Project areas of Nagarjunasagar Project and Pochampad have been served by the Land Mortgage Banks intensively. The Bank has taken special steps in order to finance the small farmers and marginal farmers in the small farmers development agency and marginal farmers and agricultural labourers' development agency schemes introduced by the Government in the districts of Srikakulam, Visakhapatnam, Cuddapah and Nalgonda.

RECOVERIES :

Collection of dues from members is one of the main problems of land development banks in the Country. Frequent droughts have sapped the morale of the agricultural community and has thrown their production plans out of gear. In spite of this problem the Land Mortgage Banks in Andhra Pradesh have worked hard to maintain the overdues at a marginal point. The statement below indicates the recovery performances of the Banks from the farmers for selected years.

<u>Co-operative year</u>	<u>Demand</u> (Rs. in crores)	<u>Recovery</u>	<u>% of recovery</u>
1961-'62	0.96	0.93	97.40
1965-'66	2.65	2.60	97.94
1969-'70	9.83	9.32	94.82
1970-'71	12.77	12.18	95.40
1971-'72	16.09	14.28	88.80

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CONCLUSION:

The Co-operative Land Mortgage Bank structure in the State has demonstrated an enormous capacity to adjust to the changing needs of the agricultural economy of the Country. They could adjust their policies and procedures to meet the implementation needs of the schemes satisfying the technical and economic appraisals of the World Bank. However, they have still to go a long way to completely meet the requirements of (a) the small farmers and (b) the undeveloped areas.

But close analysis of the working of these Banks during the recent years throw light on the following areas which have to be taken care of for promoting growth and for effective service.

- a) Personnel management
- b) Insurance against infructuous capital investments
- c) Crop insurance to ensure proper recovery
- d) Dedicated non-official co-operators.

It can be said that most of the above problems are being faced in the co-operative short term credit structure also. The future of the co-operative credit depends on finding proper and effective solutions for the above problems.

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ANNEXURE - I

Statement showing the progress in the working of the Andhra Pradesh  
Co-operative Central Land Mortgage Bank Ltd.

(Amount Rs. in Lakhs)

Co-operative year	No. of PIMBs	Share Capital	Loans advanced No.	Amount	Loans outstand- ing	Debentures in circu- lation	Reserves	Profit
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1961-'62	113	97.18	10,800	330.89	974.57	953.35	37.71	10.46
1962-'63	122	130.81	10,897	322.54	1,221.81	1,411.94	43.38	10.33
1963-'64	126	147.29	13,778	403.15	1,526.66	1,660.30	48.00	13.16
1964-'65	163	175.96	14,988	445.73	1,848.11	2,197.61	55.37	15.90
1965-'66	173	247.76	47,015	1,222.02	2,832.09	3,179.51	62.64	21.29
1966-'67	178	295.26	42,903	1,018.72	2,653.95	3,993.47	75.50	31.16
1967-'68	178	344.33	43,098	1,194.82	4,589.11	4,970.89	93.28	39.64
1968-'69	180	407.58	65,179	1,803.07	6,077.25	6,397.78	116.43	45.45
1969-'70	181	502.77	70,113	2,068.21	7,649.57	8,547.61	142.77	75.39
1970-'71	181	558.00	63,134	1,980.08	8,983.94	10,340.28	191.11	111.69
1971-'72	182	609.65	46,268	1,518.47	9,701.16	11,833.46	266.77	126.90

58

REGIONAL SEMINAR

ON

"COOPERATIVE CREDIT WITH SPECIAL REFERENCE TO JAPAN"

APRIL - 2-28, 1973

TOKYO

BACKGROUND PAPER

BY

MR. R. SRINIVASAN

DEPUTY SECRETARY TO THE GOVERNMENT OF INDIA

MINISTRY OF AGRICULTURE

DEPARTMENT OF COOPERATION

NEW DELHI

INDIA

EXPLANATION

1 lakh = 100,000

10 lakhs = 1 million

100 lakhs = 1 Crore

1 Crore = 10 millions

## I. INTRODUCTION

### (a) Background

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1.1 India is the seventh largest country in the world in terms of geographical area and the second most populous. Nearly seventy per cent of the country's total working population is dependent on agriculture and about half of its national income is derived from this field. Agriculture accounts for about forty per cent of the country's total exports.

In 1951, India's total population was a little over 361 million which went up to 439 million in 1961. According to the 1971 census the total population has gone up to 547 million.

1.2 Total area under cultivation is about 140 million hectares. Of this 19% is irrigated. During the period 1950-51 to 1966-67, the net irrigated area increased by 6.6 million hectares. The two outstanding features of agricultural production in India are the wide variety of crops and the preponderance of food over non-food crops. The main food crops are rice and wheat. Rice takes up 23% and wheat 9% of the cropped area. The other important food crops are jowar, bajra, barley and pulses.

1.3 Accordingly to sample survey estimates there were 50.77 million operational holdings. The average size of an operational holding was 2.63 hectares. The table below indicates the distribution of operational holdings according to their size and area covered:-

Sl. No.	Size class of operational holdings (acres)	Estimated No. of operational holdings ('000)	Estimated area operated ('000 acres)
1.	Upto 0.49	48,40 (9.71)	11,55 (0.35)
2.	0.50 - 0.99	42,56 (8.54)	30,85 (0.94)
3.	1.00 - 2.49	1,07,71 (21.62)	1,78,82 (5.49)
4.	2.50 - 4.99	1,11,82 (22.44)	4,00,81 (12.25)
5.	5.00 - 7.49	61,55 (12.35)	3,70,14 (11.31)
6.	7.50 - 9.99	34,78 (6.98)	2,95,09 (9.02)
7.	10.00 - 12.49	24,47 (4.91)	2,65,52 (8.11)
8.	12.50 - 14.99	14,35 (2.88)	1,93,47 (5.91)
9.	15.00 - 19.99	18,46 (3.71)	3,10,83 (9.50)
10.	20.00 - 24.99	11,10 (2.23)	2,42,77 (7.42)
11.	25.00 - 29.99	6,62 (1.33)	1,77,21 (5.41)
12.	30.00 - 49.99	11,20 (2.25)	4,09,56 (12.51)
13.	50.00 - and above	5,22 (1.05)	3,89,15 (12.89)
<u>All sizes</u>		<u>4,98,24</u>	<u>32,72,77</u>
Average size		6,57 (acres)	

(b) History

2.1 The report of the Famine Commission, 1901 pointed to the need for introducing "Cooperatives" as a means to save the agriculturists from the usurious rates of interest they were required to pay to money lenders on their borrowings. The Government of India appointed a Committee under Sir Edward Law, and this Committee's recommendations formed the basis of the Cooperative Credit Societies Act, 1904. This Act ushered in cooperative movement in this country. The 1904 Act provided an organisation of only primary credit societies - urban and rural. That Act did not give legal protection to societies organised for purposes other than credit. Nor did it contemplate formation of federal organisations. These lacunae were removed by the Cooperative Societies Act of 1912. Under the Devolution Rules framed under the Government of India Act of 1919, 'Cooperative Societies' became a transferred subject. Each province began to enact its own legislation for its cooperative societies. The MacLagan Committee on Cooperation in India (1915) made



Valuable recommendations for the administration and sound financial management of cooperatives. The Royal Commission on Agriculture in the 1920's observed, "If cooperation fails, there will fail the best hope of rural India". Great depression of the 30's gave a major setback to the movement due to slump in agricultural prices and consequent decline in the income of the farmer.

2.2 In terms of Section 54 of the Reserve Bank of India Act, 1934, the Bank was required to create a special Agricultural Credit Department to study all questions of agricultural credit and be available for consultation by the Central Government, State Governments, state cooperative banks and other banking organisations. It was also required to coordinate the operations of the Bank in connection with agricultural credit and its relations with state cooperative banks and any other banks or organisations engaged in the business of agricultural credit. This Department of the Reserve Bank has placed a leading role in the development of cooperative credit in the country. In 1953, the Government of India also enacted the Multi-Unit Cooperative Societies Act, to facilitate organisation and functioning of regional and national level societies whose objectives extend beyond one State.

2.3 The Government of India appointed a Committee under Shri R.G. Saraiya to "draw up a plan of cooperative development". In its Report submitted in 1945, the Committee emphasised, "It is upon a policy of active economic development by the state that the success of cooperation will depend". Regarding the role of cooperatives in planning, the Committee observed,

"The cooperative society has an important role to play as the most suitable medium for the democratisation of the economic planning. It provides the local unit which can fulfil the dual function of educating public opinion in favour of plan and of executing it".

2.4 The dawn of independence in 1947 and the advent of planned economic development ushered in a new era for cooperatives. Cooperation came to be considered as an indispensable instrument of planned economic action in a democracy. The First Five Year Plan set out that the principle of mutual aid, the basis of cooperative organisation, and the practice of thrift and self-help which sustains it, generate a steady feeling of self-reliance which is of basic importance in a democratic way of life.

2.5 Just before the commencement of the Second Five Year Plan came the Rural Credit Survey report which gave a new direction to the entire cooperative movement. The Survey revealed that cooperative credit societies, in spite of their existence for over 50 years, accounted for an insignificant percentage (only 3.1) of the total borrowings of the cultivators. Largely the cultivators were dependent on money-lenders for credit. The Survey Committee, therefore, opined that the initial push should come from the state, if the cooperative movement was to succeed.

2.6 The Second Plan enunciated that "economic development along democratic lines offers a vast field for the application of cooperation in its varying forms. The building up of a cooperative sector as a part of the scheme of planned development is thus one of the central aims of national policy".

2.7 The Third Plan further stressed the importance of vigorous development of a large cooperative sector and succinctly described the role of cooperatives thus: "A rapidly growing cooperative sector, with special emphasis on the needs of the peasant, the worker and the consumer becomes a vital factor for social stability, for expansion of employment opportunities and for rapid economic development."

2.8 The Fourth Plan document envisages that the services which the farmers require should be institutionalised to the greatest extent possible and emphasizes in this connection that it is only when the cooperative organisations embrace all activities from production to consumption and act as an integrated system that they can fully discharge their social and economic responsibilities. This objective is sought to be achieved through carefully filling up gaps and by strengthening all the primary and higher level institutions. In terms of physical targets, the cooperatives are expected to disburse short-term and medium-term credit of the order of Rs.750 crores in 1973-74 and long-term credit of Rs.700 crores during the plan period excluding refinance from the Agricultural Refinance Corporation at Rs.300 crores.

(c) Structure

3.1 The two wings of the cooperative credit structure - the short-term and the long-term have been evolved as separate entities as a result of the growing dimensions of credit for different purposes and the practical difficulties faced in the past in dispensing short and long-term credit by one and the same institution. The short-term credit structure which is on the three-tier pattern consists of the

primary agricultural credit societies at the village level, the central cooperative banks at the district level and the state cooperative banks at the state level. The short-term credit institutions provide short-term loans for seasonal agricultural operations and marketing of crops and also to some extent medium-term loans for purposes such as purchase of bullocks, pump sets, oil engines, sinking of wells, dairy and poultry farming etc. In the sphere of long-term credit, the cooperative structure consists of two tiers, a central land development bank in each State with primary land development banks at the district or sub-divisional level. In certain areas, the structure is unitary in the sense that the central land development bank itself functions through its branches. The land development banks provide funds for minor irrigation schemes, reclamation of land, contour bunding, purchase of tractors, power tillers and heavy agricultural machineries, construction of godowns and silos etc.

## II. OPERATIONS.

### (a) Resources

4.1 The State and Central cooperative banks derive funds by raising deposits and by borrowing from the Reserve Bank and the central land development banks raise the required resources by floating debentures which are supported among others by the Life Insurance Corporation, Commercial banks, Central and State Governments, the Reserve Bank and the Agricultural Refinance Corporation. During 1971-72, the Reserve Bank sanctioned short-term credit limits to cooperative banks amounting to Rs. 390 crores, medium-term loans of Rs. 19 crores and loans to State Governments for share capital contribution amounting to Rs. 12 crores. The outstandings

against Reserve Bank credit limits to the cooperatives for agricultural purposes for the country as a whole was Rs.231 crores at the end of June 1971 and Rs.209 crores at the end of June 1972. Credit is an essential pre-requisite for agricultural production and investment but by no means a substitute for resources raised through savings. With a view to encouraging a progressive increase in the reliance on own resources of central cooperative banks and a proportionate decline in the borrowings from the Reserve Bank the scheme to link borrowings from the Reserve Bank the scheme to link borrowings with the efforts in mobilising deposits by the central cooperative banks is to be introduced from 1973-74.

4.2 The Agricultural Refinance Corporation with the assistance of the World Bank and its affiliate International Development Association has considerably stepped up the refinance facilities to the land development banks, State cooperative banks and the commercial banks for development of agriculture and allied activities. There had also been greater diversification in the types of assistance provided by Agricultural Refinance Corporation, although minor irrigation constituted 68 per cent of the total financial assistance. Refinance facilities are now being provided for construction of godowns, development of fisheries, dairy and poultry farming etc. The total financial assistance by the Corporation amounted to Rs.125 crores upto 30 June 1972 of which Rs.110 crores, Rs.7 crores and Rs.8 crores were for land development banks, state cooperative banks and commercial banks respectively.

(b) Loaning Policies and Procedures.

5.1 The basic principle in lending for agriculture is that it should be need-based and production-oriented. The progressive adoption of the crop loan system with particular emphasis on the disbursement of inputs in kind, effective linking of credit with marketing and strengthening of the supervisory machinery to verify the end-use of credit are the best safeguards against misuse of loans and overdues. The policies are being reoriented with a view to ensuring productive use of the scarce resources. It has been stipulated that at least 90 per cent of the advances from land development banks should be for productive purposes, of which 70 per cent should constitute easily identifiable purposes, such as sinking of wells, purchase of pump sets, tractors, other agricultural machinery etc. The land development banks are advised to ensure ground-water potential before granting loans for minor irrigation purposes, to fix minimum land holdings in respect of loans for different purposes, to prevent over-capitalisation of investment or under-utilisation of resources, to fix the period of loans on the basis of the repaying capacity of borrowers and the useful life of the assets created from the investment and to insist on a reasonable contribution by the borrower towards the cost of investment. The central cooperative banks advancing loans for medium-term purposes are also required to observe a similar discipline and to ensure that at least 40 per cent of their medium-term advances are for identifiable purposes. These measures which are meant to accelerate agricultural development are yielding results. In 1970-71, 40 per cent of the medium-term advances and 80 per cent of the long-term advances to the cultivators by

the co-operatives were for identifiable purposes.

5.2 Various studies conducted revealed that the flow of institutional finance tended to be in favour of the well-to-do farmers and that the small farmers and the weaker sections were not in a position to avail of credit facilities to take to improved technology. It was against this background that the Government of India had launched two Central Sector Schemes during the Fourth Five Year Plan -(i) Small Farmers Development Agencies; and (ii) Marginal Farmers and Agricultural Labourers Development Agencies. The SFDA's covered 46 selected areas in different parts of the country, while the MFAL Agencies are in operation in 41 selected areas. Specific programmes have been drawn up under these projects for the economic development of small/marginal farmers and agricultural labourers. The cooperative institutions are playing a prominent part in helping the weaker sections under these projects. To enable them to strengthen themselves to play the desired role, the schemes provide for assistance to the cooperatives in the shape of risk fund and subsidies for appointment of managerial and supervisory staff etc. The Reserve Bank also requires the central cooperative banks to utilise 20 per cent of their borrowings for financing the small and weak farmers. Further special relaxations in lending policies in matters like period of repayment, share linking, margin, security etc. are being permitted in favour of the weak farmers. These measures have accelerated the flow of credit to this much neglected sector. About 11 lakhs of members of cooperatives were participating in the various schemes of Small Farmers

Development Agency/Marginal Farmers and Agricultural Labourers projects. The cooperatives have advanced term loans of the order of Rs.16 crores to the participants, in these project areas. The Reserve Bank's stipulation regarding earmarking of funds had been complied with by 117 out of 182 reporting central cooperative banks in 1971-72. In respect of 18 States/Union Territories for which data are available, the advances of primary agricultural credit societies in 1970-71 to owner cultivators with holdings upto 2 hectares, tenants and agricultural labourers, were Rs.174 crores forming about one-third of the total advances. The advances of land development banks in 13 States/Union Territories to this category of weak farmers were Rs.34 crores forming, again, about one-third of the total advances. This is indicative of the marked shift in the cooperative loans in favour of the weaker sections of the rural community.

5.3 There is awareness that the present structure of cooperative organisations may not, in many areas, suit the needs of the weaker section. It was against this context that the National Commission on Agriculture had suggested the formation of Farmers' Service Societies, to cater to the needs of the weaker sections. The Government of India is seriously engaged in examining the recommendations of the Commission with a view to find out a best possible solution for structural reform of the cooperatives, especially to suit the needs of the weaker section of the society. It has been recognised that the cooperatives at the bottom should, besides provision of credit, render all the services needed by the farmers in the rural areas,



including distribution of inputs, and consumer goods as also marketing of the produce, both agricultural as well as of cottage industry. The cooperative organisations so set up at the base level should be viable enough to render all such services.

(c) Recovery Problems

6.1 Overdues is the most important and ticklish problem facing the cooperative credit institutions. If institutional credit agencies are to continue to provide adequate financial support for agricultural development, the creation of a sense of responsibility among the cultivators in regard to timely repayment of loans is of utmost importance. Extension agencies should therefore make repayment an integral part of the package of practices and stress the importance of timely repayment as part of their propaganda for modernisation of agriculture.

6.2 At the institutional level, linking of credit with marketing is the best and surest way of improving the recovery performance. The following arrangements have been suggested for effecting better recovery of loans through the sale proceeds of the agricultural produce:-

(a) As a measure of positive encouragement for recovery of credit from the sale proceeds of the produce marketed through cooperatives, the central cooperative banks and primary societies should ensure that first priority in allocating credit is given to farmers, who have repaid their loans from the sale proceeds.

(b) Where the procurement/purchase is made through marketing cooperatives, such societies will recover the amount of credit advanced to the members by the cooperative from the purchase price.

(c) Where the purchase are made directly by the Government corporations or State Government Departments, these organisations should be required to ensure that an amount of approximately 40% -50% of the value of produce purchased from a farmer is adjusted against his dues to cooperative societies on account of credit advanced to the farmers.

(d) Recovery of cooperative dues should also be made out of the proceeds of sales made in the regulated markets.

Suitable provisions should be made in the Agricultural Produce Markets Acts of the various States to this effect.

6.3 Coercive action has to be taken against wilful defaulters and for this, the societies require the cooperation and active assistance of the State Governments. The State Governments can play a vital role by taking steps such as:

- (i) fixation of time limits for disposal of arbitration cases and execution petitions.
- (ii) defaulters from becoming or continuing as office bearers of cooperative institutions.
- (iii) denying taccavi loans as well as loans from other institutional agencies and other Govt. support to defaulters.
- (iv) active propaganda for timely repayment of loans and emphasising government's determination to take coercive measures where necessary.

(d) Management Performance.

7.1 At the end of the Fourth Plan only about one third of the primary agricultural credit societies are likely to have paid Secretaries even though the need for having a full time paid Secretary has been recognised for several years, now. The position is really difficult in the case of weak States. At the same time the financial implications being large, it is necessary to implement this programme in phases. It is now contemplated that out of 1,14,600 primary societies which are likely to be retained by the end of the 5th Plan, at least 80,000 societies should be brought under the cadre scheme by 1978-79. This may be done in a phased programme so that about 16,000 societies (20% of the total likely to be covered by the end of the 5th Plan) may be taken up every year. To begin with, all societies which have reached a loan business of at least Rs.50,000, should be covered by this scheme. In order to organise secretaries of the primary societies into a cadre, the constitution of a cadre authority and a cadre fund is absolutely essential. Every society covered by the cadre scheme should have a full time paid secretary. The emoluments may be fixed with reference to local conditions. Contributions to the cadre fund should be made by the societies, central cooperative banks and the apex cooperative banks. The limited experience with cadres shows that it goes a long way in improving the functioning of the societies.

### III. GOVERNMENT SUPPORT.

8.1 In India the State has accepted the policy of promoting the cooperative movement. This policy has found expression in several ways. Firstly, the cooperative law in many States lays down a clear statement of this policy. Secondly, the cooperative law lays down various forms of State aid to cooperatives such as (i) subscription to the share capital of a society, (ii) giving loans to a society, (iii) guaranteeing the repayment of the principal, and payment of interest on loans and advances given by the Reserve Bank of India or any other authority constituted under law, (iv) providing financial assistance in any other form (including subsidies) to a society. Thirdly, various tax concessions are written into the cooperative and general laws of the country.

#### (a) Share Capital:

8.2 The principle of state partnership in the share capital of cooperative societies was advocated for adoption on a wide scale in the Rural Credit Survey Committee as part of the programme for creating and promoting large-sized credit societies. This policy was accepted and subsequently was extended to small-sized credit societies which had prospects of becoming viable within a reasonable period. At the same time, state partnership in central cooperative banks and apex cooperative banks was accepted as a general policy. Under this policy the State Governments take share in cooperative credit societies (Agricultural), central banks and apex banks. Since the beginning of the Fourth Plan share capital up to Rs.10,000 is provided to a viable or potentially viable

primary agricultural society without insisting on matching contribution by the members of the society. To enable the State Governments to participate in the share capital of cooperatives funds are made available to them as loan from the Long-Term Operations Fund maintained by the Reserve Bank of India. While the policy of State partnership aims at strengthening the capital resources, and consequently the borrowing power of societies, the ultimate objective is that each society should progressively increase its own capital collected from its members and after has been able to raise its collection upto the optimum level, it may start retirement of Government capital over a period of years.

(b) Loans:

8.3 Normally cooperative societies are expected to borrow fund from their financing agencies i.e., primary societies from the central banks, central banks from the apex and the apex from such financing institutions as the Reserve Bank of India and the State Bank of India. Governments are not ordinarily expected to finance cooperatives with loans for their working capital. But there are exceptions to this general position, as in the case of loans to farming societies and normal government loans being routed through co-operatives.

(c) Subsidies

8.4 Schemes for the payment of subsidies by Government to cooperative institutions may be broadly classified into two categories. Firstly, these are schemes for subsidizing cooperative societies to meet the expenses of their staff for a limited period till they attain full viability.

Apart from managerial subsidy to primary credit societies, there are schemes for giving subsidy to central banks and apex banks for appointment of additional administrative and supervisory staff so that they may expand and intensify their activities. Subsidies are also available to central banks for opening branches so as to expand their services to interior areas. Such subsidies are given on a tapering scale over a period of time. Similar subsidies are available to land development banks. The rationale behind the grant of subsidy is that new societies promoted under the Plan programmes as well as existing societies with inadequate business find it difficult to undertake activities for expansion of their business and build up the required managerial competence and, therefore, they need to be assisted in the initial period with subsidies.

(d) Guarantees:

8.5 Another way and an indirect one in which Government assists cooperatives is by guaranteeing, on their behalf, the repayment of the principal, and the payment of the interest on loans. The debentures which are floated by the central land mortgage banks have to be guaranteed by the concerned State Government. The rationale behind the guarantee given by Government is that the outside lending agencies are assured that the purposes for which the loaned funds will be used are such as have met with Government's approval and that Government would take due care and interest to ensure that the borrowing cooperatives used the funds in accordance with sound business principles.

8.6 It is one of the basic objectives of national planning that the weaker sections of the community should be helped to increase their earnings and come upto a reasonable standard of living. To achieve this objective it is necessary that the cooperative lending institutions should come forward to meet the credit requirements of the weaker sections of the community such as are related to their production activities. For the attainment of this objective, a scheme of Government contribution to cooperative credit institutions to enable them to build up special bad debt funds has been in operation since the third five year plan. This contribution is of the nature of an incentive to the credit institutions to liberalise their lending policies and progressively meet the production credit requirements of marginal and submarginal cultivators.

8.7 While State aid in various forms is made available to cooperatives, the basic objective of Government policy is to help the cooperative movement to grow towards self-reliance and self-regulation.

#### IV. ACHIEVEMENT AND PROBLEMS.

9.1 The cooperative credit institutions have made remarkable progress in recent years in the supply of credit for agriculture. At the end of 1970-71, the primary societies were 1.61 lakhs and covered nearly 86 per cent of the villages in the country. The aggregate loans advanced during the year were Rs.578 crore and the outstandings against individual cultivators were Rs.78 crores at the end of June 1971. The central cooperative banks (341 in the country) advanced loans to the extent of Rs.866 cr

during 1970-71 and their outstandings stood at Rs.813 crores. Their deposits stood at Rs.439 crores forming 41 per cent of the working capital. The deposits of state cooperative banks stood at Rs.2.79 crores and the advances outstanding were Rs.534 crores as on 30 June 1971. The loans issued by central land development banks during 1970-71 amounted to Rs.168 crores and the debentures outstanding were Rs.725 crores as on 30 June 1971. The long-term loans outstanding at the primary level as on 30 June 1971 stood at Rs.448 crores. Of the loans advanced by primary agricultural credit societies, Rs.519 crores were for agricultural operations and Rs.51 crores were for medium-term investment. Almost the entire advances of land development banks were for agricultural development or investment.

3.2 The record of the cooperatives though impressive is not devoid of weaknesses in quite a few respects. The progress has not been even throughout the country and there are several areas of cooperative backwardness. In certain parts the cooperative credit structure though basically sound, is showing symptoms of stagnation or even deterioration. The proportion of borrowing members to the total membership in 1970-71 is as low as 36 per cent for the country as a whole. The primary societies, which are institutions closest to the cultivators, are, generally speaking, organisationally weak and as a consequence have not been able to supervise the utilisation of credit adequately and recovery of the dues promptly. Steps have been taken to reorganise the primary credit structure so as to have viable and potentially viable credit societies, but the



progress in this regard has not been satisfactory. As on 30 June 1971 more than twenty thousand societies were dormant out of the total number of 1.61 lakhs and the average working capital per society at Rs.71,700 was far below the minimum required for a viable unit.

9.3 The development of some of the central cooperative banks has been tardy and they were, by and large, financially and administratively weak, resulting in their inability to mobilise internal resources or to avail of the liberal credit facilities from higher financing agencies. The Government of India in consultation with the Reserve Bank has drawn up a programme of rehabilitation of weak central cooperative banks with a view to strengthening and equipping them to play an effective role in providing financial assistance to the agriculturists. The main plank of the programme consists of coercive action to recover overdue loans, strengthening the bad and doubtful debts reserve by direct subvention or loans on easy terms, strengthening of share capital by further contribution from the Government, granting temporary loans for enabling the banks to provide non-overdue cover for the borrowings from the Reserve Bank etc. The Government of India have recently formulated a Scheme to provide financial assistance for such central banks to enable them to write off their bad debts, accumulated losses, etc. The State and Central Governments are to share about 50 per cent of the estimated bad and doubtful debts at the central bank level and the balance is to be borne by the institutions themselves.

69 central cooperative banks are eligible for rehabilitation under this Scheme.

9.4 Paucity of internal resources is yet another weakness inhibiting the growth of cooperative credit. Poor growth of deposits undermines the ability of the cooperatives to sustain larger lending programmes. The cooperative banks have no doubt opened many branches in the rural and semi-urban areas in the recent past and are also offering competitive rates of interest, but many of them do not provide even the essential banking facilities to their constituents. The average deposits per central bank were only Rs.129 lakhs in 1970-71. The advances in agricultural production have generated a considerable cash flow in rural areas but there appears to be little aggressiveness on the part of cooperatives to exploit this favourable situation to their benefit. In order to reduce the undue dependence of the cooperative banks on borrowings from the Reserve Bank it is proposed to link the concessional finance to efforts at deposits mobilisation by central cooperative banks. Efforts are also being made to extend the 'Deposit Insurance Scheme' to cover the deposits of cooperative banks.

9.5 The problem of overdues also poses a serious threat to the soundness of the cooperative credit structure. High level of overdues coupled with poor internal resources has impeded the free flow of credit from higher financing agencies. The overdues of primary agricultural credit societies for the country as a whole worked out to 41 per cent and those of central cooperative banks to 34 per cent of the outstandings.

at the end of 1970-71. Recurrent natural calamities have to some extent led to defaults but these have been largely taken care of by stabilisation arrangements supported by contributions from the Government of India to the stabilisation funds of apex banks and conversion loans from the Reserve Bank out of its Stabilisation Fund. Defective loaning policies, procedures, inadequate supervision (of the end-use of credit) due to lack of staff or general inefficiency, ineffective action against defaulters etc. have been the major contributory factors for the rise in overdues.

Regional Seminar on "Cooperative Credit with  
Special Reference to Japan", Tokyo, Japan,  
9 - 28 April 1973.

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CREDIT SYSTEM and CREDIT CO-OPERATIVES  
in  
I N D O N E S I A

by

CHRISTOPHORUS PARTOWIDODO

President of NUSANTARA Credit Cooperative Society,

J a k a r t a

P A P E R  
 presented to the Seminar on  
 "CO-OPERATIVE CREDIT WITH SPECIAL REFERENCE to JAPAN"  
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CREDIT SYSTEM and CREDIT COOPERATIVES  
 in INDONESIA

- Introduction.
  - I. Co-operative movements and credit system in Indonesia.
    - Co-operative movements.
    - The result of several factors.
      - a) The influence of the policy of the State.
      - b) The influence of the social order.
      - c) The influence of social welfare.
    - Credit system.
      - source of official credit
      - source of unofficial credit
  - II. Credit co-operative movements in Indonesia.
    - Condition in which co-operative credit in Indonesia moves.
    - Difficulties encountered in the development of co-operative credit.
    - III. - Government aid for the development of co-operative credit.
  - III. Conclusions.
    - Points to be accomplished in developing co-operative credit properly.
    - Phases through which co-operative credit moves.
    - Final form of the co-operative system in Indonesia.
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CREDIT SYSTEM and CREDIT CO-OPERATIVE  
in  
I N D O N E S I A

INTRODUCTION

The running of the seminar on "Co-operative Credit with reference to Japan" in Tokyo from 9th up to 28th 1973 is very attractive from both local as well as thematic points of view, especially because the majority of the participants have come from the newly developing countries.

Japan forms an advanced country in the field of economic and social life, especially in the field of co-operative movements. Consequently the participants are presented the chance for serious discussions and at the same time it is possible for them to learn and study the credit system which might be applied in their own countries. This is now even more attractive by the fact that this seminar is preceded by a study-visit in South Korea where we find the famous agricultural co-operative movement wellknown among the South East Asian nations. Here we have a good chance to study a credit system bearing the name of Credit Union Corporation ( CUCO ) which constitutes an international organization.

Credit system does not constitute a difficult problem for the advanced and developed countries. On the contrary the newly developing countries, where nearly 75% of the population live in the villages as small farmers, are really facing complicated problem in connection with credit system. These problems in the first place are caused by the existing demand which amounts much bigger than the available sources of credit and even these existing sources are difficult for the people to reach.

In this case the co-operative movements, especially the credit co-operative movements, are expected to play their role as financial institutions, where the role of the people economically weak is included as a definitive element besides the other existing institutions having the same objective. That is why this seminar constitutes a source of intence hope for those weak people in solving the problems through discussions in order to fill whatever is lacking among all sides. The success of this seminar will be of much benefid to the co-operative credit movements in each participant's country as well as to the newly developing countries in general.

## I. CO-OPERATIVE MOVEMENTS AND CREDIT SYSTEM IN INDONESIA

It is plainly impossible to convey a somewhat correct idea of the credit co-operative movements in Indonesia without taking into account the background of the co-operative situation in its wide sense firstly and the credit system itself secondly, because both of them are exercising strong influence on one another.

The co-operative movements form one kind of economic system along with so many others. In Indonesia the co-operative spirit has gained a very good place and its importance is formally acknowledge in a phrase in the Constitution of the State under the article 33 which says :

"the economic system of the rural community is based on mutual assistance, of which the most suitable form is the co-operative system". Consequently the activities of the co-operative movements are arranged in outline in the State-ordinance and its realization is trusted to the ministerial authority which particularly supervises the co-operative activities. But inspite of those facts the co-operative movements have not grown properly which is the result of several factors.

### a) The influence of the policy of the State.

The Indonesian nation gained its independence on the 17th August 1945 after living under the foreign rule for nearly 350 years. Inspired by the relentless spirit to gain the independence and showing the utmost efforts to get rid of the remainder of that foreign rule and its accompanying feudalistic system the Government officials and the society kept the political life in high esteem. The excessive result was that every potency was politized. On account of the prolonged adoration of politics nearly all economic potencies used to be on the steady decline. Not befoer 1967 when the State's policy took a different course, that is toward welfare and progress, then the co-operative movements started showing an improvement and running properly.

### b) The influence of the social order.

At a glance Indonesian community appears to us to be possessed of co-operative character, because it shows the existence of the characteristics of gemeinschaft community.

Zealous sponsors with less discretion will easily adopt too optimistic attitude and misled to suppose that any co-operative movement started in Indonesia will show a rapid growth. But when one studies the community more accurately he will soon realize that the Indonesian community is social-nonoeconomical in character that it never retains its continuity. One had better term it temporal community. The real co-operative movement in any community needs a lasting continuity and at the same time it functions with an accurate account of profit and loss. That is why to develop the co-operative spirit in Indonesia it is not enough that one should only propagandize the problem. What is actually more important is the yielding of radical change of mentality among the people and of their way of life, which must be done through education. Not only the future leaders must be educated thoroughly, but also the community who will joint the co-operative movements as more members.

c) The influence of social welfare.

Although co-operation itself forms a system of social welfare promotion one cannot expect that the co-operative movements would grow freshly in a poor community. Now we realize that nearly 85 per cent of the Indonesian population live in the villages as poor labourers and small farmers. According to the research into a certain area during the period of 1971 - 1972 carried out by a group of graduates of a State University in Indonesia, it appeared that 450 sample small farmers shared the average of only 1,2 hectare of land for cultivation. The average revenue of each farmer from land cultivation in that year amounted to Rp. 129.000,- He still obtained an additional income from other sources which approximately amounted to Rp. 16.000,- But his average expenditures amounted to 157.000,- with the following specification: Approximately Rp. 87.000,- for his consumptive necessities; Rp. 55.000,- for production expenses which include the interest for money-loan; Rp. 9.000,- for education expenses and Rp. 6.000,- for taxes. The result of the research shows us that the expenses are by Rp. 12.000,- higher than the revenue. This deficit will be still higher when the farmer has no any other means to get an additional income. Those data show us that the members of the community are incapable of meeting their own necessities and much less is their chance of setting aside a fund to be offered as savings which constitutes



a requisite to be a member of a co-operative agency. Owing to that factors a really qualified sponsor is needed in order to establish a co-operative agency. Such an individual is extremely difficult to find, because a sponsor must be an organizer, educator and not only less important he must be at the same time a social minded individual. On account to the existing problems it is impossible to appoint a sponsor institutionally, but he must be selected from among the members of the community itself. Because of these complicated problems now we see that so many co-operative agencies have undergone a total failure. Their number amounts to 75 % of the whole number of agencies. The remainder which are still showing a sign of activities are run by the middle classed people and some of the are sponsored by the Government, such as Batik Cooperatives and Government officials Cooperatives. This serious condition has inspired the government to start to do the utmost efforts, through any possible means, to promote the social income of the rural communities. It is accomplished by offering some credit in the form of fertilizer, superior seed and a grant money through the official authorities, moreover by giving a large credit for the sake of the co-operative agencies, of which the result must still be tested.

For the newly developing countries credit system constitutes a very difficult problem, because the demand by the people exceeds the available fund. Because the available credit is very limited, it is extremely necessary to fix several requirements before extending it to the people, which basically is a selection of the coming borrowers. In reality the available fund is not concentrated in a single institution only. Indonesia recognizes channels through which credit reaches the people. Credit can mainly be divided into two groups:

1) Source of official credit.

The official credit institutions form a source where people can get money loan. Some are run by the Government some others by private organization after obtaining an official permit from the Government, in this case the Ministry of Finance, e.g. those banks run by the Government or by private institutions or other organizations which have fulfilled the Government's regulations concerning credit system. The low rate of interest demanded by these institutions constitutes as a matter of fact an advantage for the people economically weak, while the amount of the available fund is big enough.

But inspite of these facts the hard requirements which are difficult to meet and the location which is far away from the people constitutes a serious disadvantage. The result is that such an institutions are not of so much benefit to these people nor are they able to function as credit institutions for the farm communities.

2) Unofficial source of credit.

In fact the farmers in need of money loan to fulfill their necessities do not bother their head about the sources where they are able to derive the loan. They prefer the quick procedure to get it, although this way they have to pay a much higher rate of interest. They do not offer any objection as long as they possess the means the means to meet the really hard terms to get the quick loan. Consequently it is not surprising that individual creditors as well as credit institutions emerge unofficially, who only seek after their own concern by demanding a high rate of interest in compensation to the quick acquisition of credit. The result is fatal. A lot of farmers are not able to pay back the loan so that they are cornered and compelled to sell their property. They are degraded to become manual labourers who now cultivate the soil for the owners, or they move to towns where they speculate as retailers. When they fail again in this new effort they actually lose their living. They become idle and live as loafers in the towns. These wretched conditions encourage the emergence of various evils. This situation must be the target of sincere concern by the social leaders, particularly Government authorities, or else the rural community which form the majority of the Indonesian population will face a still worse situation, which means a serious hindrance to the national progress. The creation of the rural unit credit and other institutions for the sake of the rural communities forms a new light of hope although it is still not very convincing yet. Our experienced and several failures of the past urge us to be most vigilant and not to lose control over the running of these institutions which, of course, will result in the remarkable reduction of wrong practices to the minimum. In my opinion it is extremely necessary to supervise the government-aid-credit. This supervision must be accompanied with an accurate planning and its implementation should be trusted to the trustworthy

individuals who are fully aware of the people's suffering and the meaning of the national progress. The extending of the credit itself is not so difficult for the Government to accomplish. The more serious problem is that those credit should be granted only when it is accepted as an incentive to encourage the people toward development and progress. Owing to these problems the extending of credit should not go alone, but accompanied with intensive education of their own way of life.

## II. CREDIT CO-OPERATIVE MOVEMENTS IN INDONESIA

In the co-operative field one distinguishes three kinds of co-operative agencies, namely Production co-operative, Consumption co-operative and Credit co-operative. According to their different character each of them aims at a different goal. But in reality viewed from the way they work they are presumed now as functioning as credit co-operative agencies as well. One sees the evidences from the facts that members of the Production co-operative obtain their basic materials by way of credit and they are going to pay back what they owe in the form of articles produced or money resulting from the joint marketing of their production. Members of the consumption co-operative get their goods for consumption through credit which they want to pay back in installements. Now the objective of Credit Co-operatives is clear from the name itself and needs no further explanation. After studying the background which will serve as the basis of the following treatise on co-operative credit movement in Indonesia, namely co-operative activities on one side and credit system on the other it is now obvious that the success of the economic system including co-operative activities depends largely on the availability of the liquidity. It is doubtless therefore that a source of finance is needed that will be able to supply moneyloan on light terms and it should serve at the same time as a centre where the people can deposit their excess property and have a claim on an interest. But that only possible when the source of credit belongs to the community itself. Owing to the very limited property of the greatest majority of the people the fund can only be created in the form of co-operative. In this case the source of credit should be a collection of continuous small savings, for the sake of the community members themselves, who joint the credit system.

Because the fund is created by the community itself with their full responsibility of sharing every profit and loss the community as a consequence will enjoy whatever profit they make. Serious efforts to create co-operative credit were already started as early as the other types of co-operative. They date back from nearly a century ago, when many corporate bodies and institutions dealing particularly with credit system were created. On account of their dispersed localities as well as the policy of the State resulting in the rapid succession of the authorities in charge of the co-operative development now there are only very few reports dealing accurately with the co-operative agencies, their number and character, much less with the co-operative credit system and its development. What is now obvious is that development of co-operative credit in connection with the stage to be reached above a very slow progress and its situation is even backward compared with the other types of co-operative movements. In reality co-operative credit is now still in the first stage of its development. But seen from the viewpoint of its potencies co-operative credit has a good prospect in Indonesia, because the majority of the population need in principle such a system. This co-operative system, however, cannot grow freely by itself because nearly all its members are poor people, all interested in obtaining credit. The result is that the collected fund is divided again among them as credit until no penny is left. Because the fund collected by the people is so small it is impossible for the co-operative credit to extend loan large enough to start any enterprise. The small loan extended to the people will be only good to fulfill their daily consumptive necessities so that there will be nearly no progress in the field of business. Such a static situation encourages the impatient members to leave the co-operative credit and the more members leave there will be the less hope for the co-operative to survive. And such situation will still be worsened when the executive board consists of dishonest people. In fact mismanagement of a co-operative agency will foster dishonest mentality. Considering the importance of the national progress now the Indonesian government, following the plan of over-all building as the basis of national progress, are now planning to extend aid in the form of credit for the development of co-operative credit. Now attempts have been made by the

Central Government to give loan to the people through States offices particularly created for this purpose, e.g. the Institutions of Co-operative Credit Guarantee. This institution gives guarantee to the People's Bank of Indonesia that is appointed to give credit to the existing co-operative agencies. But its realization needs most urgent improvement to enable the extending of credit run properly which means that these institutions are functioning well and reaching the aimed objective. There are still many other types of aid credit from the central as well as the provincial government which fail to reach their objective, because of the wrong system applied. Fortunately, inspite of all those facts, the co-operative movements in Indonesia, especially co-operative credit, have gone a step further. That forward step has been made possible by the availability of several facilities, which never existed previously. Further success will depend on the government, the honesty of the officials in charge of the institutions and of the people themselves. The success will accelerate the realization of the efficient system. This will improve the economic system leading toward the better conditions of life of the greatest majority of the population who are now living in poverty. Besides government aid mentioned above another type of co-operative system is now growing which closely resembles co-operative credit. Only the structure of fundraising and organization is slightly different from that of the pure system of co-operative credit. Yet in reality this agency is capable of rendering meaningful service to the people and helping to reduce the practices of usury. There are even still further service rendered by this agency namely giving valuable guidance to the farmers so that they might stand on their own feet after a certain period. The fund is created by collecting money from the members of the co-operative agency and the greatest part of it is given as credit to the retailers outside its membership as permanent borrowers. The majority of this type have the form of corporate bodies which previously worked in the form of pure co-operative agencies. But the fact that the co-operative agencies of this type did not live properly and the financial burden weighed down too heavily for the executive board this agencies are now changing the course toward another type as mentioned above, for the sake of the fluent circulation of money by which a permanent fund is attained and remarkable profit is gained. Because such a prospect

shows more chance to grow fresly, now the government has begun to straighten up this management agencies, namely State-co-operative agency and the State Bank. This combined activity has the name of Bank co-operative.

There is still another activity carried out by the farmers to which up to now the government has not yet paid proper attention. Conscious of the people's suffering the farmers have started establishing a sponsoring institute, by which they are making efforts to raise a fund by collecting money on the basis of confidence from monetary institutions. Furthermore the fund will be given as credit to the farmers in a certain area lasting from the time they start planting up to the next harvest. It means that within six months they will have paid back their debt in weekly instalment. This kind of payment already includes instalment of debt, its interest and at the same time of savings. After the settlement of the debt when they need and get the same amount of credit, it means that in reality they do not owe the same amount of money as the previous one, because in the second amount their savings is included. So within a relatively short period they will be no longer in need of credit, but they will be able to cultivate their land independently supported by the capital of their own. But the area where this credit system is carried out needs an organization of farmers who are willing to bear joint responsibility to pay back the credit. Such program will be carried out under the guidance of trained crew assigned for this purpose by the sponsoring institute to help them and develop the agency. The government has not yet shown proper attention to this problem and may be that it is the reason that recognized the government has not recognized it as co-operative agency. But the sponsors see in it a firm basis on which they might establish the fundamental co-operative movement. Furthermore it will not solely result in the rapid development of co-operative credit, but of production-co-operative and other types of co-operative as well.

### III. CONCLUSIONS

After studying these data mentioned above I, the writer, now conclude that the co-operative system is a very suitable way toward the improvement of their conditions of life.

I deem, therefore, it is necessary to create a favourable sphere as widely as possible for the fresh growing of the co-operative system by abolishing the hindrance, e.g.:

a) to abandon the spirit of merely accepting one's own fate without any effort as the result of living under prolonged foreign rule and to encourage the spirit of accurate planning and of full responsibility.

b) To arouse the progressive spirit by which the people are stimulated to give meaning to their independence, not only showing an admiration as the consequence of the prolonged and excessive adoration of politics.

c) To stimulate the people to abandon their static, non economic traditional system and to move toward productivity. Such move is necessary because Indonesian people consist of ethnic and cultural groups with their different custom, different belief coloured with mystical and magical character. It means that in such community an effort to gain a personal profit is not easily tolerated.

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Such a huge progress as mentioned above involves all aspects of the Indonesian social life. Although through a serious effort its execution can produce a relatively rapid outcome there is still an imminent problem, that is the fact that the daily necessities of life of the Indonesian people need rapid fulfilment and will not tolerate any delay. That is why the realization of the drastic change of the existing systems must be carried out through several phases, the first should include only the most urgent matters connected with the social welfare. Now we are dealing with the system of co-operative credit in Indonesia and what is now considered as the most urgent problem is how to obtain the fund from which the people can derive their loan on reasonable terms without any material nor spiritual losses. The realization of the government aid and its supervision should be intensified so that it would reach the community in real need of it. The leaders of the people, the government officials in particular, should not be blind to the high ideals of the sponsoring institute which basically aims at the same objective, i.e. to supply a fund for the poor people. Although in practice members of the board also share in seeking their personal profit, still that institute gives a very valuable contribution in directing the people toward progress, toward the sound co-operative system and at

the same time involving money kept in the community at their own risk. This means reducing the burden of the government and indirectly that of the community itself. Government aid along with the existing potencies in the community must be continuously intensified toward perfection leading toward the co-operative system under a firm supervision accompanied with the intensification of the educational system. The now existing education system must be directed toward the forming of individuals who are ready not only to know something as means of acquiring a comfortable office-job but who should be also willing to be directly involved in any co-operative activity. These requirements hold for all new members, those who are trained in the elementary knowledge of the co-operative system as well as the highly trained ones. Owing to the complexity of the co-operative activities which are not to be separated one from the other it is necessary for us to determine which activity should get the first preference. According to the writer's analyses, after explaining the co-operative system existing in the community and in the whole world in general now I conclude that it is impossible to establish those various types of co-operative activities on one and the same time in the developing countries as well as in all countries in general. The establishment of co-operative agencies should be carried out through several phases in which the co-operative credit should serve as the first basis and success should be develop leading to the other types of co-operative agencies. The writer's opinion is supported by the fact that the development of nearly all enterprises depends on the availability of fund. And these various types of co-operative agencies in their development show a close relation one with the other. When those various activities are growing freshly they will form a multi-purpose co-operative. Consequently it is quite proper that this seminar on co-operative movements should discuss a special topic that is co-operative credit in the newly developing countries. Such is the background of the co-operative credit in Indonesia.-



REGIONAL SEMINAR

ON

94

COOPERATIVE CREDIT WITH SPECIAL REFERENCE TO JAPAN

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99  
COOPERATIVE  
DEVELOPMENT  
IN INDONESIA. 99

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Rochijet Mangkoetenojo

DIRECTORATE GENERAL OF COOPERATIVES

DEPARTMENT OF MANPOWER, TRANSMIGRATION & COOPERATIVES

REPUBLIC OF INDONESIA

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COOPERATIVE DEVELOPMENT  
IN  
INDONESIA

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- I. INTRODUCTION.
- II. THE DEVELOPMENT OF COOPERATIVES IN INDONESIA.
- III. STRUCTURE OF THE DIRECTORATE GENERAL OF COOPERATIVES.
- IV. POSITION AND ROLE OF COOPERATIVES.
- V. BASIC PROBLEMS FACED IN THE COOPERATIVE SECTOR.
- VI. STEPS ALREADY TAKEN SO FAR.
- VII. STEPS TO BE TAKEN.

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96  
COOPERATIVE DEVELOPMENT IN INDONESIA

Rochijat Langkoetenjo

Staff of the Directorate General of Cooperatives

Department of Transmigration and Cooperatives

I. INTRODUCTION.

A cooperative society is the people's economic organization which has social characteristics especially for those who are economically feasible. It is an organization to protect its members against the oppression or exploitation of other forces as well as to promote the members income justly and equally.

To enable cooperative to carry out its function it is necessary to continue and to increase the efforts the government has commenced to guide cooperative and place it on its proper foundation.

Accordingly, these efforts must be based on the following :

- a. The highest authority in the cooperative society is vested in the member's Assembly, which is in conformity with the principle of democracy.
- b. Elimination of direct or indirect influence of certain political ideology on cooperatives, and
- c. Re-establishment of new conditions for cooperative based on its real principles pursuant to its role as an economic institute and an undertaking as well as a social enterprise.

In the efforts of encouraging the development of cooperative the government renders guidance, supervision, protection and facilities as stated in article 37 of the law on Cooperatives and enables the cooperatives to bring about article 33 of the 1945 Constitution and its clarification. These efforts are based on :

1. Article 33 of the 1945 Constitution and its clarification.
2. Resolution No. KXIII of the Provisional People's consultative Assembly 1966, and
3. The Law on the Basic Regulations for Cooperatives in Indonesia i.e. Law No. 12 Year 1967.

## II. THE DEVELOPMENT OF COOPERATIVES IN INDONESIA.

Cooperative in Indonesia has developed from early 1896 up to the present. After independence in 1945 cooperative entered its new era. This history of cooperative in this country has two separate periods of time, before and after independence.

### a. Before Independence.

In 1896 a Bank called "Hulp-en Spaarbank" was founded in Purwokerto by Aria Atmadja. In their undertakings the bank was meant to help the "Priajati" (Indonesian employees) in shaking off the usurers by means of giving loans.

The Budi Utomo, in 1908, also founded a cooperative society called the "Koperasi Rumah Tangga". But its activities then turned to be a failure. Later a cooperative campaign was launched by the Sarekat Dagang Islam in 1913. They opened cooperative shops.

Again, their efforts were in vain.

The first Act on Cooperatives for Indonesia was ratified in 1915 and was placed on the Statutebook No. 431 on April 7th, 1915.

A Cooperative Commission who was entitled to make research on the usefulness of cooperative and how to fan the cooperative spirit among the Indonesian people was established in 1920.

Dr. J.H. Boeke acted as chairman. They found out later that cooperative spirit could be fanned as cooperative was a suitable means to promote the people economy.

The act on Native Cooperatives was ratified and placed on Statutebook in 1927 under number 91. Since the enactment of this Law, two different Laws on Cooperatives functioned side by side, the first Law of 1915 was meant for all races of the populations ( viz. Europeans, Chinese and other foreign Easternlings, including the indigenous population ) whereas the Law of 1927 was particularly in force for the indigenous population, at that known as "Inlanders".

Dr. Sutomo's "Study Club" in Surabaya ran a cooperative society in 1927. The members of the club realized that cooperative was the tool to help people who were economically feeble.

The P.K.I. (Indonesian National Party) held a Cooperative Congress in Jakarta in 1929. Delegates suggested that cooperative

spirit had to be fanned among members of party and the nation. In conformity with the Act on Native Cooperatives No. 91 Administration to encourage cooperative movements among the people. This was in 1930. Professor J.H. Boeke was appointed principal of these offices. Now cooperative movement began to progress. In 1932 the development came to its top. 1,540 cooperative societies, mostly consumer's cooperatives had been founded but only 172 of them were registered. The people were once more provided with a Cooperative Act was placed on the Statutebook in 1933 under number 108. This new act was meant to replace the previous one issued in 1915. In 1934 the Cooperative Offices were placed under the Department of Home Affairs.

The Cooperative Office became the "Afdeling cooperative on Binnenlandsche Handel" (Cooperative offices and Home Trade) in 1939. They were not merely entitled to give guidance and information on cooperatives but also on trade, especially to Indonesians.

The Japanese Administration in Indonesia began in 1942 and ended in 1945. During this period of time the Cooperative Offices were called the "Syomin Kumiai Hyou Djimusyo" and the provincial Cooperative Offices were called the "Syomin Kumiai Sodanyo". Beginning in February 1945 a two month course on cooperatives was held in Jakarta. It was attended by government Officials appointed by the Shuchokan (Governor).

After independence the Kumiai remained under the name of cooperative.

b. After Independence.

Soon after the proclamation, the Cooperative Offices were placed under the Ministry of Welfare of the first Indonesian Cabinet. In the realization of article 33 of the 1945 Constitution, political parties began to make propaganda on cooperatives. Thus the influence of those political parties was felt for the first time.

In 1946 the Cooperative Offices offered a voluntary registration for cooperatives. Consequently 2,500 cooperatives were under the government's control.

The Central Cooperative Offices of the Republic of Indonesia were opened once more in Jogjakarta in 1949. A Cooperative Congress was held in Pasikmalaya (West Java) in July 1947. It was decided by the congress that Cooperative Day should be celebrated each year on July 12th.

Cooperative began to flourish after independence in 1951.

In West Java and North Sumatra Cooperative Coordinating Boards were set up. Those boards acted as a means of communications for cooperatives. They also served as a source of cooperative information and education. In West Java a bank called the "Bank Propinsi Djawa Barat" gave financial aid to cooperative in this part of the country. Registration was also held within this year and the result of which showed that there were 5,770 cooperatives in Indonesia who had a membership of 1,000,324 people.

The Cooperative Day was for the first time celebrated by cooperative societies through-out this country on July 12th, 1951. In 1952 the one month inservice course for officials of the cooperative offices was modified into another form.

It became a twelve month special cooperative course held for three months each year in the course of four years. During the Cooperative Day celebrations a "People's Savings Week" was carried on to induce people to make savings. Within the period of the next four years, from 1953 to 1957 the development of cooperatives in Indonesia was somehow encouraging. People continued saving as much as they could, and it was not during the "People's Savings Week" only, but even after the campaign was ended.

When inflation threatened this country. People who had painstakingly saved their money, got discouraged and they soon discontinued saving. This went on still inflation came to its crisis.

In 1958 a new Law on cooperative was ratified, and replaced the previous law, of 1933 and 1949, which were repealed upon the enactment of the new Law of 1958. Consequently, since that date, only one Cooperative law was in force, especially dealing with Indonesian citizens only. Yet this law was replaced by another one in 1965. The influence of politics on cooperatives became greater, cooperatives principles were abandoned and cooperative activities were merely devoted to political purposes. This ended in 1966 when the political situation in this country changed.

The New Administration immediately took measures to rehabilitate and consolidate cooperative which were then in agony.

The Cooperative Law of 1965 was replaced, but this was not completed until after a year time.

The Law on the Basic Regulations for Cooperatives in Indonesia was ratified in December 1967. Cooperative were since then on restored to the principles, this the motive of the New Administration in the efforts of promoting cooperatives.

### III. STRUCTURE OF THE DIRECTORATE GENERAL OF COOPERATIVES.

Pursuant to article 37 of the Law on the Basic Regulations for Cooperatives in Indonesia, the Government has a very important role in guiding cooperatives during the period of their struggle for existence. For this purpose the new administration has placed the Directorate General of Cooperatives under the Ministry of Transmigration and Cooperatives.

#### a. The Ministry of Transmigration and Cooperatives.

There are two Directorate Generals of this Department namely the Directorate General of Transmigration and the Directorate General of Cooperatives.

#### b. The Directorate General of Cooperatives.

In the national level the Directorate General of Cooperatives is the highest authority who maintains the guidance of cooperatives. It embraces four Directorates, namely :

1. The Directorate of Research and Planning of Cooperatives.
2. The Directorate of Organizational Development and Supervision of Cooperatives.
3. The Directorate of Business (Economic) Development of Cooperatives.
4. The Directorate of Education and Information of Cooperatives, in which the Foreign Relations Service is included.
5. In addition to those directorates there is also another division called the Secretariate General of Cooperatives.

#### c. The provincial Directorate of Cooperatives.

In the Provinces and special District the guidance of cooperatives is maintained by Provincial Directorate of Cooperatives/Special District.

d. The Regency/Municipal Cooperative Office.

In Regencies and Municipals the rendering of guidance to cooperatives is organized by the Regency/Municipal Cooperative Offices.

IV. POSITION AND ROLE OF COOPERATIVES.

The cooperative movement as it is, naturally has been and is not in a position to function as an "oasis" within the ups and downs of the economic and political situation of a country to which it belongs.

A. Organization.

A.1. The Indonesian Cooperative Council.

The Indonesian Cooperative Council is the only cooperative union in this country set up by 15 National Cooperative Federations in 1966 to replace the former KOWSI.

The council's aim is to perform non-commercial activities of cooperative movement in Indonesia such as in education, planning and international relations.

A.2. Membership.

In the National level the Indonesian Cooperative council's members consist of Cooperative Federations of National level. Its present members are follows :

1. The G.K.S.I. (the Federation of Batik Cooperatives) ;
2. The I.K.P.I. (the National Federation of Fisheries Cooperatives) ;
3. The I.K.M.A. (the National Federation of Rubber Cooperatives)
4. The I.K.T. (the National Federation of Consumers Cooperatives) ;
5. I.K.M.I. (the National Federation of Copra Cooperatives) ;
6. The I.K.O.P.E.K.S.I (the National Federation of Textile Cooperatives) ;
7. The I.K.H.P.A.P.A (the National Federation of Agricultural Cooperatives) ;
8. The I.K.P.H. (the National Federation of Civil Servant's Cooperatives) ;
9. The I.K.O.P.A.D (the National Federation of Army Cooperatives);



10. The INKOPAK (the National Federation of Police Force Cooperatives);
11. The INKOPAL (the National Federation of Navy Cooperatives);
12. The INKOPAU (the National Federation of Air Force Cooperatives);

For each province a provincial council is set up. Its members consist of central cooperatives of provincial level. And for the district there is a council whose members are central cooperatives of the district or municipal town concerned.

#### B. Targets of Cooperatives.

In the Five Year Development Plan the cooperative society is included in the Social Sector. Cooperative as a means of the people's economy shall be promoted by means rendering guidance, information and protection by the Government so as to enable them to possess sound organization.

With the organization's better condition it is hoped that greater possibilities in the cooperative's participation in social and economical activities will increase.

The targets of cooperatives that shall be reached in the course of five years are as follows :

<u>Year</u>	<u>Cooperatives</u>	<u>Members</u>
1969	15,000	2.250.000
1970	16,000	2.500.000
1971	18,000	2.750.000
1972	20,000	3,000.000
1973	22,000	3,400.000

#### C. Classification of Cooperatives.

The above mentioned targets are still in their general form, that is to say several organizations shall be established each year. Attention should be payed to the fact that by the target is meant the number of cooperatives in the frame of the policy of the Government concerning the cooperatives.

The planned growth of the cooperatives is considered to be the total of classified societies which can be regarded as "good" and "fair" according to the standards of classification prevailing during the period, and does not refer to those societies

registered as the result of the adjustment to the new Law No. 12/1967 (the Law on the basic regulations for Cooperatives in Indonesia) as well as those newly established and based on the law. If only the target of the organization is meant, it is not so difficult to reach, since the government has the authority to legalize as a corporate body. The target to reach is not merely judicially and administratively, but cooperatives that should meet the requirements of the three standards of classification, i.e. in the organization, their undertakings and their mentality in a system they are classified in to class A (good), class B (fair) and class C (insufficient). Out of the above mentioned number (those classified) there is still a number of cooperatives whose conditions are immature to be classified into any of those classes ; they are considered as unclassified.

It is the responsibility of the Government to promote those unclassified cooperatives so that they can meet the requirements of the classes and later to be included in the target fixed. It must be the aim of the Government that the fixed target has as far as possible to consist of cooperatives of class A.

To prevent that the determining of classes, especially class A, is not just the same as seeking for "reputation" of the functionaries, more accurate stipulations of the realization of the classification must be followed by supervision (or control) and evaluation if necessary.

The promotion of cooperatives which results into the classification of societies meant to have sound cooperatives i.e. cooperatives that are able to carry out their duties successfully. It is planned, those cooperatives will be used in other social and economic development programme.

Experience has shown that mutual understanding, tolerance and mutual respect among the Government's functionaries are inevitable and it is hoped that the people should have suitable requirements such as integrity, skill and knowledge in their position and leadership.

V. BASIC PROBLEMS FACED IN THE COOPERATIVE SECTOR.

When at the beginning of the New Administration (1966) we had to face the problems of survival, where much attention still had to be paid to meet the basic needs of life, five years ago it could be stated that the crisis was almost over, in spite of the fact that not the whole community were in a position yet to fulfil their basic necessities of life. However, the situation was favourable enough to enable the government to contribute more to the solution of the community's economic and social problems by extending attention and activities into other sector in the line of the realization of the first Five Year Economic Development Plan 1969 - 1974.

Political and economical stabilisation achieved by the government has paved the way to commence establishment which in turn created economic developments resulting into a decrease of the inflation rate increase of the production of rice, textile, crude oil and an increase of the export. However, economic development which creates an increase of national income is the achievement of increase of welfare in general but at the same time also a fair and an equal distribution.

Therefore an active participation of the whole community is necessary where the people are not only prepared to participate in the consumption of the result of the development but are also able and willing by joint efforts to increase the production by themselves on a basic self help.

Development in essence is a means to fight against poverty, underdevelopment, ignorance which are the basic problems faced at present. Through the development of our natural resources, we shall be able to overcome poverty, underdevelopment and ignorance mentioned.

In the line of this national participation, cooperatives, to a great extent, can participate actively in performing the development functions. As a basic pattern there are certain essential features which reflect the role of cooperatives, viz :

1. Cooperatives at one side can develop as a result of development whereas cooperatives must be able to accelerate the development itself.
2. To enable cooperatives fulfilling their development function successfully, cooperatives must involve themselves with activities which are economically accountable. This means that cooperatives

as an economic unit must be able to reduce the cost as low as possible, and to provide result and benefits not only to their members but also to the whole community.

3. Through participation into the development, cooperatives must contribute to the increase of the national income as a consequence of the increase of the national product. As a follow up, cooperatives must be able to create an equitable and equal distribution of income.
4. Cooperatives must be able to create economic activities providing employment-possibilities, particularly in the rural area, in order to enable the farming community to obtain additional earning to their low income as an output of their land which is generally too small already.
5. Cooperatives must be able to participate into the provisions of foreign currency necessary for the development of the country.

The principle mentioned above are also applied to solve the problem of the landless farmers by migrating them in order to become farmers owning land, where cooperatives can serve as an institution to unite, organize and develop the social economic potential in the region and develop marketing, processing, credit and other services.

#### VI. STEPS ALREADY TAKEN SO FAR.

As between 1960 and 1966 cooperative life was full of defects and was in contravention of the genuine cooperative philosophy and principles, the cooperatives were not able to perform their function and role as an economic organization. At that time the Government policy placed the cooperatives as a political means which made the community and the cooperative movement itself pursue a wrong notion of the cooperatives. In the economic sector, cooperatives were considered as a channel of distribution of Government goods only.

Since 1966, in accordance with the claim of the New Administration steps were taken to carry out a total correction in the cooperative policy of the past by returning the cooperatives into the real function and role by establishing a basis of a new policy embodied in the Resolution of the Provisional People's Assembly No. XXIII/PPAS/1966 and further to provide a new legal basis by enacting "The Law on the Basic Regulation for Cooperatives, No. 12 Year 1967".

As a principle the policy taken by the New Administration is to correct the old policy which placed the cooperatives as a social political unit in order to become a social economic unit instead.

As a consequence of that connection the number of cooperatives was beginning to decline. At the end of 1967 there were 64,000 cooperatives (among which 45,000 bodies corporate) whereas of the of 1968 after the period of adjustment to the Cooperative Law No. 12 year 1967, there remained only 15,000 cooperative societies. This number did not indicate the existing strength and ability of the cooperatives, but it only indicated the quantity of cooperatives which have met the legal requirements as stipulated in the Cooperative Law No. 12 Year 1967.

In order to provide a basis for the improvement of their quality, all cooperatives were being classified into 3 (three) classes: A-class (good), B-class (sufficient) and C-class (insufficient) based on the 3 standards of criteria: sound organization, sound business and sound mentality.

Rationalization of the cooperatives at that time was accompanied by rationalization of that part of the administration which was in charge with the promotion of Cooperatives (the present Directorate General of Cooperatives) so that the promotion mentioned could be ascertained effectively.

Rationalization action mentioned above were aimed not only at making the cooperatives pursue their function more effectively, but besides, it was also aimed as an effort to regain the confidence of the people which in previous times was very unstable as a consequence of internal reasons as politicalization, mis management and so on and external reasons as politicalization, inflation, monetary reorganization etc. Monetary regulations in 1965 which revalued 1,000 rupiahs to 1 rupiah including savings apparently had a disastrous effect on the cooperative growth. The people lost their confidence and became reluctant to save money in the cooperatives because they regarded the cooperative as a reason for the decrease of value of their savings. More than just being reluctant to save in their cooperatives.

The lost of confidence from the people was beginning to recover by the enactment of the new policy, which can be born by the increase of the cooperative number since 1968 up to this present.

At the end of the period of adjustment to the new Law (December 1st 1968) the number of adjusted cooperatives was 15,000, at the end of 1971 that number increased to 16,755.

It can be said that till 1969, cooperatives in general were developed to rehabilitate their functions by promoting savings, performing activities in accordance with their ability, and intensification of education and training to provide cadres needed, the latter being gradually intensified in the first Five Year Development Plan.

Quantitative results of the rehabilitation efforts as mentioned above can be pictured as follows :

Year	Savings (share) (Rp)	Turn-over (Rp)	Cadres Training
1967	207.231.090,--	-	-
1968	439.254.965,--	--	-
1969	1.231.744.701,--	31.705.737.219,--	42.000
1970	1.753.043.665,--	39.120.373.500,--	18.560

In order to promote the development of cooperatives as to enable them to function more effectively, the Government is beginning to train cooperatives, particularly in the rural areas, how to utilize modern equipments as ricemills and other processing materials, transportation materials as truck and motor boats and equipment included breeding of cattles based on the budget for development pursuant to the Five Year Economic Development Plan and other aids. Such programs for the promotion of cooperatives are carried out in coordination with certain Departments as Department Agriculture, Department of Trade, Department of Finance, Department of Home Affairs etc.

considering that cooperatives covers several activities which are desired to be handled by other institutions.

Since 1970 Cooperatives have been utilized in the "DIKAS" program (Mass Guidance Program) with the ultimate goal to enable cooperatives to take over the basic functions of the "UNIT DESA" (Village Unit), particularly marketing (included processing) and the supply of farmar input. For that purpose education and training are carried out intensively to the benefit of Agricultural Cooperatives and Village Cooperation. For this purpose D.I. Jogjakarta has been chosen as a pilot project, where the activities of the Agricultural Cooperatives in the operational areas of one Village Unit are united to become a corporation which is called is "B.U.U.D." (Badan Usaha Unit Desa or Corporation of Village Unit). The development of the "B.U.U.D." in Jogjakarta has met earlier hopes, since the cooperatives have turned out to be able to function in the field of production and in the marketing of rice effectively. This partly due to the fact that certain institution which are connected with the cooperative development have successfully carried out a coordination system effectively not only in planning but also in execution. The successful experience in the line of "B.U.U.D." in Jogjakarta will be extended to other areas

In the sector of production and marketing, cooperative role has been rehabilitated though only within a limited measurement, except in the sector of fisheries, copra and supply of some materials for batik production where the cooperatives concerned have already been able to play an important role.

With a view to rehabilitating Institutional Cooperatives (civil officers, military and police) to enable them to help the Government to promote the welfare of the government officials, by the enactment of the President's Resolution No. 36 Year 1969 and the President's Resolution No.22 Year 1970, the Government has already provided funds on the basis of putting aside a part of the official's income for financing of these Cooperatives. The successful results have already been proven and further progress will be obtained in the future.

Apparently, credit activities are still needed for the cooperative members and the community and thanks to the restrained inflation at the moment credit cooperatives are able to flourish in the rural areas and cities to serve agriculture business, handicraft, retails in market-places, consumptive needs of the labourers, teachers, government officials, housewives, etc.

For the utilization of these activities owing to the Act No. 14 Year 1967 on the Basic Regulations for Finance, Department of Transmigration and Cooperatives and the Bank of Indonesia for the development of the Cooperative credit institutions in the form of Central Cooperative Bank, Regional Cooperative Banks, and Credit Cooperatives.

A very important step already taken in the sector of cooperative financing is the establishment of the "Lembaga Jaminan Kredit" (Credit Guarantee Institution) with an initial funds of Rp.100.000.000,- (+ US. \$.250.000) as a guarantee of loans for cooperatives, particularly Agricultural, Fisheries, Cattle and Handicraft which need from the bank but are not in position to supply the required collateral, while the organization, management and business of the cooperatives concerned already being regarded as sufficient.

For the efficiency in this sector there is already a coordination and synchronization settled between the "Credit Insurance of Indonesia Limited Company" and "Lembaga Jaminan Kredit" (Credit Guarantee Institution).

In addition, it is to be informed, that the cooperatives between the Indonesian and the International cooperative movement has been developed very well in the form of exchange of Conferences, Education, Project Aid and Capital investment.

In consequence of the present stage of cooperative development there is a change in the mental attitude of the cooperative members themselves, who are already aware of their responsibility and obligation to develop cooperatives as an economic institution.

How important education and training are for the revitalisation of the cooperatives, this can be born by the annual budget for development, can be seen as follows :

Year	Total budget	For educational purpose	%
1964/1970	Rp. 365.000.000,--	Rp. 295.000.000,--	80,8
1970/1971	Rp. 389.500.000,--	Rp. 270.000.000,--	69,3
1971/1972	Rp. 416.500.000,--	Rp. 297.500.000,--	71,9
1972/1973	-	-	-



At previous times cooperative promotion was not guided effectively in order to make the cooperatives function as a viable economic unit. Even the years at the beginning of the New Administration were periods of rehabilitation and consolidation for the cooperatives were preceded by activities of nationalization and reorganization within the movement. At recent times the government was working hard to promote the economic function and ability of the rural community by uniting and extending the activities in the sector of food supply, handicraft, fishery cattle breeding, credit, etc.

VI. STEPS TO BE TAKEN.

Although in general the role of cooperatives in the promotion of production recently is still limited except in certain sectors as fishery, copra, textile as raw material for batik, it is clear, however that the present stage of cooperatives is promising and will develop within the sector of production as well in the future.

If the basic barriers in the field of management and financing can be overcome, it goes without saying, that the important cooperative role in the sector of production will be a certainty in the year to come. Thus, cooperatives will be able to meet economic needs of the members (and that of the surrounding community) in the sector of production, credit, marketing, etc.

A more intensive promotion, guidance and supervision of the cooperatives accompanied by improvement of organizational structure are included to strengthen the organizational structure itself by stabilization of the primary cooperatives as a basis, and besides to integrate, horizontally and vertically, the activities of several levels of cooperative organization so that their influence is not only micro economic as has been happening until now, but also to influence macro economically which be felt by a broader level.

Education and training in the field of management and business will be upgraded to enable the cooperatives to obtain a sound and efficient management and the desired entrepreneurial skill. In the promotion of cooperatives, education particularly creating cadres is very important, and consequently always deserves most attention.

In the coming years the cooperative role will be more promoted as an economic unit. Accordingly, in the coming development program the Government will place the cooperatives, not only in the social sector, as been the experience before, but also in the economic sector, in which several economic pilot project will be settled to enable various cooperatives according to their type to pursue and to utilize modern technology, and ultimately to take over the prevailing system used in the pilot project concerned.

This policy is at the same time intended to support the economic development of the cooperatives to overcome the obstacles barring its present development in view of its weak economic condition, by reinvesting the proceeds of the projects in the cooperative sector, which will function as a "pulley" or a "jacking point" in the growth of the concerning cooperatives.

As far as the obstacles concerned faced within the problems of financing, Cooperatives, as a matter of fact they are not easy to be overcome, but various efforts will be taken on this matter among others encouraging the saving ability within the cooperatives and extending the role the existing Cooperative Credit Guarantee Institution mentioned above.

IRANIAN COOPERATIVE MOVEMENT - WITH SPECIAL REFERENCE TO CREDIT ACTIVITY

By

M.R. Ezzatian  
Area Supervisor  
Central Organisation for Rural  
Cooperatives of Iran  
357 Pahlavi Avenue  
Teheran (Iran)

REGIONAL SEMINAR ON COOPERATIVE CREDIT WITH SPECIAL  
REFERENCE TO JAPAN : Tokyo (Japan), 9-28 April, 1973

organised by

INTERNATIONAL COOPERATIVE ALLIANCE  
Regional Office and Education Centre  
for South-East Asia, PO Box 3312,  
43 Friends Colony, New Delhi-14, India

CENTRAL UNION OF AGRICULTURAL COOPERATIVES  
8-3, 1-chome, Otemachi, Chiyoda-ku,  
TOKYO (Japan)

and

THE INSTITUTE FOR THE DEVELOPMENT OF AGRICULTURAL COOPERATION IN ASIA  
24-9, 6-chome, Funabashi-cho, Setagaya-ku,  
TOKYO (Japan)

IRANIAN COOPERATIVE MOVEMENT - WITH SPECIAL REFERENCE TO CREDIT ACTIVITY

By

M.R. Ezzatian

Introduction

A brief introduction of area, climate, vegetation, major exports, ports and communication.

The country of Iran is bordered by the Caspian Sea and the Elbors mountains on the North. The southern border consists of Persian Gulf, the sea Ohman and the Mokran mountains. Palangan, Bakhzar and Kharaf mountains in the East and the Khoozestan Plain, Sahand, Sabalan and Zagros mountains in the West. The countries bordering Iran are Russia in the North, Iraq and Turkey in the West and Pakistan and Afghanistan in the East.

The climate of Iran varies from region to region. The Khoozestan Plain is a dry Plateau. The middle of Iran is made up of the Loot and Karier deserts. The Zagros and Elborz mountains have seasonal climate. Azarbayjan in the North-West is a fertile Plateau. Along the Caspian Coast there is a semi-tropical climate with much rain.

The vegetation of Iran also varies from region to region, in the Khoozestan Plain dates, grapes, wheat and sugarcane are grown. Tea is grown in the Elbors mountains. On the Azorbayjan Plateau corn and sugar cane are found. Rice, citrus fruits, cotton and tobacco are raised in the Semi-tropical areas. Iran exports many goods. The most important export is the famous Persian carpets. The best carpets come from Naien, Torkaman, Kashan and Isfahan.

Dried fruits are exported from the North. ~~From Khoozestan Plain~~ dates are the main export.

The major ports in Iran are Bandar Pahlavy and Babolsar on the Caspian Sea in the north. On the Persian Gulf, the main ports are Bandar Abbass and Khoramshahr.

All the major cities are linked by good asphalted roads. Many villages are linked by dirt and gravel roads. However, there are many villages in Iran which are isolated. The Iranian rail road system links Teheran to Khoramshare in the South, Moshad in the West, Gorgan and Shahie in the north and Tabriz in the north west.

The rail road to Tabriz recently is connected to Europe through Turkey. Also all major cities are connected by telephone and telegraph.

## 2. History of the Cooperative Movement

The cooperative system was first began in Iran about 25 years ago. They consisted mainly of credit and consumer cooperatives. However in the beginning they were on a very small-scale.

In 1952, when the White Revolution began in Iran and the Central Organisation of Rural Cooperatives was founded the farmers who owned land began to form cooperatives. Today there are about 9,500 cooperatives in Iran. The major type of society in the credit cooperative. There are about 8,500 credit cooperative in Iran. They are established mainly in the villages.

The Agricultural Bank of Iran assists each cooperative by lending them up to five times their original capital. The cooperative can then lend to each share-holder maximum of 20,000 Rials (Rial 1 equal to US\$01.43). The share holder is required to pay back the money to the cooperative within one year. Also there are about 450 consumer cooperatives in Iran. They are mainly in the villages also and a few in the towns. They are all retail cooperatives except for five or six which are whole-sale cooperatives. There are about 30 Agricultural Cooperatives which were organized about five years ago, and going to be increased each year. The Agricultural cooperative has proved some what successful in Iran.

Until now Iran has not entered into the field of furenile marketing and special methods kind of cooperatives. The special scheme in Iran is land reform.

Before the White Revolution all of the land was owned by a very few rich land-owners. The Government bought the land from these people and distributed it to Poor farmers for very low price with easy credit terms. At the same time, the Government was seriously looking toward the villager and the small farmers. Today the Government supplies each cooperative with all its essential items which the cooperative sells to its share-holder on very easy credit.

Before cooperative began in Iran, the poor farmer was unable to develop his land. Now with the help of the Government and formation of cooperative he is able to develop his land to the fullest. This has caused a 1/3 production of increase in the last eleven years. Each year the individual farmer will increase his personal capital, which will enable him to obtain more modern agricultural equipment. This will increase Iranian production even further.

### 3. Government assistance

I believe ideally cooperation should spring spontaneously from the people themselves without government or other assistance and this is the case in the highly developed countries. In the developing countries like Iran, however the cooperative movements are in their infancy and when the societies are being tried the guiding of Government is necessary.

In Iran the Government helps to cooperative development from the beginning upto now. It also has been the enactment of a cooperative societies law, the appointment of a Commissioner with technical staff to guide the movement and audit and supervise the cooperatives. According to the present cooperatives societies law, the cooperatives are exempted from income tax and some stamp duties.

The Cooperative Movement in Iran dates back to 1948, but progress was comparatively slow for 15 years. The first task of the movement was to provide credit facilities to farmers who were falling into serious debt with the money-lenders. Today most of the villages in Iran are serving by village cooperative.

The Consumer cooperative movement started in the villages about two years ago but it does not mean that there are two cooperatives in one village, It is the same cooperative which is doing them both. Today the consumer cooperative movement is well established in the town but not as well as possible in the rural areas.

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COOPERATIVE CREDIT MOVEMENT IN JAPAN

By

H. Ohmi  
Assistant Manager  
Planning Headquarters  
Central Cooperative Bank  
for Agriculture & Forestry  
Tokyo (Japan)

organised by

INTERNATIONAL COOPERATIVE ALLIANCE  
Regional Office & Education Centre  
for South-East Asia, PO Box 3312  
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CENTRAL UNION OF AGRICULTURAL COOPERATIVES  
8-3-1 chome, Otemachi, Chiyoda-ku,  
Tokyo (Japan)

and

INSTITUTE FOR THE DEVELOPMENT OF AGRICULTURAL COOPERATION IN ASIA  
24-9, 6-chome, Funabashi, Setagaya-ku,  
TOKYO (JAPAN)

## I. Introduction

Three changes in the conditions surrounding agricultural cooperatives have caused Major changes in agriculture in Japan.

First, Japan's agriculture was once primarily a rice growing agriculture, but since a large rice surplus 1970, the government has stabilized rice production and the acreage of rice fields has decreased due to the government policy of preventing overproduction by subsidizing the farmer for 10% of his land area. The producer's price of rice was frozen for three years beginning in 1969. The ratio of income from rice to the total income from farming has decreased from 50.0% in 1960 to 38.6% in 1971, and in the same period, the ratio of agricultural production to national production has decreased from 10.2% to 5.5%. Second is the change in agricultural districts. In the past 10 years, the ratio of the population engaged in agriculture to the total work force decreased from 26.8% in 1960 to 15.9% in 1970, and the ratio of income from farming to the total income of farm households decreased from 55.0% to 36.5%. Nowadays most of the income of farm households comes from non-agricultural sources. This is also connected with the economic growth of the country; the concentration of population and industries in cities, and the conversion of farmlands to non-agricultural use; houses, factories roads and so on.

The changes in agriculture in the urbanizing areas are now having great effects on the organization and business activities of the agricultural cooperatives.

The third change; urban agricultural cooperatives are increasing and number of non-farmer members (associate members) is also on the increase. The number of urban cooperatives has increased from 14% to 26% of the total number of cooperatives during the 10 years from 1960 to 1970.

Because of these three changes, the primary source of income of the farmer has changed from rice to other agricultural products and the sale of farmlands. The farmer's expenditures have changed from agricultural use to non-agricultural use such as building or renting a house, increased buying of consumer goods, investing in new business ventures and so on. The income and expenditures of farmers have increased greatly and loans from cooperatives have become more varied and of a long term.

## 2. The agricultural cooperatives

### (1) Basic Organization of Agricultural Cooperatives.

The agricultural cooperative movement of Japan consists of three echelons: local societies in cities, towns, and villages; secondary organizations at the prefectural level; and national federations at the top.

The most characteristic feature of the movement is that the local societies at the primary level undertake Multi-purpose function to serve the wide-ranging needs of the member both for farming and living. There are certain single-purpose cooperatives along specific agricultural lines like sericulture (silk-worms), some vegetable and fruit culture, and livestock. Yet the multi-purpose societies are by far the most dominant and most influential, and they compose the main stream of the agricultural cooperative movement in Japan.

These local cooperatives are divided into divisions and these business are organized into the prefectural federations for each different business like



credit, marketing, supply, and insurance, etc., which once more, are organized into their national federations.

### (2) Source of Funds for Agricultural Use

In terms of household, 99% of all farmers (5,261,000 in 1970) have member ships with local cooperative societies. In other words, practically all of farmers in Japan are affiliated with the movement. There are 6,000 local cooperatives, which accept deposits from members and the funds thus accumulated are utilized for loans to the members and surplus funds are deposited in the credit federation. The credit federation advances loans to cooperative business federations and their affiliated cooperatives out of the funds acquired, and the unused portion is deposited in The Central Cooperative Bank for Agriculture and Forestry. The Central Cooperative Bank plays the role of a coordinating body at the national level for prefectural federations to adjust both excess and shortage of credit funds. It also meets credit needs which are too large for lower level organizations to meet by themselves. The same applies to the case where the nature of credit need is special. The Central Cooperative Bank's major source of deposits comes from the prefectural credit federations: while it provides credit to prefectural credit federations, national level organizations, prefectural business federations and occasionally to local societies. Thus the cooperative credit business is conducted effectively throughout the entire structure of the three levels.

The amount of loans of the total cooperative credit business (of the three levels) is 4,397 billion Yen as of the end of March 1972, and its ratio to the total agricultural loans of all banks is 78.9%, which shows a slight decrease as compared with the preceding year.

### 3. Some of The Problems of Agricultural Cooperatives in Japan

(1) Because of the urbanization of rural areas and increase of farmers engaged in working in non-agricultural business; the sale of farmland and income from sources other than farming constitute the biggest share of the deposit of the cooperatives. Reflecting these facts, the long term savings deposits of the cooperatives are increasing, and the credit activities of the cooperatives are changing from one of mutual-aid for members to one of aid for the economic development of their area, similar to the activities of commercial banks. Thus the cooperatives have found it necessary to make further efforts for the purpose of mechanization and rationalization of their office work: i.e. a net work of Electronic Data Processing System throughout the three levels in this credit business.

(2) Agricultural loans from cooperative amount to 78.9% of agricultural credit, Although government subsidies are constantly being increased, these increase have not kept pace with the needs of agriculture, also these subsidies carry some basic limitations and restrictions. The difference between governments aid and agricultural needs is being increasingly met by loans from the agricultural cooperatives. It is probable that this cooperative credit-activity will continue to gain in volume and importance and that farmers will expect more assistance from this source in the future.

(3) As we see in the savings campaign after 1968, there is a big problem in the financial position of multi-purpose cooperatives. Because of the progress of urbanization and the increase of non-agricultural members, the credit business has become the cooperative's biggest activity and the marketing, purchasing and other low profit and non-profit sections have been dependent upon it. Profit from the credit section covers the loss of other sections. If these low and non-profit sections can improve their positions, the credit section can reduce the interest rate of loans and provide improved services to their members. This will strengthen their competition position with the city banks.

(4) With respect to the loan-business under the authority of the Agricultural Society Law, the cooperatives are prohibited from discounting notes and are controlled in regards to making loans to non-members. Accordingly, the urban agricultural cooperatives are now encountering difficulty in utilizing their funds through loans to the fullest extent, notwithstanding the fact that they are holding an enormous amount of their member's savings. In order to solve such absurd financial problems, the present Agricultural Society Law needs to be revised. The cooperative organizations and the Ministry of Agriculture and others are working together for these revisions passed in the current session of the Diet.

120

BACKGROUND PAPER

for

ICA REGIONAL SEMINAR ON COOPERATIVE CREDIT

(April 9, 1973 - April 28, 1973, Tokyo)

Mr. Jung Soo HAN  
Mr. Myung Jae PARK  
Mr. Joon Hi JOH

NATIONAL AGRICULTURAL COOPERATIVE FEDERATION

SEOUL, REPUBLIC OF KOREA

The present Korean agricultural cooperative organization has been operating for 12 years. It has a nationwide network, comprising about 90 percent of the nation's farmers. Its contributions to the welfare of both farmers and non-farmers are widely recognized and expected to increase in future. Beginning in 1972, agricultural cooperatives set up three basic policy objectives : (1) Sound organizational base for self-help cooperative performance, (2) strong function of cooperative marketing and processing for farm products, and (3) maximum efficiency for dedicated service to member farmers.

Institutional credit service in agriculture has been provided largely by city or county cooperatives and their national federation. Since 1969 some primary cooperatives have been operating the mutual credit program. With an expanding agricultural sector of the economy, the credit need has risen sharply far ahead of its supply in recent years. Thus the major concern of agricultural credit program is to expand financial resources and to put these resources to maximum efficiency attainable.

Deposits received by all agricultural cooperatives, the major source of finance, has increased 31-fold in the last decade and total loans outstanding has gone up seven-fold in the same period.

The "Saemaeul" and other farm modernization projects will put a heavy demand for additional credit upon agricultural cooperatives. Continued efforts at savings promotion and efficient allocation of resources are in prospect.

The Korean agricultural cooperative organization in its present form has a rather short history. Over a decade ago, there were two competing farm organizations in the rural areas of Korea : One was Agriculture Bank, which dealt exclusively with agricultural credit, and the other was Agricultural Cooperative organized for the explicit purpose of financing farm operations and engaging in various cooperative businesses for farmers.

The recurrent malcoordination between the two organizations and the resulting inefficiency pointed to the need for reorganization. As late as in 1961, the present multi-purpose agricultural cooperative system came into being.

#### Organization

Agricultural Cooperatives of Korea are nationally organized at three different levels : at village, county and at national level. Beside these general-purpose cooperatives, special-purpose or livestock and horticultural cooperatives are also organized by those farmers who specialize in this type of farming.

The village-level cooperative, as its name implies, was organized on the basis of the smallest administrative unit with no regard of geographical and economic boundary. Through a nationwide merger program, about 1,500 primary cooperatives have been reorganized on the basis of Eup or Myun level, the second smallest administrative unit.

City or county cooperative is an association of primary co-operatives. A total of 140 city and county cooperatives are currently organized. A county cooperative generally has two or three branch offices. In addition, there are now 143 special cooperatives, which consist of 95 livestock and 48 horticultural cooperatives.

The National Agricultural Cooperative Federation is a national association of city or county and special-purpose cooperatives. It has a branch office in each of a provinces.

#### Function

The primary purpose of agricultural cooperatives is to increase farm productivity and to improve social and economic conditions of farmers. Thus functions of agricultural cooperatives are closely related to every aspect of farm operation and life in rural Korea.

Specifically, their functions include :

- (1) Guidance for improved productivity and home economy,
- (2) Purchase and supply of farm inputs and consumer goods,
- (3) Marketing of farm produce,
- (4) Agricultural credit and banking,
- (5) Transportation of farm products and inputs,
- (6) Joint ownership and use of farm facilities,
- (7) Mutual insurance and medical service.

## II. AGRICULTURAL CREDIT SYSTEM

City or county cooperatives and National Agricultural Cooperative Federation (NACF) transact most of agricultural credit in Korea. A small portion of primary cooperatives are also engaged in credit transactions. NACF accounted for 33 percent and city or county cooperatives dealt with the remaining 67 percent of the total loans made in 1972, which amounted to 148 billion won.

About 900 primary cooperatives have a mutual credit or mutual savings and loan program. The total loans out of this program stood at 13,000 million won in 1972. About 70 percent of the loanable fund came from farmer members in the form of deposit and the remaining fund was financed by NACF.

Sources of loanable fund

The loanable fund of agricultural cooperatives has several different sources : (1) cooperative fund , (2) deposits receive, (3) borrowings from the government, (4) borrowings from the Bank of Korea, and (5) foreign fund and agricultural credit debentures. The cooperative internal fund consists of paid-in capital of member cooperatives and farmers, and business surplus.

In order to be a member cooperative of NACF, each county or special cooperative should have at least 10 share capital stocks with a value of 10,000 won per stock. A primary cooperative should have at least one stock, in city or county cooperative which values 1,000 won.

Each farmer has to own one stock of 1,000 won for membership in a primary cooperative

Currently 12 percent of savings deposits and 16 percent of demand deposits should be retained as legal reserves, and the rest is used in various cooperative programs. The government budget fund is generally borrowed at an interest rate of 2 to 5 percent per year, and the borrowed money from the central bank has an interest rate of 8 percent for production loan and 3.5 percent per year for export financing.

The relative portion of the fund from various sources has changed over time. The percent share of borrowings from the government declined from 57 percent in 1961 to 23 percent in 1971, while the relative importance of deposit fund rose drastically from a mere 20 percent to 51 percent in the same period.

Deposit may be broadly divided into savings deposit (time and installment deposit) and demand deposit. The paying interest rate ranges from 1.8 to 12.6 percent per year. Savings deposit presently accounts for 57 percent and the deposit from farmer members, a mere 20 percent of the total.

#### Agricultural financing

The eligible loan recipients are farmers, fishermen, farm organizations and others. The recipients differ by purpose or use of loans.



Use of loanEligible recipients

## Production

Agricultural	farmers, primary coops., farm organizations, agricultural schools
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Fishery	deep-sea fishermen
---------	--------------------

## Marketing

- Assembling & processing	processing plants and export firms
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## Other uses

Improvement of rural environment	farmers, primary coops.
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Short-term loans to public agencies	Schools, education board
--	--------------------------

Savings promotion	non-farmers
-------------------	-------------

Loans made does not meet the total requirements of an applicant.

A certain portion should be provided by him. The percent portion of given loan varies also by purpose of loan.

Use of loanPercent share of loan  
in total requirements

## Agriculture &amp; fishery

Purchase of production inputs and installation of subsidiary facilities	no more than 80 %
---	-------------------

Assembling and processing of farm and fishery products	no more than 70 %
---	-------------------

Facilities for processing and storage of farm & fishery products	no more than 50 %
---	-------------------

Facilities for joint use of farmers	no more than 50 %
--	-------------------

Other projects

127

Operation	no more than 70 %
Facilities	no more than 50 %

Projects of primary coops.

Operation	no more than 100 %
Facilities	no more than 80 %

The period of repayment for loan is determined by purpose of loan and by the gestation period.

<u>Use of loan</u>	<u>Repayment period</u>
Assembling & processing of farm products	6 to 9 months
Short-term production and savings promotion	within one year
Special production (livestock, cash crop, etc.)	5 to 13 years
Land reclamation & irrigation	within 35 years

The interest rate system for loan is determined by a formal agreement of all institutional banking organizations. Loans made by agricultural cooperatives have two broad groups of interest charges : one is 6 to 9 percent per year, which applies to loans made out of the government budget fund, and the other is 15.5 percent for banking fund. For overdue loans, the rate goes up to 25 percent (23 percent for farm production loans) per year.

Both real and movable properties are generally taken as mortgages. Loans are made up to 90 percent of the mortgage value , but this ceiling does not apply to primary cooperatives. For those farmers and farm

organizations with poor or no mortgages, loans are made exclusively on credit out of what we call "Credit Guarantee Fund".

Substantial improvement has recently been made in loan processing and supervision. NACF annually sets up loan program, and gives prior information to farmers on how much money is available for loan and where to get it. These arrangements have considerably reduced farmers' complaint and contributed to efficient allocation of limited fund.

Extreme care and supervision are taken so that loans made may be used for the specified purpose. Periodic check is made of performance of the project to determine whether continued loan has no risk. When it is found that a certain loan is not actually used for the purpose specified, managerial guidance is extended for sound performance or the loans already made are collected.

## III. Problems and Future Program

The demand for agricultural credit has continued to increase in the last decade, and is expected to rise even more rapidly, reflecting the aggressive government attempt at various Saemaeul (new village) projects to be implemented in the next 5 years. Internal sources of fund must be expanded, along with external ones. But since it is inevitable that loanable fund for agriculture will be far short of the requirements, the most efficient use of limited fund will continue to be an overriding concern in future credit program of agricultural cooperatives.

Problems

A. Agricultural cooperatives currently finance two broad different projects out of limited sources :

(1) Special development projects as part of government overall plan and (2) general farm production projects. Such a two-way financing program inevitably put a low priority on general crop farms, a major source of complaint among a mass of farmers.

B. The recipients of loans to be made out of government budget sources are selected by government agencies. Such a practice tends to create additional risks on the part of agricultural cooperatives in handling and supervision of loans.

C. The credit system is extremely complex for operational efficiency, and in the light of multi-purpose organizational structure

and business programs, city or county cooperatives have relatively a small staff in credit section for efficient project appraisal, supervision and guidance.

Improvement programs

Beginning in 1972 agricultural cooperatives have taken a big step forward for maximum credit service and efficiency in the following directions :

A. A first priority is given to high priority projects and to those farm areas with high development potential. A piece-meal allocation of fund has been largely dispensed with.

B. Improvements have been made for maximum convenience of farmers, including

- (1) Forward loan program,
- (2) Simplification of application procedures for loan, and
- (3) Operation of loan counselling office

C. The authority for selection of recipients of government budget loans shifted from the government to agricultural cooperative. The so called "Credit Board" has been established at each level of cooperative. The Board members consist of government officials cooperative managers and leading farmers in each area and jointly select the most desirable recipient.

D. A new loan appraisal system has been introduced for increased efficiency. According to this system, the basis for appraisal differ for the size of loans, and are classified as follows :

# 131

<u>Classification</u>	<u>Given range of points</u>	<u>Appraisal</u>	<u>Actions to be taken</u>
Class A	over 80	first priority projects	loan on credit possible
Class B	70 to 79	second priority projects	loan on credit not over 30 % of the requirements
Class C	50 to 69	extreme reservations	no loan on credit
Class D	less than 50	no good	no loan on credit

## 132

## IV. APPENDIX

# Table 1. Sources of loanable fund (In million won)

<u>Sources</u>	<u>1961</u>	<u>1965</u>	<u>1971</u>
Deposit	3,471	10,641	108,926
Borrowings from Gov't.	9,661	14,666	50,143
Borrowings from Bank of Korea	3,054	16,311	40,765
Internal fund	475	1,684	7,765
Other sources	250	898	5,037
<u>Total</u>	<u>16,911</u>	<u>44,200</u>	<u>212,636</u>

# Table 2. Deposit received in million won (In million won)

<u>Kind of deposits</u>	<u>1961</u>	<u>1965</u>	<u>1971</u>	<u>1972</u>
Demand deposit	1,831	6,567	42,804	56,516
Savings deposit	1,640	4,074	66,122	76,225
Total	3,471	10,641	108,926	132,741
Farmer deposit	985	1,233	26,822	26,611
Non-farmer deposit	2,486	9,408	82,044	106,130
Total	3,471	10,641	108,926	132,741

# Table 3      Loans Granted by Sources  
(As the end of the year)

<u>Sources</u>	( In million won)				
	<u>1961(A)</u>	<u>1965(B)</u>	<u>1971(C)</u>	<u>Change(C/A)</u>	<u>1972</u>
Government Funds	8,554	11,899	35,420	414.4%	45,261
Banking Funds	8,134	11,360	87,648	1,077.6	102,984
Total	16,688	23,259	123,068	737.5	148,245

# Table 4      Loans Granted by Uses  
(As the end of 1972)

<u>Uses</u>	<u>Amount</u> (Million won)	<u>Composition</u> (%)
Agricultural Production	83,200	56.1
Livestock	5,100	3.5
Irrigation	14,200	9.6
Collection of farm products	8,000	5.3
Agricultural organization	1,200	0.8
Mobilization of Fund	27,500	18.6
Fishery	4,000	2.7
Others	5,000	3.4
Total	148,200	100.0



STUDY VISITS IN THE REPUBLIC OF KOREA  
AND REGIONAL SEMINAR ON "CO-OPERATIVE  
CREDIT WITH SPECIAL REFERENCE TO JAPAN"

Place: The seminar will be held at the  
Institute for the Development of  
Agricultural Cooperation in Asia  
(IDACA), 24-9, 6-chome Funabashi-  
cho, Setagaya-ku, Tokyo (Japan).

Dates: 2nd to **8th** April, 1973 Korea  
9th to 28th April, 1973 - Japan

Subject: "Cooperative Credit Movement in  
Malaysia"

Paper by: Encik P. Ramasamy,  
Malaysia.

THE CO-OPERATIVE MOVEMENT IN MALAYA

The aim of this paper is to trace the history of the co-operative movement in Malaya, examine the type of co-operative and determine the importance of the movement in modern Malaysia.

Background.

Agitation for the formation of the co-operative movement in Malaya date back to 1907. The word agitation is used because of the opposition the movement met from religious leaders. Religious leaders often thought that the "interest" factor was against the religious tenets of Islam.

But however in 1922 a Law was passed enabling the formation of the Co-operative movement.

Thus do in Burma, Ceylon and India, Co-operative Society were first introduced as a result of government policy.

The strong argument for the formation of co-operative Societies was the protection of Malay farmers against moneylenders. Malay farmers had in those days very little saving, with which to start of the sowing season, or to carry on normal living throughout the year without falling into debts. Acute financial shortages very often if not at all times, led them to the money lenders. As security the money lenders sought the lands of the peasants. Then the Malay farmers, in need of money, had no alternative but to mortgage their lands. The farmer, was a habitual, constant and continual borrower. He was always in debt. There was never a time when he was not in debt. To quote Prof. Ungku Aziz of the University of Malaya this system of advances, which the money lenders made to the farmer was known as the " Never Never " System. By that he meant that the worker was never out of debt which again meant that the farmer was never able to get back land. Very few of them were able to get back their land due to the obsolete methods of cultivation. As a result most of them lost their property and for their living, they had to work for others. It was against this system of victimization to which farmer was prone, that Co-operative Societies were recommended.

The case of borrowing money was not confined to farmers alone but also extended to office workers, govt. servants, the rich and the poor alike borrowed money. Some had to borrow, because of low incomes, others with high incomes were forced to borrow because they had the tendency of living beyond their means. All along, there was no other source apart from the money lenders. The govt. realized that workers could not go on indefinitely in their sad plight and as the farmers too needed the co-operative movement, it was decided that the time was right to introduce the movement into the country. The initial opposition given to this movement was however eliminated through various convincing meetings. Eventually the idea was accepted. Following these meetings, where large attendances occurred, six Rural Credit Societies were formed. The campaign to organize co-operatives was similarly extended to government servants. They were urged to save for the future and make provisions for any unforeseen circumstances that might crop up, like a sudden illness, death in a family or a period of unemployment. If such incidences were to occur in the absence of co-operatives, they had no alternative but to go to money lenders. Thus persuaded in this manner, these workers wasted no time in forming themselves into co-operative Societies. The first co-operative thrift and loan society for employees of the Postal and Telecoms Department was registered on 21st July 1922 and by the end of the year, there were three such co-operative thrift and loan societies in operation with a membership totalling 547 and a working capital of \$14,239.00.

Malaya being a primary export oriented country, faced many glooming spells and the co-operative societies along with these periods also suffered these spells. But however, after 1936, there was a steady rise in the growth of the movement until the Japanese Occupation of Malaya at the end of 1941. There were then 307, Co-operative Societies with a membership of 94,130. Most Co-operative Societies were dormant during the Japanese Occupation period. After the war, the Societies were reorganised and by the end of 1947, there were 841 societies with a membership of 88,989 persons.

#### THE CO-OPERATIVE MOVEMENT IN MALAYA TODAY

There are in Malaysia, today over 2,600 Co-operative Societies of about 38 different types, with a membership of over 700,000 persons. These societies can be divided into primary Societies and Secondary Societies. A primary society is one which all the members are individuals. A secondary society is one that has both individuals

and Co-operative societies in its membership. A co-operative society here include both a primary society and another secondary society. The following are the type of co-operative societies found in Malaya.

- (a) Thrift and Loan Societies
- (b) Rural Co-operative credit Societies and Banks
- (c) Thrift and Investment Societies
- (d) Employees Co-operative Credit Societies
- (e) Processing, Farming and Marketing Societies
- (f) Housing Societies
- (g) Transport and Taxi Societies
- (h) Consumer Stores
- (i) National Land Finance Societies
- (j) School of Societies
- (k) Multi-purpose Societies

#### Thrift & Loan Societies

The most popular co-operative societies in the country are the thrift and loan societies. There are about 185 Thrift and loan societies with a membership of about 200,000. These were the first type of co-operative societies to be introduced into Malaya.

The main objects of the society are to encourage thrift and to prevent permanent indebtedness of members by enabling them to obtain loans on reasonable terms. The societies cater for the employees of Government, Statutory bodies and commercial houses.

When a person applies to join a co-operative thrift and loan society he must undertake to free himself as soon as possible from all debts contracted prior to joining the Society and to refrain from borrowing except from the society or with the consent of the society. He is also required to undertake not to stand surety for any loan except with the consent of the society and to furnish the society with a full and true statement of his liabilities at the time of his admission as a member.

The member is expected to pay an entrance fee of \$1/-. The minimum monthly subscription is generally \$2/- and there is no maximum. The subscription paid by the member is credited to the member's account and treated as savings. All monthly payments due to the Society shall be recoverable by deduction from the monthly salary through the employers.

Every applicant for membership shall sign an application in the form approved by the Committee of Management and election shall be by the Committee of Management. Applications for membership may be rejected without assigning any reason but the applicant can appeal to the general meeting of the society if he wishes. For election by the general meeting of majority of 2/3rds of those voting shall be necessary.

Every applicant who has been elected shall, on payment of the entrance fee, be deemed to have acquired all rights, duties and liabilities of a member. Every member shall, on admission, be provided free of charge with a copy of the By-law and a pass book. Every member has the right to nominate one or more nominees to whom sums due to the member by the Society shall be paid on his death. This means that the society can pay whatever sums standing to the credit of the member on his death to the nominee without delay.

Membership shall cease by death, insanity, removal of residence outside the area, bankruptcy or resignation. Any member who is not indebted to the society as borrower or surety may withdraw from the society giving twelve months' notice of withdrawal in writing. Under exceptional circumstances, the Committee of Management may accept a shorter notice of withdrawal at their discretion. Any person who is indebted to the Society either as borrower or as surety may give twelve months' notice of his intention to resign from the society but such notice shall be invalid unless at the end of twelve months' notice, he is free from all liabilities to the society either as borrower or as surety.

If the conduct of any member is such that in the opinion of the Committee it is undesirable that he should continue in the society, they shall bring his name before the General Meeting of members and on a resolution in favour of his expulsion being carried by a majority of 2/3rds of those voting, the member shall be expelled. The committee shall have the power without reference to a General Meeting to expel any member whose payments to the society are more than three months in arrears.

In addition to the monthly subscriptions, every member may make monthly deposits for one or more of the following specific purposes:-

1. The illness of himself or any of his relatives or dependants;

2. The education of any of his relative or dependants;
3. The marriage of himself or any of his relatives or dependants;
4. The funeral expenses of any relatives residing with him or dependants;
5. To erect, purchase or improve for his own use a residential house;
6. The purchase of land for his own use;
7. The expense of holidays and festivals;
8. The payment of insurance premia.

The deposit for such specific purposes shall not be less than \$5/- per month. Such deposit shall earn interest at a rate to be fixed by the Committee from time to time. Such deposit shall be withdrawable if the depositor satisfies the committee that any of the purpose for which the deposit was made has arisen. Three months' notice in writing shall ordinarily be given for the withdrawal of such deposits but the committee may, at their discretion, accept shorter notice.

All members shall be eligible to apply for loans from the Society. Among the proper purposes for a loan are:-

1. Building a house or purchasing land and/or a house for the personal use of the borrowing member;
2. Education of a member's children or relatives;
3. Liquidation of debts incurred before admission to the society; provided that no member rejoining after having once resigned shall be eligible for any such loan;
4. Illness of the borrowing member or any of his family or dependants;
5. Unavoidable litigations;
6. Marriages, funerals or other ceremonies on a scale suitable to the borrowing member's income and position of life;
7. Obligatory religious rites;

No loans shall be granted for:-

1. Purpose of trade;
2. Religious purposes, except as provided for above;

3. Purposes of display or amusement;
4. Any purpose, which in the opinion of the committee, is not to the distinct advantage of the borrower.

All applications for loan shall be approved by the Committee of Management. Urgent loans, however, in connection with illness or death, may be approved by an Urgent Loan Sub-committee. Loans shall be limited to 6 months' salary of the borrowing member and no member below the age of 21 shall be eligible either for a surety loan or to stand surety for a loan. Loans shall ordinarily be repayable in not more than 12 monthly instalments commencing from the month in which the loan was paid but the Committee in exceptional cases, can spread the repayment over a period not exceeding 24 months. Loans shall be granted only to members on the personal security of the member borrowing and that of two or more sureties. Each of the surety shall cover the whole loan less the amount secured by the paid-up subscription of the borrower. Interest is generally 6% per annum. The Committee has the full power to refuse the loan, to limit the amount and to object to any particular member as sureties. No member can claim a loan as a matter of right.

Land and building loans are also granted by some societies for the purpose of purchasing land or land and house or erecting a house against the security of the property concerned. The total amount of such loan shall not exceed 25% of the subscribed capital of the society. No member shall be eligible for a loan of this type more than once, and unless and until 80% of his credit with the society is equal to at least 1/5th of the value of the property he wishes to acquire or the house he wishes to erect. Such credit shall have been saved with the society by gradual addition to subscription or deposit account. The maximum amount of such loan shall not, in any case, exceed 4/5th of the value by an appraiser approved by the Committee. The maximum amount in most societies is \$15,000/-. All expenses incurred in inspecting, valuing, execution of the legal documents and all incidental expenses shall be paid by the borrower. The rate of interest of such loan is generally 6% per annum and the maximum repayment period is generally 15 years.

The control of the affairs of the society is entrusted to a Committee of Management consisting of generally 9 members all of whom shall be elected annually at Annual General Meetings. The Committee has the power to appoint, suspend or terminate the services

of employees, to fix their remuneration and to generally look after the affairs of the society. The supreme authority of the society is the General Meeting of members. In such meetings every member is entitled to be present and if duly qualified, to vote at the meeting. Every member qualified to vote shall be entitled to only one vote. The other conditions are those prescribed in the Co-operative Societies Ordinance.

#### Rural Co-operative Credit Societies and Banks

There are over 1,600 rural credit societies in the country. Though this type of societies form the largest number yet membership is only over 60,000. Members are mainly padi-planters and rubber small-holders. These societies were registered either as seasonal co-operative credit societies with limited liability or as rural co-operative credit societies with unlimited liability. The share payable in a seasonal co-operative credit society is \$25/- in instalments of \$5/- per year. In a rural co-operative credit society, the share capital is \$100/- payable in instalments of \$10/- a year. All loans granted in a seasonal co-operative society are repayable at the following harvest while the rural credit co-operative society loans other than those for planting expenses may be extended up to three years. The seasonal co-operative credit societies are mainly found in the main paid areas such as Kedah, Province Wellesley and Krian. The rural credit societies have, however, been more popular because medium term loans of up to three years were available from these societies. Loans given by rural credit societies are usually for cultivation expenses, medical expenses, marriage expenses, confinement expenses, repairing house, buying or improving land, buying buffalos and settling land premiums. Most of these societies were dormant during the Japanese occupation period. After the war, these societies realised that they had to pool their resources in a union and also that unless they borrowed funds they were not able to provide the loans required by the members. They got together and the first banking union known as the Province Wellesley Co-operative Banking Union was established in Bukit Mertajam. Membership of banking unions was open to all types of primary societies and their share cost \$100/- each and every member was required to take at least one share payable by instalments with a year. This society was a success and other banking unions were formed all over the country. The Federation of rural co-operative societies was also registered in 1951. There are banking unions in every State at present.



On 7th June, 1954 delegates from these banking unions assembled in Bukit Mertajam and decided to form the Federation of Malaya Rural Co-operative Apex Bank Ltd. The Apex bank was registered on the 28th September, 1954. The Apex bank has taken advances from Government from time to time to provide seasonal loans to farmers through the rural credit societies. The name of the bank has now been changed to Bank Kerjasama Malaysia Berhad.

#### Thrift & Investment Societies

There are about 80 thrift and investment societies in the country. These societies save and invest from their own funds. They do not give loans to their members nor do they borrow from outside.

#### Employees' Co-operative Credit Societies

These societies were formed among employees mostly from rubber estates. There are about 180 societies. The loans are granted from their own funds and the surplus are invested in Government securities and commercial banks.

#### Processing, Farming and Marketing Societies

There are about 640 societies in the processing, farming and marketing sector of the Co-operative Movement with a membership of about 130,000. 80 of these societies are Fishermen Co-operative Credit & Marketing Societies with a membership of around 8,000. Loans are granted to the fishermen societies by the banking unions through loans from Government. Several trawler fishing societies have also been formed and are showing progress. The rice milling societies are the most popular and progressive among the agricultural co-operatives in the marketing and processing field. There are about 400 societies in the country with a membership of about 50,000. There were 30 rubber marketing societies with a membership of about 2,000. The membership of pineapple marketing societies is about 1,000 in about 11 societies. The main purpose of the marketing society is to get the members to combine with the other members for joint action in order to solve their economic needs and strengthen their position as producers and sellers. The marketing society assures the member of regular market for his produce and enables him to obtain a better price than what he would have got by selling his produce in small quantities individually. This society also teaches its members to produce better quality products and therefore earn better income for themselves.

There are about 60 housing societies in the country. After the Second World War, leaders of the Co-operative Movement felt that it was time to organise co-operative housing societies. They felt that such co-operative housing societies would help them to solve problems of accommodation which was very acute. It was a practice of landlords to demand tea money before they would allow a tenancy to be taken up. Sums of anything from \$500/- to \$3,000/- were demanded for the privilege of obtaining vacant possession of a house depending on the size of the accommodation and the locality. The first co-operative housing society to be registered in Malaya was the K.L. Co-operative Housing Society Ltd.

The main objects of a co-operative housing society are:-

1. To build or arrange to be built residential houses for members
2. To build houses on land owned by them and recover the cost thereof in instalments within a period not exceeding 20 years
3. To purchase land for members and build **houses** thereon and recover the cost in instalments within a period not exceeding 20 years
4. To build houses on land belonging to the society and to rent or lease them to members.

Membership is open to anyone over 18 years of age and a person cannot be a member of two co-operative housing societies in Malaya. Every member pays an entrance fee which is generally \$3/- and undertakes to pay towards the shares of \$10/- each. Membership shall cease by resignation after giving one month's notice to the society in writing, death, insolvency or insanity and expulsion. The liability of the member is limited to the share capital subscribed by him. The funds of the society are composed of shares of deposits and loans. The Management of the society is similar to that of a co-operative thrift and loan society. The rate of interest charged is generally 1% over the rate at which the society borrows. The funds are borrowed from private sources or from other co-operative societies including the Malaysian Co-operative Insurance Society Ltd. and the Co-operative Central Bank Ltd.

Consumer Stores

144

There are about 180 retail stores societies in the country. These societies were very popular during the days when black marketing of essential goods was rampant. They provided the essential requirements at reasonable prices. Due to the Korean war and in view of the restrictions imposed by government on the free movement of food stuffs during the period of emergency from 1948 to 1960 a large number of Co-operative Stores were organised by government. When consumer goods became available freely there was no support from the members. More than half the societies had to be liquidated. Some of the existing societies are doing well while most of them are struggling.

National Land Finance Society

After independence was achieved, it was found that a large number of rubber estates were sold and fragmented into smaller units causing displacement of workers employed in the rubber industry. This resulted in considerable unemployment and difficulties for plantation workers. The National Land Finance Co-operative Society was formed on 14th May 1960 under the able and distinguished leadership of the Hon. Tun V.T. Sambanthan to mobilise the capital from the plantation workers and to purchase plantations which would otherwise be sold and fragmented. The authorised capital of the society is \$10 million divided into 100,000 shares. The value of each share is \$100/-, payable by monthly instalments of \$10/- each. The membership of the society is about 60,000. Nearly 85% of the membership are plantation workers. Funds have also been borrowed from Government. The society also received deposits from co-operative societies. Several large rubber, coconut and oil palm estates at a total cost of over \$14 million have been bought by the Society.

School Societies

School co-operatives are being organised with the main object of encouraging thrift and self-help among students of secondary schools and to provide facilities for the supply and sale of students' requirements.

Every student on joining a school co-operative society is expected to pay an entrance fee of 20 cents. On approval of the Executive Committee and on payment of the entrance fee he or she acquires all the rights, duties and responsibilities as a member of the Society. Membership ceases when the student leaves the school, dies or resigns or is expelled by the Society.

Every member is expected to pay at least 50 cents monthly subscription towards a savings account. All sales to members shall be in cash. Credit sales are strictly prohibited.

The supreme authority of the society is the General Meeting and each member has only one vote. Voting by proxy is not allowed. The Head Master or Principal of the school or his representative will become the President of the society ex-officio and he will nominate one of the school staff to be Treasurer. The administration of the society will be in the hands of an Executive Committee of seven persons and the President and Treasurer.

#### Multi-purpose Societies

The various co-operative societies I have described above are single-purpose co-operative societies. Recently several rural societies have been formed as multi-purpose co-operatives catering for credit, consumer and marketing activities. The Registrar of Co-operative Societies has also agreed to convert some of the urban single-purpose societies as multiple-purpose co-operatives to undertake additional objects, if he is satisfied that these societies can carry on smoothly without affecting efficiency. The Registrar has also agreed that he would permit certain thrift and loan societies to include the provision of consumer services or housing as subsidiary objects provided only a certain amount of the subscribed capital of the society may be used.

#### Transport and Taxi Societies

There are about 30 such societies and these are popular with the rural co-operators. The most successful transport co-operatives are those at Malacca and Kuala Lumpur operating a very profitable taxi service with more than 150 taxis. The Malacca Society has its own workshop and filling station.

SECONDARY SOCIETIES

- (a) Malaysian Co-operative Insurance Society
- (b) Co-operative Central Bank
- (c) Co-operative Printing Press
- (d) Federation of co-operative Housing Societies

Malaysian Co-operative Insurance Society

The field of insurance has also been successfully breached by co-operatives the world over. The first co-operative insurance society to be formed was the Co-operative Insurance Society of Great Britain. Appropriately, it is in the area of the Rochdale Pioneers and naturally they were instrumental in its formation. In other countries too, co-operative insurance societies began to be formed. The development of co-operative insurance activity in Malaysia took place in 1954. This was by the formation of the Malaysian Co-operative Insurance Society. The society was registered under the Co-operative Societies Ordinance as a co-operative society on the 2nd August 1954.

The late start of a co-operative insurance society in this country is understandable. The movement did not have a history like the British movement. Again insurance at that time was not a highly developed industry in this country. Even the private sector was having difficulties in finding suitable personnel. They had to rely a lot on foreign experts to manage their organisations. The well-established life companies were European-owned and relatively few. Finally, the populace was ignorant of insurance benefits to a large extent. Only the elite in the country realised and patronised insurance companies. In such circumstances, it was difficult for a young co-operative movement to have started insurance business for the benefit of its members. However it is laudable that the Malaysian movement was one of the earliest and one of the few to have started a co-operative insurance society in Asia.

There were many reasons for the formation of a co-operative insurance society in the country. The co-operative movement felt the need to have such an organisation particularly so when it realised that in 1952 alone co-operative societies collected a sum of well over \$500,000 from their members as insurance premium payments. This amount was then paid over to the various insurance companies in which

the members had life policies running. The leaders of the movement felt that with a membership of nearly 300,00 in the country they could easily start an insurance society to serve the insurance needs of their membership. The funds that could be collected from them could be employed for the direct use of the Co-operative movement. The money could be invested in the movement itself. An understanding of how insurance functions made co-operators sense that it is by itself a co-operative way of doing things. Insurance activity is similar to co-operative activity. In an insurance organisation, the participants contribute to a common pool to share the loss of any individual in the group and if there is any surplus to share it among themselves. This therefore seemed a plan that was not foreign to them.

There was again the question of the benefits and social security value of insurance. It would be of great service to the movement in the country, as a whole, if co-operators had the benefits of insurance brought to them. Insurance, as a form of social security, could greatly reduce the sufferings of their members at times of great hardship due to unforeseen events. There was therefore a very real necessity for the formation of an insurance society that could also play the role of reducing the cost of insurance and providing service well within the means of co-operators. There was at that time a monopolistic situation in the insurance industry in the country. The foreign owned companies controlled the insurance market. The cost of insurance protection plus the service rendered was not within the reach of the middle and lower groups of people. The companies did not make any effort to make it also. However, it was of no consequence to them as the higher class patronized their companies solidly.

Insurance companies are generally Joint Stock Companies. They have their shareholders to whom profits have to be distributed in proportion to the shares they hold. This to co-operators seemed incongruous. To them it seemed and quite rightly that whatever profits that are derived from insurance activity should go back to the contributors of the pool whose money was responsible for the profits. This made it all the more necessary for co-operators to start an insurance company.

In the context of the nation and the community there was also a need. Foreign owned companies did not have stakes in the country. This is understandable. The funds of these companies would naturally flow to the source of their origin. A young and developing country needs capital investments. If such funds are ploughed back into the country they play a role in its development.

170

Being in control of the market, the bonus of the companies which were being declared to policyholders were relatively low. The co-operative insurance company could therefore have the dual function of not only playing the role of a leveller by giving competition to the other companies but collect funds from many small individuals and mobilize it for the country's development. It could provide better insurance service and benefits too. The development of the Malaysian Co-op. Insurance Society will bring out these points. It will show how it has played the role that was conceived for it by co-operators and which is in keeping with co-op. objectives.

It was at the All Malayan Co-operative Conference in 1948 that the resolution was passed expressing the wish for setting up a co-operative insurance society. The contribution of Mr. R.C. Gates, the then Commissioner for Co-operative Development must be mentioned. He enthusiastically supported the formation and was responsible for much of the assistance that was given by government. He took great pains to propagate the idea of co-operative insurance to members of the co-operative movement. It was his encouragement that gave the courage to co-operators to venture into this field. Mr. Spencer, who was at that time the Economic Adviser to the government, was not in favour of the formation as he felt that a co-operative insurance society could not survive against the competition of well-entrenched existing insurance companies. However, the arguments of Mr. Gates convinced Mr. Spencer who finally gave his support.

The Midlands Co-operative Union, an affiliate of the Co-operative Union of Malaya, took the initiative and arranged for a meeting in 1953. A sub-committee was formed to organise the formation. The sub-committee was under the chairmanship of Mr. K. Subramaniam who incidentally became its first president. The sub-committee presented its report in 1954 at a meeting sponsored by the Co-operative Union of Malaya. The sub-committee's report was accepted, preparing the ground for the registration of the first co-operative insurance society in the country.

The objects of the society were enunciated by the sub-committee and they still stand as the main objects of the society presently.

They are:-

- (1) To popularise and provide life insurance service.
- (2) To provide personal accident, fire and house holders comprehensive insurance service.
- (3) To inculcate thrift and the spirit of co-operation among members.

The authorised share capital of the society is \$1,000,000. At time of registration, there were 20 co-operative societies that became members and shareholders of the society. Business was not started immediately. There was a period of nearly two years during which no actual business was done. The period was spent on organisation work.

The Co-operative Insurance Society of Great Britain gave assistance and provided technical services. They are the Re-insurers of the Society and have given freely all forms of assistance. Mr. A. Duval, F.I.A., Actuary of the CIS agreed to be consulting Actuary of the MCIS. The society depended to a very large extent on him for advice and guidance. This is an example of the International nature of co-operative brotherhood and assistance. They also seconded a man to take over as the General Manager of the MCIS in 1955. The Registrar co-operated by rendering whatever help that could be given. He provided a room in a government office building to be the first office of the Malaysian Co-operative Insurance Society.

The society officially went into business on 16th May 1956. The business for the year was \$286,000 - sum assured. Lack of qualified personnel and other difficulties caused a great deal of seemingly unsurmountable obstacles. It had to be remembered that those who were conducting the business of the society were not full-time employees. The management Board comprised co-operators many of whom were Government servants. They could only give part-time service to the organisation. Individual agents were not appointed to canvass business. The initial business was derived from member societies. The society progressed in a very sluggish manner with General Managers coming and going frequently.

One of the reasons for the sluggishness was the fault of co-operators themselves. Having been used for a long time to manage their societies on a part-time basis, they could not value proper managerial functions. Gradually they realised that they could not go on forever along this basis. When they instituted changes in management the full effect of such changes dawned on them.

Until 1961 the co-operative insurance society was content on receiving proposals from co-operative societies themselves. In 1957, the volume of new business done was only \$1,769,000 sum assured as could be seen in the growth of the new business chart below.



Year	Volume of New Business
1956	\$ 286,000
1957	\$ 1,769,000
1958	\$ 1,771,000
1959	\$ 2,380,000
1960	\$ 3,110,500
1961	\$ 5,422,746
1962	\$14,006,926
1963	\$36,283,273
1964	\$40,931,003
1965	\$41,761,631
1966	\$44,861,522
1967	\$53,171,170

However in 1961, the Board feeling the need for proper management the importance of which it had learned to appreciate over the last few years through contacts in the business world and through overseas visits to other insurance societies, decided to have full-time management functioning entirely on competitive business practice. The result of these changes as mentioned earlier were immediate. There was a spectacular rise in new business. This increase continued and from 1963 onwards, the society was doing new business at an average of \$3.5 million sum assured per month which if one compares the figures with the previous years was the amount that was being done for one whole year in 1960. From that time onwards, there was no looking back. To day, the society's average montly figure is \$4.5 millicn sum assured.

In 1962, the society moved from its cramped room at No.8, Jalan Holland to the two-storey structure at 36, Jalan Ampang. From a staff of three in 1956 it has grown to a staff strength exceeding 2,000 which includes full-time field employees. In 1964 a new floor was added. In 1967, another new floor was added to cope with its expansion.

In terms of its objectives and service, let us see how the co-operative insurance society has fared. At first the society offered a bonus rate of \$20/- per \$1000 sum assured and in 1963, bonus rate was \$25/- per \$1000 sum assured. This was an extremely

competitive rate. The two or three major companies are now offering from \$30/- to \$35/- per \$1000 sum assured just to keep one step ahead. Today, the Malaysian Co-operative Insurance Society's bonus rate amounts to \$30/ per thousand sum assured on death and maturity claims. In 1967, in total new life business done, the Malaysian Co-operative Insurance Society ranked number two in the country based on the Insurance Commissioner's Report.

Therefore in terms of providing a buffer for competitive business, the Malaysian Co-operative Insurance Society has certainly fulfilled its role.

In respect of creating insurance consciousness and bringing the benefits of life assurance to its members, it could be said that this role has also been complied with. In 1967 alone, 11,928 people became members of the Malaysian Co-operative Insurance Society. Most of these people were people who had never previously thought they would be able to enjoy the benefits of life assurance.

Because of its sales programme which includes educational themes, the society has been able to bring across to the people in the middle and lower income groups the necessity and usefulness of insurance.

The services provided by the Malaysian Co-operative Insurance Society are definitely much more personal and more up to date than the other organisations. This is in keeping with the co-operative objective. The society looks into the needs of its members and the community. It has been providing insurance plans and benefits that are within the means of its members. Today, it offers a variety of life assurance plans and is considered the pace setter in the insurance industry. A man of small means could easily afford a life policy in the society. He could also arrange to pay his premiums monthly because of the deduction facilities accorded to co-operatives by employers. His monthly premium is paid direct by the department he works in to the society, thus saving him a lot of inconvenience.

The home ownership scheme of the Malaysian Co-operative Insurance Society is another of its plans that can be readily compartmentalized with the co-op objectives. Many members in the middle income groups have been able to take advantage of it. The very easy arrangements make it possible for them to do so.

The oil palm introduced in 1966 is an investment plan that has made the small individual co-operator a part-owner in an estate type of enterprise. It has also initiated development activities in an under-developed State in the country. The State Government wholly supports the scheme and has given its every assistance. Here again, is an example of how a co-operative can mobilise the otherwise static savings of a small man into very productive factors. If one goes through the list of members, one can realise this.

Latest estimated figures for 1968 show that the society's new business will be another record. From all these, one can see that the co-operative insurance society has great scope. Its very aggressive advertising programme have given the community as well as the movement a consciousness of insurance which has never been there before. With its Malaysian background and with its non-profit motives, it will certainly become the leading insurance organisation in the country bringing its benefits to all sectors of the population. In terms of social security, this means a lot to the Government's development programmes and social schemes.

The Board of Directors elected at General Meetings are 14 in number comprising 9 representatives of member societies and 5 representatives of policyholders. The Registrar of Co-operative Societies has one nominee on the Board.

The Board of Directors meets about 6 times a year and exercise the following main functions:-

1. Appointment and supervision of the General Manager.
2. Approval of the terms and conditions of all policies issued by the Society and the plans introduced by the Society.
3. Approval of the terms and conditions for granting loans to members and co-operative societies within the terms stipulated in the Order given by the Registrar of Co-operative Societies.
4. Approval of the terms and conditions of all investments subject to the approval of the Registrar of Co-operative in every case as required in the Co-operative Societies Ordinance.
5. Approval of schemes of service, salary scales, number of posts and staff regulations.

6. Approval of scholarships under the Khir Johari Scholarship Fund.
7. Examination of monthly statements of accounts and reports of progress.
8. Approval of membership.
9. Decision on various problems regarding business that arise from time to time.

The Board in its deliberations is guided by the recommendations of the General Manager and the Consulting Actuary in every case, the recommendations of the solicitors where legal points are involved, the recommendations of qualified valuers where investments are involved, and generally by expert opinion from the best experts available. The Consulting Actuary of the Society is Mr. A. Duval, Fellow of the Institute of Actuaries, who is also the Actuary of the Co-operative Insurance Society Limited of Great Britain. The terms and conditions of all policies issued by the Society and the assurance plans including premium tables are, in every case, approved on the recommendation of the Actuary. The Actuary also carries out valuation of the position of the Society every three years and valuation reports are published and circulated to members along with the annual reports and accounts. Any new type of policy or plan which does not have the approval of the Actuary is rejected. In other words, in this aspect of the Society's business the Board always follows the advice of the Consulting Actuary. At the same time, the Society consults experts from other insurance societies all over the world on not only matters of insurance but also regarding office organisation, organisation and methods and day-to-day running of the Society.

The Principal Executive Officer of the Society is the General Manager who is assisted by two Assistant General Managers. The General Manager, in his capacity as Principal Executive Officer of the Society, controls the affairs of the Society within the framework of policy laid down by the Board subject to the decisions, directions and control of the Board. The General Manager who is not a Director attends all Board and Working Committee meetings. The General Manager is the Principal Officer of the Society under the Insurance Act and is responsible to comply with the Insurance Act.

Co-operative Central Bank

The desire to form a co-operative bank that would serve the co-operative movement in Malaysia was considered from time to time since the first co-operative societies were formed in the country. The desire arose from a feeling that vast sums of money lying around in the hands of the co-operatives could be more productively and beneficially used for the further development of the co-operative movement through a co-operative bank. The co-operative bank could harness these funds and act as a clearing house. It would also mean a smooth and more secured economical way of arranging for credit.

Finally the inaugural meeting of the bank was held in August 1958 at Kuala Lumpur under the auspices of the Co-operative Union of Malaysia and the Bank was registered on 29th September, 1958 as an entirely urban undertaking and its dealing entirely confined to urban co-operative societies. At the beginning, membership was open to only co-operative societies in the States of Malaya. No individual member was then eligible for membership. The value of each share was \$500/-. Though it was known as a bank, its functions were limited. It did not possess the facilities to conduct banking business.

During the last two years, however, it was decided to re-organise the bank and to commence banking business. The new amendments to By-laws were registered on 21st. April, 1968 and the Head Office Building was acquired at 29 Leboh Ampang, Kuala Lumpur.

The new constitution gives powers to the bank to carry on banking business in all its branches and to carry out any measures designed to improve and extend the usefulness of the bank to the co-operative movement, particularly in connection with the business of financing other co-operative societies or co-operative enterprises, to undertake centralisation of domestic accounting on behalf of societies and acting as a general clearing agency for members. The bank is now open to co-operative societies and individual members of societies. Co-operative societies are required to pay an entrance fee of \$25/- while an individual has to pay an entrance fee of only \$2/-. An individual member on acquiring at least one fully paid share of \$1,000/- has the same rights as a member-society. Shares are transferable.

The supreme authority is the Annual General Meeting. A member-society may appoint one delegate for every \$5,000/- or part thereof held in the shares of the bank subject to a maximum of 25 delegates. An individual member holding at least one fully paid share with the bank has one vote.

The Board of Directors consist of 16 members of whom 15 shall be elected as follows:-

- (1) 9 elected from among delegates of member-societies;
- (2) 6 elected from individual members who are qualified to vote;
- (3) One representative of the Registrar of Co-operative Societies.

Directors shall retire by rotation, one-third of them retiring annually. Retiring members may be re-elected. The Board shall elect from among themselves annually, a Chairman and a Vice-Chairman.

The Bank also invites fixed deposits. Current interest rates on fixed deposits are:-

3 months	-	5 $\frac{3}{4}$ % per annum
6 months	-	6 % per annum
12 months and over	-	6 $\frac{1}{2}$ % per annum

These rates of interest are higher than that offered by commercial banks in the country.

The Bank has also undertaken that all investments of the bank will be fully secured according to sound banking principles. The funds of the bank will be invested as far as possible to the direct interest of the members.

Savings account business has also been commenced. Interest on savings accounts is offered at the rate of 4% per annum calculated on the minimum monthly balance on the first day of the month but any credits received up to the including 5th of each month are treated as though made on the first day of the month. Interest is calculated half-yearly and credited on the 30th June and 31st December. It is not necessary for the depositor to call at the Bank personally at the time of depositing or withdrawing money. This can be done through

an agent or messenger though no deposit can be made and no money can be withdrawn from an account without the production of the Savings Pass-book. A depositor may make up to 6 withdrawals in any calendar month.

Soon after business in all branches of banking is commenced at the Head Office in Kuala Lumpur it is proposed to open branches at various towns.

A Home Ownership Plan has been commenced to enable individual members to borrow funds to purchase their own homes. Priority is given to those who join first and whose applications are recommended by their Co-operative societies. Loans of not exceeding 2/3 of the value of the property subject to a maximum of \$45,000/- are available under the Home Ownership Plan at an interest of 7½% per annum against the mortgage of houses of permanent masonry structure made up of tiled roof and walls constructed of bricks and/or stone or concrete. The land on which the house has been erected should be freehold or leasehold with an unexpired tenure of 60 years or more within a municipal or town limit.

The bank is affiliated to the International Co-operative Alliance Banking Committee and is also a shareholder of the International Co-operative Bank Ltd. It is also a member of the Co-operative Union of Malaysia.

#### Co-operative Printing Press

The Co-operative Printing Press Society was formed in January 1962 by the Hon. Enche Aziz bin Ishak, the then Minister of Agriculture and Co-operatives, Malaysia to meet the printing requirements of the co-operative societies in the country and also to provide the same service to members at competitive prices. The Society started with a membership of 32 societies and 40 individual members.

The authorised share capital is \$5 million divided into 500,000 shares of \$10/- each.

The objects of the society are:-

- a. To undertake printing needs of co-operative societies and co-operators;

- b. To print literature, leaflets, magazines, and other material on co-operative matters.
- c. To publish books, newspapers, periodicals, and other papers of interest to co-opertors;
- d. To stock and supply stationery required by co-operative societies and others;
- e. To undertake on behalf of Government, statutory bodies and other organisations the printing of papers, documents, books and other material of like nature.
- f. Generally to do all things for the furtherance of the co-operative movement.

The first Board of Directors appointed by the Registrar of Co-operative Societies was not active and did not meet regularly. At the annual general meeting in 1966 a new Board was elected and they worked in earnest to organise the construction of the workshop on land bought by the Society in the industrial area in Petaling Jaya.

A workshop was built in 1967 at Jalan Semangat, Petaling Jaya, financed by a loan of \$200,000/- from the Malaysian Co-operative Insurance Society Ltd. Modern machines were installed at a cost of \$160,000.

The workshop was officially opened on 1st July 1967 by The Hon. Tuan Haji Mohd. Ghazali Jawi, Minister of Agriculture and Co-operatives, Malaysia and the Society commenced business.

The society announced that it would give prompt and efficient service at the cheapest rates possible as the workshop was equipped with the latest and most up-to-date machines. First quality printing and top-speed work was assured. During the remainder of the year, however, the Society suffered a loss of \$35,724 mainly due to lack of support. The monthly turnover was only about \$3,000/-. Affiliated societies were not prepared to give full support until they were sure that the printing society would be able to complete the jobs given. A complete re-organisation took place after the Annual General Meeting on 3rd March 1968. Widespread publicity was given.

A Stationery Department was set up from 1st April 1968 to supply stationery at competitive prices.



An Office Equipment Department was set up from 1st May 1968 to supply all types of office equipment and furniture.

Turnover increased to \$18,000/- per month by July 1968 and more machines were required to cope with the increased work. With a loan of \$80,000 from the Co-operative Central Bank additional modern machines have been bought and off-set printing was commenced.

A Publishing Department has been set up from 10th December 1968 to publish books including school books.

The printing society is affiliated to the Co-operative Union of Malaysia.

There is no doubt that the name of the Society will become a by-word not only in the co-operative movement but also in the whole printing industry of the country.

#### Federation of Co-operative Housing Societies

Co-operative housing societies throughout the country felt that they needed a central organisation to negotiate on behalf of co-operative housing societies with Government and other organisations regarding land, terms and conditions of loans and other matters affecting housing co-operatives. A federation was formed and registered in 1957. At present 14 housing societies are affiliated with the federation. Leaders in the co-operative housing movement have felt that through a strong federation, they could achieve their objectives and erect houses for their members at the lowest possible costs, obtain loans at the lowest rate of interest possible and also provide expert technical services for the benefit of the members.

The Federation of Co-operative Housing Societies is affiliated to the International Co-operative Alliance as an Associate Member. It is also affiliated with the Co-operative Union of Malaysia.

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#### THE CO-OPERATIVE UNION OF MALAYSIA

Within the exception of Rural Co-operative, Co-operatives in Malaya decided to form a body that will bring them together and also help in the promotion of co-operatives in the country. It was known as the co-operative Union of Malaya. The Co-operative Union of Malaysia, as it came to be known later is represented on the co-operative advisory Council, set up by the Hon. Minister for Agriculture of Co-operative, to advise on problems arising in the co-operative movement.

IMPORTANCE AND CONCLUSION

For a country like Malaysia, which is composed of a multi-racial population, co-operation is the best means of achieving good-will, harmony and understanding. Under the Second Malaysia Plan, Co-operatives are again expected to take advantage of the great opportunities offered for investment and in this direction the co-operative movement will continue to stride for the progress of the people of Malaysia although our country today enjoys one of the highest standards of living in Asia, we in the Co-operative movement are not going to be complacent and stagnate in the backwaters but we must push ourselves to the forefront.

So I conclude that co-operative movement is the best vehicle to harness the people together and teach them that through their collective power they can raise their standards with dignity and without outside influence.

COOPERATIVE CREDIT IN MALAYSIAINTRODUCTION

The present day Cooperative Movement is the prides of the leaders and members alike, received the much needed support of the respective governments and are the ideals of economists around the globe. The concepts are new and progressive in contrast to the olden day movements - the principles are in line with the ideals of the modern social structure and economic growth. Everyday we see and feel its growth, though gradual but steadily and surely, gaining strenght. In the short period of its change it has played great and important part in the nations economic building, the wealth fairly distributed, contributed a great deal in the nations balanced social structure and in the promotion of a just society.

This isinded<sup>e</sup> different from cooperative movements of those days which was then only an institution established for the benefit of those heavily indebted.

The Malaysian people was introduced to the cooperative movement more than 50 years in 1922 and later to Sabah and Sarawak in the early fifties.

The movement faced several obstacles and setbacks in those days, such as misconception, wrong attitude, lack of funds and support from all quarters, and also the indifference of the leaders may be due to lack of knowledge or interest. Therefore the movement was in the backgrounds. It was revived again after the 2nd World War on a better and more proper footing. But is was only during the later part of the sixties that saw the cooperative movement really making some headway towards improvement with a new ideas and new zest from new blood who form the nuclues of the leader-force. They consist of civil servants, teachers, rural community leaders who have come to realize the importance and practibility of the movements to help solve the poverty problem, problems of business domination and trickeries, and their day to day economy, as farmers, plantation workers, self employed, fisherman and others.

This forward thrust resulted in favourable achievements. From a survey carried out by the Cooperative Department in 1970 (1972 figures and report are still in the process of compiling) indicated avast improvement in strengrh (number of cooperatives) functional aspects Reserves, share capitals, annual turnovers and surpluses. There are 30 different types or functions of Societies in West Malaysia with a total number of memberships of 590,525. The total resourses of the Societies is \$428,158,498. Within the next year the increase was appreciable and showed, if this trend continues, that in less than a decade the number will double. At the end of 1971 652,697. West Malaysians are

members of Cooperative movement with a total share capital of \$212,927,667 as compare to \$183,444,227 one year ago. The total resoucers stood at \$481,757,153.

This is indeed very rapid growth. Unlike the past, during that period of time between the end of the war and independence, the movement was at its very slow pace - was crawling and fighting hard for survival. Pre war period, the existence of a handful of Cooperative societies was unknown - so was the word 'cooperative' - a rarity. There were many reasons of failure. Among others the gap between the leaders and the members - the members were from low bracket while the leaders high officials. Since this was colonial time, the gap was all the more difficult to bridge due to the fact that these two categories of people were drifted apart by class - one masters and the other servants.

The realisation of the importance of the movements came very late - it was sometime in the early fifties. With a little backing and pushing by the Government, the participations of some intellectuals, devoted and capable less-educated, the strength grew, so was recognition and respect. Towards the middle of the second decade of its 'revolutionary' period, leaders from all parts of the country, rural and urban, expressed the necessity of uniting the movement which then had the characteristic of being divided into urban and rural. The proposal was initially expressed at the first National Cooperative Congress held in November 1966 and became a reality at the Second Congress held in March 1971. The National Congress therefore give birth to the idea of a sole National Cooperative Front for all the cooperative in Malaysia and ANGKASA came into being. Since more than 60% of the number of societies in West Malaysia to-day have joined hands and came under the fold of ANGKASA, it must be held undeniable true that ANGKASA must necessarily represent the Cooperative movement of Malaysia. It is most imperative for all international bodies, cooperative or otherwise, to duly recognise ANGKASA from any other bodies that may claim recognition as representing Malaysian Cooperative Movement.

This is most suitable for Angkasa (in full Angkatan Kerjasama Kebangsaan Malaysia Berhad) - Malaysian National Cooperative Front - has among others, the following as its objections:-

- (a) to unify cooperative societies in Malaysia
- (b) to represent the cooperative movement in Malaysia
- (c) to give advice and assistance to its members in their administration and business.
- (d) to propagate the principles of cooperation and cooperative action.

- (e) to encourage research and study relating to matters concerning the cooperative movement,
- (f) to provide advisory and guidance facilities relating to matters of administration, management, accounting audit, winding-up and legal matters for the benefit of the members and for the cooperative movement generally,
- (g) to promote education, training and disseminate information regarding cooperation, management and industry,
- (h) to assist the Government on its efforts to promote the cooperative movement in Malaysia,
- (i) to establish and administer special or general funds to promote the cooperative movement or to assist qualified persons to study cooperation both inside and outside the country or to pay for delegates to attend meeting, seminars, or courses on cooperation outside the country,
- (j) to consider and look after the needs and interests of the members in particular and of the cooperative movement in general,
- (k) to act as the central agency for ideas about the cooperative movement and to submit such ideas and the ideas of the cooperative movement to the relevant authorities.

These objectives are aimed towards gearing the cooperative movements taking part fully in governments' new economic policy, under which, more new scopes are opened up for more vigorous and active participation by cooperative movement, competing in every respect with private sectors. This is indeed a departure from the past. The government has realised that there is the urgency to restructure the economy of the country by some dynamic infra structure in order to accelerate the economic development and help eradicate economic imbalance by redistributing the opportunities -- maximum benefit for maximum number of people. Therefore since cooperative movement is a movement of the people, it should be actively generated because it is a potent source for the success of economic development.

The movement answered this great challenge and are already actively in business ventures, industrial undertakings, credit and banking, insurance, transport, consumer wholesale, housing, printing, supplies marketing.

There are now 38 different types of cooperative societies.

undertaking ventures in the above which can be classified as follows:

- (a) Primary Level - mainly cooperatives undertaking thrift and credit in urban and rural areas, investment, processing (mainly rice-milling) housing, consumers schools and lately multi-purpose.
- (b) Secondary Level - mainly cooperatives undertaking credit/banking, insurance, transport, regional banking unions, consumer, wholesale, housing, printing, fertiliser supplies, fishermen, cooperative unions.
- (c) National Level - ANGKASA- Angkatan Kerjasama Kebangsaan Malaysia Berhad or the National Cooperative Front of Malaysia and several functional or regional (component states) unions.

The cooperative movement in Malaysia was achieved considerable success in the ventures like banking, insurance and others. Doubts cast on its ability and capability to go ahead with even greater degree of success in ventures to be undertaken would be unnecessary.

The objectives are also very much in line with Governments new economic policy to mobilise domestic resources and greater participation of people especially the indigenous people in trade and industry, thus avoiding the chances of great number of opportunities falling into the hands of a very limited few people and would certainly perpetuate profiteering especially in rural areas.

The cooperative movement in Malaysia is playing important role in the economic development of the country by actively participating in trade and industry, though the number of industrial cooperatives is still negligible due to some problems such as finance and lack of managerial expertise and technical know-how. There are 12 industrial cooperatives with a membership of 12,901 and a share capital of \$1,581,503 as at December, 1970. Though small, it has made an impact by successfully launching and operating icefactories, in addition to pade-processing. It has also successfully ventured into joint-venture with State Economic Development Corporations and the private sector in establishing insecticide factory, ice-plants fish-meal plant and timber processing business.

Active consideration and planning is underway for more industrial cooperatives and promotion and development of small and medium size industrial firms. Angkasa is playing active part in this respect. The cooperatives have over \$400 millions which could be mobilized for these ventures. Many small enterprise are troubled by financial problem and some of this money may be usefully employed to help solve their problems.

Though there is much more can be done, a start has been made in the right direction. Lack of technical know-how is no barrier. There are many ways of solving this problem. Government is giving every encouragement for cooperatives to industrialise.

Cooperatives in Asia as yet do not play an important role in industries with a few exceptions like Japan and India.

### Multi-purpose Societies

Multi-purpose cooperatives are expected to go into industrial ventures soon. At present the 462 multi-purpose cooperative are accumulating capital which at present amount to \$6,915,639 (1971) with a membership of 114,299. This group has a resources of \$23,764,797.

#### Progress of Formation of Multipurpose Society

	<u>1969</u>	<u>1970</u>	<u>1971</u>
No. of Societies	243	333	462
Membership	52,368	71,328	114,299 ind 22 soc.
Share Capital	3,255,705	4,737,299	6,915,639
Total resources	10,572,057	16,539,676	23,764,797

The idea of multi-purpose cooperatives was first identified in the middle fifties as a projection of the link-up system of credit, marketing and consumer activities in each cooperative. The first multi-purpose societies were established in 1966 either by conversion of rice-milling or rural credit cooperatives or by fresh registration especially in newly-developed areas. The acceptance of the people towards the intergrated approach in cooperatives through the multi-purpose was very noticeable, and thus geared towards the formation:-

- (i) Multi-purpose societies in rural areas with all the intergrated functions of credit, processing, marketing and consumers' supplies. The process involves the liquidation and amalgamation of single-purpose societies;
- (ii) Multi-purpose societies with two or more functions in urban areas in cases where single-purpose societies have the means and resources for further expansion;
- (iii) Single-purpose societies with one objective and service in rural areas and in areas or situations where other agencies cannot provide such services, e.g. rural transport, industrial projects, weekly fairs;

- (iv) Single-purpose societies in urban areas for providing services such as housing, insurance, printing, consumers' supplies and auto-works.

The areas of operations of each cooperative were also extended to a number of villages or "mukims" so that more farmers and rural dwellers could be serviced. By and large these societies had concentrated on rice-milling and marketing, credit and agricultural supplies and lately on soncumer activities. The multi-purpose cooperatives have been found to be the most suitable form for servicing the needs of the farmer-members and agriculturists and hence the heartening growth.

As stated earlier, the multi-purpose concept has been accepted by cooperators in the rural areas and could easily form a basic unit for implementing development programmes in any gazetted development areas. From a Movement that had at its mainstay on credit, the swing is now towards the multi-purpose cooperatives and a pertaining recommendation of the Survey by the Department of Cooperative Development, 1970 was that the Movement will be geared towards the formation of multi-purpose societies. The multi-purpose idea is also to embody the vertical integration of the functions or activities of the cooperatives so that the members need can be serviced as much as possible through a single cooperative of the members choice. The multi-purpose concept has also been identified as suitable and can be applied with modification to the thrift and credit cooperatives in the urban areas, which in the past had been identified as single purpose cooperatives. What would hold good for agriculturists would also be good for salaried workers either in the government, private sector and three in other places of employment. As a general rule, thrift and credit cooperatives in urban areas may now implement additional objects such housing and consumer services and subsequently set aside from the general funds of the cooperatives monies for achieving the subsidiary objects of housing and consumption.

It will be noted that multi-purpose or multi-functional cooperatives in Malaysia as outlined above will form along with some specialised societies, the basic units through which basic services will be channelled for the good of the farmers, workers or generally, the cooperators. They will also assist in the development programmes of the country, in such fields as industrial and agro-based undertakings and services. These more viable cooperatives will assist in programmes which are designed for higher productivity and production in the country.

There still remain a few pressing problems for the Movement; basically on the structure. Further rationalisation will have to be undertaken so that the smaller societies (whose members can still be serviced otherwise) will have to amalgamate or fuse themselves to stronger nucleus societies, so that they are stronger, better managed and better service providers. At the higher level, further rationalisation



will have to be undertaken so that the business activities and the "Union" activities in each cooperative will be determined properly; and this process has now been started by ANGKASA.

Progress of Cooperative Movements

The figures appended below are indications of the progress of the movement in the past three years.

	<u>1969</u>	<u>1970</u>	<u>1971</u>
No. of Societies	2,717	2,598	2,505
Membership	558,926	590,525	652,697
Share Capital	\$171,116,917	\$183,444,277	\$481,757,153

Notable achievements were made in the activities of building banking and loans, insurance, land finance, land development, padi marketing, fisheries, industrial and activities of the multi-purpose cooperative societies. Details of some of the performances are given below:

Progress of Cooperative People Bank

	<u>1969</u>	<u>1970</u>	<u>1971</u>
Individual Members	683	1,151	6,569
Society-members	454	824	912
Shares	\$2 million	\$3 million	\$5.4 million
Deposits	\$2 million	\$8 million	\$13 million

Progress of Cooperative Central Bank

	<u>1969</u>	<u>1970</u>	<u>1971</u>
Individual Members	1,106	1,423	4,878
Society-members	102	103	103
Shares	\$2.2 million	\$2.3 million	\$3.6 million
Deposits	\$4.3 million	\$5 million	\$7.3 million

Progress of Cooperative Marketing

	<u>1969</u>		<u>1970</u>		<u>1971</u>	
	Piculs	\$	Piculs	\$	Piculs	\$
1. Padi	1,143,357	18,293,872	1,247,446	19,477,355	1,462,375	20,781,659
2. Fish	479,000	11,726,094	591,130	15,144,001	741,250	18,470,298

Cooperative Development in the Context of Second Malaysia Plan

The Second Malaysia Five Year Development Plan covering 1971 - 1975, directed to facilitate achievement of National Unity which is the New Economic Policy - is the reduction and eradication of poverty and restructuring Malaysian Society to correct economic imbalance. This necessitates the following line of actions:-

- (i) The modernisation of rural life
- (ii) The creation of a Malay commercial and industrial community in all categories and at all levels of operation
- (iii) The rapid and balanced growth of urban activities.

Basis of Expansion

In this context the basis for expansion of the cooperative movement is of course the general prosperity of the country. Cooperative expansion will in turn increase prosperity by means of investments of capital saving. Thus cooperatives not only thrive in an atmosphere of increasing prosperity, but also provide the necessary facility for saving surpluses. With the projected annual growth of per capital income during 1971-1975 period at 3.7%, plus an increasing awareness in the importance of saving and investment, the average annual growth of investment in the same, period is projected at 7.3% Inducement such as exemption from incometax and other privileges and provision of facilities such as assistance from the Government, MARA, PRENSD, etc. will help augment the investment figure in cooperatives by about 10%. Projections for cooperative expansion target will therefore be based on this figure.

SECTORIAL DEVELOPMENT TARGETSCredit

Apart from the usual increase in societies' own share capital

cooperative credit sources will be greatly augmented by deposits from members and non-members especially in the two cooperative banks. Projected figures for expansion are at Appendix "A". For 1971, the projected figure was exceeded by \$12.5 m.; this is the most unexpected progress achieved.

### Processing

Cooperative processing has so far been limited to padi-milling. Expansion targets are as follows:-

	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>Accumulated Total</u>
New large						
rice-mill	3	2	2	--	--	7
Replacement						
and/or						
renovation						
or old mills	430	20	20	--	--	478

Of late, urban societies like the Bank Kerjasama and Gabongusaha have established liaison with rice-milling co-entities for the purpose of business expansion.

### Marketing

The proposed targets are as follows:-

<u>Commodity</u>	<u>Volume of Cooperative Marketing Participation</u>				
	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>
1) Padi	2M pic	2.5M pic	3M pic	3.5M pic	4M pic
2) Fish	.8M pic	1.2M pic	1.4M pic	1.6M pic	1.8M pic
3) Pineapple	.3M pic	.4M pic	.6M pic	.8M pic	1M pic
4) Rubber	.3M pic	.4M pic	.5M pic	.6M pic	.7M pic

The setting up of the large rice-mills at Pasir Hor and Kadok (Kelantan) in 1972, and at Seberang Perak and Best in 1973, will help increase cooperative padi marketing capacity by about 25% annually.

It is hoped that fishing cooperatives will be able to enlarge and increase their activities with the establishment of the Fisheries Co-operation and the Fish Marketing Board.

In pineapple marketing, the establishment of a new pineapple cannery by Government is expected to help increase the role of the Cooperatives Pineapple Marketing Societies.

#### Consumers' supplies

Complying with the latest directive from the Honourable the Prime Minister, cooperatives are now to enter actively into the field of supplying consumer goods, particularly in the rural areas. The new policy will be the establishment of Wholesale Distribution Centres in the major towns and the formation of a chain of affiliated retail stores in the surrounding districts and kampongs. In addition to supplying their own retail stores, these Wholesale Distribution Centres will also supply all the Bumiputra stores in their own respective areas. The plan for development will be somewhat on the lines adopted by Gabongusaha in Perak. The table below indicate targets for the next 5 years:-

<u>Type/Establishment</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>Total</u>
Wholesale Distribution Centres	-	1	1	1	1	4
Retail Stores	197	+20	+25	+25	+25	293

For implementing the cooperative consumer project, it is hoped be obtainable from MARA, Bank Kerjasama, Cooperative Central Bank and Bank Pertanian. Training of personnel will require contact with and cooperation of institutions within the country and abroad. A close link-up between the urban and consumer societies will act as a strengthening force to both sectors by means of which each sector can offer services to as well as obtain assistance from the other. The whole project may take several years to implement and total financial requirements for the 2nd Malaysia Plan period is estimated at \$10 million.

#### Transport

No new transport societies are to be formed, but the existing societies can expand their business if it is within their means to do so. The objective is to consolidate the position of our Cooperative Transport Societies in order that they may be able to withstand the competition from private commercial transport services. Expansion plan for transport activities must be preceded by thorough feasibility studies, including practical proposals for raising the necessary funds and appointing the required qualified personnel.

-11-

Development plans for cooperative transport activities should be on State-wide basis. The latest progress achieved in the field of transport is the registration of a nation-wide haulage cooperative society based in Kota Bharu, Kelantan. It will be operating 2 lorries in December 1972, and another one in January, 1973. Its target is to operate 10 lorries in West Malaysia.

### Housing

As at 31.12.1971 our housing societies have erected 6,119 units of dwelling houses for their members, valued at \$200,480,357. In addition, several urban societies have also granted loans to their members specifically for the purpose of purchasing or building their own houses. The new concept is to encourage low-cost housing schemes which build houses costing between \$5,000/- to \$10,000/- per house. These schemes are to be located at the outskirts of major towns, the smaller towns and villages and even kampongs. This is a deliberate attempt at diverting attention to the rural or semi-rural areas and avoiding undue concentration in major urban areas. Housing projects should not necessarily mean schemes for building large number of houses but should incorporate the need to have schemes for small number of houses at cheaper rates or costs.

#### Expansion Rate of Unite of Houses

<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>
6,199	7,200	8,640	10,260	12,320

### Industrial/Commercial

Cooperative industrial ventures will in many instances be joint-ventures with the private sector. Most of the projects proposed to be set-up during the 2nd Malaysia Plan period have been undertaken according to schedule.

Industrial/Commercial projects still to be implemented include:-

- (i) Pulp and Paper factory - a joint-venture proposal;
- (ii) Desiccated coconut factory - a joint-venture undertaking;
- (iii) Expansion of the business of the Cooperative Printing Press Society into supplying of exercise books, text books, and other school requisites;
- (iv) Tailoring and laundering of school uniforms;
- (v) Autoworks - a subsidiary of MCIS;
- (vi) Petrol and service stations.

.. /12-

There are other industrial/commercial projects planned for implementation by cooperatives. There is no doubt that they can be undertaken successfully as the Cooperative Movement has the means and the resources to do so.

#### The Concept of Multiple Functions

A good example of the implementation of the concept of multiple functions and joint-venture is illustrated by the Taiping Government Servants Cooperative Thrift & Loan Society which has established a joint-venture business with MCIS dealing in the supply of electrical goods to members on hire-purchase terms.

#### Education and Training

In the field of education and training, we have been fortunate to have the services of foreign experts to make up for the inadequate training facilities at our disposal. In 1971 and 1972 the Institute for International Partnership Bonn, Germany, has been assisting us by undertaking to train 34 cooperators in Germany in the subject of Credit Marketing and Consumers. The Institute also sent an expert to lecture on Cooperative Laws in 1972. From 17.1.1972 to 29.1.1972, we were honoured by three experts from Sweden and one from Singapore who lectured at the Seminar on Consumer Cooperation that took place at the Cooperative College. As a follow-up, 4 Cooperators (including a Departmental Officer) were sent to Stockholm Folk High School to attend an advanced seminar on the subject of consumer cooperatives.

#### Capital Flow

It is the intention to encourage urban cooperatives with strong financial balances to invest their money in rural projects by financing or going joint-venture with rural cooperatives in establishing agro-based industrial/commercial ventures. The extension of loans by urban-based cooperatives to rural societies has been successfully undertaken and is gaining momentum. Joint-venture projects wherein financial resources of urban cooperatives have been launched, e.g. ice-factories, timber-processing business, fish-meal plants, and the latest development is establishing cooperative consumer chainstores.

#### Co-ordinating the Efforts of Agencies

Clearly a firm conviction prevails amongst all concerned, i.e. farmers as well as Officers, that there is a strong and immediate need to coordinate the efforts of all participating agencies serving the farmers, particularly in the rural areas, as the impact on the development of the farmers and their production and investment returns has not been much felt by the farmers themselves.

The government is fully aware of the situation and views it very seriously, and therefore has resolved that a new organisation which would permit the active participation by the farmers themselves in the promotion of their own welfare must be established. This new body would be backed and supported by an Authority that would be responsible not only for coordinating the efforts of all agencies but also for providing guidance and assistance. If and when this materialises, and it is expected to in the very near future, the development of the rural agricultural sector could be assured, and the objectives of the 2nd Malaysia Plan would be achieved.

And therefore by the able guidance of Angkatan, the Malaysia National Cooperative from, and the cooperatives of the Department of Malaysia and of the States and other government, and Malaysia Cooperatives, it is hoped and expected the Malaysia Cooperative Movements would be in line of Shides with the cooperative movements in other well developed and advanced countries in The region as well as in the world.

THE COOPERATIVE CREDIT MOVEMENT IN NEPAL

By

P. Lal  
Registrar of Cooperative Societies  
Ministry of Land Reforms  
Department of Cooperation  
Singha Durbar  
Kathmandu (Nepal)

organised by

INTERNATIONAL COOPERATIVE ALLIANCE  
Regional Office and Education Centre  
for South-East Asia, PO Box 3312,  
New Delhi-14, India

CENTRAL UNION OF AGRICULTURAL COOPERATIVES  
8-3-1 chome, Otemachi, Chiyoda-ku,  
Tokyo (Japan)

and

INSTITUTE FOR THE DEVELOPMENT OF AGRICULTURAL COOPERATION IN ASIA  
24-9, 6-chome, Funabashi-cho, Setagaya-ku,  
TOKYO (JAPAN)



Background

The Himalayan Kingdom of Nepal with an approximate area of 56,000 square miles and population of 11.3 millions is situated between the two large countries China on the north and India on the south.

Nepal is predominantly an agricultural country. Agriculture is a source of livelihood for about 90% of the total population. 65% of the national income is derived from agriculture. Nearly 75% of the total export consists of agricultural products like rice, jute, sugar cane, tobacco and oil seeds etc. So, agriculture reoccupies a key place in the economy of the country. Nepalese agriculture is however structurally characterised by high man-land ratio, traditional techniques of production, inadequate irrigation facilities, poor means of transport and communication, lack of capital, absence of an organized marketing system.

Productivity can be raised by the application of improved techniques and productive investments. Agricultural production depends to a great extent on the willingness and capacity of the farmers to make investments. Mere willingness on the part of the farmers in the absence of the capacity to invest or the only capacity to invest unless backed by the willingness of the farmers cannot result in higher productivity. Defective land tenure had been a major chronic problem in the economic and social life of Nepal. Land Reform Programmes have, therefore, been implemented in the country.

Conditions before institutional credit

Farmers in Nepal, they say, are born in debt, brought up in debt and die in debt. They need loans to buy supplies, tools and other equipments, to meet other expenses required for production, to pay rent and wages to improve and add to the farm and to support their families. In the absence of lending institutions individual money-lenders and merchants were the only sources of credit to them. These sources were no better than practices to exploit them mercilessly. The recoupment period would not be generally fixed. No document of the exact amount transacted in the form of loans remained with the borrowers majority of whom were illiterate and ignorant. As a matter of fact, forgery was committed against them. More often, land offered as a collateral security would go into the hands of the money-lenders. An exorbitantly high rate of interest further worsened the situation. The money lenders were not interested to collect interest in time. Thus the interest that went up to 100% was added to the principal and go accumulated for years. The borrowers were ultimately compelled to surrender their land to the creditors. Moreover, the borrowers and other members of their families had to work for their landlords. Again they were forced to sell their produce to the creditors at prices lower than those prevailing in the market. Under these circumstances, the farmers were bound to sink in debt for ever.

Starting of the Cooperative Movement

The concept of cooperation is not new to Nepal. Institutions popularly called Dharma-Bhakarés (literally meaning religious stores) built up by donations from farmers in particular villages have been practiced from times immemorial. Donations are made according to the financial conditions of the villagers. Funds thus created are designed to help village farmers in events of drought, floods or other natural calamities. Supervision is provided either by the headman of the village or by a council unanimously formed by villagers. The amount is loaned

in cash and the rate of interest varies from 10% to 30%. The repayment of loans and the interest charged there on go to the store. The recoupment period is generally the next harvest of the crop. The Dharma Bhakari is a kind of grain bank. It is still in practice in some villages. The 'Dhikuri' is another traditional form of institution to provide credit. It is a kind of cash-bank. 25 to 30 persons combine to establish a 'Dhikuri' for some specific purposes and contribute certain amount each to that common fund. The amount to be contributed varies from person to person. The sponsor-members make certain rules for the operation of Dhikuri. The main organizer is given the facility of paying lower interest of 3% to 5% whereas other members are required to pay 10% to 15% as interest for the amounts borrowed from the fund.

However, these practices are different from a cooperative society. As a matter of fact, the cooperative movement along the modern lines is of recent origin in Nepal. It was only after achieving democracy in 1951 that the significance of cooperatives for economic development was realised. In order to introduce cooperation, a separate Department of Cooperatives was established in 1953. Dearth of trained personnel, absence of a law for cooperatives and lack of an institution to finance them were some of the principal problems faced by the Department at the initial stage.

A Multi-Purpose Pilot Project for the development of the Rapti valley was started in 1954. This project aimed at bringing fallow land under cultivation, resettling the flood-stricken and landless people coming from different parts of the country and at increasing agricultural production so as to provide them with a profitable source of income. It was decided to provide the needed agricultural credit through cooperative societies. An executive order authorising the organisation of cooperatives was issued by His Majesty's Government in 1956. Then a number of cooperative credit societies with unlimited liability were organised in the Rapti valley. The cooperative movement was thus initiated with organisation of credit cooperatives in Nepal. Along with credit cooperatives some other types of cooperative societies were formed in due course. Then the first cooperative societies Act was passed in 1959. The Act provided for the registration of the primary and secondary societies as well.

#### Financing farmers through cooperatives

Development of a system for institutional farm credit as an effective measure to tackle the problem of rural indebtedness was one of the pressing needs of our economy. While taking this into consideration, the suitability and supremacy of the cooperative form for the purpose came out without questions. As there was no agency at the national level to finance cooperatives, the procedure for financing them directly by the Govt. was adopted in the early days of the Cooperative Movement. This system was primarily designed to finance farmers through cooperatives. A sum was earmarked in the Govt. budget. This amount was allotted to the Cooperative Department for loans to cooperatives. A Block Development Officer was authorised to sanction loans upto Rs.15,000/- to a cooperative society. For the first time a distinction was made between the short and medium term loans. In due course, to avoid delays in the sanction of money for loans to cooperatives and to save it from being lapsed at the end of the financial year, a Cooperative Development Fund was created to provide credit for facilitating the working of cooperatives. Out of this fund, loans were made available only for agricultural production. Cooperative credit and marketing unions with primary cooperatives as members thereof were organised in some of the districts. Loans from the Cooperative Development Fund at an interest of 2% were provided to these unions which financed their member-cooperatives at 4% interest. The primary cooperatives charged 10% as interest on loans advanced to members. The members were required to sell their produce through the unions. It was thus sought to link credit with marketing. Before the organisation of the Cooperative Bank, cooperative societies were given loans upto Rs.41,08,233/- out of which a sum of Rs.16,31,351/- has been recovered and the rest is now in the process of realization.

### Establishment of a bank to finance cooperatives

As a central financing agency for cooperative societies was considered necessary, a cooperative bank was established in 1963 under the cooperative bank Act of Nepal. The following table points out to the activities of the cooperative Bank.

<u>Financial years 1963-64 to the middle of 1968-69</u>	<u>Rs. in '000</u>
1. Loans disbursed	14,676
2. Collections made	8,499
3. Loans outstanding	6,177

The cooperative Bank provided credit to cooperatives only. Those out of the cooperative fold could not get any service from there. To widen its scope and activities, that bank, was converted into the Agricultural Development Bank in 1968. The Agricultural Development Bank is so designed as to meet the overall credit needs of agriculture and agro-based industries on the one hand and to mobilise and utilise savings at the national level on the other. It has an authorised capital of Rs.50 millions of which 51% is subscribed by the Government and the rest by cooperative societies, the Nepal Rastra Bank and others. The main functions of the bank are to provide short medium and long-term credit to farmers, cooperatives and other corporate bodies engaged in the task of agricultural development. Thus in addition to production, the bank extends credit for the development of horticulture, fisheries, poultry farming, dairy piggery and bee-keeping, etc. The activities of the Agricultural Development Bank can be viewed from the following table :

<u>Fiscal years 1968-69 to 1971-72</u>	<u>Rs. in '000</u>
1. Total loan disbursements	129,598
a. Cooperatives	65,713
b. Individuals	48,850
c. Other corporate bodies	15,035
2. Total loan collections	60,888
a. Cooperatives	43,317
b. Individuals	12,300
c. Other corporate bodies	5,271
3. Total loans outstanding	68,710
a. Cooperatives	22,396
b. Individuals	36,550
c. Other corporate bodies	9,764

### Compulsory savings scheme & Land Reform Savings Corporation

The origin of the scheme for compulsory savings has a direct relationship with the land reform measures introduced in Nepal. The provision for compulsory savings was made after an experience with voluntary savings. The main impetus came from the working of a Multi-purpose cooperative society in a village called Budhaware in eastern Nepal. It showed that the credit need of a one village Panchayat under the Land Reform Programme was not less than Rs.500,000 (half million). If all the 40,000 village Panchayats were covered in a few years, it was too difficult to find financial resources required on that large scale.

Hitherto local resources had financed agriculture and the obvious answer was to fall back on them. So there emerged a scheme for compulsory savings. Under this scheme, savings are collected from landowners, owner-cultivators and tenants in cash or kind at fixed rates under legal provisions. A village Panchayat is divided into nine ward-committees to collect savings and loans intercepted under the law. The savings so deposited with ward committees are to be refunded in five years with an interest of 5%. The savings collected by ward-committees are to be deposited with the village-committees formed at the village Panchayat level. The main aim of this scheme is to generate, mobilise and accumulate internal resources for financing agriculture. It has also helped in the development of the habit of thrift and savings. In the initial stage, Cooperative Inspectors and Sub-Inspectors were deputed to help the ward-committees in the collection of savings and maintenance of books of accounts for the same. From savings so collected, credit is advanced to farmers at an interest of 10%. Rules passed under the Lands Act, 1964 provided for the farmers to buy the shares of cooperative societies out of savings deposited by them under the compulsory savings scheme. In 1967, savings so collected were transferred into the shares of cooperative societies on an experimental basis in a district called Bhaktapur.

With a view to channelising the funds acquired under the compulsory savings scheme for production, the Land Reform Savings Corporation was set up in 1966. The savings remaining with the ward-committees or the village-committees were deposited with the savings corporation which also stood as a banker to them. The Corporation granted some loans to cooperatives as well. The following is the statement of the activities of the savings corporation till 1972-73.

	<u>Rs. in '000</u>
1. Loan disbursements	123,790
a) Cooperatives	2,058
b) Village committees	27,002
c) Other institutions	77,494
d) Individuals	4,823
e) Other investments	12,413
2. Loan collections	59,144
3. Loans outstanding	64,646

#### New Programmes for Cooperatives

There is a partyless Panchayat System of democracy in Nepal. This system is directed towards class-coordination. The cooperative system of economy as a method for bringing about revolutionary changes in the existing structure in order to establish a just society free from exploitation and conflict has been given an important place. Panchayats and cooperatives are looked upon as complementary and supplementary to one another. The significance of cooperatives for rural reconstruction has been so greatly emphasised in 'Back to the village' - a national campaign granted by our late King Mahendra. This has provided a new horizon for the promotion of cooperatives.

His Majesty's Government have, therefore, taken some practical steps towards the development of cooperatives. In fact, the cooperative movement of Nepal has assumed new dimensions. In view of our geographical facts limited resources and on the basis of our past experience, some new policy and programmes have been approved which seek to mould cooperative societies on such realistic lines as to make it more efficient, useful, effective and responsive to the needs of the rural population. The programme has laid down certain conditions and attributes that essentially intend to revitalise cooperatives in such a way that they may become economically viable.

The new programmes do not aspire to cooperativise all parts of the country and all our economic activities at one and the same time. Criteria have been considered for the selection of places. Agricultural sector is given priority. Multi-purpose cooperatives are deemed more suited to rural needs. The societies have to concentrate more on services required for farm - operations. Prescribed books of accounts have to be properly maintained and periodically audited. The area of operation and membership of a cooperative society is required to be so large as to make it a stronger unit. Societies if after audits found unable to exist have to be liquidated gradually. Efforts are directed towards enabling the newly amalgamated, reorganised or organised societies to intensify and specialise in services to those brought within their fold. Facilities are to be provided to them adequately and in time but strict supervision has to be exercised on the utilisation thereof.

Emphasis is laid on efficiency in the management of cooperatives. For the first few years, the task of management of the newly reorganised cooperatives in districts with intensive agricultural development activities has been assigned to the Agricultural Development Bank which is a financing agency for them at the national level. Trained managers deputed in societies are required to provide and create leadership in the management of the affairs therein. Thus, a management oriented society has to approach with a package of integrated services i.e. agricultural finance, other farm inputs - improved seeds, fertilizers and insecticides, extension advice and marketing facilities to farmers. These are, in short, some of the features of the new policy and programmes for the development of cooperatives in Nepal which are so designed as to make societies capable of surviving and providing services to the people gracefully and successfully. Under the new programmes, there are 158 cooperatives in 38 districts so far. A glimpse of the activities of these cooperatives regarding agricultural credit may be obtained from the figures noted below. Besides, there are some agro-based industrial cooperatives, weavers' cooperatives, consumers' cooperative stores, Cooperative Transport, and Cooperative Health Services, etc. working well in different parts of the country.

Agricultural Credit activities of the supervised cooperatives

	<u>Fig. 1970-71</u>	<u>1971-72</u>	<u>1972-73</u>
1. Number of societies	101	152	158
2. Loans borrowed by societies	Rs. 35,76,265/-	63,00,722/-	30,78,695/-
3. Loans advanced to members	24,76,132/-	42,87,260/-	20,51,659/-
4. Loans realised from members	8,38,631/-	10,80,960/-	1,87,772/-
5. Loans repaid	17,82,941/-	19,93,822/-	10,59,423/-

An Agricultural Marketing Corporation entrusted with the tasks of procuring supplies and marketing surplus produce has been established at the national level. In order to avoid duplication with regard to extending loans to farmers, it has been decided to merge the Land Reform Saving Corporation with Agricultural Development Bank. Of course, they are already in the process of amalgamation which has to be completed within a few months. Thus in the field of credit, a single agency approach has come into effect. At the national level, Agricultural Development Bank will be the only agency responsible to finance agriculture. At the grass-root level, a cooperative society is envisaged as the sole agency for financing farm-operations. However, in some places, village committees will continue to serve as pre-cooperative credit institutions till they are not covered by cooperatives under a time-bound programme.

179

6

Indeed in the context of a gracious call by our beloved King now for united, concerted and coordinated endeavours towards unleashing the forces of development in the country, cooperatives have a greater role to play in our rural economy.

Thank you !

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COOPERATIVE CREDIT MOVEMENT IN WEST PAKISTAN

By

Mr Muhammad Rafique, CSP.,  
Secretary to Government of Punjab  
Food and Cooperation Department and  
President, West Pakistan Cooperative Union,  
LAHORE (Pakistan)

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ICA Regional Office and Education Centre  
for South-East Asia, PO Box 3312,  
43 Friends Colony, New Delhi-14, INDIA

Central Union of Agricultural  
Cooperatives of Japan,  
8-3, 1-chome, Otemachi, Chiyoda-ku,  
Tokyo, JAPAN

And

Institute for the Development of Agricultural Cooperation  
in Asia (IDACA), 24-9, 6-chome, Funabashi-cho, Setagaya-ku,  
Tokyo (JAPAN)

The Cooperative movement was introduced in Indo-Pak Sub-continent at the advent of the 20th century to solve the problem of rural indebtedness. The Cooperative Societies Act of 1904, therefore, provided for organisation of primary credit societies only. The provisions of the Act were inadequate to meet the growing needs of the movement as it did not cover societies other than the credit ones and did not envisage a super-structure to strengthen primaries. The Cooperative Societies Act 1912 was, therefore, passed to facilitate the organisation of all types of societies and central organisations. The new Act gave impetus to the growth of cooperative credit movement and enabled primary societies to federate into central cooperative banks which in turn federated at the provincial level into apex banks.

The change-over from subsistence cultivation to market-farming in early 30's necessitated organisation of the marketing societies in towns. The marketing societies, confined their activities to the disposal of produce on commission without gradation, storage or processing. The small farmer found it uneconomical and inconvenient to take his small marketable surplus to the market and would rather sell to the local shop-keeper who manipulated rates and misused his monopolistic position in many ways. The cooperative shops did help the medium type of advanced farmers who commanded the holding power and marketable surplus. The big farmer could dictate terms to the processor and the merchant because of his strong bargaining position and sold his produce generally ex-farm to the factory owner or Government.

As commission business involved little risk and managerial technique, the marketing cooperatives could not build up managerial skill and remained financially weak due to their meagre income from commission.

In late 50's, societies were organised at union council level (4-5 villages) for supplying chemical fertilizer, insecticides, improved seeds and modern implements at the door-step of the farmer. Like credit societies, the service societies organised Unions at market/tehsil level which in turn were affiliated to the provincial federation known as Rural Supply Cooperative Corporation. The 'service societies' as the nomenclature indicates, were organised for service to the farmers and lacked business acumen. These societies like their counterparts in credit and marketing fields proved deficient in capital formation and could not develop the required managerial skill.



In spite of quite a long history with a diversified structure, the primary movement remained financially weak. The farmer with limited resources could not afford to contribute capital or repay debts to cooperative societies and the societies could not afford to expand business or employ competent managerial staff. A way out of this vicious circle is yet to be found.

A consolidation of primary movement was initiated during the Second Plan Period 1965 onward. A scheme was prepared to provide a package of services to the farmers including credit, improved seeds, fertilizer, insecticides, agricultural implements, facilities for repair of tractors, tubewells and other agricultural machinery.

The village credit cooperatives was amalgamated with the 'service societies' at the village/union council level and the amalgamated societies were linked with central cooperative banks and the Provincial Cooperative Bank for financial assistance, with the RSCC for procurement of agricultural inputs and with marketing societies for processing, grading and marketing of agricultural produce. Brief facts about the achievement/working of the scheme may be perused at Appendix I. The scheme of consolidation is mainly confined to old peasant proprietary villages.

A farming scheme known as Cooperative Farming Scheme Khanewal was introduced in 1948, with the following objectives ;

- a) to rehabilitate landless refugees from East Punjab and local land-less tenants on State land.
- b) to increase agricultural production by introducing improved methods of cultivation, providing credit supply and marketing facilities and augmenting canal irrigation by tube-wells.
- c) to develop community amenities like education, medical aid, godowns and mosques on self help basis.

Under this scheme 1,40,000 acres of State land were allotted to 129 societies out of which 1,20,000 were leased to 10,898 members at the rate of 12% acres per member for reclamation and cultivation. The remaining 20,000 acres were utilized in village sites, roads, water channels, etc.

Partial mechanization was introduced in cooperative farming chaks in 1961. According to the scheme, the mechanization was restricted to seed-bad preparation by tractor. The remaining operations including sowing inter-culture, threshing, etc. were left to conventional methods. The objects of the scheme were to increase agricultural production and replace 50% of bullock power by milch cattle.

Individually, the farming societies could not undertake mechanization effectively. The farming societies were, therefore, federated into "The Colony Cooperative Farming Union Limited" Khanewal in 1962. Besides arranging all essential services like supply of agricultural machinery, fuel, seed and fertilizer in bulk, the Union planned to provide repair facilities for tractors and other agricultural machinery. The Union has set up a full-fledged tractor repairing workshop and two field repair shops.

The Union also helps societies in arranging joint marketing of agricultural produce for providing a better deal to the farmer. On an average, joint marketing yields one to three rupees per maund more on cotton and wheat, the two main crops handled by the societies.

Credit is provided by the societies free of interest to members, Rs.23.22 lakhs were due from members under the head on 30.12.1972.

The salient features and achievements of the scheme are detailed as under ;

1.	<u>Own funds raised by the societies</u>	
	Share capital	Rs. 21,02,742
	Reserves	33,20,680
	Other funds	44,30,855
	Other undistributed profits	35,69,000
	Total	<u>Rs. 134,24,277</u>
2.	<u>Machinery purchased by societies for joint use</u>	
	145 tractors with implements, worth.	Rs. 23,69,960
	201 tubewells installed	Rs. 30,15,000
3.	<u>Community amenities provided by societies to their members</u>	
	i) Offices and stores constructed	258
	ii) No. of school buildings constructed from own funds.	51
	iii) No. of dispensaries established.	7
4.	<u>Loan advanced to members</u>	
	At an average.	Rs.10 lac a year.

As a result of partial mechanization, installation of tubewells, supply of better seed and fertilizers, intensity of cultivation has increased and in consequence the income of the common farmer has gone up. Yield per acre of main crops obtained before and after mechanization is as under :

<u>Before mechanization</u>			<u>After mechanization</u>		
<u>Year</u>	<u>Wheat</u>	<u>Cotton</u>	<u>Year</u>	<u>Wheat</u>	<u>Cotton</u>
1955	9-18	3-34	1962	19-20	7-00
1956	9-25	3-32	1963	16-20	7-00
1957	12-15	4-09	1964	16-25	7-15
1958	10-37	4-18	1965	15-00	6-30
1959	13-07	5-23	1966	16-30	7-30
1960	10-22	5-03	1967	16-35	8-25
1961	10-36	6-00	1968	30-00	10-30
			1969	28-30	11-02

As institute known as 'Pak German Institute of Cooperative Agriculture' has been set up to train tractors and auto-mechanics, tractor operators, carpenters, wood workers and farm managers for the multi-purpose cooperative societies, in peasant proprietary villages and the cooperative farming societies established in Khanewal project. The Institute has established a demonstration farm to demonstrate improved agricultural practices to trainees and progressive farmers of cooperative societies. A dairy-farm and a poultry demonstration farm have also been set up to disseminate better techniques amongst farmers.

Brief facts about the working of the agricultural movement in the Punjab and the movement in West Pakistan are given in Appendix II & III circulated earlier.

Although the cooperative movement in Pakistan is mainly agricultural, urban people have also attempted to utilise cooperative techniques for ameliorating socio economic conditions of persons with limited means by organising urban credit societies, urban cooperative banks, housing societies and cooperative consumer societies. Housing movement has been especially successful in Karachi metropolitan area.

The cottage-workers societies in the Punjab have contributed a lot to the production of sports goods, cutlery, hosiery, textile goods and handicrafts. The societies besides providing credit and raw material to the members arrange for the marketing of their products including exports.

The consumer cooperatives are a recent phenomenon. The societies are struggling hard to compete with retailers and have not made much headway for want of funds, regular source of supply and proper managerial skill. Brief facts about the urban movement are attached as Appendix IV. (circulated earlier)

#### OPERATION OF COOPERATIVE CREDIT SOCIETY

##### a) Financial resources

Funds are raised by the societies for financing their members by :

- i) raising share capital from members
- ii) share participation by the Government
- iii) collection of deposits from members and non-members
- iv) loans from cooperative banks
- v) Loan from State Bank of Pakistan

The State Bank of Pakistan issues loan @ 4% i.e. 2% below the bank rate. The loan is advanced to the ultimate borrower @ 8 to 10%. The margin is shared by the Punjab Provincial Cooperative Bank, the central cooperative banks and the society. Deposit rates vary from 5% to 7% per annum. Efforts are being made to reduce the differential between the borrowing and lending rates.

Loans in the past were advanced to farmers on the basis of repaying capacity. Loans under the revised scheme are advanced on the basis of production requirements of the farmers and repaying capacity. Loans upto Rs.2,000/- are advanced to farmers on the surety of two members but higher amounts are advanced against the mortgage of land or agricultural machinery. Recovery of seasonal or short-term loans generally does not pose a problem. Recovery of bigger and long terms especially from influential persons causes difficulties. Special laws have been enforced to facilitate recovery of such loans.

#### GOVERNMENT SUPPORT

The cooperative movement in Pakistan is voluntary but state-sponsored. It has been recognised by the Government as an effective instrument for accelerating economic development and promoting social justice especially in agriculture sector. Besides providing staff for the organization, audit and supervision of cooperative societies, the Government provides financial assistance to societies in the shape of share participation and grant-in-aid for construction of godowns, work-shops and cost of management of re-organised societies for three years. Government has established a cooperative training college for training officers of the Cooperative Department and Chief Executives of cooperative societies and four Institutes for training junior

staff of the Department and societies. A training Institute has also been set up for training technicians like tractor drivers, auto mechanics, carpentars and farm managers for cooperative societies. Government also allocates special quota of agricultural inputs for cooperatives and gives a percentage of imported raw material to cooperative cottage industries. Special laws have recently been enforced to reform the management of cooperatives and recovery of overdue loans.

#### PROBLEMS

Lack of proper management of primary societies of farmers, cottage workers, and other men with limited means is problem number one of the movement. Limited membership, low capital and uncertain supply of goods and services required by the members are some of the other bottlenecks. Due to these difficulties, a number of societies cannot compete with the private sector. Individualistic tendencies - hall-mark of developing economies are a serious handicap in consolidating the movement through merger into more viable units as in European countries. The illiteracy of the members of managing committees especially in rural areas is yet another factor which retards the growth of healthy movement. Finally competition offered by the die-hard capitalists and middle-men retards the promotion of the movement.

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ANNEXURE (I)

1. Kind of societies.	All kind in scheme.	
2. No. of societies.	646	
3. Membership.	47112	
4. Share Capital.	4004 (Figures in thousands)	
5. Working Capital.	8926	-do-
6. Loans advanced.	19180	-do-
7. Loans recovered.	17568	-do-

.....

(ANNEXURE II)

Kind of societies.	No. of societies.	Member-ship.	( Figures in thousands )			
			Share Capital.	Working Capital	Loans advanced	Loans recovered
Agriculture Credit Societies.	12652	584326	19387	188632	37201	40036
Agriculture Non-Credit Societies.	4648	231526	10473	43096	29229	32051
Total:	17300	815852	29860	231728	66430	72087

THE COOPERATIVE CREDIT MOVEMENT  
IN THE PHILIPPINES

(Background Paper Jointly Presented by Director Candido L. Guiam, Member of the Board of Directors, Central Cooperative Exchange, Inc., the National Federation of Agricultural Cooperatives in the Philippines and by Director Benjamin Cruz, Member of the Board of Directors, Grains Marketing Cooperative of the Philippines, Inc., at the Regional Seminar on "Cooperative Credit with Special Reference to Japan", Tokyo, Japan, April 9 to 28, 1973.)

INTRODUCTION

Cooperation has been practised by people among themselves since time immemorial. Cooperative organizations were founded before any law on cooperatives existed. Built largely on the initiative and spontaneous action of the people involved, it took generations to bring the movement to a status that it now commands and enjoys.

In fact, laws on cooperatives followed the practical evolution of the cooperative movement. Since then, many countries have enacted laws on cooperation. In the Philippines, our government, realizing the importance of the movement and recognizing the benefits that it can give to our people, gave it impetus through different legislative fiats.

LEGISLATIVE ENACTMENTS

The first attempt to introduce in the Philippines the cooperative system was made way back in 1907, when a bill on rural credit cooperatives was presented in the first Philippine Assembly. Although this bill was approved by the Philippine



Assembly, the same was disapproved by the then Philippine Commission which constituted the upper chamber of the Philippine Legislature.

In 1914, however, a similar bill was presented before the Philippine Assembly, and this time it was able to go through both houses of the Philippine Legislature and was approved on February 4, 1915 as Act No. 2508, otherwise known as the Agricultural Credit Cooperative Law. The enactment of this law paved the way for the organization of the first rural credit association in Cabanatuan, Nueva Ecija, on October 19, 1916. The objective of the associations organized under this law was the accumulation of capital contributed by the members themselves to be extended as loans for purely agricultural operations. By 1939, there were 571 agricultural credit cooperative associations organized. For one reason or another, a good number of these cooperatives, however, did not continue to operate, while others remained dormant, as practically all capital was loaned out.

The second attempt on cooperatives was made when the Cooperative Marketing Law (Act No. 3425) was enacted on December 9, 1927. The title of the Act gives its objectives as follows: "An Act providing for the organization of cooperative marketing associations, declaring their purposes and defining their powers, rights, and privileges; fixing the duties, rights, and liabilities of their directors, officers, employees,

and members or stockholders; prescribing the conditions under which they may transact business, and the liabilities of and penalties for any person, or corporation inducing breach of marketing contracts and spreading false reports about the finances or management of such associations; providing for government supervision and control over them and for other purposes."

As the importance of cooperatives began to be recognized as not merely confined to the agricultural aspect in the economic development of the country, the need for a general cooperative law under which non-agricultural cooperatives could be organized was felt. Consequently, Commonwealth Act No. 565, a general cooperative law for both agricultural and non-agricultural cooperatives was enacted on June 7, 1940.

Then an agricultural credit and cooperative financing system was instituted with the enactment of Republic Act No. 821 on August 14, 1952 which at the same time created the Agricultural Credit and Cooperative Financing Administration (ACCF). This is also the year generally recognized in the country as the birthyear of the agricultural cooperative movement in the Philippines.

A little later, on June 22, 1957, Republic Act No. 2023, otherwise known as the Philippines Non-Agricultural Cooperative Act, was enacted providing for the promotion, organization and supervision of non-agricultural cooperatives.

Republic Act No. 3844, otherwise known as the Agricultural Land Reform Code, was enacted on August 8, 1963. This law instituted the land reform program in the Philippines, providing for the abolition of share tenancy, establishing the owner-cultivatorship and the economic family-size farm as the basis of Philippine agriculture, creating a truly viable social and economic structure in agriculture conducive to greater productivity and higher farm incomes, and organizing the necessary implementing agencies and appropriating funds therefor. The administrative machinery of the ACCFA was reorganized to enable it to align its activities with the requirements and objectives of the Code and make known as the Agricultural Credit Administration (ACA).

September 21, 1972, marked a giant stride for the cooperative credit movement in the Philippines. On that day, His Excellency, the President placed the entire country under a state of martial law and proclaimed his program of what is now known as the "New Society". One of the foundation stones of the New Society is the establishment of cooperatives in every village all over the country. Through these cooperatives, the members can now obtain credit from the Rural Banks, as well as from the ACA, to finance production with a view to increasing farm productivity, thereby augmenting their income and elevating their standard of living.

Also, to vigorously push through the bold program of agrarian reform of the government, the cooperatives have been tapped by the President as the main vehicle by which the share tenant can eventually own the land that he tills. By executive fiat, the President has required that for a tenant to avail himself of the benefits of the agrarian reform program, it is obligatory that he join a cooperative which shall guarantee the payment of annual amortizations on the land to his former landlord. For the purpose, the President created a separate department called the Department of Local Government and Community Development under which is the Bureau of Cooperatives which is now charged with the promotion, organization, development and supervision of all types of cooperatives

#### CAUSES FOR THE DECLINE

A slight digression at this point to the operational status of the agricultural cooperatives is unavoidable. From 1952, the year when the ACCFA-FaCoMa (the word "FaCoMa" is an acronym for Farmers Cooperative Marketing Association) program was launched, up to 1960, 523 marketing cooperatives, organized along commodity lines were already actively operating, with a membership of 302,249 farmers, distributed in 725 towns and covering 12,786 barrios.

Quantitatively, the figures were indeed impressive. But behind this beautiful facade, there was corrosion in the organizational and operational set-up in the associations, princi-

pally among the palay and tobacco FaCoMas. The structure began to weaken as early as 1958 and collapse became inevitable early in 1960. This naturally brought about the breakdown in the operations of these associations, causing the farmers to lose faith in the cooperative movement as a means of liberating them from their social and economic morass. Factors, not of their own making, and not intrinsic to the internal structure of the cooperative organization, somehow contributed to the decline and fall. These factors can be categorized as political and governmental. Policies and programs of the government, designed to ameliorate some sectors of the population, such as rice importation and tobacco subsidy, rapid organization of the cooperatives and over-expansion of their activities, proved inimical indeed to cooperative development. Suffice it to say also that the contributory factors to the collapse can be attributed to the mismanagement on the part of the board of directors and management staff of the association, absence of membership support and loyalty, lack of operating capital, insufficient volume of business handled, and uncollected receivables in trade from members and non-members. On top of all these was the unpreparedness of the majority of the farmers, for whom the program is directed, to understand and appreciate the basic concepts and intricate workings of cooperative, coupled by the dearth of trained and dedicated leaders to provide the necessary guidance and motivation. This lack of understanding was com-

pounded by the misconception that the cooperatives were organized simply to serve as channels thru which the farmers could obtain credit from the government, overlooking altogether the principal objective for which they were organized - the marketing of the members' produce.

It may also be said that many of the cooperatives were organized mainly because of community pride or enthusiastic promotion by government people, or both. Not a few were organized without the real economic need for the cooperatives.

#### REMEDIES INSTITUTED

The situation called for bold action, so ACA initiated the revitalization of the existing cooperatives early in 1960. Revitalization, which in reality is the key to the development of cooperatives, simply means placing these organizations on a sound operating management and financial condition to make them truly viable in the cooperative, business and economic sense.

To raise the level of understanding, orientation, education and information of the directors, officers and members on cooperative operations and management, a regular and continuous educational program was conducted. Members of the board of directors and of the management staff of newly organized, reactivated or revitalized farmers' cooperatives, and new directors who were elected following an election, and

management officers and employees who were appointed to replace old officers and employees separated for any cause, were required to undergo a one-week pre-service or on-the-job training conducted by ACA.

Furthermore, these associations were encouraged to cooperate actively with other cooperative associations in order to best serve the interests of their members and their communities, and to foster close relationship between the local cooperative and the overhead organization.

#### PRESENT STATUS

Today, the picture has gradually changed and the outlook for 1973 is even better. The present Administration is giving full impetus to the promotion, organization and development of cooperatives, both agricultural and non-agricultural, as a vehicle for economic and social improvement of the small farmers and other low-income groups. The recognition of the importance of cooperatives in the framework of the national well-being becomes doubly significant in view of the thrust being exerted under the New Society envisioned by His Excellency, the President of the Philippines. Under the changed atmosphere, cooperatives play a significant role in economic and social development in the rural areas.

The Agricultural Credit Administration (ACA) has been deeply involved in the program of cooperative development and financing the credit needs of the small farmers in the last

twenty years. While there have been some cooperatives which have experienced failures, a good many of them have survived and are contributing their just share in improving the economic condition of the small farmers. As of January 31, 1973, a total of 757 cooperatives have been organized, classified as follows: Palay, 414; Tobacco, 146; Sugar, 41; Fish, 29; Poultry and livestock, 44; Fruits and vegetables, 13; Copra, 50; coffee and peanuts, 6; Onions and garlic, 4; Fibers, 3; Irrigation, 3; Processing, 2; and Supply, 2. These cooperatives have an authorized capital of ₱421,095,000.00, of which the amount of ₱289,026,717.23 has been paid. The cooperatives are distributed over 1,380 towns and 18,811 barrios and range from the Cagayan Valley and the Ilocos Region in the north to Sulu in the south.

Designed to serve the interests of FaCoMas handling palay, corn and other grains, the Grains Marketing Cooperative of the Philippines (GRAMACOP) was organized in January, 1967 and commenced operations the following month. That specialization in the crop handled and in the services performed by cooperatives, specially at the apex organization, is more advantageous has been justified by the GRAMACOP operations. With the obsession to promote and develop the cooperative movement in the country, to educate and assist the people in expanding the agricultural cooperative sector and to serve as an exponent of cooperative ideas, the officers of farmers'



cooperatives throughout the country banded together and formed the now active Agricultural Cooperative League of the Philippines. Much earlier in 1955, the Central Cooperative Exchange, Inc., came into being and is now in the forefront of the cooperative movement in the Philippines.

The program of the ACA is especially tailored to the needs of the small farmers and their cooperatives. While the banking institutions, particularly the Rural Banks, have of late been actively participating in agricultural development thru the extension of loans under a supervised credit scheme, many of the ordinary small farmers, by reason of shyness and awe with banking institutions, still prefer to get their credit needs from their cooperatives. This is particularly prevalent among share tenants who have become amortizing owners under Presidential Decree No. 27 issued on October 21, 1972, which emancipated the farmers from the bondage of the soil. These clients of the ACA who are members of cooperatives and other small farmers enjoyed loans in the amount of P41.7 million in the Fiscal Year 1971-72 and for the current Fiscal Year 1972-73, as of February 28, 1973, they have been extended loans in the amount of P22.5 million. The current loans have been extended thru 152 farmers' cooperatives and benefited 48,260 farmers. Since the organization of the then ACCFA in 1952, the ACA has extended loans to small farmers and their cooperatives in the amount of P470,313,792.64. It may be stated, in this

connection, that as a result of the changed attitude under the New Society, the farmers and their cooperatives have been paying their loans as they fall due.

The types of credit assistance extended by ACA to farmer-members of cooperatives consist primarily of:

1. Production loans and loans for the purchase of work animals, tillage equipment, seeds, fertilizers, poultry, livestock, feed and other similar items, based upon their paying capacity and the anticipated productive capacity of the land he tills. The ability of the farmer to provide security in the form of land or other tangible securities is not the primary deciding factor in approving the loans. Instead, the amount of the loan is predicated upon his production with other securities being considered as supplemental.
2. Commodity loans granted against warehouse receipts issued by the cooperative to the extent of eighty per centum (80%) of the market value of the produce deposited by the farmer-member.

In both instances, the loan cannot be granted unless the farmer-member has entered into a marketing agreement with his cooperative.

Upon the other hand, credit that may be granted to cooperatives are categorized as follows:

1. Facility loans for the construction or acquisition by the cooperative of warehouses, ricemills, processing

machineries and equipment, tractors, trucks, etc., as the cooperative may need to better serve the needs and interests of its members, in an amount equivalent to 100% of the value of the facilities if completely made of steel or concrete, or 80% if otherwise constructed.

2. Operating Capital loans which shall serve as the working capital of the cooperative to finance trading activities.
3. Marketing loans to enable the cooperative to purchase outright the produce of its members for resale in the open market.

In terms of business operations, the different primary cooperatives and their federations have been handling an annual volume of 3 million cavans of palay worth P75 million. Their rice surpluses have been sold in Greater Manila and other deficiency centers.

These cooperatives, upon encouragement and suggestion of the ACA, have embarked upon a number of programs, aside from credit extension and marketing functions, all designed to strengthen their organizational set-up and enjoy the continuing patronage of their members. These programs include (a) capital formation, consisting of cash and/or commodity contributions; (b) savings among members; (c) organization of farmers' groups or cells called "saranays" in the vernacular, "Damayans", or and (d) compact farms. The "Saranays" consist of small groups

of five to ten farmers and are used as forums for discussing farming activities and for the formation of joint and several liability groups to better imbue the farmers with their credit obligations. The compact farms are organized in contiguous areas of 30-50 hectares for economy in operations. These programs are bringing about astonishing results in the form of increased agricultural production on the part of the farmers and better operations of the cooperatives.

COUNTRY STATEMENT : SINGAPORE

REGIONAL SEMINAR ON "COOPERATIVE CREDIT  
WITH SPECIAL REFERENCE TO JAPAN"

CREDIT MOVEMENT IN SINGAPORE

BY

P. K. PANADAM  
(SINGAPORE TEACHERS MULTI-PURPOSE COOPERATIVE  
SOCIETY LTD.)

A N D

M. KULASEGARAM  
(SINGAPORE GOVERNMENT SERVANTS COOPERATIVE  
THRIFT & LOAN SOCIETY LTD.)

REGIONAL SEMINAR ON "COOPERATIVE CREDIT  
WITH SPECIAL REFERENCE TO JAPAN

TOKYO, JAPAN - 9-28 APRIL 1973

REGIONAL SEMINAR ON "COOPERATIVE CREDIT WITH SPECIAL  
REFERENCE TO JAPAN, TOKYO, 9-28 APRIL, 1973

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S U M M A R Y

The Co-operative Societies were started some fifty years ago, by immigrants to overcome the <sup>perpetual</sup> indebtedness to money-lenders who charged exorbitant interest and had a stronghold on the poor who had nowhere else to go as they were in need of the extra money to keep with the custom of our "Society" as far as **religious** rites ceremonies were concerned, besides the need to look after large families and supplement the low wages earned.

With the emergence of the Credit Societies which were of great help to the working class, the Societies specially catered for certain class of workers, like the Government Servants. According to statistics of 1971, there were 87 Cooperative Societies with membership at 52,400 and a working capital of twenty-seven million dollars (S).

Gradually, during the second post-war years, many societies have switched over to multi-purpose societies to cater for the varied need of the enlarged "Society" population and to also fight the rising costs in the economically fast progressing Republic of Singapore.

As far as deduction for the subscription, savings and loan repayments are concerned, the Societies have no difficulty in collecting these dues as employees both in the Private Sector and the Government make arrangement for these facilities, thereby reducing the tremendous task of collecting these dues.

The Credit Societies in the Republic has one great advantage over the many facilities provided by the painless Hire Purchase System of the Commercial World and the "Shark" money-lenders. The advantage is in the form of very low rate of interest at nominal cost that could be obtained elsewhere, for their luxuries.

The disadvantage is only encountered when according to Societies By-laws, a borrowing member will have to furnish two other members of his Society as sureties. Sureties in actual fact, need not fear as far as the Government servants are concerned as rarely are there borrowers having to leave the service just to abscond. Over the years, it has been established in many of the Societies this number of borrowers is a very negligible percentage.

It is rather unfortunate, the Society's Bye-law in the Republic could not allocate a certain percentage of its profits for exigencies like death of a borrowing member. It is understood, at no time should the Society become liable for any default in payment of a member. Although, Co-operatives were formed for assisting a group of people in a particular working class or society the magnanimous gesture of helping them or the families at the time of bereavement has been ignored, from the co-operators point of view.

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REGIONAL SEMINAR ON "COOPERATIVE CREDIT WITH SPECIAL REFERENCE TO  
JAPAN"

COOPERATIVE CREDIT MOVEMENT IN SINGAPORE

1. INTRODUCTION

(a) Brief History

Various forms of cooperation have existed in Singapore and **they are still** existing in Singapore. Singapore being a multi-racial country, the **immigrants** brought along with them their inherited cooperation of their countries of origin into Singapore. This cooperation was practised and is still being practised by the people of Singapore. Association and Societies have been established to serve particular groups of workers, traders and clans. These associations and societies are helping to uplift the standard of living of their members.

The cooperative movement was started in Singapore some fifty years ago. The movement was initiated in Singapore and Malaysia after the 1st World War. In the 1920's there was unemployment in private and public sectors. Retrenchment was also in both sectors. Wages were poor and people could not make both ends meet. In addition to their daily needs, the social obligations (marriages, funerals and maintenance of **sick** or poor relatives). People were not able to get small personal loans from commercial banks or employers. Circumstances forced them to get loans from moneylenders. Moneylenders were ready to provide cash to meet the desires of the people at exorbitant interest. The borrower seldom realised how expensive this type of credit was. The lender fixed the price and the rate even came up to 120%. The wage earners were perpetually indebted to the moneylenders. In order to put an end to the "evil perpetual indebtedness" the Government then encouraged the people to form "Thrift and Loan Societies" and "Credit Societies" and "Thrift and Investment Societies" which all perform similar functions. The first society to register was the Singapore Government Servants' Thrift and Loan Society followed by the Singapore Municipality Employees Thrift and Loan Society and Mercantile Society. The main activities of these societies were to provide loans with low interests to their members.

The movement came to a "standstill" during the occupation period (1942 - 1945). The movement was revived after the Second World War. People became more interested and more cooperative leaders emerged from among the people. Lack of leadership and proper organisations, the movement steadily decreased until 1969. In 1969, the National Trade Union Congress came out with their strategy for modernisation. With full time leadership, organising ability, and dedication to serve the interest of the members, the N.T.U.C. first registered "Income". Thereafter it had gone **in to several cooperative ventures**.

It is after the Second World War that people in Singapore became more interested in the movement. More and more cooperative leaders have emerged from among the people and people have come to regard cooperation

as the method best suited to solve their economic problems.

(b) Structure of the Cooperative Movement

According to the "Annual Report of the Registry of Cooperative Societies 1971" there were 87 registered cooperative societies in Singapore. By and large, Thrift and Loan Cooperative Societies deminate the movement. The collective membership of the movement totalled to 52,400 and the Share Capital/Subscription stood at nearly \$29 million. The working capital available is slightly over \$36 million; utilised partly for granting loans to members and partly for investment in trusted securities, the Post Office Savings Bank and Commercial banks.

Some of the Thrift and Loan Societies have amended or are in the process of amending their By-laws to convert into Multi-purpose Cooperative Societies. These societies for many years confined their activities to credit, building up in the process a small reserve. It is only after Second World War that these societies have expanded their activities, aiming at embracing the entire life of the wage-earner.

The development of a strong Cooperative Movement was recognised and adopted as part of the National Trade Union Movement's strategy for modernisation in 1969. As a result, the National Trade Union Congress formed several Cooperative Societies in 1971 and 1972. The N.T.U.C. is also laying groundwork for a consumer Cooperative Movement in Singapore.

2. TYPES OF SOCIETIES

The types of societies in existence could be broadly categorised as follows:-

Thrift and Loan/Investment/Credit .. .. .	54
Consumers .. .. .	16
Insurance .. .. .	1
Transport .. .. .	3
Housing .. .. .	3
Land Purchase .. .. .	3
Dental Care .. .. .	1
Multi-purpose .. .. .	4
Banking .. .. .	1
Union .. .. .	1

Thrift and Loan/Investment/Credit Societies

The Thrift and Loan/Investment/Credit Societies are the pioneers of the Cooperative Movement in Singapore. Owing to their experience over the years, they now form the backbone of the Movement. Amongst the primary societies, they are the strongest in terms of finance and membership.

Except for the fact that a thrift and loan society provides facilities for surety loans, a credit society permits members to borrow 80 per cent of their subscription and a thrift and investment society does not give loans but allows members to withdraw their deposit when the need arises, there is very little distinction between them.



### Consumers

Under this category are the sundry shops, stores catering for mechanical goods, societies specialising in marketing of agricultural products and a shoe-making society. They are generally primary societies. The sundry shops outnumber the rest in this particular cooperative group. But the stores societies which include the bookshop cooperative and the shoe-makers society are superior in terms of capital strength. This, understandably, is due to the size and type of market open to the individual cooperative societies.

### Insurance

The NTUC Cooperative Commonwealth Enterprise, Limited (INCOME) is the only cooperative insurance society in the Republic today. Its objectives are:-

- (a) to promote and popularise the practice of cooperative insurance and encourage thrift, cooperation, mutual saving and self-help among the members;
- (b) to provide policy benefits at cheapest possible cost subject only to actuarial theory and sound practice; and
- (c) to promote and assist in promoting a wider Cooperative Commonwealth in Singapore in which the majority of the working population would have a stake and from which they would derive concrete share and financial benefits.

The policies actually completed during the year numbered 3,724 for the total sums assured of \$14.9 million and more than 1,000 policies totalling over \$6 million were in the process of completion at the year's end. These figures show that INCOME, although a fledgling cooperative society, is being run on a sound business profit and loss basis and is achieving a highly satisfactory rate of growth.

### Transport

There are three transport cooperatives. The NTUC Workers' Cooperative Commonwealth for Transport, Limited (COMFORT) is by far the most active amongst the three societies.

### Housing

The three housing cooperative besides embarking on their own housing projects specially for their members, do provide loans to members for the purpose of buying a house for members' personal use or loans to buy land or to build a house. One undeniable factor which this group of societies faces is the problem of acute shortage of land in Singapore.

### Land Purchase

Of the three land purchase cooperatives, only one has succeeded in buying a plot of land for its members. This particular society consisted of people who were formerly residents of Pulau Bukom who were resettled in Jalan Greja off Bedok.

Dental Care

The first medical society in the history of the Cooperative Movement in Singapore was registered (in 1972). The NTUC Cooperative Dental Care Society, Limited (DENTICARE) has as its objectives the provision of comprehensive dental service for paid-up members of the Society,

Multi-purpose

Multi-purpose societies are not new in Singapore, although their full advantage was only realised lately. During the year, three multi-purpose cooperative societies were registered.

One of them was formerly known as the Ministry of Defence (Army Department) Civilian Employees' Cooperative Thrift and Loan Society, Limited. It was converted into a multi-purpose society as an alternative to dissolution as it was one of the societies whose members were affected by the British pull-out.

Multi-purpose Cooperative

The Singapore Teachers Multi-purpose Cooperative Society, Limited converted from a Thrift and Loan Society was registered on 3.1.72. The Society is still in its infancy and is trying to implement its new by-laws in stages. The Society's administrative and accounting structures are being re-organised to meet anticipated demands.

Banking

Besides the Cooperative Union, the Singapore Malays Cooperative Banking Union, Limited is the only other cooperative of a secondary nature which caters exclusively for registered societies. At present, it only operates the credit facility. It is hoped that with improved management, it would be able to function as a proper bank.

Cooperative Union

The Singapore Cooperative Union is an affiliate of the International Cooperative Alliance. It has 19 societies affiliated to it. One of its functions is to act as a disseminator of cooperative knowledge in all fields, and a co-ordinator between local cooperatives and international cooperative bodies.

Further information on each of the categories described above can be found in the Appendix.

II OPERATIONS OF COOPERATIVE CREDIT SOCIETIES AT VARIOUS LEVELS WITH SPECIAL REFERENCE TO PILOT OR EXPERIMENTAL PROJECTS, IF ANY, AND TO PRIMARY SOCIETIES

(a) Financial Resources and how they are raised

The capital which a cooperative society will require depends naturally on the number of members and the scope of the operations which they wish to finance. With some types of cooperative society it is possible to begin on a modest scale with a view to later extension. Although this is partially true in the case of a credit society, yet most of the thrift and loan societies in Singapore or Malaysia started in a similar manner. Some of the Thrift and Loan Societies in Singapore have amended their By-laws to convert into Multi-purpose Societies to meet the

requirements of their members.

The financial resources of the cooperative thrift and loan societies are raised through commitments of the members in the following forms:

The capital of a society is raised by the issue of fully paid shares. The total amount of share capital and the amount of each share varies from society to society. In one leading society the following by-law reads as follows:-

"Every member shall hold ..... \$5.00 per month."

This is one of the major source of raising finance in a credit society.

#### Subscription Capital

Subscription is on an instalment basis aimed at long sustained period of saving small sums monthly. Societies which have no provision for "Share Capital" in their by-laws, depend upon subscription as a major source of raising finance. Dividend is declared on the subscription capital and, this dividend ranges from 4% to 6% according to the net profit of the society.

#### Thrift Savings

In order to create habit of thrift and savings, members are required to contribute a percentage of their monthly income in compulsory deposits. The interest to a maximum of 6% per annum and no limitation encourage members to save.

#### Savings Deposits

Savings Deposits are accepted on a monthly basis. The monthly savings vary from society to society and it also depends upon the earnings of the individual member. The advantages in this deposit are that there is no maximum and the member is allowed to withdraw his savings with due notice in accordance with the society's by-law.

#### Reserve Fund

The best safeguard against the members liability is the reserve fund. In the cooperative ordinance there is a provision to the effect that at least 25% of the net profits shall be carried to the fund. The Fund belongs to the society as a whole and no member can claim a specified share in it. Every leading society in Singapore has accumulated substantial sum to this fund.

#### Mobilisation of Deposits

##### Loans to Members

The Cooperative Societies' main aim is to free its members from indebtedness. The societies grant short and long term loans to the members of the societies.

##### Fixed Deposits in Commercial Banks

The surplus funds of societies are invested in commercial banks for a short period. The period ranges from 3 months to 1 year.

#### Cooperative Societies

A Housing cooperative society ordinarily needs capital to put up houses for its members. The cooperative thrift and loan societies have given short term loans to housing societies to carry on their projects.

(b) Loaning Policies and Procedures

Loans are generally given on the basis of the amounts of the personal savings and that of two sureties who are members of the society each of whom shall cover the whole loan less the total of the borrower's personal savings. The amount and types of loan varies from one society to another. The maximum amount a member can borrow varies again from one society to another. For instance one society grants loan to a maximum of \$10,000.

Loans generally fall into three main categories. They are Urgent Hardship loans, Personal Surety loans Prior Debts loans and Short Term. The Singapore Teachers Multi-purpose Society has amended its by-laws to grant Long Term Housing loans and Medium Term Loan in addition to the four types of loans.

The Committee of Management is the body which is responsible for granting loans to its members. The Committee very seldom rejects a loan unless the applicant does not satisfy the loan policy of his society.

There is need to distinguish between short, medium, and long term credit. The main credit need of wage earner is for short term credit. Short term credit is required to meet the current expenses of a wage-earner. Such expenses are personal for the wage-earner and his family.

Medium term credit is required for house improvements, education, and purchase of motor vehicles medium term loans are given for a period up to three years.

Long term credit is provided for usually on the security of a mortgage of land or house. This is given for a period of ten to twelve years. Very few members are eligible for such loan, because of the limitations of the by-law.

The wage-earners are either employed in private or public sectors. The Government and Management Authorities give every assistance in the recovery of monies due from members. The Central Pay Office (Ministry of Finance) gives assistance to deduct from source. The societies in turn pay a token "service charge" for services rendered.

(c) Recovery Problems

The members of the cooperative societies are mainly wage-earners. These wage-earners either work in public sectors or private sectors. The Government and Management of private sectors give assistance in the recovery of monies due from members. The deduction is done at source and the recovery problem does not arise.

In the case of members who have resigned from service, and deceased members, the cooperative societies recover according to the by-laws of the societies.

(d) Management performance in terms of supply of credit needs of members:

All the credit societies in the Republic grant loans for various needs of members and the amount of loans granted vary from society to society. These are explained in the "Loan Policies" earlier. All the monies required come from the savings of members, and investments and the interest derived from both. The Government does not in anyway provide financial report for these credit societies.

The Management sees to it that all surplus funds are deposited with banks in the fixed deposits, trustee securities and in other cooperative societies. From these investments and interest derived from them, the societies are able to meet their requests for the various loans provided for in their Societies by-laws, for a variety of purposes.

Funds are also kept in the current and general savings to meet the regular loan applications and other exigencies. In this manner, all eligible applications for loans are met without any difficulty and members are given sufficient time to refund the loan balance with a minimum interest members could get elsewhere. Cooperators who wish to borrow any money need only provide two other cooperators from the same society as sureties.

The Management Committee comprises of the society's members elected at the Annual General Meeting and could attend to the Society's work only on part-time basis as they are engaged in full-time employment either in the private sector or in the Government Departments.

#### Contributions To Cooperative Developments

Each Society at its Annual General Meeting appropriates a sum of money from its net profit for the Cooperative Development through its Education and Training Fund and Cooperative Activities Fund. From these funds the Societies are able to assist members of the Society to attend courses and seminars, both locally and in foreign countries, organised by the Societies, the National Cooperative Union and the International Cooperative Alliance. Besides educating the members through these courses and seminars, the Societies also take part in their own functions and celebrations like the International Cooperative Day Rally where members of the Societies, local leaders and Government Officials gather to celebrate the day. A number of leading Societies also enable the Singapore National Cooperative Union by being affiliated to the Union and contributing financially and assisting in a voluntary basis to run the Union. It is quite obvious unless the Union has the able leaders and strong itself it will not command the respect due to it. However, the Government, the private sector and the Registry of Cooperative Societies have helped both the individual Societies and the Union function quite successfully through their advice and generous full pay leave for members attending conferences and courses.

### III THE GOVERNMENT SUPPORT TO COOPERATIVE INSTITUTIONS

The Government helps the movement with Cooperative Act and Ordinance, and regards the cooperatives as instruments of social and economic development. The Registrar of Cooperative Societies assists the Cooperative with the Societies Act (Cap 186) and the Cooperative Societies Rules, 1953, and renders guidance, assistance, advice and encouragement to Societies in Singapore. They sometimes attend Committee and General Meetings and give valuable advice and information on the conduct and management of Cooperative Societies which result in better development towards effective and efficient administration of the Societies.

### IV ACHIEVEMENTS AND PROBLEMS

#### Achievements

In Singapore there are 87 registered cooperative societies, mostly Thrift and Loan Societies, with a membership of 52,400 members. Their Share Capital is \$29/- million approximately with a working capital of about \$36/- million. Out of the 87 societies, 54 are Thrift and Loan/Credit

Societies which are the pioneers of the Cooperative movement in Singapore. They have gained experience over the years and have formed the backbone of the movement. They are considered to be the strongest in view of finance and membership.

These societies provide facilities for surety loan, either on short or medium term, and permit members to borrow 80% of their total subscription without any surety.

Many societies have realised the importance and the need for viable and strong societies and have undertaken to diversify their activities. During the year 3 cooperative societies have amended the by-laws to go on to Multi-purpose to provide other ventures apart from giving only loans to members.

The NTUC, after the seminar on Modernisation of The Labour Movement in 1970, has undertaken cooperative ventures:

(a) The NTUC Cooperative Commonwealth Enterprise, Limited (INCOME) is the only Cooperative insurance society in the Republic today. Its objectives are:-

- (i) to promote and popularise the practice of cooperative insurance and encourage thrift, cooperation, mutual saving and self-help among the members.
- (ii) to provide policy benefits at cheapest possible cost subject only to actuarial theory and sound practice, and
- (iii) to promote and assist in promoting a wider Cooperative Commonwealth in Singapore in which the majority of the working population would have a stake and from which they derive concrete share and financial benefits.

(b) The NTUC Workers' Cooperative Commonwealth for Transport, Limited (COMFORT) is by far the most active amongst the other transport Cooperatives.

(c) The NTUC Cooperative Dental Care Society, Limited (DENTICARE) has as its objective the provision of comprehensive dental service for paid-up members of the Society.

#### Causes of Cooperative Problems

Cooperative problems are probably no more numerous than problems in other types of business. However, it is not so much as to whether Cooperatives fail or not. It is a problem of their not doing as well as they should. Some of the situations which cause cooperatives to either fail or not to reach their full potential are as follows:-

1. Members who join but never use their cooperatives but by-pass them for a small gain somewhere else.

2. Members who use cooperatives but fail to take responsibility. Each member has to stand ready to accept responsibility when called upon or as the need may arise. Any member has an opportunity to be an official of his cooperative society.

3. Members who never ask questions and who let a few persons run everything and say everything.

4. Failure of members to attend annual meetings and failure of committee members to attend committee meetings.

5. Lack of consistent membership education in the problems cooperatives are facing and the challenges they must meet.

6. All the facts about a cooperative, both good and bad, should be put above the table, not under the table.

7. The blame for failure of cooperative usually rests with the members, not with anyone else. It is the members who elect the board, and it is the board which selects the manager. Therefore, members are the key factor to the failure.

#### CONCLUSION

The cooperative offers at least two general advantages which no other business institution can fully match: (1) it offers an opportunity for all people, rich and poor, in all walks of life, to help themselves by cooperating with others; and (2) it develops and strengthens the individual citizen in acquiring and controlling private property, yet it preserves individual freedom, dignity and responsibility.

These and other advantages are not automatic and painless. To achieve them through the auspices of a cooperative requires much hard work, thought, determination and perseverance. Above all, a successful cooperative requires good people with a good spirit, who are unselfish and dedicated and who have the desire to improve themselves, their fellowmen and their community.

STATISTICS OF CO-OPERATIVE SOCIETIES IN THE REPUBLIC OF SINGAPORE AS AT 31ST DECEMBER, 1971

Type of Societies	Number of Societies	Membership	Shares Subscription Capital	Loans			Specific Deposit	Reserve Fund	Working Capital
				Brought Forward	Granted	Repaid			
Thrift and Loan/Investment/ Credit	54	36,451	24,973,332	14,595,725	12,829,908	11,454,245	2,295,186	1,617,617	28,386,135
Consumers	16	2,990	179,556	250,042	81,050	138,869	13,951	77,720	271,228
Insurance	1	28	-	-	-	-	-	320,000	1,515,254
Transport	3	172	18,742	-	-	-	-	345	19,068
Nursing	3	8,332	2,206,589	12,345,224	207,103	802,368	2,634,711	254,417	5,095,718
Land Purchase	3	210	36,406	12,520	-	8,750	-	2,078	38,484
Dental Care	1	-	100,000	-	-	-	-	-	100,000
Multi-purpose	4	175	30,503	-	2,574	-	55	17,308	45,876
Banking	1	13	29,400	177,533	67,300	46,029	28,000	8,379	65,779
Union	1	19	-	-	-	-	-	-	-
Total	87	48,390	27,574,528	27,381,044	13,187,915	12,430,259	4,971,913	2,297,864	36,037,542



Regional Seminar on " Cooperative Credit with special reference to Japan, " Tokyo. 9 - 28 April, 1973.

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Background Paper on :

AGRICULTURAL COOPERATIVE CREDIT MOVEMENT IN THAILAND

Conversion :

Currency - 1 Baht approx. 5 U.S. cent or 1 U.S \$ = 20 Baht

Area - 1 rai approx. 4 acre or 1 acre = 2.5 rai

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I Introduction

(a) Brief history

1. The cooperative movement was first brought to Thailand in 1916 when the then government was gravely concerned with an increasingly deteriorating economic and social condition of the majority of farmers. A strong intention of the government was primarily to put a stop to the worsening situation by relieving the farmers from severe indebtedness and foreclosure. The first type of cooperative societies established on the Raiffeisen model at village level was credit with unlimited liability. The main objective of these cooperative is to extend credit to farmer-members. When the first cooperative Act was promulgated in 1928, various types of agricultural cooperatives were organized to cope with specific problems such as credit, marketing and processing. land tenure, land improvement and land settlement. The number of village cooperatives was at the peak of 9,900 in 1951 with total membership of 150,000, averaging 15 members or farm families per society.

2. The small village credit cooperative serving members only for a medium term loan was good enough to relieve the poor situation of farmers during that time. But after World War II, the farmers needed more money to invest on farm products, to buy fertilizers, pesticides or farm equipments. In 1958, a program of establishing a sort of production credit societies at a Amphur (district) level was formulated. An agricultural credit society of the new type was to be large enough to have its own office and employees, to perform multi-functions such as credit, marketing and so forth, and to be based on limited liability, with share capital. A production credit society was organized in 1959 as a pilot project in Amphur Pakchong, Nakornrajsima. Its working proved successful both in its own popularity and in raising incomes of its members. So other societies have been organized in the following years.

3. A good prospect of the production credit cooperatives led to the program of improving the activities of small credit societies, scattering throughout the country, In 1969, the amalgamation plan was adopted and the process was undertaken in that year. The newly amalgamated cooperatives have the same procedures and practices as the production credit except their names were changed to agricultural cooperatives instead. The merging program was finished in 2 years resulting the decrease of number of small credit societies from 9,900 to about 400.

According to the new Cooperative Act of 1967, cooperatives are classified into 8 types, these are, credit, marketing, purchasing, servicing, land settlement, land tenancy, land hire-purchase and multi-purpose cooperatives. Most of them have been organized to serve farmer members or rural people and they are under the supervision of various

government departments, viz., the Department of Land Cooperatives, credit and Marketing Cooperatives and Office of the Undersecretary of State. In order to make the administrative work more efficient in terms of coordination and technical guidance, the administrative reorganization was undertaken in form of merging these three Departments together in October 1972 under the name of the Cooperative Promotion Department. It is expected that the new organization will perform the tasks more efficiently and economically.

(b) Structure of the Cooperative Movement

Agricultural cooperative in Thailand is divided into three levels :-

1. Primary society or society at district level which its operation area covers not more than one administrative district ;

2. Provincial level or provincial federation comprises with three or more societies joining together to conduct business such as rice mill which need more capital and skill than it can be run by individual society ;

3. National level or National federation comprises for the time being with all provincial federations, the primary society which has not yet been formed as provincial federation, and cooperative stores. This National federation is named " The Cooperative Marketing and Purchasing Federation of Thailand Ltd. "

At the National level there is also the Cooperative League of Thailand an Apex organization of the Cooperative Movement. (See also structural chart of Agricultural Cooperative in Thailand.)

## II Operation of Cooperative Credit Societies at Various Levels

### (a) Financial resources and how they are raised ;

#### mobilisation of deposits.

There are five financial sources of cooperative society namely : Loans from the Bank for Agriculture and Agricultural Cooperatives, Government loan fund and revolving fund, Share Capital, Reserves, and Deposits.

Loans from the Bank for Agriculture and Agricultural Cooperatives is the main source of fund for agricultural cooperatives. The details of which as well as Government loan fund and revolving fund will be mentioned in part III, Government support to cooperative credit institutions and its effectiveness.

Share Capital Share capital is formed by subscriptions from members. A member must hold at least one share (50 Baht) when he joins the society. Afterwards, compulsory holding is made from deduction of 5% for each loan.

Reserves According to the Cooperative Societies Act, 10% of the annual surplus of a cooperative must be allocated to a statutory reserve fund. All subsidies, assets received from Government, foreign agencies or any person, if donors do not stipulate the purpose of using, must be allocated to reserve fund.

Deposits. The society can raise capital by accepting deposits from members at the rate of 4% interest for demand deposit and 7% for one year deposit.

### (b) Loaning policies and procedures

The loan will be given to the members according to the purposes

at the amount appropriate to investment projects. Insufficient credit might endanger the success of the proposed project while excessive credit would result in a waste of fund.

The duration of the loan is adjusted to the purpose and the liquidity of the applicant :

1. Short-term loans not exceeding 15 months are used for financing production of main crops. The rate of interest is 12 % per annum.

2. Medium-term loans with the period of 3 - 5 years are used for paying old debts, financing the purchase of small farm machinery and livestock, the improvement of farm land, irrigation system and so forth. The rate of interest is 12 % per annum.

3. Long-term loans with the period of 10 - 15 years are used for purchase of land, heavy farm machinery, changing paddy field to orchard and so on, the rate of interest is 9 % per annum. (The long term loan is going to be introduced this years.)

The fund for granting loans is borrowed from the Bank for Agriculture and Agricultural Cooperatives at the interest rate of 9 % for ~~short~~ and medium term loans and about 5-6% for long term loans

The member will apply for loan by using the form issued by the Bank. Each application form will be considered by the society's loan committee which comprises about 3 persons appointed by the Board of Directors. Having approved by the loan committee the application form must be submitted to the Board of Directors, the cooperative district officer, provincial officer and then drawing money from the Bank.

Usually an agricultural cooperative is permitted to keep cash in hand at 5,000 Baht, deposit at local Bank not exceeding 100,000 Baht. If cash at local Bank is enough for granting loans, it is not necessary to draw money from the Bank for Agriculture and Agricultural Cooperatives.

After disbursement of loans, credit supervisors will visit the borrowers on their farms to inspect the use of loans and if agricultural technique is required the agricultural extension officers will attend to it.

(c) Recovery problems

The recovery of loans mostly depends upon the result of harvesting which in turn depends on the climate. Eventhough the irrigation system has been expanded quite satisfactorily during the last 20 years, the actual irrigated area is not concurrent with the total irrigable area. The total land area of the country is 321 million rai, 70 million rai constituted farm land, rice farm accounts for 46 million rai but approximately 13 million rai is irrigated. This means that the production of farm on 33 million rai hangs on the mercy of the nature and the repayment of loan depends on this condition.

(d) Management performance.

As the Bank for Agriculture and Agricultural Cooperative is the main supplier, the Bank therefore issues regulations concerning the amount of credit allocated to each cooperative. The important regulations are as follows :-

1. A newly organized agricultural cooperative with limited liability comprises at least 150 members will be granted loan by the Bank one million baht.

2. Agricultural cooperative societies which was amalgamated from small credit cooperatives will be granted loan not exceeding 2 million baht. This amount will be limited according to the ability of last three years collective repayment before amalgamation, i.e.

repayment of loan due	amount of loan given in million Baht
30 - 40 %	1.8
20 - 30 %	1.5
less than 20 %	1.2

3. After three years of operation, the Bank will consider to grant loan not exceeding ten-times of the cooperative <sup>own</sup> capital ~~owned~~ fund.

### III Government Support

1. The Government by the Ministry of Finance has provided led a large sum of money to the Bank for Agriculture and Agricultural Cooperatives in form of shares. In 1972, paid-up share capital held by the Ministry of Finance was 982.6 million Baht while paid-up share capital held by cooperative societies was 16.6 million Baht. According to the regulation of the Bank, a cooperative has to add-up its shares at the Bank equivalent to 2% of the increasing amount of loan extended to a cooperative each year.

2. The Government had allocated, from 1939 - 1959, the amount of 83.6 million Baht for the Departments dealing with cooperatives to set up "The Cooperative Promotion Fund." The cooperative may borrow this fund at the interest rate of 2 - 4 % per annum to expand services to members. The allocation was ceased after 1959 when the Bank for Cooperative was established.

3. Revolving fund for farmers. This fund is operated by the Committee of Farmer Aid Project since 1966. The use of fund bases on there purposes i.e. increase output, price support for rice and agricultural credit. The fund will be provided mainly through farmer institutions.

Between 1966 - 1973 the Revolving Fund for Farmers has been allocated through cooperatives amounting to 131.6 million Baht. The cooperatives borrowing money from this fund before 15 September, 1972 were free of interest charges, after that date the Committee of Farmer Aid Project has regulated that 2 % of interest will be charged annually to farmer institutions and the institutions will charge not exceeding 6 % to farmer members. At present, four programs from Revolving Fund for Farmers have been allocated through cooperatives.

(1) Increase Output Program The farmer members may borrow for purchasing of futilizers, pumping machines, insecticide sprayers and other machanical tools. Term of repayment will be one year for fertilizer and three years for small machines.

(2) Storage Building Program The fund will be lent to agricultural cooperatives for building storage within the amount of 300,000 Baht for each society. The society pays back in an installment



for 20 years starting from the sixth year. The sum of allocation during 1971 - 1973 is 15 million Baht.

(3) Fund for Purchasing Paddy Program. The fund will be allocated to agricultural cooperatives which storage has already been built from the loan received from storage building program to purchase paddy from members within the amount of 400,000 Baht for each society. The sum of allocation during 1972 - 1973 is 20 million Baht.

(4) Cooperative Rice Mill Support Program The assistance is provided to nine cooperatives running rice mill according to the milling capacity. The sum of allocation during 1972 - 1973 is 8 million Baht.

#### IV. Achievements and Problems.

##### Achievements

First credit cooperative was organized for the purpose of maintaining the right on land of its members because at that time most farmers were heavily indebted. Without credit cooperative the farmers turned to landlords and money-lenders and lost their land finally. The credit cooperative tried to replace the landlords and money lenders by providing loans with reasonable rate of interest. The achievement from such attempt has been seen ; 7 million rai of rice farms are still under the ownership of the farmers.

The small credit cooperatives which number around 9,000 societies in 1969 could accumulate reserve fund amounting to 110 million Baht, deposits from members of about 50 million Baht, and Unlimited Cooperative Societies Mutual Fund of 17 million Baht.

The total accumulation including other funds was roughly 200 million Baht.

In 1969, when the amalgamation program was initiated many agricultural cooperatives emerged from amalgamation could take advantages from the fund accumulated by credit cooperatives. Part of this fund has been spent on acquisition of land and office buildings. At present, 224 agricultural cooperatives out of some 400 societies have their own offices. Many of them have already possessed pieces of land in order to build their own offices in future.

#### Problems

The majority of members who join agricultural cooperative societies are usually poor, joining with first aim to borrow money. The well-off farmers, although the cooperative wants them, rarely enter, as they become money lenders or middlemen themselves. As the cooperative is made up by the poor, the problem of inadequacy of funds is therefore predominant.

It has been mentioned that the main source of fund for Agricultural Cooperatives is the Bank for Agriculture and Agricultural Cooperatives. Before the amalgamation program was launched, the Bank suggested that the amalgamation should aim only at the credit cooperatives with good repayment ability, and leave those which heavy debts until their members could manage payment of outstanding loans. The Cooperative Department on the contrary thought that the amalgamation should be done in full scale otherwise the small credit cooperatives would never be a large size one. In such a case the capital fund would be so small and the cooperative would not be able to perform multi-function such as collective buying and selling. As the ideas have been different from the beginning,

the credit problem is therefore chronic and it constitutes the stagnation condition in agricultural cooperatives.

Because the Bank has limited loan fund to the cooperative at 2, 1.8 1.5 and 1.2 million Baht according to the last three years joint ability of repayment before amalgamation, the credit situation of many financially weak cooperatives has been in trouble. The outstanding loan of these cooperatives after amalgamation has been so high, more than or almost equal to the amount of loan limited by the Bank. The cooperative is not able to expand its credit service and cannot accept new members unless more loan is provided. The stagnation arises:

- Many members neglect to pay back money to the cooperative, they are afraid that the cooperative would lend that money to someone else, they had better pay only the interest.

- Though some members make repayment to the cooperative, the cooperative will not pay back money to the Bank, if it does the Bank will deduct that sum first for interest, it had better relend the money to the members.

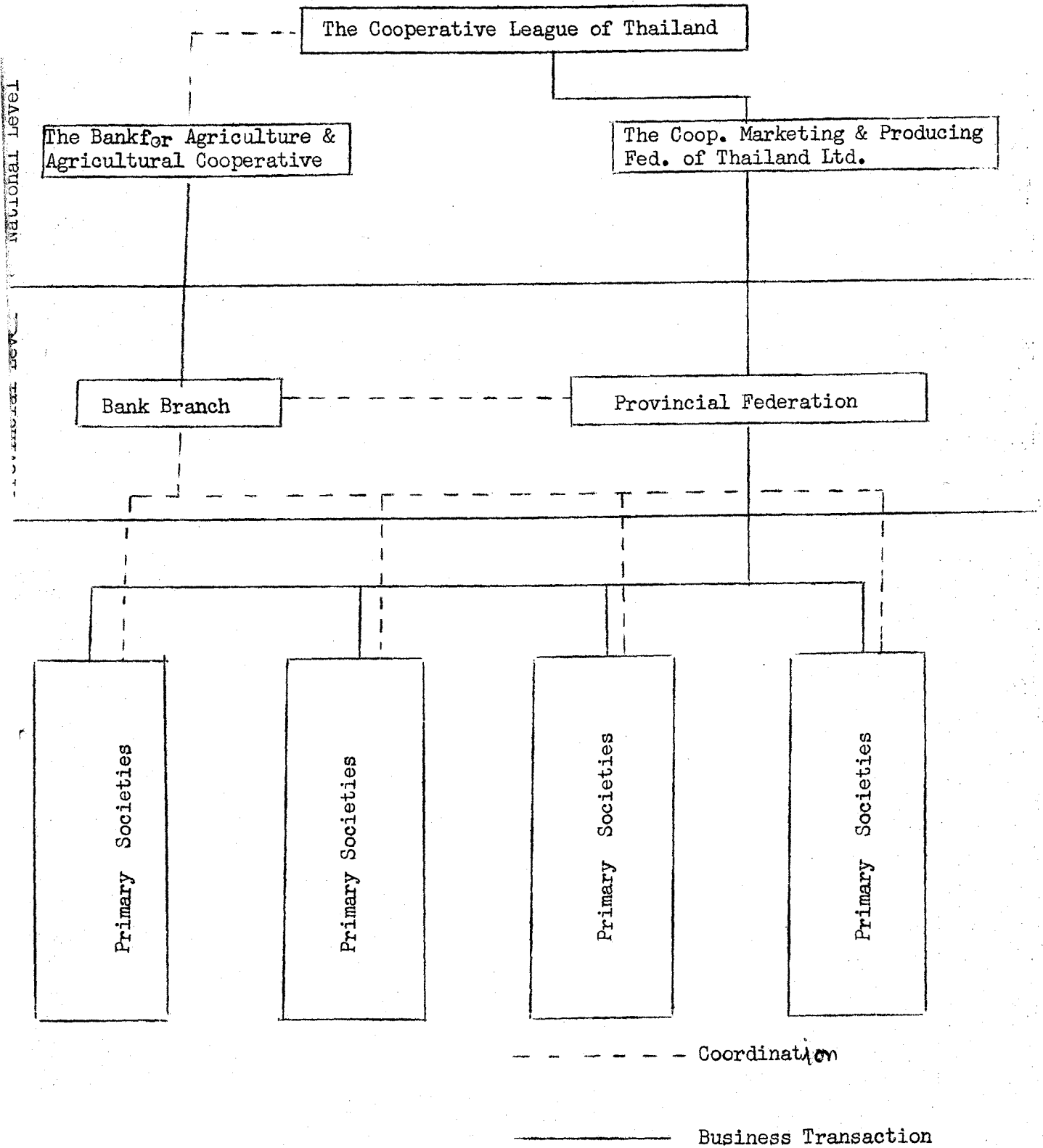
- The Bank will not grant more loan to the cooperatives.

#### Remedial Measure

The Bank has been requested, to grant extra loan to the cooperative so that it can accept new members and break the stagnation, but the request is still in vain. Considering the position of the Bank, it is ~~un-wise~~ for any creditor to extend credit to delinquent debtors.

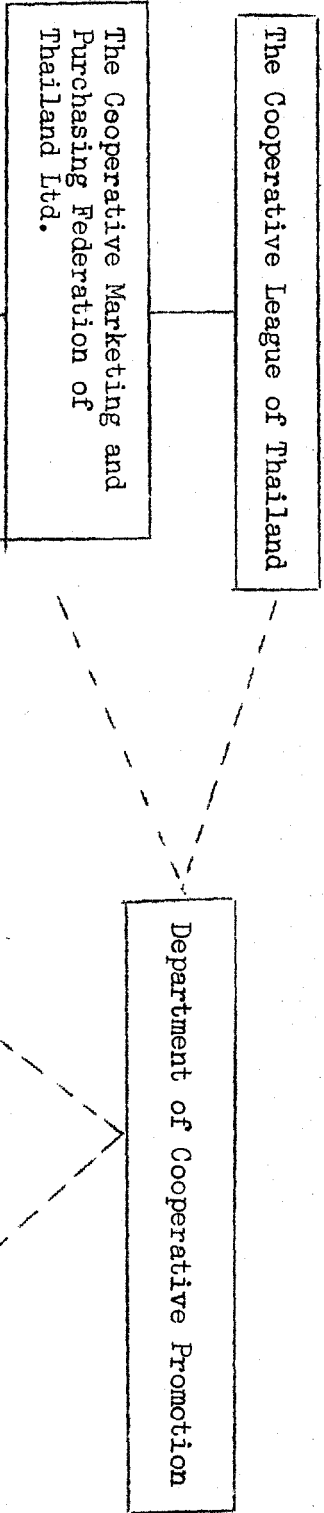
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Structural Chart of Agricultural Cooperative

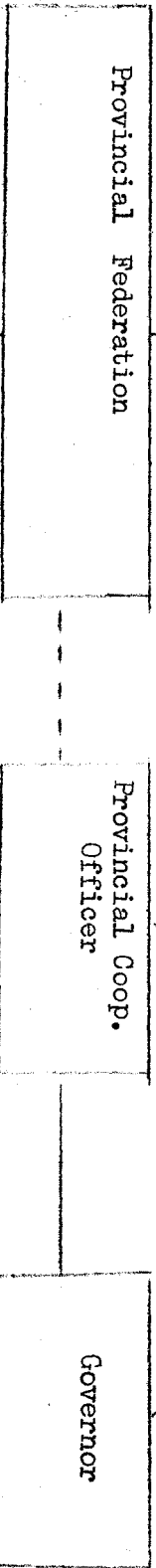


Relationship between Government Agencies and Cooperatives.

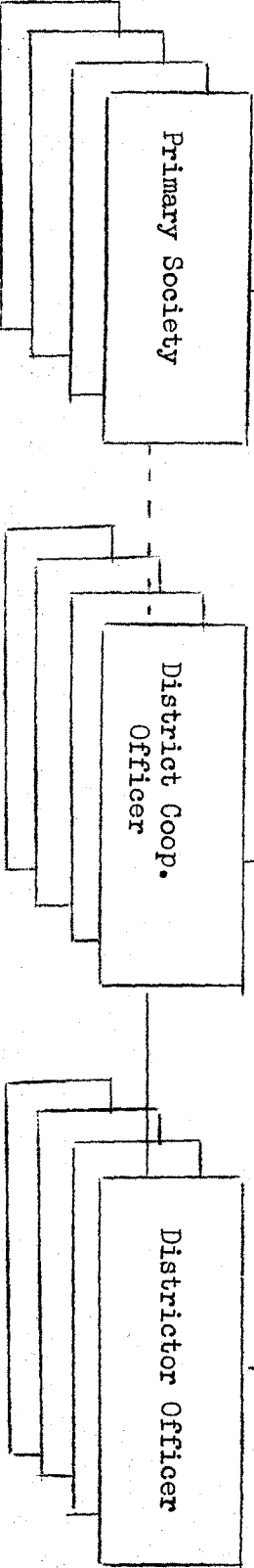
National Level



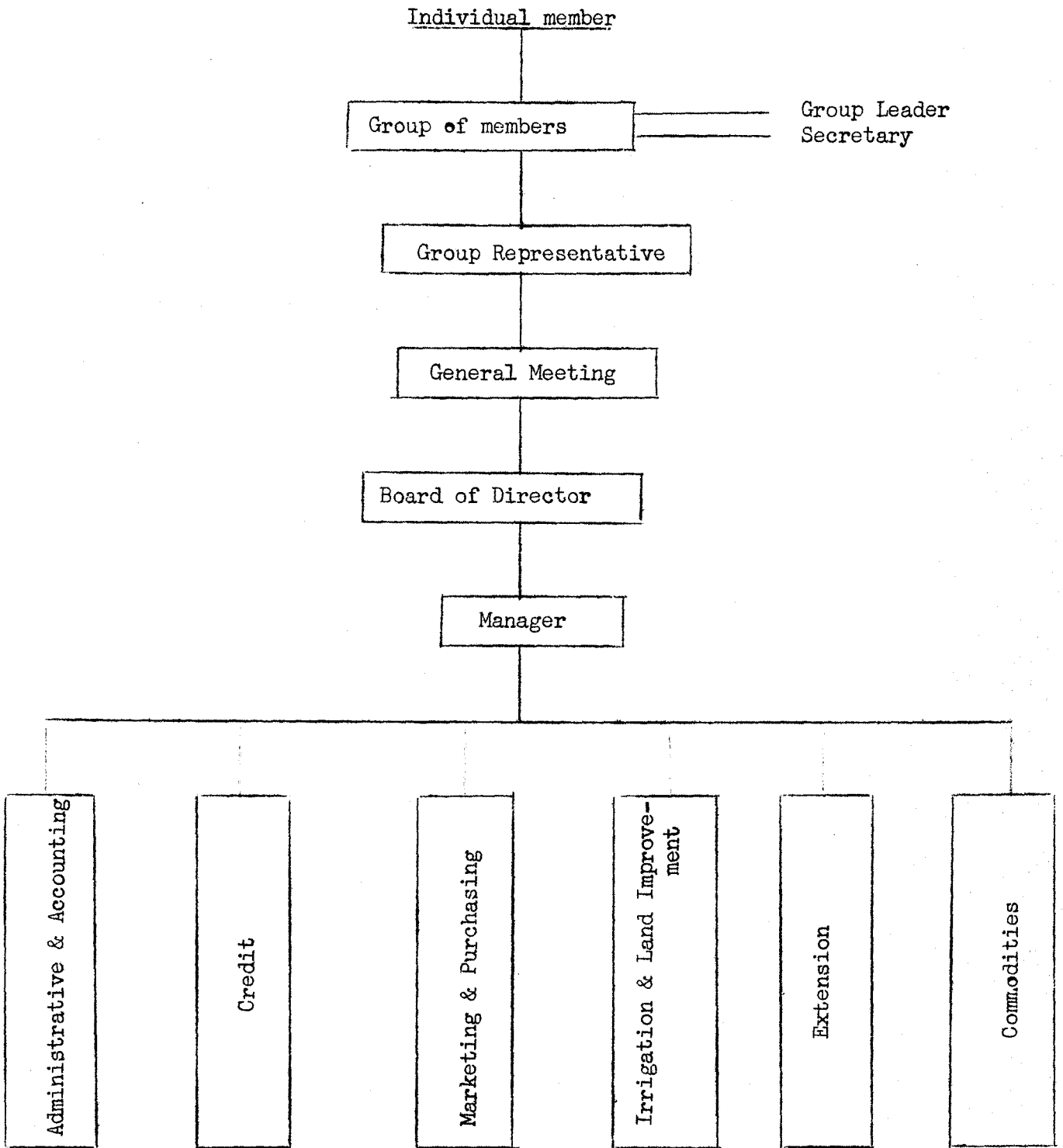
222 ๑๑ Provincial Level



District Level



Structural Chart of Primary Society



PROGRESS OF THE THRIFT AND LOAN SOCIETIES IN THAILAND

By

Pradit Machima  
Director  
Cooperative League of Thailand  
4 Pichai Road  
Dusit  
BANGKOK (Thailand)

organised by

INTERNATIONAL COOPERATIVE ALLIANCE  
Regional Office & Education Centre  
for South-East Asia, PO Box 3312  
43 Friends Colony, New Delhi-14,

CENTRAL UNION OF AGRICULTURAL COOPERATIVES  
8-3-1 chome, Otemachi, Chiyoda-ku,  
Tokyo (Japan)

And

INSTITUTE FOR THE DEVELOPMENT OF AGRICULTURAL COOPERATION IN ASIA  
24-9, 6-chome Funabashi, Setagaya-ku, Tokyo,  
J A P A N

### Introduction

The Thrift and Loan Societies is, at present, the only kind of cooperatives that is efficiently operating and growing very steady and fast, so far because the members are people of regular income and well-educated and its operation is rather easy to manage. That is why this kind of cooperative is progressing very well and can be stated that it is one of the most stable financial institutes in the country.

The first Thrift and Loan Society was organised in 1949, with 181 members joined in the initial stage and had 59,110 Bt. as total working capital; at the end of the year it could make 1,213 Bt. net surplus. From then on, this type of cooperative actively grew among government officials and teachers because it was proved to be greatly beneficial to the members and socially to the country as a whole, especially in solving financial problems of the members.

At the end of 1970, there were 108 thrift and loan societies in the whole kingdom service 181,429 members (families) with 588 million baht as total working capital and the total accumulated loans throughout the year was amounted up to 701 million baht. There were 477 million baht as share-capital and 20 million baht as reserved fund, together with net surplus of 50 million baht at the end of the year. We can see from the statistics that only in the past 21 years, the number of thrift and loan societies increase 108 times or by average 5 societies a year; 1,002 times in the membership and 999 times in total working capital. This proves clearly how successful this kind of cooperatives work.

Therefore, the government besides, organisations, factories, companies and institutes, which have great number of employees, should give special interest in such society, so that they can successfully help to build up working-security for their employees in the future.

### Financial Statistics

Table I  
Comparison of the financial statistics of all the societies  
in the year 1966-1970

Descriptions	1966	1970	Increase in 1966-1970	
			Number	Percentage
Number of societies	85	108	23	27
Number of members	123,350	181,429	58,079	47
Total Working Capital	284,864,000	588,353,000	303,489,000	106
Outstanding Loans	364,009,000	701,386,000	355,377,000	102
Income	28,292,000	60,003,000	31,741,000	112
Expenditure	4,441,000	9,681,000	5,240,000	118
Net Surplus	23,851,000	50,352,000	26,501,000	111
Share Capital	234,864,000	477,000,000	242,136,000	103
Reserved Fund	7,488,000	20,327,000	12,839,000	171

Source , Department of Cooperative Auditing



From the above Table I, is the financial statistics of all the thrift and loan societies in the whole kingdom, showing how fast they grew, but for a better understanding of each thrift and loan society on the average, please see Table II.

Table II  
Comparison of financial statistics of the societies on the average in the year 1966 - 1970

Descriptions	1966	1970	Increase in 1966-1970	
			Number	Percentage
Number of members	1,451	1,680	229	16
Total Working Capital	3,351,341	5,447,729	2,096,388	63
Outstanding Loans	4,070,700	6,491,537	2,420,837	59
Income	332,847	555,861	223,014	67
Expenditure	52,247	89,639	37,392	72
Net Surplus	280,600	466,222	185,622	66
Share capital	2,761,722	4,418,518	1,656,796	60
Reserved Fund	85,741	188,213	102,472	120

Source :: Department of Cooperative Auditing

Table III  
Comparison of financial statistics of each member in the year 1966-1970

Description	1966	1970	Increase in 1966-1970	
			Number	Percentage
Total Working Capital	2,310	3,243	933	40
Outstanding Loans	2,805	3,864	1,059	38
Income	230	307	77	33
Expenditure	36	53	17	47
Net Surplus	194	254	60	31
Share Capital	1,904	2,630	726	38
Reserved Fund	59	118	59	100

Source ; Department of Cooperative Auditing

From Table III, we can see that in the year 1970, each member could borrow averagely 3,864 Bt. while he had 2,630 Bt. in his share capital. Thus, 68% of the amount of loan granted was from the member's share capital, and the rest 32%, which is about 1,234 Bt. for each member, was from the reserved fund and other funds of the society itself. Therefore, it means that the member of the society is not making liability since he is borrowing his own money that he saved in the society and pays to the society a very low interest rate i.e. only 1% a month. Even though at the end of the year, the number also gets the dividends and patronage refund out of the net surplus of the society, for example, at the end of 1970 all the thrift and loan societies in the country had got 50.35 million which was divided as followed :

Reserved Fund	11.14%	5.18 million Baht
Dividends	64.81%	32.49 "
Patronage Refund	11.13%	5.58 "
Others	13.92%	7.10 "
<b>Total</b>	<b>100.00 %</b>	<b>50.35 "</b>

### Total Working Capital

Ninety six percent of the total working capital is from the society's own capital and the other 4% from the deposits. This shows that the society can run by its own afford without depending on any other grant (see Table IV). Thus, it is a good example to use this kind of cooperatives to help building up working-security for the staff and employees of other organizations in running such society, without asking for financial help from anybody. Its operation is simply easy as well.

Table IV  
Comparison of financial statistics of all the societies in the  
country in the year 1966 - 1970

Year	Percentage of Loans granted from the society's capital	Percentage of Expendi- ture to Income	Percentage of Net Surplus to Income	Net Surplus (million baht)
1966	96.0	15.70	84.30	23.85
1967	96.5	15.78	84.22	28.51
1968	96.2	15.80	84.20	34.77
1969	95.8	19.77	83.23	42.30
1970	95.3	16.13	83.87	50.35
Average	95.96	16.04	83.96	35.96

Source : Department of Cooperative Auditing

### Conclusion

The progress and success of the thrift and loan societies, which are mostly among teachers as mentioned above, could be a very good example in showing how working together as cooperative runs. It has a simple operation but gives real estimated benefits to the members and the country. Each year the societies granted loans to almost 200,000 members (families) for over 700 million baht, averagely 3,864 Bt. to each member, which is not just a small amount. If there is no such society, where would these members borrow the money when they really need it. How much would they have to pay for the interest? How would the families suffer from paying such a high rate of interest? This is why the members love their own cooperatives so much, as it helps them in the time of their anxieties or when they need big amount of money to invest in, say: buying land, building houses or taking part in some businesses. They could get money in time and could pay off in long installments, which is very useful both to themselves and the society. Moreover, at the end of the year they also get part of the net surplus in the form of dividends and patronage refund. Where could they get a better service than this?

The thrift and loan society is successful because it has simple operation with good rules and regulations, and is operating among the knowledgeable people who have regular income. There is no miracle in making the thrift and loan society a success, only if it is operated upon three principles i.e. technical knowledge, earning capacity and disciplinary.

REGIONAL SEMINAR ON COOPERATIVE CREDIT

Tokyo, Japan : 9 - 28 April, 1973

OBSERVATIONS ON STUDY VISITS : Pradit Machima  
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From the observation we do realize that cooperative in Japan is a way of life. Every part of a farmer life is involved with cooperative by one way or another, from production to distribution (marketing) consumption and education. This proved that cooperative has filled the needs of everyday's life. That's why cooperative in Japan has been doing very successfully. Moreover, cooperative has been able to adjust itself to the economic and social change very well. For example, the income from agriculture was accounted for 50% in 1967 and went down to 31% in 1971 which means that farm activity is declining but the cooperative can adjust itself to the new change very well by advancing loan to other business activities i.e. housing development and others. This shows that cooperative in Japan can remain whatever the economic and social change will be.

So, we can learn from the experience of the Japanese cooperative very well. A few decades ago the Japanese farmers were as poor as we are today. Some of them sold their daughters to wealthy men just to have money to live on. But nowadays they have enjoyed the highest standard of living in the world although the average land holding per family is very small, only one hectare per family. This is because of the development of technology and the high productivity. In Japan nowadays 15% of the population can feed 85% of the total population, while in Thailand and other part of the world are far behind. Therefore, we should try to learn from Japan.

It is believed that human factor is the most important factor affecting economic development in Japan. This is because Japanese people are well disciplined and oriented to change. If one introduces a new thing the others will follow, but not in many other countries.

From the observation we have learned a great deal about the cooperative and agricultural development in this country. Therefore, we need help and assistance from Japan financially and technically. In the near future we should look for assistance from Japanese experts rather than from the Westerners.

Thank you.

OBSERVATIONS ON STUDY VISITS : P. Lal

Mr Chairman, friends and cooperators,

I am afraid, I may not be able to do full justice to the task assigned to me within so short a time. However, I shall try to touch some of the points which besides other things, impressed me most while visiting primary agricultural cooperatives in Japan.

1. I find that Japanese cooperatives at the primary level are multi-purpose not only in name but in their true spirit and practice. They start with credit and go up to insuring the life and property of the farmers. They approach to them with a package of integrated services. They cover all aspects of their life. A cooperative society has embraced all the farming families of the area within its fold. Again, a cooperative society is the only agency to provide to farmers all facilities required in their daily life. These contribute largely to their success. It is worth emulation.
2. Cooperative societies also provide consumption loans to farmers. This saves farmers from being exploited by others for their consumption needs. Societies have fixed a ceiling of maximum over the consumption loan beyond which no farmer is allowed to borrow for purposes of consumption. This saves them from extravagance.
3. It has become a people's movement. Societies are managed under their Management Boards of elected members. The government have only indirect hands to ensure the progress of cooperatives on sound lines. It may be noted with satisfaction that the Government of Japan have always extended full protection help and support for the healthy growth of cooperatives in the country.
4. I appreciate what I may call a system of indirect democracy in effect with cooperatives in Japan. Small societies have been amalgamated into larger units. Societies are larger in area and membership. This has enabled societies to be viable. It is not practicable and convenient for all the members of a larger society to meet even once a year. So, they have elected representatives

to a body which has all the powers of the general body. This is more practical and effective. Arrangements may be made for the General Body to meet if and when practical and convenient individual members, say once in five years or ten years, to review the working of their Representatives' Body and the society as a whole.

5. The societies have established branch offices at various places. The branch office serves as a liaison between the members and the headquarters of the society. At the same time, it ensures many advantages of a smaller unit.

6. Authority has sufficiently been delegated to the President and the General Manager to ensure services to farmers in time. The General Manager while working under the President does not seem unduly interfered within his functions regarding day-to-day affairs of the society.

7. There are programmes for education and training in cooperation and allied activities conducted at frequent intervals to keep farmers upto-date in their informations about new trends and practices.

It is thus that cooperatives have achieved tremendous success in revolutionising the farming front in Japan. This is so encouraging to all of us.

Thank you.

## OBSERVATIONS ON STUDY VISITS : J.B. Patil

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From 21st April 1973 to 25th April 1973 we paid study visits to cooperative societies in Japan. The impressions made by these visits and new things we learned are already spoken to you just now by our friend Mr P. Lal. I will not repeat the points he has already told now. We shall see some other aspects, which I found new and unique in their application.

On 21st April we visited the Branch of the Central Cooperative Bank at Osaka, in Shiga Prefecture. This is a big Branch catering to the needs of cooperatives in the region. The information given at the Branch office was very much useful to us. We are impressed by the system of maintaining various types of data; data not only regarding banking operations and transactions but also regarding other information about agriculture industry, population, households, etc. is kept and its utmost use is made in planning banking operations. The yield of farm products of all types, industrial financing and other information made available to us at the Branch office will be helpful as guide lines in our work. The discussions at the Branch office showed that Japanese cooperative credit movement has made a tremendous progress and it still goes ahead with its ideas and systematic hand-working.

On 23rd April, 1973 we had a visit to Minakuchi Primary Agricultural Cooperative Society, and had the opportunity to study and observe the working of the society and also visit to its two farmer members on their farms. This is a big society. It has enrolled 100% farmers under its membership. The society has got substantial resource position. What struck us most is that it has collected sizable amount of deposits from members as well as from associated members. It will be worthwhile for the cooperatives in other countries to try such deposit mobilisation drives by organising "saving days" and other measures followed by this society.

On the side of loaning and credit operations we learned some new things too. The society is not only providing agricultural credit but other aspects of every day life of the farmers are also considered. Home economics and home improvement, cooking methods; women's education in these matters and as well as in agricultural operations; importance of good health are also tackled through the better living advisers of the society. This is quite new to us and

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I think all cooperative societies should try to follow such a pattern, which will be paying in the long run. The work of a cooperative society does not and should not end with merely providing credits and facilitating supply of inputs only. We see that the societies in Japan are going ahead a step further by providing expert farm guidance to the agriculturists employing services of the trained farm advisers. This is a most important service activity that needs to be followed by the cooperatives right from the beginning. Otherwise merely providing credit will mean leaving the money and the farmer at the "winds".

Next day on 24th April we visited Dai-nakanolo Agricultural Cooperative Society. Here we noticed what Government aid and efforts of genuine and ambitious farmers can do. The society is well-equipped with all modern mechanisation of agricultural operations. The reclaimed land is being put to utmost use and efforts are being made to secure maximum yields from the lands under expert advice from the society and the Government as well. A well-knit joint cultivation system is being followed. This may be a classic example where the government and enterprising agriculturists are working hand in hand to increase production in all directions - agriculture, animal husbandary, poultry, etc.

In all these visits what we most noticed is that the Japanese cooperative movement has built up a strong edifice with the agricultural primaries at the base level, and that too under the conditions of small holdings, which we consider as an obstacle in the progress of the cooperative credit movement. A definite sense of confidence and loyalty is created by the cooperative movement among its members. The farmer is enthused to produce more and more. This is an urgent need of the cooperative movements in other countries for their survival and onward march of progress. The Japanese cooperative movement did this through strenuous efforts during the last several decades and systematic hand work. I hope, it should not be impossible to the aspiring cooperative movements in other countries, to follow this lead.

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REGIONAL SEMINAR ON COOPERATIVE CREDIT WITH SPECIAL REFERENCE  
TO JAPAN : 9-28 APRIL, 1973, Tokyo, Japan

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GROUP I

1. Mr M.A. Jalal
2. Mr B.S. Mandloi
3. Mr R. Srinivasan
4. Mr C. Partowidodo
5. Mr Jung Soo Han
6. Mr P. Ramasamy
7. Mr Benjamin Cruz
8. Mr Vichien Inthachat

GROUP II

1. Mr M.R. Chowdhury
2. Mr J.B. Patil
3. Mr G.V.C. Reddy
4. Mr R. Mangkoetenojo
5. Mr Abdol Karim Salari
6. Mr Myung Jae Park
7. Mr P. Lal
8. Mr M.M. Kulasegaram
9. Mr Candido Guiam

GROUP III

1. Mr S.V. Sharan
2. Mr Muhammad Reza Ezatian
3. Mr H. Ohmi
4. Mr Joon Hi Joh
5. Mr Mohd. Noor Ariffin
6. Mr Mohd. Rafique
7. Mr P.K. Panadam
8. Mr Pradit Machima



April 14, 1973

GROUND DISCUSSIONS

Please outline the problems of cooperative credit in your countries with reference to the following :

1. External factors.
2. Internal problems in the fields of :
  - a) Organisational Structure,
  - b) Resources Mobilization,
  - c) Loaning policies and procedures,
  - d) Recovery of loans advanced,
  - e) Management,
  - f) Other

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REGIONAL SEMINAR ON COOPERATIVE CREDIT  
Tokyo (Japan) : April 9 - 28, 1973

GROUP ONE - Report

1. Mr R. Srinivasan - Chairman
2. Mr M.A. Jalil - Secretary
3. Mr B.S. Mandloi - Member
4. Mr C. Partowidodo - Member
5. Mr Jung Soo Han - Member
6. Mr P. Ramasamy - Member
7. Mr Benjamin Cruz - Member
8. Mr Vichien Inthachat - Member

The problems which the credit movements in various countries are facing today can be broadly classified into two categories, namely (a) external and (b) internal. The group considered there various problems and arrived at certain conclusions. These are briefly indicated below :

(c) External Factors

(i) Government support

It is essential that in the initial stages of development, government support is provided to enable the movement to achieve self-reliance as speedily as possible. Government support may be confined to financial assistance and to provision of infra-structural conditions in which a demand for credit and its proper utilisation are ensured. The governments, however, should not interfere with the autonomy of the movement in its internal functions. Special care should also be taken to see that the state support does not bring in its wake any kind of political patronage to or by cooperative institutions. Government should also minimise the number of agencies at work in the field of agricultural credit, but where a multiplication of such agencies are considered necessary and desirable, it should ensure coordination and avoid over-lapping and duplication of efforts.

(ii) Land-tenure systems

An out-dated land-tenure system characterised by a large number of tenant, cultivators and share-croppers, a number of small farmers, absentee

landlords and feudal land laws is a positive hindrance to the growth of cooperative credit. Poor maintenance of land records is also a contributory factor. Such causes result in suppressing the demand for credit, particularly for investment purposes. The State has an obligation to implement fair land reform measures and to undertake consolidation programmes for countering the evils of fragmentation and sub-division of holdings.

c) Prices

Prices play a vital role in the success of the credit institutions. The farmer should be sure of an economic return for his produce in order to be able to prepare his farm plan properly. This would enable him to regulate his borrowing from and repayments to his institution properly. Where the open market prices are not economic, the State should provide a price-support mechanism for safe-guarding the interests of the farmers and the cooperative institutions. Building up of infra-structural facilities like communications, warehouses, processing units etc. is also important. Support is necessary for each crops and live-stock products, as well as staple food crops. The State should also find markets. If possible, both within the country and outside. Wide fluctuation in prices can spell the ruin of cooperative institutions. The state should also ensure that corruption is eliminated in operating any price-support scheme.

(iv) Level of Agriculture

The level of agricultural technology employed on the farm ultimately determines the quantum of credit required. The importance of irrigation facilities as contributing to an adoption of a highly scientific agricultural technology cannot be over-emphasised. The response of the farmer also depends on the level of education and the dissemination of knowledge concerning new developments. Recurrence of natural calamities in certain regions is found to be an obstacle to growth in agriculture. While an insurance against this can be provided to a great extent by irrigation facilities a suitable mechanism is necessary to prevent a collapse of credit institutions in such situations in

(b) Internal Factors

245

(i) Organisational structure :

The problem is common to most of the countries. The primary societies at the grass-roots remain weak. The programme of amalgamation and liquidation for achieving viability is not progressing satisfactorily. It should also be noted that while drawing up a viability programme, the convenience of members in any particular area should not be lost sight of.

(ii) Resources mobilisation

The cooperatives have not been aggressive enough in mobilising rural savings. This is very necessary if they are to become self-reliant. In many areas, they have to compete with commercial banks. ~~When~~ the major responsibility for provision of agricultural credit is still the responsibility of cooperatives. Commercial banks should not be encouraged to tap rural deposits, particularly in those regions where they have not started the work of agricultural financing.

(iii) Loaning policies and procedures

It is agreed generally that financing by cooperative institutions should be only for productive measures. Financing of unproductive endeavour should be avoided, as this contributes only to inflationary trends in a country. It was found that there is scope for streamlining the policies and procedures adopted at present.

(iv) Recovery of loans advanced

This constitutes a major bottleneck in all the regions. It is hoped that improvement in loaning policies and in the quality of the managerial personnel will diminish this problem. A system however should be devised to prevent overdues accumulating on account of natural calamities. Political interference is also often observed as a cause of heavy overdues.

(v) Management

The quality of staff particularly at the primary level is not satisfactory. It is, however, noticed that greater attention is now being paid to this problem and efforts are made to improve the quality of the personnel by

recruitment and training of suitable persons.

The group is presenting this paper for the region as a whole, and not for individual countries separately as the problems are noticed to be the same.

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REGIONAL SEMINAR ON COOPERATIVE CREDIT  
Tokyo (Japan) : April 9 - 28, 1973

GROUP TWO - Report

1. Mr P. Lal - Chairman
2. Mr J.B. Patil - Secretary
3. Mr M.R. Choudhury - Member
4. Mr G.V.C. Reddy - Member
5. Mr R. Mangkoetenojo - Member
6. Mr Abdol Karim Salari - Member
7. Mr M.J. Park - Member
8. Mr M. Kulasegaram - Member
9. Mr C. Guiam - Member

The Group met twice for deliberations. First on the 14th April and secondly on the 16th April and discussed in detail the problems of cooperative credit with special reference to those suggested as guidelines for group discussions.

Thanks are due to all members of the group for their active participation and valuable contributions. Facilities provided by the ICA and IDACA to make our deliberations a success are appreciated.

The recommendations of the group can be summarised in brief under the ~~heads as~~ mentioned below :

I. External Factors

(a) State Policy

In developing countries a clear policy of the state for the development of cooperative movement is necessary. Cooperatives in many places are found to have received a step-motherly treatment. So a positive support for the promotion of cooperatives is essential.

(b) Leadership

Although support and partnership of the state are required for the growth of the cooperatives on sound lines conscious efforts on the part of the government are deemed necessary for an enlightened and devoted leadership to emerge within the cooperative sector. Steps should be taken towards greater autonomy to cooperative societies

(c) Education

For the success of the cooperative movement certain level of education is necessary. Although cooperative society is an institution where one can certainly learn by doing, measures should be taken by the State for proper education of the masses. A special attention should be given to programmes of education and training in cooperation.

(d) Land Tenure

Unsettled conditions and uncertain systems of land in many countries are also factors to affect easy growth of cooperatives. It is essential that farmers, whether owner cultivators, tenants or lease-holders must know that their rights- whatever they may be are secured. Then alone they would be able to work with a definite purpose and in peace.

(e) Competition

This is a factor that needs immediate attention. In many countries money lenders, private merchants and traders still dominate the rural community. They do exist in some form or the other. In some of the countries competition from other banking institutions is also threatening the cooperative credit movement. Since cooperatives are meant for the masses it is necessary that certain areas and sectors should be earmarked for cooperative societies to serve as sole agencies.

(f) Infra-structure

For facilitating the working of cooperatives it is essential that the means of transport and communications should be developed. Irrigation facilities should be made available to the agriculturists and facilities for procuring improved seeds, fertilizers and insecticides are provided to the societies. For the effectiveness of cooperative credit proper marketing facilities must be provided.

(g) Coordination

Lack of coordination is a problem that has badly affected cooperative societies in a large number of countries. Coordination has generally been found lacking, especially at the actual stage of the implementation of the programmes. If cooperatives are allowed to play their role an effective media must be evolved to ensure proper coordination among the agencies concerned.

(h) Financing Agency

On the basis of past experience it is felt that steps should be taken to establish a financing agency of cooperative character at the regional level without much delay.

II. Internal problems(a) Organisational structure

In most of the countries of the region a three-tier system of the cooperative credit structure has been in practice. For the present it seems most reasonable to continue with this. In due course when the primary cooperatives become large in area and membership and strong the secondary institutions may not be necessary in some countries while in others they may operate with limited functions.

Immediate steps should be taken to enlarge the area of operations and membership of cooperatives, so as to make them viable units. Steps being taken towards amalgamation of smaller societies into larger units in many of the countries are most welcome. In case of large societies where it is not practicable for all the individual members to assemble in the general body the practice of having a body of representatives entrusted with the authority of the General body should be the rule.

(b) Resource Mobilisation

In developing countries the membership of cooperative societies generally consists of the people of limited means. At the same time they are found lacking in the habit of thrift and savings. With an improvement in their economic conditions incentives should also be provided so as to induce the members of the cooperatives to inculcate among themselves the habit of thrift and savings. At the same time conditions should be so created as to help in the mobilisation of resources in the form of share capital contributions as well as deposits.

(c) Loaning policies and procedures

Policies and procedures regarding loans in most of the countries are required to be revised. They should be simplified and made more objective so as to ensure loans to farmer members of cooperatives adequately and in time.



(d) Recovery of loans

Realisation of loans has not been so encouraging in majority of the countries. Inadequacy of loans, provision of loans fully in cash and natural calamities seem to have largely accounted for this. Integration of minimum services such as credit, supply of inputs, agricultural extension services and marketing etc. required for agricultural operations; through the cooperative societies at the grassroot level is considered most necessary.

Members of cooperatives incurring losses in case of national calamities could be subsidised to a reasonable extent. In such cases, besides rephasing loans, refinancing is also considered necessary. A proper understanding should also be created among the members to repay loans in time.

(e) Management

Dirth of trained personnel to provide leadership in the management of cooperatives is a serious problem in many of the developing countries. At the same time rural cooperatives are generally found to be too weak financially to employ qualified managers. In view of this, besides arranging for the training of cooperatives managers and thereby establishing a managerial cadre for the purpose, the government should also come up with subsidies to pay for the competent managers in cooperative societies. Codes of conduct for the officials as well as the managers should be developed and followed in such a way that the powers and functions of the two may clearly be demarcated. Cooperative societies in most of the countries in the Region are required to be management oriented.

(f) Others

Vested interests are found to be stumbling blocks in the promotion of cooperatives in many of the countries. Deliberate efforts are needed for driving them out.

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REGIONAL SEMINAR ON COOPERATIVE CREDIT  
Tokyo (Japan) ; April 9 - 28, 1973

GROUP THREE - Report

1. Mr H. Ohmi - Chairman
2. Mr P.K. Panadam - Joint Secretary
3. Mr Pradit Machima - Joint Secretary
4. Mr S.V. Sharan - Member
5. Mr Muhammad Reza Ezatian - Member
6. Mr Mohd. Noor Ariffin - Member
7. Mr Mohd. Rafique - Member

I. External Factors

The Group outlined the external factors into two main categories :

(a) The cooperative movements of developing countries in Asia have hard times in respect of finance and managerial experiences. The governments of various countries assist the movement but the assistance is limited. In primary level support should not be with string attached. Government should encourage cooperatives to take decisions for themselves and help them in various programmes by technical and financial assistance.

(b) Lack of Infra-structure

Leaders and members of the movement are illiterate in most cases. ~~knowledge of the movement is limited as far as the members~~  
 They cannot be educated through the media of news letters.

(ii) Transport facilities should be extended to the villages. The absence of these facilities hamper the marketing of cultivated products.

(iii) Conditions should be stable in respect of land tenure. In most cases farmers are uncertainty of the farms as the relentive authorities would take possession of the developed land.

(iv) Farmers and cooperative stores have to compete with merchants in selling the products. In most cases they are in the loosing end because the merchants could dispose their products with a small marginal profit. Steps should be taken to regulate prices of commodities through law so that cooperative

ventures do not suffer.

## II. Internal Problems

### a) Organisation structure

The structure is weak in many cases in the movement. Organisations and relevant authorities should make attempts to overcome the weakness in the movement. Membership should be enlarged, share capital base should be strengthened at district level and societies should be organised and strengthened.

### b) Resources and Mobilisation

Incentives should be given to members to encourage deposits.

Incentives could be in the form of cash or kind.

The status of cooperative banks should be on par with commercial banks. The interest on savings and loans should be the same in the commercial and cooperative banks.

Members should be educated that a cooperative bank is the members' bank, and not a private organisation.

### c) Loaning Policies and Procedures

(i) The movement should grant loans on time so that the farmers could buy the seeds, fertilizers etc. on time. Supervisors should see that the money is properly utilised. Loan should also be adequate so that cultivators do not have to run to money-lenders for part of their requirement. Procedure should be simplified so that cultivators do not have to wait long and run to several places. Forms should be simple, easily understandable by farmers.

### d) Recovery of loans advanced

(i) In many cases the recovery is very slow and untimely. The authorities should take immediate action to recover the loan.

(ii) The rate of interest is very high in many cases. It should be slightly lower than the banks.

(iii) Incentive in the form of rebate should be put into practice.

- (iv) It should be in the by-laws of the society, that a farmer should sell a certain percentage of his cultivated products to the society.

#### Management

- (i) People with experience and knowledge in the said field should be employed. The managerial staff should full-time workers. The staff should be paid according to his responsibility.
- (ii) The Board of Management should consist of good people with a good spirit, who are unselfish and dedicated to the movement. The members of the Board should be paid some sort of remuneration for the services that they are rendering. Some of the members should be full-time directors so that they could devote sufficient time to the movement.

It has been noticed that a member sits on the boards of many societies. This practice should be discouraged as far as possible.

The Board of Directors should be responsible for policy-framing and the implementation should be left to the managerial staff. The Board of Directors should not involve itself in the day to day administration.

- (iii) A statistics department should be created within the movement. The department should study and supply the necessary data in improving the movement.

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April 18, 1973

REGIONAL SEMINAR ON COOPERATIVE CREDIT WITH SPECIAL REFERENCE  
TO JAPAN : 9 - 28 APRIL, 1973, Tokyo, Japan

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GROUP I

1. Mr C. Partowidodo
2. Mr Vichien Inthachat
3. Mr R. Mangkoetenojo
4. Mr P. Lal
5. Mr Candido Guiam
6. Mr S.V. Sharan
7. Mr Muhammad Reza Ezatian
8. Mr Mohd. Rafique

GROUP II

1. Mr B.S. Mandloi
2. Mr R. Srinivasan
3. Mr Jung Soo Han
4. Mr M.R. Chowdhury
5. Mr G.V.C. Reddy
6. Mr Myung Jae Park
7. Mr Joon Hi Joh
8. Mr P.K. Panadam
9. Mr Pradit Machima

GROUP III

1. Mr M.A. Jalil
2. Mr P. Ramasamy
3. Mr Benjamin Cruz
4. Mr J.B. Patil
5. Mr Abdol Karim Salari
6. Mr M. Kulasegaram
7. Mr H. Ohmi
8. Mr Mohd. Noor Ariffin

Points for DiscussionsGROUP I

1. Please define a cooperative organisation. Indicate under what situations and on account of what factors a cooperative organisation ceases to be a cooperative body.
2. Please indicate need and the types of government assistance (aid) given to cooperatives in your countries and outline the effects of such aid on cooperative autonomy. In giving your views, please indicate positive and negative factors with respect to government aid to cooperatives. Keeping in view the principles of cooperation and the character of cooperative organisations, what forms of government aid would you recommend for cooperatives.

GROUP II

1. Please indicate the need and the extent to which government should exercise control - and the nature of such control - over cooperative organisations, without jeopardising the character of cooperative organisations.
2. Please indicate need and the types of government assistance (aid) given to cooperatives in your countries and outline the effects of such aid on cooperative autonomy. In giving your views, please indicate positive and negative factors with respect to government aid to cooperatives. Keeping in view the principles of cooperation and the character of cooperative organisations, what forms of government aid would you recommend for cooperatives.

GROUP III

1. In the context of increasing political interference mentioned by participants in the working of cooperatives in several countries, please indicate what constitutes in your view political interference and its consequences. Please suggest how this problem can be tackled.
2. Please indicate need and the types of government assistance (aid) given to cooperatives in your countries and outline the effects of such aid on cooperative autonomy. In giving your views, please indicate positive and negative factors with respect to government aid to cooperatives. Keeping in view the principles of cooperation and the character of cooperative organisations, what forms of government aid would you recommend for cooperatives.

April 19, 1973

GROUP IThe Report of GroupDiscussions Report

1. Mr. P. Lal ..... Chairman
2. Mr. Vichien Inthachat ..... Secretary
3. Mr. C. Partowidodo ..... Member
4. Mr. R. Mongkoetenojo ..... "
5. Mr. Candido Guiam ..... "
6. Mr. S.V. Sharan ..... "
7. Mr. Muhammad Raza Eztian ..... "
8. Mr. Mohd. Rafique ..... "

Members of the group assembled for a while in the morning on Wednesday, April 18, 1973 for some preliminary arrangements.

The group met again the same day at 2-30 P.M. and had a detailed discussion on different aspects of the subjects. All the members took active part in discussions. Though charged with seriousness at frequent intervals, the atmosphere throughout the meeting was cordial. The group is thankful to the ICA and IDACA for the facilities they provided for making our deliberations successful. Recommendations of the group may be summed up as follows:-

1. Cooperative society is a voluntary organization of persons who associate themselves on equal basis for the fulfilment of their common economic and social objectives. For achieving such objectives, they pool their financial and other resources.

Essential elements involved in a cooperative Society are that;

- (a) it is an organisation
- (b) Certain number of persons associate themselves
- (c) They form the organisation on voluntary basis
- (d) They associate themselves on equal terms
- (e) They have some common needs-economic and social, the fulfilment of which is the main objective of the venture, and
- (f) They have pooled their resources for the purpose.

Absence of any of the characteristics mentioned above undermines the cooperative nature of the association.

1. Gov't support is found in different forms and in varying degrees in different countries. Gov't have to create infrastructures favourable for the growth of cooperatives. As capital formation in most of the developing countries is low, Govt. contribute to the share-capital of societies, Subsidies, Grants-in-aid, training for the staff, officials and non-officials of societies, educational facilities for the potential members of cooperatives exemptions from registration-fees, customs and taxes and loans at easier terms are necessary till cooperatives become self-sufficient. Govt. have undertaken the tasks of organisation, supervision, inspection and audits of cooperatives. At the same time, Govt. take such steps as are considered essential to ensure that the cooperative makes headway on sound lines and is managed well for the common welfare of the members and in the best interests of the society as a whole. These facilities and positive support of the Govt. to the Cooperative Movement are required to continue till cooperatives are not able to stand on their own feet.

The negative aspect of Govt. assistance may be too much of political and administrative interference in the affairs of cooperative societies by the Govt.. This can be remedied by making deliberate attempts to keep cooperatives out of politics and to prevent administrative officers from overshooting their limits in dealing with societies.

While it is deemed most desirable to make cooperatives fully autonomous, their weak financial position and lack of education among most of their members necessitate governmental contributions to cooperative movements. However, in places where cooperatives are ready to assume responsibilities, government control may gradually be relaxed to a reasonable extent.

Thank you,



GROUP IIDiscussions Report

1. Mr. Pradit Machima- Chairman
2. Mr. M. R. Choudhury - Secretary
3. Mr. B. S. Mandloi - Member
4. Mr. R. Srinivasan - Member
5. Mr. Jung Soo Han - Member
6. Mr. A.V.C. Reddy - Member
7. Mr. Myung Jae Park - Member
8. Mr. P.K. Pandamam - Member
9. Mr. Joon Hi Joh - Member

The group was requested to firstly indicate the need and the content to which government should exercise Control, and secondary to indicate need and the types of government assistance given to co-operatives.

It is felt that some sorts of Gov't. control and assistance are desirable for the healthy growth of Co-operative movement in its truest sense.

The actual degree of Control will vary from country to country and will depend on various factors like the form of Gov't., natural condition, lack of education, the content of assistance provided and the projects and functions to be performed by the Co-operative institutions. But it is describable that the degree of Gov't. Control should be as less as possible. It should be enough if the Gov't lays down certain broad lines, rules and regulations regarding the direction of the growth, functioning and policies of the Co-operative. The Governments, however, should not interfere with the autonomy of the movement in its internal functions.

It is recognised that in a developing Country, government support to the Co-operative movement is necessary in order to enable it grow speedily. But this must be done with a full realisation that this is only an aid to ultimate self-reliance and self-development by co-operatives.

It is also not possible for any government to ignore the activities of any co-operative engaged in economic functions, as the State has a responsibility to steer the country's economy towards certain desired objectives.

It is essential that encouragement of Cooperatives should be adopted as a State policy. Once this is done, the aid and support offered by the State may take various forms. These are discussed as below:-

The obvious form of assistance is provided financial resources to Cooperatives. This may consist of subscription to equity capital, provision of working capital, guarantees; subsidies for staff, building, etc.. When financial assistance is provided, it is but natural that the State should see that it is properly utilised, as the Gov't. has a responsibility for accounting for the funds to the Parliament.

The laws of the State, beginning with the constitution of the Country, should recognize Co-operatives as an instrument for bringing about the necessary social and economic changes. Institutions for the growth coop. movement and its proper development may also be established by law. Tax concessions and exemptions may also be written in the laws. Laws governing various activities like marketing, processing, transportation, irrigation etc. may also have a bias in favour of Cooperatives. Laws governing Co-operative institution may also allow autonomy and flexibility in their operations and need not be as rigid as in the case of joint stock companies.

Firstly:- The group accept that some legislative Govt. Control is essential for the healthy growth of Co-operative movement, but any sorts of administrative Control and interference to the day to day to affairs of the Society is detrimental for the growth of peoples oriented Co-operative movement.

## 2. Governments assistance:-

It is desirable that in the initial stages of development, and in its day to day movement government support, assistance, participation and aid are needed e.g. legal aid and financial aid.

(a) State policy:- The clear cut constitutional sanction and ratification is necessary to encourage and give moral force for the growth of Co-operative movement.

(b) Legal aid:- Enactment of laws to provide forum for the growth of Co-operative Movement are essential. e.g. land reform laws.

(c) Grant privilege and exemption:-

The national government should grant some privilege to get amenities and facilities, and also grant some exemptions and concession of taxes, duties, and other charges.

(d) Legal permission be made to safe guard and Protect Co-operative Societies and their interest.

(e) The government should arrange and co-ordinate its Working Mechanism, departments and agencies that the co-operative institutions can work exclusively in particular field of National Economic Development Works and free from any sorts of Competition.

Financial assistance:-

It is needed that in the initial stages of development, government support and financial be presided for the following purpose .

(a) Foundation Capital to meet the preliminary and establishment expenses.

(b) Considering the Circumstances and importance of the project the government should also participate in equity capital.

(c) Manage availability of loan fund at easy terms and conditions and at a lower rate of interest.

(d) Grants in-Aid-for: managerial and technical services be presided by the government.

(e) Gov't. should grant subsidy and help in time of natural calamities like food, drought, cyclone, tidal,bore, earth-quake and so on.

(f) Preside fund to establish training institutions and also to carry on day to day training and research work.

(g) The Gov't should also help done inspection, auditing and supervision of co-operative societies.

Positive view on the above subject:-

In under developed counties of South east Asia the majority of peoples are reluctant and not aware of co-operative movement, due to lack of education, exploitation by vested interest groups of the Society, and lack of Capital for investment. Hence government assistance are necessary for agricultural and economic development particularly in Co-operative Way.

Negative view on the Subject:-

As a result of gov't. aid, assistance and participation of government in Co-operatives makes the people (farmers) in general that the Co-operative institutions are the organisations formed and run by the gov't. and they do

not take so much interest for the improvement of Co-operative organisations. Gov't. rules and regulation brings same rigidity in the day to day operation of Co-operative Societies and it becomes very difficult to make some adjustments with time and circumstances. Gov't aid and assistance helps the people to be more Reliance on Government for their welfare in stead of being self reliance. The State Support also brings same time political patrouage to or by Co-operative institutions.

GROUP IIIDiscussions Report

1. Mr J.B. Patil - Chairman
2. Mr M.A. Jalil - Secretary
3. Mr P. Ramasamy - Member
4. Mr Benjamin Cruz - Member
5. Mr Abdol Karim Salari - Member
6. Mr M. Kulasegaram - Member
7. Mr H. Ohmi - Member
8. Mr Mohd. Noor Ariffin - Member

The members discussed the points raised, in two group sessions and pointed out the prevailing conditions in their respective countries.

Asia regions were considered to be as under :

1. Political interference to cooperatives

Political interference would mean undue interference by people having political background, on the activities of cooperatives, who do not have legitimate eligibility to associate themselves in a particular cooperative movement. Such interferences may be (i) in the formation of cooperatives and (ii) in the management and operation of cooperatives. In the formation side, through their political influence they manage to occupy the important position although they are unable to offer any sound leadership conducive to the healthy growth of cooperative movement. In the management and operation the political interference work detrimental to the interests of the organisations as the people with political bias attempt to gain their political ends at the cost of organisations. In fact, problems of recovery of credit in developing countries are created mostly by political influence. The problem can be tackled by (a) Eliminating vested interests and political influence from cooperatives by legal method in denying membership or entry of people who do not legitimately belong to the particular group with whom the cooperative is formed and other necessary measures. (b) Educating people and motivating them to understand the true spirit behind cooperatives so as to develop effective leadership to tackle problems by themselves.

2. Govt. assistance to cooperatives

The existing government assistance in most of the countries are :

- (i) Capital contribution to cooperative societies.
- (ii) Granting of loans for credit operation at subsidised rate of interest under government guarantee.
- (iii) Exemption of stamp duty and income-tax.
- (iv) Promotional work for expansion and development of cooperative activities
- (v) Audit and inspection of cooperative societies.
- (vi) Grant of management expenses.

In the developing regions inspite of the above assistance the cooperative movement could not achieve the strength of economic viability. Without government support and sub-sides the cooperatives in those regions may not be able to function. It is however, felt that permanent dependence on support and subsidies would not help healthy growth. As such the government assistance is needed to be channelised with the aim of making the movement self-supported which may be in the following form :

- (i) Initial capital build up for operational resources.
- (ii) Infrastructure facilities for complete service to the members in their activities in Production, marketing as well as their living amenities with social welfare measure.
- (iii) Legal measures for eliminating the evils like pressure of vested interest and political interference.
- (iv) Sound policy decision as to protect cooperatives from competition of other organisations and governmental agencies functioning in the same sectors in which the cooperatives operate.

Since cooperative movement is considered a vehicle of economic development in many countries, government participation for necessary assistance would be indispensable. But to maintain autonomous character of cooperatives it is desirable to have government assistance without string of influence and control in policy making. Rather government support and guidance for healthy growth of movement under peoples leadership would be necessary.

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April 19, 1973

GROUP DISCUSSIONS (III)

- I. Please suggest appropriate loaning policies and procedures keeping in view the following :
- (a) Provision of adequate and timely loans,
  - (b) Simplification of formalities and forms, etc.,
  - (c) Provision of loans to small farmers, sub-marginal farmers and tenants, and
  - (d) Increasing productivity of farmers,
- II. Please outline the problems in effecting timely recovery of cooperative loans and suggest measures - procedural, organisational and administrative - to ensure the same.
- III. Please indicate the main difficulties in mobilizing resources by cooperative institutions in your countries and suggest suitable measures to augment their resources, so as to make them strong and viable.
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REPORT III

## Group I

1. Mr P. Lal - Chairman
2. Mr Vichien Inthachat - Secretary
3. Mr C. Partowidodo - Member
4. Mr R. Mongkoentenjo - Member
5. Mr C. Guiam - Member
6. Mr S.V. Sharon - Member
7. Mr M.R. Ezatian - Member
8. Mr Mohd. Rafique - Member

Besides informal deliberations held during toilet breaks, coffee,-recess and in the bus while going from Tokyo for visits to agricultural cooperatives the group met formally for two hours in the Station Hotel, Kyoto at 8 p.m. on April 22, 1973 and went into the details of various aspects of the problem assigned to it for discussion. A decision was taken to recommend the following :

Inadequate and untimely loans lead to wastage of resources, misutilization of funds, and to its consequent, damaging effect on production. In developing countries, fuller attention has, therefore, to be given to agricultural loan and allied services; may be, if necessary for the time being, restricting or postponing other activities. Preparations for granting loans to farmers have to be made quite in advance of the agricultural season. Cooperatives have to arrange for adequate administrative machinery to advance loans to their farmer-members in time.

In most of the countries, land-records are in good shape and upto-date. Usually, cooperative societies also maintain registers of their members carrying detailed informations about their financial condition, repaying capacity, landed property, etc. In view of this, it may not be considered necessary to have detailed informations about the same in loan application as they are quite time-consuming. In many countries, loan-applications are processed at various levels which again are repetitive and resulting in delays and in wastage of time and energy. The forms should be as simple as possible so that they may be easily understandable to farmers. Decision-making power should be sufficiently delegated to ensure timely processing of loan-applications.



Systems should be so developed as to ensure loans to small farmers and tenants. This can be done either by encouraging cooperatives of small farmers and tenants or by earmarking necessary amounts in a cooperative society for loans to them. In case there is no other security or surety for small farmers and tenants to attract needed loans for them, loans may be advanced against crops, on tenancy right and in consideration of the conduct of the small farmers and tenants in the past.

The question of increase in productivity is of utmost importance. This is necessary for the wealth and happiness of the farmers and ultimately of the nation. It is immediately essential for the progress and even for the existence of cooperatives. Increase in productivity of farms alone will generate the necessary repaying capacity and solve effectively the problem of overdues which has stifled the growth of cooperatives in many countries. Credit in isolation can not bring about desired results. A cooperative society should be so designed and encouraged that they may approach to farmers with a package of integrated services i.e. credit, extension advice, improved seeds, fertilizers, insecticides, pesticides, tools, implements and marketing facilities, etc. High cost of production and low return will kill the initiative of the farmers and thus may come in the way of increase in productivity. Rationalization of the price-structure and linking of credit with marketing therefore deserve serious attention. Storage is also vitally linked with these problems. Construction of warehouses has to be given priority. In countries where irrigation facilities are not well provided, irrigation from minor and major sources will be of great significance. Top priority will have to be given to irrigation projects. Rotation of crops based on soil-tests is also considered to be of help in this direction.

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REPORT IIIGroup II

- 1.
1. Mr Pradit Machima - Chairman
2. Mr M.R. Choudhury - Secretary
3. Mr R. Srinivasan - Member
4. Mr P.K. Panadam - Member
5. Mr G.V.C. Reddy - Member
6. Mr J.S. Han - Member
7. Mr M.J. Park - Member
8. Mr J.H. Joh - Member
9. Mr S.B. Mandloi - Member

1. The group considered the problem of overdues and analysed the reason therefor. As far the development and expansion of cooperative credit is severely inhibited by overdues, the group felt that the task of reduction in overdues should be accorded the highest priority.

2. The reason for overdues may be classified broadly as follows :

- (a) Defective loaning policies and procedures,
- (b) Managerial and administrative inefficiency, and
- (c) Reason beyond the control of the cooperative institution.

These are briefly discussed in the paragraphs below :

3. Defective loaning policies and procedures : Loaning should be production-oriented and should be on the basis of a viable farm-plan or project. It is necessary that the entire amount required by the farmer is advanced by the institution, to prevent him from seeking other undesirable sources of funds. The amount of the loan should be within the repaying capacity of the farmer, calculated on a scientific basis, as otherwise the farmer will only be burdened with a debt which he cannot liquidate. It should also be ensured that the loans are advanced in time in order to meet the needs of the farmers for production purposes. This would, to a large extent prevent misutilisation of loans and ensure proper end-use of the funds. Recovery should also be made after the harvest, as soon as the farm produce is sold. In fixing the quantum of the loan, the needs of the borrowers, particularly in the case of small farmers, for consumption purposes should also be taken care of. Recoveries should as far as possible be made out of the sale proceeds of the produce.

For this purpose a suitable mechanism should be devised.

#### 4. Managerial and administrative inefficiency

Non-availability of suitable personnel at the primary level is another reason for overdues. The primary societies should have the benefit of persons who can offer sound farm guidance and extension services. The utilisation of loans should also be supervised and assisted to the extent necessary. The staff of the primary society should take up a recovery drive at the right time, when market arrivals are the maximum. When the default by the borrowers is wilful, the primary society should also take timely legal steps for recovery of the loans. Further, the staff of the primaries can provide market intelligence to the members to enable them to get a remunerative price. Ultimately, the aim of the staff at the primary level should be to bring home to the borrowers their social and moral obligation to repay.

#### 5. Reason beyond the control of the cooperative institution

Failure of crops due to drought or other natural calamities affects the repaying capacity of the borrower. Provision of irrigation facilities is a safeguard against drought. There should, however, be a mechanism for re-scheduling the loans in such situations. Violent fluctuations in the price of farm produce again upsets the entire farming operation and affects recoveries. The need for a price support scheme for major items of farm produce is very necessary for a good recovery as well as for other reasons. Interference by political parties and by vested interests is another contributory factor in effecting recoveries. This has to be warded off by greater vigilance on the part of the members themselves.

6. It is felt that the problem of overdues cannot be treated in isolation, divorced from other factors effecting the growth of the movement. The strategy should be to tackle the problem of overdues as part of the problem of overall development of credit cooperatives. To achieve this, the aim of our efforts should be :

- a) To evaluate the performance of a society regularly in order to find out the ways and means to improve the efficiency of the society.
- b) To educate and train its members concerning the cooperative principles, agricultural production techniques and marketing.
- c) To get financial and technical support from the government.
- d) To drive for a higher saving campaign and give more incentive to the members.

- e) To develop infrastructure within agricultural sector.
  - f) To reduce the influence and activity of the vested interest through mutual help and self-help through the support of government, financially and legislatively.
  - g) To encourage farmer members to plan for his expenditure through the help of agricultural extension officer.
  - h) To organise cooperative activity in a viable scale, and
  - i) to provide a price-support mechanism.
-

Group III

1. Mr J.B. Patil - Chairman
2. Mr M.A. Jalil - Secretary
3. Mr P. Ramasamy - Member
4. Mr Benjamin Cruz - Member
5. Mr Abdol Karim Salari - Member
6. Mr M. Kulasegaram - Member
7. Mr H. Ohmi - Member
8. Mr Mohd. Noor Ariffin - Member

The members of the Group had two discussion sessions one at IDACA and another at Kyoto Station Hotel, Kyoto. The points relating to the issue were discussed by the member participants from different countries and had the common observations as mentioned below.

Mobilisation of resources by the cooperative institutions is primarily dependent on (a) availability of resources and (b) capacity to mobilise savings and deposits. In the developing countries the cooperative institutions are the organisations of small farmers and other lower income group people who have hardly any surplus money for deposits to contribute to the resources of the societies. The other factors of difficulties in mobilisation of resources are as under :

- (a) The cooperatives in those regions could not build up strong institutional base so far to create public confidence for attracting deposits and savings due to unfavourable socio-economic conditions.
- (ii) The people in general are not educated and well motivated to realise the importance of cooperative principles to attain the self-help capacity in the economic activities and financial operation. Rather the cooperative movement in those regions remained credit oriented and dependent on government support and subsidies.
- (iii) Govt. support and subsidies granted to the cooperatives in various ways (as mentioned in other group report) assisted mostly the small farmers credit programme. There was no comprehensive planning to force the cooperative movement to generate their own resources for the credit operation.
- (iv) The cooperatives in certain areas have been confronted with competition (in their deposit mobilisation work) from commercial banks and other

agencies which they can hardly withstand in their weak structure unless there are measures for their protection. Notwithstanding the adverse circumstances as enumerated above there is scope for progress of the cooperative institutions to mobilise resources and making the organisations economically viable. The suitable measures are suggested below :

(a) There should be massive education system to make the cooperative movements achieve in their efforts to be self-supported economically and financially so that people realise the importance of collective savings.

(b) The organisational set-up entrusted with the work of deposit and savings mobilisation should be strengthened to attract people for such business and should be equipped with trained man-power capable of having public confidence on the one side and ~~rendering~~ efficient service to the members or depositors on the other. Such developmental plan towards building resource person would need participate, support and assistance from the Govt. for various facilities needed.

(c) The cooperatives should be granted protection against competition from other stronger agencies in their field of operation. The area of operation of other organisations should be well demarcated to obviate the chance of competition, overlapping and conflicts into cooperative institutions.

(d) The resources available in the rural areas with the traditional money-lenders and other wealthier people may be brought to the cooperative fold by organised method of attracting them by offering reasonable benefits to their instruments in cooperative institutions which may contribute to substantial amount of investment fund.

(e) The primary cooperative societies in most of the countries are not viable units. There should be planned measures of amalgamation or consolidation to make them viable and necessary incentives and assistance should be provided by the government to execute the plan towards viability.

The above observations are commonly applicable to most of the developing countries.

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AIMS AND PRINCIPLES OF COOPERATION AND THEIR APPLICATION  
IN DIFFERENT COUNTRIES

By

J.M. Rana  
Director, Education  
ICA Regional Office & Education Centre  
43 Friends' Colony, New Delhi-14,  
India

REGIONAL SEMINAR ON "COOPERATIVE CREDIT WITH SPECIAL REFERENCE TO JAPAN"  
TOKYO (Japan) : 9-28 April, 1973

Jointly organised by

INTERNATIONAL COOPERATIVE ALLIANCE  
Regional Office & Education Centre  
for South-East Asia, PO Box 3312  
43 Friends' Colony, New Delhi-14,  
India

CENTRAL UNION OF AGRICULTURAL COOPERATIVES  
8-3, 1-chome, Otemachi, Chiyoda-ku,  
Tokyo (Japan)

And

THE INSTITUTE FOR THE DEVELOPMENT OF AGRICULTURAL COOPERATION IN ASIA  
24-9, 6-chome, Funabashi, Setagaya-ku, Tokyo, Japan

INTERNATIONAL COOPERATIVE ALLIANCE  
Regional Office and Education Centre for 273  
South-East Asia, 43 Friends Colony, New Delhi-14.  
India

AIMS AND PRINCIPLES OF COOPERATION AND THEIR APPLICATION  
IN DIFFERENT ASIAN COUNTRIES

By

J.M. Rana  
Director, Education  
International Cooperative Alliance  
Regional Office & Education Centre for  
South-East Asia, New Delhi-14, India

I

INTRODUCTION

Reservations ,

1. Scope of the subject is large particularly the aspect concerning application Hence generalisations necessary.
2. As the Asian Region is wide and presents a great deal of diversity, many situations may not be covered by these generalisations.

II

NATURE OF THE COOPERATIVE MOVEMENT

1. A cooperative society is a form of business organisation which is established by the members on a basis of equality to promote their common economic and social interests. The cooperative society aims to provide goods and services to members at costs as low as are compatible with the long-term development of the society. The management of a cooperative society is carried on by a Board of Directors elected by the members who exercise ultimate control over the operations of the society. Cooperatives of individual members are



called "primary" cooperatives. These primary cooperatives join themselves into a federation which performs commonly required functions involving more large-scale operations and bigger resources than those the primary societies can command. Thus, the federal structure of the cooperative movement, while enabling the small primaries to function independently, achieves for the constituent primaries significant financial, managerial and technical advantages. Also, on account of such coordination (integration), the cooperative movement is able to achieve significant competitive capacity.

The cooperative way of doing business has taken many forms in Asia - from highly specialised to multi-purpose societies. The main forms of cooperatives in the rural areas in South-East Asia include multi-purpose cooperatives or specialised agricultural credit cooperatives. Since the last World War, agricultural marketing and processing activities are being increasingly developed on a cooperative basis. In urban areas, the main forms of cooperatives are the thrift and credit societies, consumer cooperative societies, cooperative housing societies, and in some cases cooperative insurance societies. Fishery cooperatives and industrial cooperatives for artisans have also been formed in many parts of the Region.

2. The main aims of the cooperative movement could be broadly categorised as follows ;

- i) promotion of economic interests of those sections of society who are individually unable to make significant economic progress.
- ii) social and cultural advancement of the members and even of the community as a whole, (Emphasis on educational, cultural activities, community programmes and development of cooperative press)
- iii) Strengthening the democratic and more rational forces in the community through the specific ways in which a cooperative society operates, (Emphasis on discussion and parliamentary procedures, developing capacities for taking initiative by members, etc.) and
- iv) Acting as a countervailing influence on the economic and social excesses operating in developing countries. (Reducing economic inequalities, building social cohesion amongst members, opposition to exploitation by money-lenders-cum-traders, etc.)

### COOPERATIVE PRINCIPLES AND THEIR APPLICATION

In the early part of the 19th Century, the British Consumer Movement published a set of principles which came to be known as the "Rochdale Principles". These principles were further examined by a Committee of the ICA. Subsequently, the following principles were accepted by the ICA Congress in 1937 as applicable to all cooperative societies :

- i. Open Membership,
- ii. Democratic Control,
- iii. Limited interest on Capital,
- iv. Dividend on Purchases,
- v. Cash Trading,
- vi. Political and Religious Neutrality, and
- vii. Promotion of Education.

#### Present Principles

In 1964, the ICA appointed a Commission on Cooperative Principles to examine the fundamental principles of Cooperative activity in the context of the present-day economic, social and political situation and to suggest whether any of the principles should be reformulated. The Report of the Commission was considered by the ICA Congress held in Vienna in September 1966 and the following principles were adopted.

- i) Membership of a Cooperative Society should be voluntary and available without artificial restriction or any social, political, racial or religious discrimination to all persons who can make use of its services and are willing to accept the responsibility of membership.
- ii) Cooperative societies are democratic organisations. Their affairs should be administered by persons elected or appointed in a manner agreed to by the members and accountable to them. Members of primary societies should enjoy equal rights of voting (one member, one vote) and participation on decisions affecting their societies. In other than primary societies, the administration should be conducted on a democratic basis in a suitable form.
- iii) Share capital should only receive a strictly limited rate of interest, if any.

- iv) Surplus or savings, if any, arising out of the operations of a society belong to the members of that society and should be distributed in such manner as would avoid one member gaining at the expense of others.

This may be done by decision of the members as follows :

- a) by provision for development of the business of the cooperative,
  - b) by provision of common services, or
  - c) by distribution among the members in proportion to their transactions with the society.
- v) All cooperative societies should make provision for the education of their members, officers and employees and of the general public, in the principles and techniques of cooperation both economic and democratic.
- vi) All cooperative organisations, in order to best serve the interests of their members and their communities, should actively cooperate in every practical way with other cooperatives at local, national and international levels.

These principles indicate the aims and special character of cooperative undertakings as distinct from private or public enterprises. In addition, they are good business rules too which have stood the test of time. Their non-observance has been the cause of many a failure. A correct interpretation and application of these principles are, therefore, very essential for the success of cooperative societies.

The principles are discussed below one by one, but on account of their close inter-relationship, preference to other related principles have been made wherever necessary.

#### 1. Open and Voluntary Membership

Two fundamental considerations relevant :

- 1.1 Those who make use of the services (the service association) of a cooperative society should and do become its members, and conversely, the membership of a cooperative society consists of persons whose needs and services, the cooperative supplies.
- 1.2 The cooperative movement being a social movement, welcomes all eligible members to join the society appropriate to their situations and needs; even more it encourages and assists them to join such societies.

### 1.3 Implications

- i) Aim of the society to supply goods and services required by members and not to make profits. Hence, it should be open to all persons without any discrimination on the basis of race, religion, caste or political opinions they hold.
- ii) All members enjoy equal rights and they are free to join or leave the society.
- iii) This principle gives the movement its ideological appeal of universality and solidarity among members on the basis of common interests.
- iv) Uniting members on a common platform, irrespective of their other interests, makes for singleness of purpose for achieving common social and economic goals.
- v) Open membership enables the society to achieve increase in size with admission of new members, (especially relevant in consumer societies or agricultural marketing societies). Thus possible to acquire needed capital for undertaking wholesaling, processing and/or production activities. In consumer societies, the vast membership also provides the markets for the goods processed or produced by them.
- vi) The freedom to join or leave ensures that the Movement is not burdened with unwilling members. It would also keep the societies' management alert and responsive to the needs of members. Maintenance of continuous dynamism and achievement of higher standards of efficiency essential if members loyalty is to be sustained and new members are to be attracted.

### 1.4 Application in Asian Countries

- i) The policies pursued by the cooperative societies in most countries of the region are not aggressive as regards expansion of membership is concerned. Hence, many credit, marketing and consumer cooperatives have tended to remain small organisations.

11) Ideally speaking, the individual should be free to join as well as withdraw from a society. Emphasis on voluntariness and absence of compulsion. This freedom, however, is rarely absolute. His entry or exit should not affect the society adversely. Some examples from the Asian Region given below.

- a) Selection of members in unlimited liability credit societies of vital importance. Even in limited liability societies, persons who are likely to damage the interests of the society and of the majority of the members could be kept out; e.g., money-lenders-cum-traders in agricultural credit, marketing or consumer cooperatives. Also exclusion of non-creditworthy persons from urban thrift and loan societies. Such refusal is justifiable on grounds of maintaining internal harmony. (Bad characters, irresponsible individuals and trouble makers should be kept out).
- b) The principle of open membership of universal application in respect of consumer cooperatives. The existence of institutional stores in many Asian countries. They have achieved success due to :
  - , Assured clientele
  - Credit-buying facilities
  - Mutual knowledge among members
  - Societies getting adequate finances as members are fixed-income earners
  - Better leadership available in view of good educational background of members and mutual knowledge.

#### Consequences

- limitation on growth
  - inconvenience to members as members have to carry their goods over long distances from shops located on business premises to their homes.
  - feeling of cooperative solidarity within the entire movement difficult to develop.
- c) Capacity of the plant in workers' productive society may not allow admission of all workers seeking employment or membership. Such limitations justifiable.
  - d) In the case of cooperative farming societies and industrial cooperative societies, some abuses exist. In the case of some industrial societies, the society is operated in the interests of the master craftsmen. In the case of farming societies also, the erstwhile landlords operate

the societies in their own interests while enrolling tenants or labourers as members.

Also profit-seeking entrepreneurs, e.g. in cities like Bombay, start cooperative housing societies and earn handsome profits.

- e) An unwilling farmer or a small group of such farmers by refusing to join a cooperative farming society can hinder the possibility of significant economic betterment for a majority of farmers. There are similar examples with regard to managing irrigation schemes or in adopting aerial spraying of pesticides.

A small group of farmers can frustrate the whole plan of action.

In such cases, in the interest of the whole community, compulsion could be exercised by the government, forcing the recalcitrant members to fall in line.

- iii) In Multi-racial or multi-religious societies, some times a society may be confined to only one group, e.g. societies organised on racial basis in Malaysia.
- iv) Ordinarily a consumer cooperative society should aim at enrolling members from the general public through the use of patronage dividend, and no distinction be made with regard to selling between members and non-members. Consumer cooperatives in Asian countries operating schemes for distribution of rationed or controlled goods. However, not much efforts made to enrol non-members. Problems arise as to how to sell non-rationed commodities in short supply to members and non-members e.g. imported articles in Sri Lanka or confiscated goods purchased from Customs authorities in India. Whether to sell on "first come first served" basis or to give preference to members.
- v) Question of "Sympathiser Members" who do not need the services of a cooperative society but whose inclusion in membership is of vital importance as they provide leadership.

## 2. Democratic Management

Democratic management of a cooperative society is organised on the basis of "one member one vote" as distinct from "one share one vote" in capitalistic enterprises. It signifies that a cooperative society is an association of human beings who come together on the basis of equality and not of capital. The control of the operations and management of the society is ultimately vested in the members

who have equal rights and the actual management is entrusted to a Board of Directors or a Managing Committee elected by the members. The administrative structure, however, differs depending upon the size and depending upon whether the society is a primary or a secondary society.

### 2.1 Primary Societies

Small societies, organisation is simple - often honorary management. Election on the basis of one member one vote.

### 2.2 Larger Societies

While the basic principle of democracy remains the same, another form of organisational set-up becomes necessary in large societies having several hundreds or thousands of members. In these societies the usual method adopted is that of representative democracy. Under this system, instead of one general meeting the members are convened to a number of branch or district meetings. The agenda in these district meetings, of course, cover the whole field of society's operations and not simply branch or district affairs.

### Consequences

- i) Personal knowledge of officers and candidates diminishes giving place to impersonal relations between administration and membership.
- ii) As the scope and complexity of society's operations increase, it outruns the ability not merely of the ordinary members but also of their elected representatives to keep track of them and effectively control the society. In this context, a judicious balancing of centralisation by decentralisation is necessary. It is necessary to improve the quality and qualifications of elected officers, and members of management committees; also the authority of the local committees with regard to local matters should be strengthened.

### 2.3 Secondary Societies and Federations

- i) Principle of one member one vote should be the underlying basis of the constitutions of these societies as well. This principle would work well where the size of the member societies is generally uniform and there is no great disparity between them. Another method in larger secondary organisations which is usually adopted is to base voting power upon the strength of the individual membership of societies. The number of delegates a society can send to the general assembly is thus based on its membership. This is a strict application of the principle of one man one vote. To avoid the dominance of large societies, a limit is often placed on the number of delegates a society can send to the general assembly.

- ii) In some cases the principle of patronage is introduced as an additional element in fixing the voting power of the societies. Representation thus is given on a combined basis - (i) a certain number of delegates on the basis of membership, and (ii) additional delegates depending upon its volume of business with the federation. According to the Principles Commission, this element may be a desirable concession for the sake of unity, equity or efficiency or a combination of these factors.

#### 2.4 Application in Asian Countries

In developing countries of the Region, there are a number of factors which make the application of the principle of democracy in cooperative societies rather difficult. These factors include widespread illiteracy in some countries of the Region and low level of education in many. The members are just beginning to learn operation and they are not always sufficiently well equipped to manage by themselves the societies successfully. Hence, outside advice and guidance becomes necessary. This guidance comes from usually two sources : (i) institutions and individuals in sympathy with cooperative methods and ideals, (ii) and the government.

Another reason why government is interested in the cooperative movement is that it recognises cooperatives as suitable agencies for promoting social and economic development which the government is attempting to foster under its economic plans. Also, the government regards cooperatives as proper agencies for undertaking certain tasks on its behalf on considerations of equity and economy in administration of its schemes. Examples of this are distribution of scarce commodities through consumer cooperatives in India and Sri Lanka, or distribution of agricultural requisites to farmers such as fertilizers; the government would otherwise have to set up extensive distribution machinery or would have to distribute it through profit-making channels.

In order to foster cooperative movement government provides assistance to cooperatives in a number of ways.

- (a) In most countries of the Region, there are government cooperative departments to plan cooperative development and to give advice, guide, supervise and audit the cooperative societies.
- b) Financial assistance in various forms is provided to cooperatives. This assistance may be provided in the form of loans or outright grants; e.g.



in several countries assistance provided to cooperative farming societies for land reclamation and soil conservation; and to agricultural cooperatives for construction of store houses, purchase of machinery and other equipment.

Development of cooperative sugar factories in India an outstanding example of such assistance; loans often provided at concessional rate of interest in order to increase agricultural production.

Government also provides help to augment the share capital of cooperative institutions at the national and state levels by way of direct contributions to share capital or provision of loan capital : e.g. government assistance in funds to Cooperative Bank for Agriculture and Cooperatives in Thailand and share capital contributions to the cooperative Banking structure in India.

Government provides guarantees on behalf of cooperatives for the payment of principal and interest, e.g. State Governments providing such guarantee to the Reserve Bank of India and other agencies for debentures floated by Cooperative Land Development Banks; the government providing guarantees to commercial banks for loans issued to consumer cooperative societies.

Government also provides assistance to cooperative federations and unions for propaganda and educational work.

### Some Consequences

The above assistance by the government has some consequences as regards operation of democracy is concerned. Democracy implies autonomy in the sense of independence of external control, apart from, of course, the cooperatives being subject to the same general laws and rules as all other business undertakings.

- a) As part of the planning process, the government sets up targets of cooperative development: quite often this results in very speedy organisation of cooperative societies without proper preparation of members by way of education. A number of societies therefore are not able to develop stability, e.g. consumers cooperative societies developed during scarcity conditions especially in war periods. When government assistance withdrawn, the consumer cooperative movements by and large collapsed.
- b) In order to safeguard public money invested in cooperative organisations and in order to prevent abuses of privileges accorded to cooperatives, government nominates members on the Board of Directors. Because of the prestige and position of these government officers on the Boards of Directors, the elected representatives may tend to leave decision-making to these people

whom they consider to be more qualified than themselves.

- c) Government also deputes its own officers to work in the cooperative organisations. Thus, these factors tend to develop the cooperative movement not merely as an instrument for implementing government development programmes but more as its own arm or its own department. Quite often, ordinary people fail to recognise the distinction between a cooperative society and a government department, and many members are found saying that the cooperative society is a government institution.
- d) Another factor which affects the operation of democracy in cooperative institutions is the wide social and economic disparities amongst the members of cooperatives. In rural societies, there are differences amongst the members on the basis of economic status, caste, race, and religion. The newly developing communities in Asia are yet too much tied by these factors. The loosening of these factors and the development of a more homogenous community as well as the fostering of democratic attitudes in place of authoritarian relationship based on status will take time.
- e) The development of enlightened membership, competent leadership and skilled cadres of staff is a long-term task which needs an intensive and extensive programmes of education and training. The building up of democracy in cooperative organisations, is therefore, going to be a painfully slow process in most countries. The government itself has an important role to play in this context. Some suggestions in this context may be made as follows :
  - i) The cooperative development programmes should be drawn up in the context of the capacity of the cooperatives, by the government in full consultation with the leaders of the cooperative movement. The cooperatives should not be asked to shoulder responsibilities for which they are not ready or which they cannot take up within a certain period of time.
  - ii) The government nominees on cooperative boards should work more as advisers and consultants and should foster discussion and decision-making by the elected representatives. It should be one of their tasks to ensure that voluntary leadership develops.
  - iii) Programmes of education and training should be incorporated in all schemes of cooperative development or projects.

### 3. Limited Interest on Capital

284

The role of share capital in a cooperative society is different from that in a private enterprise. In a cooperative society the owners (i.e. contributors of share capital) and the users of the society are the same persons and the aim of the society is to provide goods and services at as low cost as possible, (keeping in view the long-term development of cooperative business). Thus share capital represents savings made available by members to the society for business purposes; it is not risk capital employed for earning profits. In a private enterprise, e.g. in a joint-stock company, the role of capital is quite different. The aim there is to earn the maximum possible dividend on share capital contributed by the share holders.

#### 3.1 Reasons

- i) The belief of the Pioneers of the Cooperative Movement in the 19th century to build up an equitable society on account of their distrust of the distribution of property and incomes arising therefrom.
- ii) People who possessed capital received enormous returns and thus acquired great power in society. An attempt on the part of the Pioneers to break the bond between capital and power by limiting the interest on capital.
- iii) While it was recognised that capital added productivity to labour, the conception in the cooperative society is that of labour working with capital and not for capital. The distribution of the surplus that arises therefore is on a different basis in a cooperative society than in a private enterprise.
- iv) Self-financing at low cost.

3.2 Four situations in which the principle of limited interest can be tested :

- i) When no interest is paid on capital, no clash with the principle.
- ii) Where interest is paid but deliberately kept below the rate which may be regarded as fair elsewhere; this is also a case of paying limited interest.
- iii) Where limited interest is paid for certain periods but is adjusted not in response to short-term fluctuations in the money market but rather in response to long-term movement of the interest rates. This limit is a fair limit as capital and not specifically as share capital.

- iv) Where a premium is merged into interest rate to induce the lender to put in more share capital; cooperatively speaking this is a dubious practice.

Naturally, the larger market conditions have to be kept in mind but the important point is to ensure that the interest paid on capital does not become speculative remuneration in a manner similar to the rate of interest paid in profit-making enterprises. Since share capital made available by the members represents their savings, it is natural that they could obtain if they put in this capital in any long-term government securities or in fixed deposits in commercial banks.

### 3.3 Application in Asian Countries

- i) In most agricultural cooperative societies the cooperatives find it difficult to pay a fair rate of interest on share capital contributed by members; in view of this great difficulty for societies to acquire sufficient amount of share capital. This greatly hinders the development of cooperatives.
- ii) In certain countries, such as Malaysia and Singapore, urban thrift and loan societies have built up large reserves on account of the sound policies followed by them of paying limited interest on capital. The question now engaging the attention of these movements is how to utilise the reserves accumulated by the societies for the common benefit as they are indivisible. Sometimes some members of course put pressure on the societies to divide the reserves amongst the members on the basis of share capital contributed by them. In view of this, it is essential for the thrift and loan societies in such countries to play a critical role in fostering cooperative development in other areas. This has happened in Malaysia where cooperative housing, cooperative insurance and a cooperative printing press have been developed.
- iii) In most Asian countries, Cooperative Law and the societies' bye-laws lay down the maximum rate of interest. Thus the law and the bye-laws ensure that interest rate above the fixed maximum will not be paid. However, amendment of the law and the bye-laws may be needed, if interest rate is to be changed in consonance with the significant and long-term change in the interest rate in the money market.

#### 4. Disposal of surplus

4.1 In a cooperative society, strictly speaking, there are no profits. The surplus which arises in a cooperative business is on account of the deliberate policy adopted by the society of charging a price higher than the costs incurred on securing the goods and services. This precaution is necessary for a variety of reasons : (i) in order to provide a cushion against unexpected fluctuations in prices, (ii) for building up capital for development purposes, and (iii) for providing certain collective services to the members. Thus Pricing Policy and creation of surplus are closely interrelated.

4.2 Two main questions should be kept in view regarding disposal of surplus : (i) to find a proper balance between the interest of the individual members and those of the society as a whole (i.e. collectively of the members as a whole, and (ii) to do justice as between one individual member and another,

4.3 The benefits conferred by cooperative societies on their members are of various kinds :

- i) They may take the form of money, goods or services.
- ii) The benefits may be immediate, short-term or long-term.
- iii) Some benefits can be enjoyed individually while some others may be enjoyed collectively.

4.4 In testing in what forms and in what proportions the surplus shall be allocated, the members as a body have to use their judgement and decide on the above questions. With regard to the disposal of the surplus, the following operational aspects may be kept in view :

- i) A number of societies provide the goods to members at such low margins that there may not be any surplus worth distributing. For example, many agricultural supply societies supply agricultural requisites to their members at prices so near to cost that there is not much margin left. (immediate benefit given)
- ii) The second consideration is the need for development whereby the society may decide to place the whole or a large part of its surplus in reserves or capitalise it for development purposes. This policy of capitalisation of surpluses has been a crucial factor for advanced movements' in developing their economic power.

- iii) The societies may devote a portion of their net surplus to the provision of services for the common enjoyment of their members, e.g. building of community centres or recreational facilities, undertaking cultural activities or provision for educational purposes.
- iv) After all the above considerations have been taken into account, the society may distribute the surplus on the basis of purchases or the use made by the members of its services. This principle ensures that the members receive a part of what they have been over-charged. Use of patronage dividend in advanced cooperative movements especially consumers movements to enrol non-members. In case of non-members, dividend not withdrawable, but used, when it reaches a certain amount, for giving the member a share in the society. A very simple and fine device since people become members by simply starting to shop at the cooperative store. The most important advantage of the patronage dividend is that it offers to the members short-term advantages. The decision to give amount of patronage dividend is related to the price policy. Examples of U.K. and Sweden. Another advantage of the patronage dividend is to buttress the loyalty of the members; the more they shop at or use the services of the society, the more they gain.

#### 4.5 Application

In some advanced movements a practice has developed to stabilise or even standardise the rate of dividend. Thus, the managers include this rate of dividend in the price which they charge. Thus the system is turned upside down. Also, in some cases in order to maintain this fixed rate of dividend, the management may draw upon the reserves or development funds. This temptation, according to the Principles Commission, should be resisted.

- ii. It should also be mentioned that the private enterprises in some cases have also started declaring a fixed dividend on purchases, thus nullifying the effect of patronage dividend of cooperative to strengthen the loyalty of members.
- iii. In developing countries many societies both in rural and urban areas do not attain surplus. Great need to develop management efficiency.
- iv. In Asian countries where the societies attain surplus, the cooperative laws make various provisions on the basis of which surplus has to be distributed to reserves, common good funds, etc. In several countries, 25

per cent of the net profits are expected to be ploughed back to reserves. However, usually the size of the society and the size of the surplus is so small that sufficient owned funds are not built up by a large number of primary societies; the financial position of cooperative societies generally remains weak.

v. The pricing policy usually followed by the cooperative societies, whether consumer societies or agricultural marketing societies, in the developing countries is to follow the market price. However, there are various ways in which the private enterprise is able to undercut the cooperative societies, e.g., through adulteration, evasion of sales and other taxes etc. Thus the competitive situation of the cooperatives remains weak.

vi. Limited interest on capital and the considerations mentioned above regarding disposal of surplus highly relevant in developing self-financing and building financial independence of cooperative movements. The highest organs of the Cooperative Movement (e.g. apex organisations and national congresses) need to give adequate attention to these questions.

## 5. Cooperative Education

5.1 The Cooperative Movement has deliberately emphasised the importance of continuous and constantly rising standards of education. The ICA Commission on Cooperative Principles, 1966, has elevated it to a regular principle from a subsidiary one.

This emphasis on education arises on account of the following factors :

- i. The ideology of Cooperation emphasises the aspect of mutual help and different principles of organisation and operation for the cooperative enterprise; these need attitudes, motivation and knowledge on the part of members which are different from those required in a profit-seeking environment; cooperative movement democratically managed. Hence education of members who ultimately control the cooperative organisations should receive proper attention.
- ii. The cooperative enterprises function in competition with other forms of economic organisations. Hence there is a continuous need for training of board members and staff members. Training programmes required in cooperative ideology, organisational set-up of the movement, technical skills and economic and social environment.

- iii. The Cooperative Movement seeks to continually expand its frontiers and coverage; it must also create an environment for itself where there is sympathy for its goals, aspirations and modes of operation. The cooperative movement must formulate its policies and express its points of view which is in the interest of the whole body of consumers or producers on issues of public policy affecting them. As the Principles Commission points out "the battle for the acceptance of cooperative ideas has to be fought in the intellectual as well as in the economic field".
- iv. Social and economic changes are fast taking place in the modern world. Highly dynamic situation. Hence, cooperative education has to be a continuous process to update the members, board members and employees.

## 5.2 Situation in Developing Countries

### i) Member Education

Almost all movements have programmes of member education. These programmes are generally operated by the Unions or the Federations. The primary societies do not take as active an interest as they should. For the members educational programmes are carried out in a decentralised manner by holding one-day or two-day courses, through film shows, group discussions, radio talks and material put out in the form of cooperative periodicals and publications.

Education of members is generally carried out on the following :

- a) Principles and aims of Cooperation,
- b) Organisational set-up of cooperatives,
- c) Rights and duties of members,
- d) Some elementary economic education which is of immediate relevance with regard to their cooperative societies,

More intensive education than that for members is given to board members

The subjects emphasised for them include elements of cooperative law, bye-laws, parliamentary procedures and elements of accounting and management.

### Some Problems

- a) Member education techniques adopted are such that they do not generate auto-activity amongst the members with two results : (i) that the cost of operating and supervising the education programmes becomes very heavy, (ii) the educational programmes for members remain one-time affairs.



- b) Difficulties of communication arising out of widespread illiteracy in some countries and low levels of education : hence, use of audio-visual methods necessary. Also essential to impart to members general education involving literacy and other matters until these functions are performed by the government.
- c) The education imparted is more general and usually emphasises ideological aspects compared to practical aspects. Questions concerning operations of societies, their problems and developmental programmes are not emphasised adequately; also programmes for improving the farm economies of members of agricultural societies and household economies of members of consumer societies are insufficiently attended to, barring some exceptions.
- d) Sufficient education is not carried out prior to establishing a cooperative society.
- e) Societies do contribute towards education funds. However, by and large considerable dependence on government funds for education purposes (also applies to staff training).

#### ii. Staff Training

Rapid development of the cooperative movement in Asian countries during the post-war period and hence a general recognition of the need for providing staff training facilities. In almost all countries of the region such as Iran, Pakistan, India, Ceylon, Malaysia, Nepal, Philippines, Korea and Thailand and Bangladesh national cooperative training centres are established. Some countries even have sub-regional training centres. Bulk of the trainees drawn from government cooperative departments partly because of existence of large government departments and partly because of the deputation of government officers to cooperatives. Combined courses held for various categories of personnel whose background is heterogeneous. Hence the course content is basic and somewhat general. Except in few training centres not adequate emphasis placed on management and operational techniques of various types of cooperatives. Recently, however, a trend visible for organising specialised short-term courses geared to the needs of board members and particular groups of employees.

#### Some problems

- a) movements often unable to spare their employees, thereby reducing the effectiveness of the training centres.

- b) the effectiveness of training work is closely related to personnel management policies consisting of recruitment, remuneration and promotion questions. No consistent policy in this regard. Hence the movement unable to attract the best talent; also difficult to retain trained personnel after training.
- c) lack of competent faculty in the training centres, especially for teaching management.
- d) lack of sufficient research programmes which could give an insight to the teachers in operational questions faced by the cooperative societies.
- e) inadequate emphasis placed on practical training involving research projects or other practical project work by trainees.

### iii. Education of the Public in Cooperative Matters

The main techniques under this head include the following :

- a) press and publicity media of the country as a whole as well as cooperative press (radio talks, articles in the daily newspapers and the cooperative press, general discussion forums, university students' cooperatives, etc.)
- b) annual congresses and other important functions such as the observance of the International Cooperative Day where important leaders from different sections of public life are invited.
- c) instruction in cooperation given in the universities either in commercial courses as part of agricultural economics courses or even as an independent subject.

### Some problems

- a) Broadly speaking, the participation by the leaders of the movements in the public issues affecting cooperatives is relatively less; their voice in planning of cooperative development programmes inadequately represented.
- b) the private newspapers highlight the failures of the cooperatives and problems faced by them rather than their achievements.
- c) the movement not recognised in most countries as a force in the economic and social life of the country, although its potential value recognised.

iv. Educational Activities at the International Level

International organisations including the ICA, ILO and the FAO, organise educational programmes to supplement the educational work carried out by the national movements. The ICA has established the Regional Office and Education Centre for South-East Asia in 1960 and the Regional Office in East Africa a few years back in Moshi, East Africa. Education Centre also established by the Swedish Cooperative Movement for East Africa. The ICA Regional Office and Education Centre so far has organised 95 educational activities of various types involving more than 2,500 participants.

Advanced member movements of the ICA have also established training centres for training of cooperators from developing countries. These include facilities created in UK, Sweden, Denmark, Czechoslovakia, USSR, Israel, USA, Canada and Japan.

6. Cooperation Amongst Cooperatives

The ICA Commission on Cooperative Principles added the above principle for fostering cooperative solidarity amongst different tiers and sectors of the movement. Cooperation among cooperatives may be categorised in the following three groups :

- i. Cooperation between primaries and their secondary societies at the district, provincial and national levels,
- ii. collaboration among different sectors of the movement,
- iii. International Cooperation.

6.1 Cooperation among cooperatives at different tiers

In most countries the primary societies have established their federal organisations at the district, provincial and national levels in various fields e.g. in the field of credit, marketing, consumer activity, propaganda and educational work. The necessary coordination among the units at the various tiers is, however, not such as makes these cooperatives a strong force. The primaries complain of lack of services from the secondary organisations while the secondaries complain of lack of support from the primaries. Sentiment of attachments of local people to their units an impediment to centralisation of certain functions. Also persons of responsibility in local organisations may find their social status diminished, as a result of horizontal or vertical integration. Lack of capital and lack of availability of skilled managerial and other personnel impair the efficiency of federal organisations; this factor is of crucial importance in the success or otherwise of cooperative movement.

## 6.2 Cooperation among various types of Cooperatives

Such cooperation essential from the point of view of developing ideological unity of the movement as well as business strength. Examples : (i) cooperative credit societies in Malaysia have helped in developing the cooperative insurance society and housing societies. Such mutual support could add to the strength of each sector of the movement, (ii) various national organisations are members of an ideological body., e.g. the Cooperative Federation of Ceylon, the National Cooperative Union of India, etc. However active functional contacts between the various types of cooperatives are not strong. Reasons for the absence of such active collaboration may be the following :

- a) Basic clash of interest between the membership of two types of cooperatives, e.g. agricultural marketing and consumer stores. (Possibilities of economic advantages for both by collaboration exist in view of a large number of middlemen.)
- b) Lack of appreciation of such collaboration; this factor responsible at the highest level for the leaders to see that they are a part of a social and economic movement which has wider implications for the transformation of the society as such. (lack of collaboration between the credit societies in rural and urban areas).
- c) uneven development of various cooperative sectors e.g. of credit societies on the one hand and marketing and consumer stores on the other.

## 6.3 International Collaboration

This collaboration may take the form of (a) ideological collaboration particularly in the field of education and training, and (ii) economic collaboration.

### Ideological Collaboration

Regional seminars of international organisations such as the ILO, FAO; 12 years of functioning of the ICA & RO & EC with an Advisory Council drawn from member movements has created a feeling of solidarity amongst the Asian movements - their participation in educational programmes, providing local facilities and sharing of costs; ACCI, the Philippines, IDACA in Japan and VL Mehta National Institute of Cooperative Management and School of Cooperation at Polgolla also receive foreign cooperators for training.

All these international exchanges are bound to affect positively the growth of cooperative movement in Asia. However, greater attention needs be paid to careful sifting of experiences of one movement for application to another movement

Economic collaboration

Numerous examples exist of economic collaboration amongst advanced movements in the West, e.g. Scandinavian Cooperative Wholesale Society with a total turn over of over 500 million Danish Crowns, the International Cooperative Petroleum Association, etc. The ICPA has formed links with a few developing countries such as India, Ceylon and Pakistan.

Efforts of ICA in Asian Regiona) International Trade

The subject of international cooperative trade was discussed at the Cooperation Ministers Conference organised by the ICA in Tokyo in 1964, a Survey on the subject for the region was completed in 1966; a Trade and Technical Assistance Section in the Regional Office was set up in 1966.

Issue of Trade Directory and the Trade Information Bulletin; participation by 15 movements in the Region on a self-financing basis under the auspices of the ICA, at the Second Asian International Trade Fair held in Teheran, holding of the Commodity Conference in Tokyo in May 1970, export of a small shipment of sugar molasses from the NAFED to the UNICCOOPJAPAN as well as further contracts for export of deoiled cake.

Japan-Thai Trade and Aid Agreement

- a) Export of maize by Thai cooperatives to the Japanese movement; volume of maize exported in 1969 amounted around 42,000 metric tons.
- b) technical assistance and training provided by the Japanese movement in improving the productivity and trading efficiency of the Thai cooperatives.
- c) the two movements propose to set up a factory in Thailand for manufacture of agricultural chemicals and creating loading and unloading facilities at a harbour for maize operation.
- d) provision of display facilities by the Thai cooperatives for the farm and household products such as tractors, agricultural chemicals and consumer articles exported by the Japanese cooperatives.

Survey of agricultural cooperative marketing projects in India, Indonesia, Malaysia, Thailand, the Republic of Korea and Sri Lanka with the assistance of the Japanese Cooperative Movement - where possible export of raw material for animal feeding stuffs to Japan would be developed.

b) Technical Assistance

The Cooperative Dairy set up in Maharashtra State of India with aid from West German Consumer Cooperative Congress; aid amounting to Rs.1.5 million, the total investment in the dairy cooperative being Rs.4.2 million.

Some Problems in the field of trade

- a) trade restrictions in Asian countries e.g. export of molasses in India.
- b) weak supply position of cooperatives in Asian countries due to lack of integration between the primaries and secondaries resulting in inability in fulfilling contracts, etc.
- c) problem of quality control.
- d) hesitation on the part of the advanced cooperative movements to change their sources of supply.

Problems in technical assistance

- a) the advanced cooperative movements are able to provide expertise but not capital.
- b) the efforts of the advanced movements for giving aid must be matched with government technical assistance programmes. This involves government to government relationship and putting up of a request by a government of the developing country, cooperative projects not necessarily on high priority lists of governments in developing countries.

IV

CONCLUSION

1. The cooperative movement has been recognised as an important instrument of social and economic development in the Asian countries. The cooperative movements exist in some countries since last 50 or 60 years while in a few others e.g. Nepal, they have been introduced during the post-war period.
2. The cooperative movement is potentially amongst the greatest systems conceived by social thinkers. The aims of the cooperative movement defined differently at different times. The Rochdale Pioneers declared their aim as that of establishing of communities supporting themselves by their own labour on their own land. For the most part the movement did not advance along these lines of intensive development but developed extensively by spreading out geographically and by breaking into one field of economic activity after another.

Its success encouraged many to visualize its ultimate ideal as one of setting a cooperative commonwealth. During recent years many cooperators, however, are content to express a less ambitious idea of a cooperative system viz. that of acting as a countervailing influence upon the excesses of the private sector or the inefficiencies of the public enterprises. "The common element at all times has been", according to the Principles Commission, "that Cooperation at its best aims at something beyond the promotion of the interests of the individual members who compose a cooperative at any time". Its objectives are not merely promotion of economic interests but also raising of social and cultural levels of the members and the community at large.

3. In the Asian countries as mentioned earlier, the cooperative societies of various types have been developed. The predominant types of societies, however, are in the agricultural field. While the general picture of the achievements of the cooperative movement on a nationwide scale is not rosy, there are significant examples of success in various countries : These examples include the supervised agricultural credit projects in Thailand, Bangladesh and India; the multi-purpose societies and the agricultural cooperative movement as a whole in Japan; cooperative insurance societies in Japan and Malaysia; Amul Cooperative Dairy, cooperative sugar factories, producing about 40 per cent of the total sugar production in the country and a strong system of agricultural cooperative credit developed in few States in India.

4. Problems faced by the movement in the Region include :

- a) lack of proper organisational set-up, involving relatively small size of societies and weak relationship between the primaries and the federations,
- b) lack of adequate capital and the need for developing self-financing, through proper application of the principles of limited interest on capital and disposal of surplus; external assistance either from the government or foreign sources given in a rational fashion can stimulate cooperative growth.
- c) lack of cooperative discipline and loyalty among the members,

- d) lack of proper personnel policies comprising recruitment, remuneration and promotion and training facilities, and finally,
- e) lack of honest and able leadership. (A high degree of social and economic stratification based on ownership and cultivation of land, reinforced by other factors such as caste, race and religion, is an impediment). Where proper leadership has been available, striking cooperative successes have been achieved.

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**CONTRIBUTION OF COOPERATIVE CREDIT TO AGRICULTURAL DEVELOPMENT  
IN INDIA**

by

Dr C.D. Datey  
Chief Officer  
Agricultural Credit Department  
Reserve Bank of India  
Bombay-18 (India)

**REGIONAL SEMINAR ON "COOPERATIVE CREDIT WITH SPECIAL  
REFERENCE TO JAPAN"**

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INTERNATIONAL COOPERATIVE ALLIANCE	CENTRAL UNION OF AGRICULTURAL
) Regional Office & Education Centre	COOPERATIVES
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43 Friends Colony, New Delhi-14	Tokyo (Japan)

and

THE INSTITUTE FOR THE DEVELOPMENT OF AGRICULTURAL  
COOPERATION IN ASIA  
24-9, 6-chome, Funabashi-cho, Setagaya-ku  
Tokyo

International Cooperative Alliance  
Regional Office - Education Centre for  
South-East Asia, PO Box 3312,  
43 Friends' Colony, New Delhi-14, India

A/March 20, 1973

CONTRIBUTION OF COOPERATIVE CREDIT TO  
AGRICULTURAL DEVELOPMENT IN INDIA

by

C.D. DATEY  
Chief Officer  
Reserve Bank of India  
Agricultural Credit Department  
Central Office  
Bombay

The Indian economy is predominantly agricultural. The country has a rural population of 439 millions which forms over 80 per cent of its total population of 547 millions. Cultivators and agricultural labourers constitute about 70 per cent of India's working population. Agriculture accounts for about 44 per cent of the net National product of the country. A sizeable part of export earnings also depends upon agriculture-based commodities.

2. Owing to its critical importance in the country's overall economy, the agricultural sector has been necessarily accorded high priority in the development plans. Consequently, the annual growth rate in respect of agricultural output, which was a mere  $\frac{1}{2}$  per cent in the pre-Plan period, improved to 2.8 per cent in the First Five Year Plan period (1952-57) and further to 3.9 per cent in the Second Five Year Plan Period (1957-62). Although the tempo could not be maintained in the third plan period (1962-67), the growth rate has again picked up and is expected to be of the order of 5 per cent at the end of the fourth plan (1973-74).

3. Since the middle fifties of the present century, the increase in agricultural output in the country has been more on account of higher yields rather than increased areas brought under cultivation. About 85 per cent of the potentially arable land in the country is already under cultivation and the pressure on land has been steadily increasing on account of the increase in the population depending on agriculture. Moreover, about 75 per cent of the operational holdings in the country comprise less than 3 hectares of land and about one-fourth of the cultivated land is under tenancy according to 1961 census. The individual operational holdings are also very much fragmented, with an average holding being divided into five plots. These factors stand in the way of developing agriculture on businesslike lines and also create problems for introducing mechanisation and other steps towards intensification of cultivation.

4. The peculiar features of the country's agricultural situation demanded a new approach for its growth. As a result, in the middle sixties the 'New Strategy' for agricultural development was launched. The main features of this were : (i) Augmentation and intensive utilisation of irrigation facilities, (ii) Bringing larger area under hybrid varieties of seeds of food grains like wheat, rice, etc. (iii) Increase in supply and use of fertilizers and pesticides and (iv) Multiple cropping through the introduction of short-duration varieties of crops, etc.

#### Credit Requirements

5. The massive agricultural production programmes called for considerable step-up in the supply of credit for various purposes like seasonal cultivation operations, distribution of fertilizers and pesticides, replacement of wasting assets of the cultivators, reclamation of land, other types of land improvement, mechanisation of farm operations, orderly marketing and processing of agricultural produce, etc. As against the total borrowings of the cultivating households in India aggregating Rs.10,340 millions in 1961-62 the demand for agri-

cultural credit by the end of the Fourth Five Year Plan (1973-74) was estimated at Rs.40,000 millions, consisting of Rs.20,000 millions under production credit and Rs.20,000 millions under medium and long-term investment credit.

Money-lenders, etc.

6. Agriculturists in India were primarily depending for their credit needs on the non-institutionalised sector consisting of private money-lenders, rich landlords, traders, etc. who together accounted for as much as 93 per cent of the total borrowings of cultivating households in the country in 1951-52. Credit from this source suffered from several evils. It was security-oriented, carried exorbitant rates of interest and exploited the poor farmers in several ways. They had often to repay the loans in the form of the crops raised by them, the price for which was fixed at a very low level and arbitrarily by the creditors, much before the harvest was over and market prices settled. Credit was not necessarily used for productive purposes and the tendency was to use the same for immediate consumption needs. As a result, the burden of indebtedness steadily increased for the average cultivator. Apart from the adverse conditions, it became more and more difficult for the cultivators to avail themselves of credit from this source when land lost its attraction to the creditors as a mode of investing their funds consequent on the land reform measures which began to be implemented with the objectives of abolishing absentee landlordism and tenancy systems, conferring ownership rights on the cultivating tenants and fixing ceilings for maximum individual landholdings. The disorganised sector of individual money-lenders could not also command the necessary resources for meeting the entire credit needs of the agricultural sector, which increased in magnitude in the wake of planned development programmes. The present day problems of agricultural credit in India, therefore, mainly stemmed from the need to replace the usurious money-lenders dominating the field by a system which was production-oriented and sympathetic to the needs of the cultivators.

Commercial banks

7. Ordinarily the most suitable lending agencies would appear to be regular banking institutions which mop up the community's surplus earnings. But the commercial banks in India were traditionally operating in developed urban centres and till recently were ill-equipped and also dis-inclined to undertake this function which was attendant with greater risks. Structurally also, they did not have an adequate number of branches reaching the interior areas to undertake the business. Even if they could expand physically, resources at their command did not permit them to embark upon lending to agriculture to a significant extent after meeting the requirements of their traditional clients from the sectors of industry, commerce, etc. For instance, in 1951-52, the contribution of the commercial banks towards the borrowings of agriculturists was an insignificant one per cent only. It is only after nationalisation of the major commercial banks that these banks have started giving special attention to agriculture which is now considered a priority sector for them. In the last three years the banks have made notable progress in the provision of agricultural credit directly as well as indirectly. Already over a million farmers have been financed by the banks through a network of a large number of branches recently opened by them in the rural areas. Production and investment credit provided by the banks directly to farmers is well over Rs.250 millions. It is at the same time recognised that there are limitations to the efforts that the banks can make in lending directly. Already the banks have started lending to agriculturists through primary agricultural credit societies in several parts of the country in an attempt to supplement the efforts of the cooperative credit agencies in filling up the vast credit gaps. At the same time it is recognised that despite the increasing role of the commercial banks in the sphere of agricultural credit, the cooperatives will have to carry the main burden of responsibility in this behalf.

### Government taccavi loans

8. Government had come forward from early days to provide agricultural credit in the form of what is known as taccavi loans, under the Land Improvement Loans Act of 1883 and the Agriculturists Loans Act of 1884. The loans under the former Act are for investment purposes while those under the latter for current agricultural operations. These loans are disbursed by Government departments. The availability of funds depends on budget provisions and, hence, is more often than not inadequate. The disbursement arrangements are insufficient and involve incidental delays. Supervision is inefficient. For these reasons, the taccavi loans are little else than the ill-performed disbursement of inadequate moneys by an ill-suited agency. It is no longer regarded as an important source of agricultural credit in the country.

### The Choice of cooperatives

9. Synchronising with the dawn of the era of planned economic development of the country, a comprehensive rural credit survey was conducted by a Committee of Direction of the All-India Rural Credit Survey appointed by the Reserve Bank in the year 1951. The Committee went into all aspects of rural credit in the country and observed that the part of the organised sector comprising the Government, Commercial Banks and the cooperatives in rural credit was meagre at a 7 per cent of the agriculturists' total indebtedness in 1951-52. The Committee recommended instituting an integrated scheme of rural credit which would ensure supply of adequate and timely credit for the working and investment capital requirements of the cultivators. The credit should be production-oriented and its end-use supervised and co-ordinated with the agricultural extension programmes. Production credit should be given with reference to the anticipated crops and not on the basis of the security of land. When tangible security was not available and recovery of loans proved difficult, it was important to link credit with marketing so that production credit could be recovered from the sale proceeds of the surplus produce. The Committee stressed that no organisation could be adequate for

this purpose if it was centralised or bureaucratic or the cultivators themselves had no voice in its working. In the search for such a suitable agency for the dispensation of credit to the millions of cultivators spread all over India, the cooperatives were found to be pre-eminently suitable for the purpose on account of their village base, democratic character, etc.

#### Cooperative credit structure

10. Historically, the origin of the cooperative movement in India may be traced to the opening years of this Century. However, owing to several factors, the chief among which were lack of effective local leadership and want of a committed source to supply adequate resources, the societies languished for want of funds and the progress of the movement was rather tardy. The deficiencies were recognised even in the early days of the movement and the role of the Reserve Bank of India to provide the necessary finance as well as expert advice on organizational and policy matters was defined when the Bank itself was established in 1935. A statutory Agricultural Credit Department was set up in the Bank at the time of its formation itself. In spite of this, little progress was recorded during the pre-independence period. Soon after the country became independent and following the Rural Credit Survey Committee's Report (1954), a deliberate programme of strengthening the cooperative movement was accepted as a vital part of the agricultural development programmes.

11. The cooperative credit structure in the country has two wings, one chiefly supplying the short and medium-term credit requirements and the other, long-term investment credit. The former has a three-tier structure consisting of a state cooperative bank at the apex level in each State, central cooperative banks at district levels and primary agricultural credit societies at the village level. They raise their resources by way of share capital, deposits and borrowings from higher financing agencies in the structure. As their resources

are meagre, the Reserve Bank of India provides credit according to their assessed requirements to supplement their resources. The long-term structure has two tiers in some States viz. the state cooperative land development banks and primary land development banks with jurisdiction over a district or a smaller area according to regional needs. In many other States the structure is unitary and the state land development bank operates through branches. The resources are raised by the apex land development bank by floatation of debentures which are guaranteed by the respective State Governments for payment of interest and repayment of principal.

12. Concrete measures were recommended by the Rural Credit Survey Committee to strengthen the institutions organisationally, financially and functionally. All the villages in the country were to be covered by a net-work of large-sized primary credit societies over a period of time by amalgamating the weak units with stronger ones, liquidating the dormant ones, and organising new ones in areas where there were no societies. The capital base of the credit institutions at all levels was to be strengthened by Government participation and, to enable the State Governments to contribute to the share capital, the Reserve Bank of India provided loans from the National Agricultural Credit (Long-term operations) Fund set up by the Bank. The reorganisation and revitalisation measures had encouraging results and by 1961-62, the cooperatives accounted for about 24 per cent of the borrowings of the agriculturists as against a mere 3 per cent in 1951-52.

#### Forms of credit

13. The credit provided through the three-tier structure is mainly for (1) the seasonal agricultural operations of the cultivators (2) investment credit for improvement of land, replacement of wasting assets, etc., the credit for which can be repaid out of income within a period not exceeding 5 years, and (3) for conversion of short-term agricultural production loans into medium-term loans when the borrowers are unable to repay the former loans on due dates on account of natural



calamities affecting their repaying capacity. The cooperative banks provide finance to primary societies also for distribution of fertilizers and other inputs, marketing of agricultural produce of the borrowers through marketing societies and enabling the societies to issue loans to the borrowers against the pledge of their produce so that they may repay their production loans without selling their produce in an unfavourable market.

#### Production credit

14. production credit or credit for seasonal agricultural operations is the most important branch of agricultural credit. The intensive agricultural development programmes launched in the beginning of the last decade and the "New Strategy" adopted later increased further the demand for credit and called for a flexible mechanism for supplying it at varying scales to suit the cultivation of different crops. In contrast with the previous haphazard methods, new systematic, scientific and organized arrangements for financing were introduced. Lending is to be based on scales of finance fixed according to the needs of cultivation and related to the repaying capacity of the borrowers. Loans are to be issued only in the appropriate seasons of cultivation and recovery dates should synchronise with the harvesting and marketing periods. Borrowers are encouraged to avail themselves of part of the credit in the form of inputs like chemical fertilizers, etc.

#### Marketing

15. It was realised that cooperative credit by itself would not succeed in solving the problems of the cultivator and if he is to derive the full results of his labour he should be enabled to get the best prices for his produce. Alongside the credit structure, a cooperative marketing structure was accordingly built up with the primary objectives of (a) securing the best prices for the produces of the agriculturists and thus releasing them from exploitation by private traders as well as (b) of helping the recovery of production finance provided by

the credit societies by introducing a system of linking of credit with marketing. Under this system the agriculturist borrowers have to agree to market their surplus produce through cooperative marketing societies operating within their areas and these societies will recover from the sale proceeds of such crops the production credit dues of the members and pass them on to the credit societies. Pending sale of the produce in a favourable market, the members can obtain temporary advances against the pledge of their produce and repay the production loans falling due to the credit society. The marketing societies purchase the members' produce outright at an agreed price and sell it on their own, or on behalf of the members as agents and for a commission. They also undertake distribution of fertilizers and other inputs, consumer articles, etc. and act as agents on behalf of the governments and institutions like the Food Corporation of India for procurement of foodgrains, etc. As certain agricultural products fetch better income to the producers if they are processed prior to their marketing, some marketing societies undertake processing activities also. In certain places or for certain commodities separate processing societies are also set up, e.g. sugar factories, cotton ginning and pressing societies, etc. The marketing and processing societies are provided with funds by way of share capital, loans and grants in order to enable them to construct and maintain godowns, establish processing units, etc. by the state governments, who are given assistance in this regard by the National Cooperative Development Corporation. The state and central cooperative banks provide working capital finance to the marketing and processing societies. The success of these institutions can be gauged from the fact that the cooperative marketing societies in the country handled agricultural produce worth Rs. 6,550 millions during 1970-71.

#### Medium-term credit

16. When increased agricultural production depends on intensive cultivation of long exploited land as against physical expansion by bringing more fresh land under plough, term credit for land development and improving the infra-structure necessary

for the introduction of modern techniques is necessary. Such investment capital is of two types, one needing comparatively lesser outlay and enabling repayment within a period of three to five years and the other, requiring larger outlay and longer period of repayment. Credit for the former is termed medium-term credit and is supplied through the three-tier system which provides production credit also. Medium-term credit is given for approved productive purposes such as sinking of and repairs to new wells, installation of pumpsets for lifting irrigation water, purchase of agricultural machinery and plough cattle, construction of cattlesheds, minor land improvement works, etc. and also requirements of certain subsidiary occupations like poultry farming, rearing of sheep, milch-cattle, etc. For these loans also, purpose-wise standards of financing and verification of proper utilisation are insisted upon.

#### Stabilization credit

17. In order to enable agriculturists to carry on agricultural production programmes even after a partial or total failure of crops occurred as a result of natural calamities like floods and droughts, thereby rendering them unable to repay the earlier production loans and qualify to avail themselves of fresh loans, a system of providing stabilisation credit has been devised. In such circumstances, the production loans which could not be repaid as scheduled would be allowed to be converted into medium-term loans and fresh production loans allowed to the cultivators. The state and central cooperative banks are required to build up an Agricultural Credit Stabilization fund for this purpose by setting apart a part of their annual net profits. The Government of India have also a scheme of providing assistance for augmenting the credit stabilization funds of the state cooperative banks and an initial provision of Rs.100 millions has been made for this. Assistance in the form of loans will also be provided to the cooperative banks from the National Agricultural Credit Stabilization Fund set up by the Reserve Bank of India for the purpose of issuing stabilisation loans.

Distribution Credit

18. The cooperative banks also provide finance to primary credit societies, marketing societies, etc. to undertake distribution of fertilizers, consumer articles, etc. The state cooperative banks are given assistance in this regard by the commercial banks and also by the Reserve Bank. The cooperatives distributed fertilizers worth Rs. 2,500 millions during 1970-71.

Progress in the business operations of the cooperatives

19. The table below will indicate the overall progress in the performance of the three tiers of the cooperative structure during the last 15 cooperative years ending June 1971.

		(Rupees in millions)			
		<u>1955-56</u>	<u>1960-61</u>	<u>1965-66</u>	<u>1970-71</u>
(i)	<u>State Cooperative Banks</u>				
	Number	24	21	22	25
	Owned funds	77	240	449	927
	Deposits	367	723	1465	2787
	Working capital	633	2217	3900	6852
	Loans advanced	679	1951	4079	8135
	Loans and advances outstanding	348	1667	3079	5343
(ii)	<u>Central Cooperative banks</u>				
	Number	478	390	346	341
	Owned funds	152	509	1019	1991
	Deposits	557	1120	2366	4386
	Working capital	927	3041	5835	10814
	Loans advanced	798	2901	5450	9297
	Loans and advances outstanding	543	2200	4377	8134

	<u>1955-56</u>	<u>1960-61</u>	<u>1965-66</u>	<u>1970-71</u>
(iii) <u>Primary agricultural credit societies</u>				
Number	159,939	212,129	191,904	160,780
Membership (million)	7.79	17.04	26.13	30.96
Owned funds	292	756	1489	2653
Working capital	791	2739	5466	11534
Loans advanced	496	2023	3420	5779
Loans outstanding	598	2180	4269	7845

It may be seen from the above data that the number of primary credit societies showed an upward trend in the earlier years but came down sharply to somewhat the position obtaining in 1955-56. This reduction in number is due to the reorganisation measures undertaken by the state Governments. The number is expected to come further down to about 1,20,000 when the reorganisation programme is completed.

20. All the three tiers recorded significant growth in their loaning operations over the years. This will further increase and by the end of the fourth five year plan (1973-74), the cooperatives are expected to disburse short and medium term credit to the tune of Rs.7,500 millions which would constitute about 30 per cent of the total anticipated demand of Rs.25,000 millions.

21. The performance of the state and central cooperative banks in mobilizing deposits from the public and involving in the lending programme from out of their own resources, as distinct from the funds provided by the Reserve Bank, has improved much over the last ten years. With a view to developing a further degree of self-reliance on the part of the central cooperative banks, the Reserve Bank has evolved a new scheme for linking the eligibility of the central banks for production credit from the Bank at the concessional interest of 2 per cent below the Bank Rate, with their success in mobilizing deposits from the public.

Long-term credit

22. The sphere of long-term investment credit also witnessed much progress during the plan periods in both qualitative and quantitative aspects. Long-term loans were issued to agriculturists in the beginning for purposes such as discharge of prior debts, consolidation of holdings and land improvement purposes, usually upto 50 per cent of the value of landed properties mortgaged by the borrowers and repayable in 15 or 20 annual instalments. Of late, the emphasis is laid on land development purposes, particularly purposes which are easily identifiable like sinking of new wells and installation of pumpsets, purchase of tractors, etc. Not less than 90 per cent of the loans issued by primary land development banks are required to be for developmental purposes, of which 70 per cent should be for easily identifiable purposes. The security-oriented assessment of eligibility has given way to eligibility based on the incremental income which the agriculturist is likely to derive from the lands proposed to be improved, over and above the regular income received prior to the improvement. Security continues to be important, but the incremental value consequent on the improvement to be effected is also reckoned for purposes of valuation subject to the norms laid down in this regard. In special development scheme areas, loans are sanctioned even though the value of security is inadequate provided the state governments furnish guarantee for the deficit for a period of time over which it will be wiped off by appreciation in the value on account of the development.

23. Wherever there is scope, area-wise development projects are being taken up with the assistance of the Agricultural Refinance Corporation, set up for the purpose of providing refinance to such development schemes which cannot be financed in ordinary ways owing to the magnitude of financial outlay. Assistance from the IDA for special projects is also generally routed through the Agricultural Refinance Corporation and the state land development banks. The debentures floated by the

state land development banks for raising funds for the special development schemes will be purchased by the Agricultural Refinance Corporation and the concerned State Governments.

24. In respect of the normal schemes, the debentures are mostly purchased by institutions like commercial banks and the Life Insurance Corporation, the state and central Governments, sister land development banks, state and central cooperative banks, etc. The support available from the institutions like commercial banks, Life Insurance Corporation, etc. is determined in advance and allocated on behalf of the different apex land development banks on the basis of their realistic lending programmes. In order to encourage the banks to tap the savings of the rural sector, the banks are required to raise funds by floating 'rural debentures' towards which contributions have to come from individuals and the Reserve Bank only.

25. The progress in the performance of the land development banks in the country over the last 15 years is indicated in the following table:

(Rupees in millions)

	<u>1955-56</u>	<u>1960-61</u>	<u>1965-66</u>	<u>1970-71</u>
(i) <u>central land development banks</u>				
Number	9	18	18	19
Owned funds	13	54	180	580
Debentures				
a) issued	-	103	503	1584
b) outstanding	149	365	1784	7249
Working capital	185	476	2066	8412
Loans advanced	28	116	564	1683
Loans outstanding	131	366	1633	6377
				227

	<u>1955-56</u>	<u>1960-61</u>	<u>1965-66</u>	<u>1970-71</u>
(ii) <u>Primary land development banks</u>				
Number	302	463	673	865
Membership (millions)	0.31	0.67	1.84	3.54
Owned funds	12	25	127	476
X Borrowings	102	245	1242	4466
Working capital	114	270	1369	5507
Loans advanced	17	72	412	1189
Loans outstanding	105	247	1243	4483

The lendings of the land development banks have increased about threefold during the five year period 1966-71. The number of members financed during 1970-71 was over 2.80 lakhs. The outstanding loans of the primary banks also increased to over threefold during the period. Towards the debentures floated during 1970-71 amounting to Rs.1584 millions, the Reserve Bank and the Agricultural Refinance Corporation contributed Rs.320 millions, the State and Central Governments Rs.413 millions, the commercial banks and Life Insurance Corporation Rs.474 millions, sister land development banks Rs.235 millions and others Rs.142 millions.

#### Role of Reserve Bank of India

26. The Reserve Bank of India plays an active role in the formulation of lending policies and procedures of the cooperative credit institutions, in the reorganisation and revitalisation of the credit structure, etc. But the most important role is that of providing refinance for the various purposes. The table below will indicate the financial assistance provided by the Reserve Bank for the various agricultural purposes during 1970-71.



(Rupees in millions)

Sl. No.	Purpose	Amounts advanced during 1970-71	Amounts outstanding at the end of the year 1970-71
1.	seasonal agricultural operations and marketing of crops	4331	1899
2.	purchase and distribution of fertilizers	174	34
3.	Medium-term agricultural purposes	138	238
4.	Medium-term loans for converting short-term loans into medium-term loans in scarcity affected areas	178	162
5.	Loans to state governments for participation in share capitals of cooperative credit institutions	121	420
6.	Investments in debentures of state land development banks	47	454

The Agricultural Refinance Corporation which is an allied organization of the Bank had, since its inception in July 1963, sanctioned 458 special development schemes as upto the end of 1970-71, involving an outlay of Rs.2930 millions. The commitments of the Corporation on account of these schemes was of the order of Rs.2487 millions, towards which Rs.897 millions had been disbursed till the end of 1970-71.

#### Financing of weaker sections

27. Although the performance of the cooperatives in the matter of agricultural lending shows an impressive all round progress, there are some weak spots, inevitable in a large country like India, and certain region-wise and sector-wise imbalances. A large portion of the credit is still availed of by the more well-to-do section of the community. During 1969-70 the primary agricultural credit societies disbursed loans aggregating Rs.5271 millions, out of which Rs.3924 millions or 75 per cent was availed of by members with land holdings

above 2 hectares and Rs.1347 millions only by members with land-holdings of less than 2 hectares, tenant cultivators, agricultural labourers and other landless persons. The survey conducted by the Rural Credit Review Committee, appointed by the Reserve Bank and which submitted its report in 1969, also pointed out that the small and economically weak farmers and agricultural labourers did not receive their due share in agricultural credit and other facilities extended by institutions as part of the developmental programmes. In order to do justice to these sections of the community, a multi-line approach has been accepted. In select areas, small farmers development Agencies and Marginal farmers and Agricultural Labourers projects have been organised under the auspices of the state governments, with the aid and guidance of the Government of India. These Agencies are to identify the members of this section and help them to enrol as members of cooperative societies or to get finance from a commercial bank and avail of credit and other needed facilities for their agricultural activities and subsidiary occupations. All interests like the Government Department, the cooperatives and commercial banks participating in the schemes are represented in the Agencies. The Reserve Bank has also imposed a condition while sanctioning credit limits on behalf of the central cooperative banks that a minimum prescribed level of their borrowings from the apex bank should be matched by corresponding advances on behalf of the small and economically weak farmers, etc. The first results of the measures already taken are quite encouraging as during 1970-71, of the total loans of Rs.5779 millions advanced by the primary agricultural credit societies, the share of the larger landholders (with holdings of over 2 hectares) was Rs.4035 millions or 68 per cent as against 75 per cent during the previous year. As a further measure to take care of the interests of these weaker sections, it is proposed to organise, on an experimental measure, farmers service societies with area of operation exceeding a village and with weightage for representation and service to such sections.

## 316

Weak areas

28. Growth of the cooperative movement is not quite impressive in certain areas. With a view to strengthening the movement, especially the credit wing, special studies have been/are being conducted and 'master plans' prepared for these regions. Even in states where the overall growth is satisfactory and the structure strong, there are certain pockets where the middle tier, viz. the central cooperative banks evinced symptoms of weakness. The State Governments have drawn up schemes for rehabilitation of these banks, for which the Government of India's financial help is also available subject to the satisfaction of certain conditions laid down in this behalf. In select areas where the central cooperative banks are weak, the scheduled commercial banks have also stepped in. In addition to their normal line of providing direct finance to agriculturists and for distribution of fertilizers, etc., they have also adopted certain primary cooperative credit societies allotted to them, and started financing them as a transitory measure, pending rehabilitation of the cooperative banks.

Co-ordination

29. The functioning of different organisations in the field of providing credit to a single but wide-spread and numerically large sector creates problems of coordination and this has to be tackled for the healthy and simultaneous development of the different agencies. Even within the cooperative structure, there is possibility of some overlapping of functions. For instance, certain purposes like sinking of wells will qualify for a medium-term loan from a primary credit society or a long-term loan from a land development bank, depending upon the borrowers' repaying capacity related to the outlay. Similarly, commercial banks and cooperatives may both provide finance for the same purposes in the same areas. Co-ordination is essential to ensure that the facility of finance from several sources is not misused and also that finance from one source is not on such entirely dissimilar

terms as would lead to unhealthy competition. The Reserve Bank took these aspects into account while formulating policies and laying down procedures for agricultural lending by the different agencies. Co-ordination committees are also being set up in this regard at the state and district levels. Local problems can be discussed and solutions found by these committees to a very large extent.

#### overdues and recovery problems

30. It has been pointed out earlier that cooperative credit is production-oriented and the end-utilization of the loans has to be supervised. But verification of the first utilisation of the loans by borrowers for the approved productive purposes does not by itself ensure that the large-scale advances made by the cooperatives will not be diverted for non-productive purposes. If the advances do not return after the income from the harvest is realised by the borrowers, there is the danger of the moneys being used for non-productive purposes. The temptation in this behalf will be stronger as cooperative credit is provided on concessional rates of interest. Hence prompt repayment of the loans by the borrowers on the due dates and failing which prompt recovery measures by the lending institutions with the help of the concerned government departments assume vital importance. A disquieting feature of the cooperative credit structure is that the overdues, representing the loans not repaid in time, have increased year by year. This may be on account of both the borrowers' incapacity due to crop failure caused by natural calamities, etc. as also wilful defaults in some cases. There are certain built-in measures to arrest the growth of overdues, such as denial of further credit to defaulting members by the primary societies, and disqualifying primary societies, with overdues exceeding a proportion of the year's demand under advances to members as well as borrowing from the central cooperative banks, for the purpose of receiving further finance.

The central cooperative banks are also required to ensure that their borrowings from the apex bank out of the credit limits sanctioned by the Reserve Bank on their behalf do not exceed the non-overdue loans outstanding against the primary societies. If this 'non-overdue cover' is not maintained at any time, the banks are not allowed to draw from the credit limits until the position is regularised. In spite of these disciplines, the overdues have been showing a tendency to increase and with a view to locating the real reasons for this unhealthy trend, the Reserve Bank has recently set up a special committee.

#### Conclusion

31. The foregoing would indicate that the cooperative movement in the country has come of age and has exhibited its capacity to undertake and discharge the stupendous function of dispensing agricultural credit in the country, notwithstanding the imbalances and other weakness. The nation has recognised the movement as the ideal set up for this purpose and steps will continue to be taken that the cooperatives are so reorganised and strengthened that they are fully equipped to discharge the growing responsibility on them.

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LOANING POLICIES AND PRACTICES OF DISTRICT COOPERATIVE BANKS  
AND THE PRIMARY SOCIETIES IN RESPECT OF FARMERS IN INDIA

By

Dr C.D. Datey  
Chief Officer  
Agricultural Credit Department  
Reserve Bank of India  
Bombay-18 (India)

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24-9, 6-chome, Funabashi-cho, Setagaya-ku  
Tokyo (Japan)

INTERNATIONAL COOPERATIVE ALLIANCE  
Regional Office & Education Centre  
for South-East Asia, PO Box 3312,  
43 Friends Colony, New Delhi-14, India

300

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LOANING POLICIES AND PRACTICES OF DISTRICT COOPERATIVE  
BANKS AND THE PRIMARY SOCIETIES IN RESPECT OF FARMERS  
IN INDIA

by

C.D. DATEY  
Chief Officer  
Reserve Bank of India  
Agricultural Credit Department  
Bombay

The cooperative credit structure in the country has been the main institutional credit agency purveying agricultural credit. With the enforcement of social control over the commercial banks and particularly the nationalisation of fourteen major Indian commercial banks these banks are also providing credit for agricultural purposes either directly to agriculturists or indirectly through the existing infra-structure of cooperative credit institutions viz., primary agricultural credit societies with a view to bridging the credit gaps, wherever they exist.

2. The credit needs of agriculturists fall into three broad categories. Firstly, crop loans (short-term) for financing current expenditure in raising crops. Secondly, medium-term loans repayable within 3 to 5 years for the purposes of replacement and maintenance of wasting assets and capital investment intended to increase the agricultural output. Thirdly, long-term loans repayable over 5 to 15 or 20 years for capital investments in agriculture. The distinction between medium-term and long-term revolves not so much on the basis of purpose of capital investment but on the repaying capacity of the borrowing agriculturists. The short-term and medium-term credit needs of agriculturists are met by the short-term cooperative credit structure which is a three-tier pyramidal one

with the primary agricultural credit societies covering a village or group of villages at the base, the central cooperative banks covering generally a district at the intermediate level, and the state cooperative banks at the apex level. The policies and procedures adopted by these banks in advancing short-term and medium-term loans for agricultural purposes are discussed in the paragraphs that follow. Since most primary agricultural credit societies depend for funds on these banks, they have to follow the policies and procedures laid down by the central cooperative banks with which they are affiliated.

#### Production oriented system

3. The loaning operations of cooperative credit institutions were earlier characterised by their security-oriented bias where loans were unrelated to the needs or repaying capacity of a borrower but were governed by the security he had to offer. Under this system, no attention was bestowed to the timeliness, adequacy or proper utilisation of the advances. Another adverse feature of this credit was that only bigger cultivators who had tangible security to offer could command the resources of cooperative credit institutions. Positive efforts have, therefore, been made to bring about a more purposeful and production-oriented system of finance and this has culminated in the adoption of what has come to be known as the "crop loan system". With a view to rationalising the loaning policies and procedures followed by the cooperative banks in the dispensation of agricultural credit, the Agricultural Credit Department of the Reserve Bank of India had brought out in 1966 a comprehensive "Manual on the Crop Loan System". In the light of experience gained in the working of the crop loan system the Department revised and elaborated the Manual into "The Manual on Production Oriented System of Lending For Agriculture". The loaning policies and procedures adopted by the central cooperative banks in providing short and medium-term loans for agricultural purposes have been so formulated and designed as to accelerate production and at the same time ensure



proper utilisation of credit for the purposes intended for. The laoning has been made production - oriented rather than security based and in this context ensures that credit facilities would be available to small and marginal farmers.

#### Scales of finance

4. The requirements of agriculturists for cultivation purposes may be classified into two categories. Firstly, those for meeting outlays which require cash loans, i.e., to meet labour charges, if labour is employed, family consumption needs during production period, and additional expenditure in cash necessitated by the adoption of improved practices such as use of fertilizers, pesticides, etc., which is termed as "a" component of finance. Secondly, those which can be disbursed in kind such as improved varieties of seeds, chemical fertilizers or organic manure, insecticides, pesticides, crude oil, mobil oil and electricity charges used for agricultural purposes which form the component "b" of finance.

#### Size of the components 'a' and 'b'

5. The size of components 'a' and 'b' is to be determined with reference to both the actual needs for raising particular crops and the repaying capacity generated by such outlays. Component 'a' is the ways and means advance to the cultivator intended to augment his own resources for cultivation purposes. The size of component 'a' is determined with reference to the gross value of produce without the use of chemical fertilizers, pesticides etc. i.e., under the traditional plane of cultivation and fixed at a level not exceeding 35 per cent of the gross value of the produce per acre. As medium and big cultivators would be able to plough back a part of their farm income for the subsequent year's agricultural production, the component 'a' is either fixed with a maximum ceiling or on a gradually tapering basis. Component 'b' is fixed with reference to the quantum of fertilizers and inputs which an average cultivator in the area uses, but not exceeding the dosage recommended for each crop by the Agriculture Department. In a few cases where the resources of a central bank and societies do not permit them

to fix a scale which is equal or even less than component 'a', the banks start with a single component scale in cash and introduce the 'b' component as soon as they are in a position to advance loans to cover both the components.

#### Constitution of Technical Group

6. Central cooperative banks have been advised to constitute a Technical Group consisting of representatives of the Agriculture and Cooperation Departments of the concerned State Government, the apex bank, a few selected agricultural credit societies as well as a few progressive and knowledgeable agriculturists besides their representative for laying down the crop-wise scales of finance for irrigated and unirrigated compact areas covering one or more talukas (sub-divisions of district) and framing suitable norms of outlay for term credit for various purposes and minimum acreage required to sustain term credit for a given purpose. As all the central banks are not in a position to command unlimited resources, one of the important factors that would also weigh in the final fixation of the scales of finance for agricultural production purposes and the outlay for term credit in each district would be the estimate of the resources which the central bank will be in a position to mobilise on its own (by augmenting the share capital and deposits) and through borrowings from the higher financing agencies. Owing to this, it is not uncommon to see a variation in the scale of finance for the same crop in the different districts and in the different states. These disparities are gradually being ironed out with the strengthening of the cooperative credit institutions and the raising of larger resources by them.

#### Credit limit statements

7. On the basis of the scales of finance laid down by a bank, the primary credit societies prepare a credit limit statement for each of their members. In view of the considerable emphasis that has been placed in recent years on the financing of small, marginal and economically weak farmers banks have been advised to prepare a credit limit statement for the members of

each society in two parts: Part 'A' for those who come under purview of the definition of a small farmer or marginal farmer and Part 'B' for other agriculturists. The credit limit statement serves not only as a loan application of the society to a central bank but also as loan application of all members included in the said statement to the society itself. It contains details mainly of the crops grown and the acreage proposed under each crop. To curb the tendency to inflate acreages, the primary society maintains a register of lands of all members, which is prepared with reference to the village revenue records and verified annually. The central cooperative banks ensure through their inspectors /supervisors that the register of lands is maintained properly and upto-date by the primary societies and check that members do not include crops carrying higher entitlement of finance even though crops with a substantially lower scale are cultivated by reference to village records or by spot verification. In the case of tenant or oral lessee cultivators the details of cultivation are verified by the Managing Committee members. With a view to facilitating easy verification and eliminating the same piece of land being shown under different crops during the same season, the credit limit statement is prepared for the whole year for different crops and/or seasons.

#### Maximum borrowing power

8. Though the crop loan system envisages the provision of credit to members according to the prescribed scale of finance it is customary to prescribe a ceiling beyond which an individual member may not borrow from his society so that the limited resources available to the society are utilised in meeting the needs of the maximum number of persons and particularly of the small and medium farmers. The concentration of loans with a few big cultivators is thereby avoided. It also ensures that resources available with big cultivators are ploughed back to meet a part of their production outlay. It is, however, seen that the ceiling is not fixed at an unduly low level so that farmers who wish to adopt improved agricultural practices or to

raise cash crops are not handicapped.

#### Sanction of credit limit

9. The central cooperative bank on receipt of credit limit statements, after due scrutiny, sanctions credit limits to the primary credit societies. Separate limits are sanctioned for each society as under :

- (i) The limit under component 'a' for both 'kharif' and 'rabi' crops;
- (ii) Limits under component 'b' fixed separately for 'kharif' and 'rabi' crops.

N.B. There are two major cropping seasons called 'kharif' and 'rabi'.

Once the credit limit statement is approved by the central cooperative bank and communicated to the primary society, it serves as an authorisation to it to draw on the limits, subject of course, to the society and the individual members fulfilling the conditions of eligibility of drawal as prescribed by the bank.

#### Security for short-term loans

10. Under the crop loan system, the convenient form of security taken by banks is the charge created by the borrower by a mere declaration in favour of the cooperative credit society on the identifiable right or interest of the farmer in the land cultivated by him either as an owner or a tenant. The necessary legal provision for creating such a charge exists in many State Cooperative Societies Acts. Such a charge is being recorded with the appropriate revenue authorities. In cases where the farmers are unable to create a statutory charge on land, along with personal surety/sureties additional security by way of gold and jewels, wherever feasible, is taken. Loans to oral lessees and share-croppers are made available on production of a solvent surety/sureties of one or two members who are owners of land or registered tenants. Alternatively they are asked to provide collateral tangible security in the form of gold or silver ornaments sufficient to cover the loan with prescribed margin. While tangible security in the form of a

mortgage/charge on landed property, gold/jewels etc., may be obtained, the repayment of the loan is expected out of the sale of crops and not by the sale of the security.

Seasonality in disbursement and recovery

11. Short-term production loan is intended to meet the expenditure in connection with raising of crops and as such the loan is to be advanced to meet the needs of cultivation and recovered out of the sale proceeds of crops soon after the harvest. It is, therefore, necessary to observe seasonality in regard to both disbursement and recovery of loans so as to broadly synchronize with the cultivation and harvesting seasons of the important crops grown. Drawals against the limit are permitted in more than one instalment. Drawal against kharif limit is permitted some-time in April or May and the individual is allowed an option to avail himself of cash and kind limits up-to September. Thereafter he is allowed to draw only the kind portion of the limit sanctioned for the rabi crop. The due date for the kharif crop is generally 31st March which provides for some time for harvesting and marketing of the crop. In case he repays the cash portion drawn for kharif crop on or before the due date, he is allowed to draw the cash portion of the limit for rabi crop provided the kind loans taken previously for kharif and rabi crops and the cash portion currently drawn are repaid on a given due date i.e. 31 May or 15 June according to harvesting and marketing period of the principal rabi crop in the area.

12. Actual disbursement is done by central cooperative banks to the authorised office bearers of the societies. Certain central banks allow office bearers of the societies to draw cheques in the names of the individual members who present them for encashment at the branch or head office of the central bank where the society maintains the account.

Linking of credit with marketing

13. The loans advanced for raising the crops are to be recovered out of the sale proceeds of such crops. It is, therefore, necessary to ensure that sales are effected through an agency with which the credit society is linked. The borrowers are expected to sell their produce through a cooperative marketing society to which the primary credit society is affiliated and the marketing society is expected to deduct the credit society's dues out of the sale proceeds. For this purpose, a list of outstanding dues of members of primary agricultural credit societies is to be sent to the cooperative marketing societies. Though in many parts of the country agricultural credit societies secure agreements from their borrowing members to this effect in practice such agreements are not strictly enforced. In view of the weakness of some marketing societies and their inability to secure the best prices for their produce, especially in a market where the forces of demand and supply have free play in determination of prices, it is felt unfair to insist on such a linking. The arrangement, at present, is largely voluntary in nature. Effective linking of credit with marketing is, however, receiving attention of all concerned.

Linking of shareholding to borrowings

14. The central cooperative banks derive their owned funds by way of share capital and reserves. The reserves are augmented out of profits. The share capital is being augmented by subscriptions by the affiliated societies and by share capital contribution from State Government with loan assistance from the Reserve Bank. The societies affiliated to the central cooperative bank are required to subscribe to their share capital at 10 per cent of the loan availed of by them. The societies require their members to contribute up to 20 per cent of their borrowings from them.

15. The problem of overdues poses a serious threat to the soundness of the cooperative credit structure. In many cases a high level of overdues coupled with poor internal resources has impeded the free flow of credit from higher financing agencies. The concerned central cooperative banks are taking remedial measures by intensifying the collection drive to reduce the overdues which affect their capacity to undertake higher lending programme. The supervisory machinery of the banks is being strengthened and timely coercive action under the Cooperatives Societies Act is being taken to recover the overdues.

16. The overdues of the cooperative banks have also increased due to successive droughts in many areas which impair the repaying capacity of the borrower. In order to prevent a dislocation of the cooperative credit structure under such circumstances and to ensure that the borrower gets fresh production credit for the ensuing year's crop, special stabilisation arrangements have been evolved. In the event of crop failure due to natural calamities like drought, floods etc., the cooperative bank provides assistance by way of conversion of current production dues into medium-term loans for a period of three years. This helps the members to become eligible for fresh finance as defaulters are not financed by the bank. For this purpose the central cooperative banks are required to maintain Agricultural Credit (Stabilisation) Fund created out of the net profits by appropriating to the Fund not less than 15 per cent thereof. The fund is also augmented by contributions by the State Government by way of outright grant and transfer of dividend in excess of 3 per cent on the Government share holdings with the bank. In case there is crop failure when an earlier conversion loan is outstanding the bank reschedules the balance of the conversion loans to the societies. The repayment of instalments of medium-term loans is extended from 3 to 5 years so that the burden of repayment of different loans is not felt by a cultivator while paying his dues out of next year's crop.

Medium-term loans

17. The term lending by cooperative banks has assumed great importance in view of technological changes taking place in the field of agriculture. The farmers are adopting improved methods of cultivation, high-yielding varieties of seeds and chemical fertilizers. The need for minor irrigation and farm machinery has increased considerably. Along with this development, the demand for medium-term loans has also increased manifold.

18. The main feature of the policy followed by the central cooperative banks in regard to term lending is that the cultivator's eligibility is determined with reference to the actual need for meeting the outlay involved on a particular development and/or repaying capacity of the borrower. Medium-term loans are given by the central cooperative bank for :

(i) periodical replacement of existing production assets with a view to maintaining the income-earning capacity of the farm, e.g. purchase of bullocks, reconstruction of lands, repairs to wells, farm houses, cattle sheds, etc.,

(ii) new investments with a view to increasing the income earning capacity of the farmers, e.g. digging of new wells, levelling of land prior to introduction of irrigation, reclamation of land, installation of pumping sets, contour-bunding, purchase of tractor and other costly farm machinery, purchase of milch cattle, pig breeding, sheep and goat rearing, purchase of metallic storage bins for installation at the farmer's house, and

(iii) for purchase of shares in viable cooperative sugar factories, cotton ginning and pressing societies, rice mills and oil mills.

The purposes falling under category (i) are met by loans for period not more than 5 years, whereas the period of loans for purposes under categories (ii) and (iii) is upto 5 years depending upon the repaying capacity of the borrowers. No loan, however, extends beyond the life of the particular asset created.



Size of credit

19. The outer limit for the quantum of term credit is set by the probable outlay on the proposed investment. The central cooperative banks fix certain generally acceptable norms of outlay for various types of investments with the help of the Technical Group referred to above. As the cost of investment per acre or per unit may vary from area to area, the bank indicates the range within which the cost per acre and per unit is accepted for sanctioning loans.

Repaying capacity

20. The eligibility for a term loan and the period of the loan are determined with reference to the repaying capacity of the concerned farmer. The repaying capacity is determined by taking into account the gross output turned out by a cultivator and on the assumption that the total liability on account of repayment of loan both short-term and medium-term does not exceed half the value of his annual output. It has been indicated earlier that under the crop loan the component 'a' at the traditional level of cultivation is to be not more than about one third of the anticipated average value of gross produce per acre. The balance of repaying capacity i.e., one sixth of such minimum estimated value of output per acre is taken to be the repaying capacity for annual instalments payable on medium-term loans for five years for purposes indicated in category (i) and (iii) earlier. For loans for purposes falling under category (ii) intended to increase the income earning capacity of the farm, the repaying capacity is determined on the basis of the incremental income generated by the new investment.

Security for term loans

21. The quantum of credit which is determined with reference to the outlay and the repaying capacity is given on security which may be personal or tangible. The security for medium-term loans is as under :

(i) Loans for agricultural purposes up to Rs.1,000 on the basis of personal surety/sureties.

(ii) Loans for Rs.1,001 and up to Rs.1,500/- on statutory charge on land.

(iii) Loans over Rs.1,500 on mortgage of land.

(iv) Loans more than Rs.1,500 but less than Rs.3,500 required for the purchase of an electric pumpset or an oil engine or for digging of wells are sanctioned without insisting on the mortgage of land or charge on land provided that :-

- (a) the borrower meets at least 15 per cent of the total cost of the asset;
- (b) the borrower creates a first charge on the asset in favour of the bank,

(v) Loans up to Rs.3,500 for purchase of tractors, power tillers, threshers and harvestors are granted without insisting on mortgage of land provided that :

- (a) the balance of outlay above Rs.3,500 is to met by the borrower.
- (b) the machinery is hypothecated in favour of the society,
- (c) the insurance policy in the joint name of the borrower and the society is assigned in favour of the bank and
- (d) the borrower makes a down payment of 15 per cent of the value of the asset.

(vi) In the case of small and marginal farmers undertaking dairy and poultry activities in Small Farmers Development Agency/Marginal Farmers and Agricultural Labourers areas as well as in the case of economically weak farmers in other districts, loans up to Rs.2,000 are given to a cultivator for dairy or poultry activities without insisting on the security of mortgage of charge on land, provided there are adequate arrangements for collection of milk/eggs, sale of these products and recovery of dues out of the sale proceeds. Loans are also granted to agriculturists (in excess of Rs.2,000) and to non-agriculturists (agricultural labourers) without insistence on mortgage security provided :

- (a) the borrowers furnish a margin of 33 1/3 per cent of the total cost, inclusive of their shareholdings or
- (b) a lower margin of 15 per cent inclusive of shareholdings and the borrowings are on the basis of a group loan against the joint and several liability of a group of members consisting of at least 5 and owning a minimum of 20 milch animals and/or 500 poultry birds.

#### Valuation of security

22. For the purpose of valuation of security, the banks have been advised to value the land at eight times the net post developmental income from agriculture. Fifty per cent of this valuation is to be treated as the outer limit for a loan with reference to security. If the repaying capacity is estimated with reference to the incremental income and is found adequate for repayment of a loan within the reasonable period there is no insistence on mortgage of land as indicated earlier.

#### Quality of the term loans portfolio

23. With a view to bringing about a definite shift towards loans for identifiable productive purposes, central cooperative banks are required to advance not less than 40 per cent of the medium-term loans for readily identifiable productive purposes including milch cattle and poultry. To ensure that the exploitation of ground water resources with the aid of institutional finance proceeds in a systematic and a co-ordinated manner, the central banks are required to observe certain disciplines such as reasonable distance between two wells, certificate of water potential from organisations like Exploratory Tube Wells Organisation, Ground Water Board etc.

#### Supervision

24. An efficient machinery for supervision has acquired a new urgency and significance with the orientation of the lending policies of the central cooperative banks. The supervisory machinery under the control of the bank is ensuring that

the loans are used for the purposes for which they are advanced. There are, however, certain built-in safeguards to ensure that loans are not misutilised. Thus loans for oil engines, pumpsets, tractors etc., are supplied through approved dealers. Loans are so timed that advances for purposes of land improvement are not given when there are standing crops in the fields. Loans for digging of wells are disbursed in instalments after checking that earlier instalments are properly utilised. In the case of electric pumpsets, the supervisor checks that power connection has been received. The supervisors also verify the end use of credit by spot verification.

### Conclusion

25. The cooperative credit institutions are an important instrument of economic development in the rural areas of this country and consequently they receive considerable financial and administrative assistance from the Government and the Reserve Bank. The loans advanced by the cooperatives have registered a several fold increase in the last decade thanks to the assistance provided as above. It is, therefore, necessary to ensure that the loans provided by them are directed to productive channels and help increase agricultural production. A new dimension to their programmes has been added recently by the technological changes that have taken place by the introduction of high-yielding and hybrid seeds. It is imperative, therefore, that the banks and societies adopt loan policies and procedures which lend support to the new developments. The banks have been quite alive to their responsibilities in this behalf and have reoriented their loan policies and have shifted from security based credit for agriculture to credit based on production requirements. The emphasis now is not so much on credit-worthy individuals but on creditworthy purpose. The new system is more sophisticated than the older system and requires larger administrative and supervisory arrangements. Everyone concerned is conscious of the responsibilities under the new system and is making determined efforts to make it a success. In the production oriented system of lending lies the hope of the small farmer and the prospect of a more prosperous rural community.

WORKING PAPER :

FACTORS RESPONSIBLE FOR SUCCESS OR OTHERWISE  
OF RURAL CREDIT CO-OPERATIVES IN INDIA

by

Dr. C.D.Datey  
Chief Officer  
Agricultural Credit Department  
Reserve Bank of India  
Bombay-18 (India)

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8-3, 1-chome Otemachi, Chiyodaku  
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Tokyo



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FACTORS RESPONSIBLE FOR SUCCESS OR OTHERWISE  
OF RURAL CREDIT CO-OPERATIVES IN INDIA

by

C.D. Datey

1. The Indian society is predominantly rural; about 80 per cent of the 547 million people in India live in the rural areas. Rural India is a far cry from cities and towns. The means of communication and transport connecting the villages with the cities are poorly developed and a large number of them are inaccessible during the rains. In a very large country like India where the cities and towns are few and far between, the rural life till about a couple of decades ago had remained unaffected by the changes of time. Agriculture largely carried on a traditional plane continued to be the dominating factor in the rural economy. Agriculture, to the people, has not only been an occupation but a tradition, a way of life, which for centuries has shaped their thoughts, outlook and culture. This is not to suggest that the Indian farmer is indifferent to the changes in the techniques of agriculture, but to make it clear that his familiarisation with agricultural machinery, new techniques and methods of cultivation has started only during the last 25 years or so, and till today, in many areas the art of cultivation is outdated and largely dependent on nature which makes it a gamble in rain.

Institutional Credit

2. Studies conducted during 1951-52 by the Committee of Direction of the All India Rural Credit Survey appointed by the Reserve Bank of India revealed that as much as 92.7 per

cent of the cultivators' borrowings came from the non-institutionalised credit agencies. The most important of these was the professional moneylender whose share was as much as 44.8 per cent of the total, followed by the agriculturist moneylender accounting for 24.9 per cent of the total borrowings. The institutional credit agencies together provided only 7.3 per cent of the total borrowings of the cultivators; among the institutional agencies were the Government (3.3 per cent) the co-operatives (3.1 per cent) and the commercial banks (0.9 per cent).

3. The commercial banks confined their activities from the very beginning to urban areas meeting credit requirements of trade in the initial stages and of both trade and industry later on. Modern banking was mainly developed to serve the trading interests of Great Britain in India. The banks concentrated on port towns and preferred self-liquidating loans for trading purposes. Let alone agriculture, even organised industry failed to get the desired assistance from the banking sector. Thus, the conservative approach on the part of the commercial banks coupled with the unbusinesslike outlook of the Indian farmers, more than anything else kept the commercial banks away from direct financing of agriculture. Except in a few cases of estate agriculture, the commercial banks in India, by and large remained aloof from direct financing in this sector.

4. Against this background, for the agricultural sector, the system of cooperative credit was encouraged and was initially developed with a view to helping the cultivators in extricating themselves from the clutches of moneylenders who besides charging usurious rates of interest were also not concerned with how the credit provided by them was used by the cultivators. It will not be wrong to say that till about a couple of decades ago there were many bankers but no banks in the rural areas. Systematic attempts to organise co-operatives



in rural areas have, however, been made since the beginning of this century. The progress registered by these institutions during the first half of the century was halting owing to a variety of factors chief among which were the lack of enlightened and zealous leadership and want of adequate finance. It was only with the advent of the era of planned development, the keystone of which was the growth of a co-operative commonwealth, that conscious and deliberate attempts were made to nurture and foster the co-operative institutions. At present, cooperatives organised as a three-tier structure for short-term and medium-term credit and a two-tier structure for long-term credit provide the bulk of the institutional credit support to agriculture. The three-tier structure consists of the state co-operative bank at the apex level in each state, a central co-operative bank, usually one for each revenue district, at the intermediate level, serving as a financing agency for the affiliated agricultural credit and other societies in the district and primary agricultural credit societies at the base serving cultivators residing in one or more villages which is their area of operation. Co-operative credit support to cultivators which was a mere 3.1 per cent of the total borrowings estimated at Rs. 7,500/ million in 1951-52, increased to about 16 per cent of the borrowings of Rs. 16,340 million in 1961-62, and further to 20 per cent in 1967-68. Co-operative support for agricultural production credit needs alone in 1968-69, was placed at about 25 per cent of the total borrowings of cultivators in the country. According to the latest available information, about 50 per cent of the total agricultural production credit requirements of the cultivators are being met by the institutional credit agencies; the share of cooperatives being one-third of the total requirements.

5. The spread of co-operation can be gauged from the fact that all the villages in a number of States and most of them

in the remaining States are being served by primary agricultural credit societies. The active societies covered nearly 86 per cent of the villages in the country. Membership is also steadily expanding. The total membership of primaries which was a meagre 4.8 millions in 1951-2 has now increased to 31 millions. Total loans issued during 1970-71 were Rs. 5,779 millions as compared to Rs.240 million in 1951-52.

6. The tremendous strides made by the co-operatives in the country in recent years have been mainly due to the massive support extended to them by the Central and State governments of the country as well as the Reserve Bank of India. Although from the very inception of the co-operative movement, the Government has been playing an important role in the creation of conditions conducive to the growth of the credit co-operatives, pursuant to the recommendations of the Rural Credit Survey Committee, this role came to be more clearly defined and the Government came forward to actively partner these institutions. On the recommendations of the Committee that a phase programme should be drawn up in each State for reorganisation of the cooperative credit institutions and their development on the basis of major State partnership at all levels, the Reserve Bank of India started sanctioning long-term loans to the State Governments at low rates of interest to enable them to contribute to the share capital of the co-operative credit institutions. The main principle underlying State partnership is that a co-operative credit institution should have minimum of financial resources at its disposal at the very start and that, if the minimum is lacking, it should be made good by the State stepping in as a partner. By the end of the co-operative year 1970-71, the Government contribution to the share capital of the co-operative credit institutions at the different levels was as under :

(In million Rs.)

Sr. No.	Category	Total paid-up capital	Of which contributed by Govt.	% of Govt. contribution to total
1.	Primary societies	2,057	169	8.21
2.	Central banks	1,411	375	26.57
3.	State Co-op. Banks	426	134	31.45

7. One of the most important measures which has significantly contributed to the growth of cooperative credit in the country has been the provision of much needed resources to these institutions by the Reserve Bank on a large scale, at special concessionary rates of interest. The Bank provides refinance to State co-operative banks for financing central banks and societies for short-term production credit and medium-term investment credit. During 1971-72 the Reserve Bank sanctioned short-term and medium-term credit limits at 2 per cent and 1½ per cent below the Bank Rate aggregating Rs. 4,089 million and Rs. 206 millions respectively. This concessional finance from the Reserve Bank formed the bulk of the resources used in the co-operative credit system and but for this concession, the cooperatives would not have been able to lend to the cultivators at a reasonable rate of interest. The indirect subsidy from the Reserve Bank offsets to some extent the high costs of retailing credit for agriculture to millions of farmers residing in thousands of the villages in the country the most common rates are 9 per cent on short-term and 9½ per cent on medium-term loans to the ultimate borrowers.

8. The Central Government and the State Governments have been providing financial assistance by way of subsidies, placing long-term deposits either interest-free or carrying

nominal interest with the co-operatives, strengthening their reserves etc. The State Governments are participating in schemes drawn up for revitalising the different co-operative credit institutions which have accumulated heavy losses/bad assets. At present, many of the central co-operative banks which were under acute financial difficulties are being rehabilitated under a programme in which the Central Government is providing financial assistance. Recognising the need for adequate staff for satisfactory working of the co-operative credit institutions and realising that the capacity of newly set-up institutions to bear the expenditure is limited, the State Government have been providing managerial subsidies to the co-operatives to tide over the initial financial difficulties of employing the necessary staff.

9. In spite of the good progress registered by the co-operatives with the active support of Central and State governments and the Reserve Bank of India, there are still various defects and deficiencies characterising the functioning of the credit cooperatives and several areas of inadequacy. One such aspect is that the borrowing membership of the cooperatives constitutes only about 20 per cent of the total cultivating families. A large number of those who are members do not receive any credit from their societies so that the effective membership is low.

10. Another disquieting feature is the comparative neglect of small farmers, tenants and share-croppers. Though efforts have been made by the State governments to relax the restrictive features of cooperative credit regarding financing the above categories of cultivators, it will be but a truism to concede that this group of cultivators continued to be greatly handicapped in obtaining their credit requirements from the societies. The cooperatives, no doubt, have difficulties in financing tenants, share-croppers etc. Since the land records showing rights of the above categories of the cultivators are

often not up-to-date. Taking these factors into account, the All India Rural Credit Review Committee (1966-69) paid special attention to this neglected section of the rural population and recommended setting up of Small Farmers Development Agencies in a number of districts throughout the country for assisting small but potentially viable farmers in securing supplies of inputs and guidance which could enable them to pass from subsistence to commercial farming.

11. One of the most important problems faced by the co-operatives is the growing delinquency of the members in prompt repayment of dues. Overdues are showing an increasing trend in almost all the States due to combination of a number of factors such as defective loaning policies followed in the past, ineffective supervision over the utilisation of loans and delays in enforcing recoveries through legal action.

12. Besides the above, there are many other structural and operational shortcomings in the working of co-operatives in rural areas such as existence of a large number of primary societies which are neither viable nor even potentially viable and as such are inadequate and unsatisfactory purveyors of credit, lack of timeliness, adequacy and dependability of credit through these agencies etc. Further, the quantum of credit and the quality of services provided by the rural co-operatives is not uniform all over the country. In view of the structural weaknesses of the cooperative credit institutions in certain areas, alternate means are being advocated to ensure that agricultural production programmes do not suffer for want of credit support.

#### Causes of failure

13. The failure of cooperatives to come up to the desired levels can be attributed to two major sets of factors, economic and socio-economic, and other factors which are endemic to the

structure itself. The observations of the Rural Credit Survey Committee which had undertaken a comprehensive study of rural credit in 1952 and which are still relevant in present-day India were as under :

"The most fundamental causes of the failure are in our opinion economic and socio-economic. In other words, it is in the factors which condition the cultivator's economic activity and the social background against which the activity that takes place that we believe will be found the real explanation for the great disparity between the dimension of performance on the one hand and expectation and promises on the other of the co-operative credit in India. The administrative structural and functional weakness and the educational and technical backwardness by which they are accentuated will then be seen to be the subsidiary forms of symptoms and ailments rather than the main disease itself."

14. Socio-economic factors which have a vital bearing on the achievement of the cooperative include, among others, the general backwardness of the agriculturists, small size of the agricultural holdings, particular geophysical conditions under which agriculture is carried on, such as the extent of availability of irrigation, susceptibility to natural calamities, the responsiveness of the cultivators to adoption of new agricultural techniques, etc. In fact, it is seen that precisely those areas, where agriculture continues to be undertaken on the traditional plane, which are constantly afflicted by crop failure and where the general rural economy is poor, that have not provided a fertile field for the development of co-operative credit. In other words, the growth of cooperative credit has been directly proportional to the economic and technological progress of agriculture in various areas of the country.

Small holdings

15. Existence of a very large number of small holdings is a distinct feature of Indian agriculture and the cultivators are, by and large, engaged in what can be described as subsistence farming. According to the data collected in 1960-61, as much as 40.7 per cent of the operational holdings in the country were below one hectare and another 34.1 per cent were less than two hectares. Under these circumstances, the cooperatives have been hesitant to provide credit for small cultivators particularly those who have uneconomic holdings and whose creditworthiness is difficult to assess. Furthermore, the small farmers in many cases are accustomed to borrow for consumption rather than investment as in their case consumption tends to run permanently ahead of production. Heavy indebtedness of these cultivators is often the index of their inability to balance the budget rather than their business ability to invest for better results. Thus, in many cases, loans obtained from the primary credit societies do not so much serve as production or investment finance to the cultivator but are used as "ways and means" advances. The consequent difficulties in recovery of such loans is one of the problems which the societies have to face in the case of such financing.

Land reforms

16. Also important both from the point of view of the incentive to the cultivators to invest in land and produce more as well as that of the availability of security acceptable to the institutional credit agencies, is the situation, in respect of land tenures and tenancy and in particular the extent to which the land reforms designed to ensure fixity of tenancy and fair rents are effectively implemented and the status of the cultivator in relation to the given piece of land cultivated by him is identifiable. The assurance of the identifiable

and continuing interest of the cultivator in a given piece of land is essential for successful credit operation not only because it helps to make sure that he is in farm business but also provides a dependable basis for assessing his repaying capacity. One of the undesirable features of Indian agriculture is the prevalence of a large number of absentee landowners and oral lessees. The State governments have taken positive steps in this regard by reviewing the existing land legislation and modifying the same with a view to conferring ownership/transferability rights on land on the actual tillers, for eliminating various intermediaries and for maintaining up-to-date and accurate land records, indicating in clear terms the cultivator's specific interest. However, there are certain practical difficulties which have reduced their effectiveness and the enforcement of the legislation has also not been uniform all over the country.

#### Internal factors

##### a) Structural

17. The structural set up recommended for the cooperatives is an apex bank in each State, a central cooperative bank in each district and viable primary credit societies at the base covering all the villages. Each higher level institution is to serve as a federation of those below, with membership and loan operations restricted to the affiliated units. Though in some of the States the entire cooperative credit structure is weak, by and large, the working of the apex level institutions conforms to requirements. A programme of reorganisation of intermediary level institutions has been pursued with a view to merging small institutions which have a jurisdiction of less than a district. As against 509 central banks as at the end of 1951-52, their number was brought down to 341 central banks in 1970-71. Inspte of near completion of the work relating



to reorganisation of central cooperative banks on the basis of their area of operations, a large number of them units. A Central Bank is considered viable continue to be weak and non-viable if it has a loan business of atleast Rs.10 million corresponding to a working capital of Rs.12 million. Applying these criteria it is found that at the end of 1971, as many as 113 central cooperative banks had still not attained viability. Many are burdened with long-standing overdues and accumulated losses and had debts and are therefore unable to lend adequate support to the affiliated primaries in the district with the result that the supply of institutional credit for agriculture is poor.

18. The central cooperative banks came to be organised as federations of the primaries with the hope that with wider jurisdiction and better professional management they would be able to mobilise resources from the public for meeting the financial requirements of the societies. This hope has not materialised in many cases. Thus of the 341 central banks only 116 had deposits exceeding Rs.10 million. As many as 14 banks had deposits of less than Rs.1 million. It was felt that the concessional finance provided by the Reserve Bank acted as a disincentive to deposit mobilisation and hence on the recommendation of the All India Rural Credit Review Committee it has now been decided to link up the rate on the loans from the Reserve Bank with the efforts made by the central banks at deposit mobilisation. Emphasis is being laid on the opening of branches and provision of various banking facilities and services by these banks so that they could compete with commercial banks in mobilising deposits from the public. A programme of rehabilitation of some of the weak central cooperative banks is accordingly under implementation with financial assistance from the Central and State Governments which envisages a write-off of the irrecoverable debts of these banks, apart from rectification and development of their working.

19. A number of primary societies are neither viable nor even potentially viable and are incapable of dispensing adequate and timely credit. A society can be considered viable if it can render the more important of the services expected of credit societies both adequately and to as large number of producers as possible, without depending on continued financial assistance from Government except for a limited period. More specifically, the societies are expected to have the ability not only to command the services of competent personnel, but at the end of a stipulated period, to be able to meet fully the expenditure on rent, audit, supervision besides contributing adequately to the reserves and paying a reasonable return on share capital. It has been estimated that a society with a loaning business of at least Rs.100,000 with some non-credit business is expected to have enough income to cover the above expenses. The average loan per society for the country as a whole was Rs.48792 and was thus below the viability level. In many States the average was much below the national average. Of the total number of societies amounting to 160,780 as many as 20,234 were dormant. The number of societies working at profit were 107,099 and formed 62.6% of the total in the year 1970-71. It is obvious that with such a weak base, the cooperatives cannot think of providing adequate credit facilities and other services to the rural population.

20. The State Governments were, therefore, asked to undertake a programme of reorganisation and revitalisation of the primary societies on this basis. The programme of reorganisation involved three main stages viz. (i) formulation of viability criteria by the State Government; (ii) conduct of a survey to locate viable or potentially viable units with reference to the above criteria and demarcation of areas which will ensure adequate business, potential to make a society viable, and drawing up, on the basis of the survey, a programme of action to enable the potentially viable units to become viable units; and (iii) amalgamation or liquidation of weak societies. The number of societies which exceeded 200,000 was

to be brought down to 1,20,000. At the end 1970-71 the number was still 1,62,500. The progress in the achievement of the above target has not so far been satisfactory, mainly due to resistance of the societies to amalgamation with other units. The reluctance of societies to amalgamate with other societies is primarily due to the following reasons. Often a society which is operating satisfactorily, does not like to join another which is not so good in its working. In other cases reluctance is based upon the fear that amalgamation might lead to a loss in terms of convenience. In other cases, it is just the individuality which the village society is reluctant to lose by merging itself in a larger entity. There are also inter-village rivalries which make amalgamation difficult. Another obstructing factor is the apprehension of the office-bearers of a society that the authority which they are able to exercise in a single society might be lost when it becomes part of a bigger unit. In fact, it is one of the hopes underlying the programme of reorganisation that the larger units will help defeat the exclusive tendencies and vested interests in the society in which credit is denied to members of certain castes or groups because they are opposed to those who have control of the society. Much work regarding reorganisation of societies still remains to be done. The existence of economically sound and viable societies is an important precondition for the flow of large cooperative credit.

(b) Operational policies

21. The non-institutional agencies which provided the bulk of credit to the cultivators, did not interest themselves in the end-use of their finance. Credit provided by the non-institutional agencies as well as the cooperatives till recently was asset-based rather than production-oriented. Special efforts are now being made by cooperatives to instil necessary disciplines. In view of the long tradition of credit unrelated to needs of production and the cultivator's habituation to availing of loans as a matter of course, the switchover to the production-oriented system known as the 'crop loan system'

is a gradual process. The 'crop loan system' is based upon the principles of lending according to the production requirements of cultivation worked out on the basis of the area under cultivation of different crops, introduction of seasonality to ensure that the issue of loans and the repayment thereof synchronizes respectively with sowing and harvesting/ marketing of the crop, streamlining of procedures for sanction and disbursement and grant of a substantial portion of the loan in kind. Adoption of the above system pre-supposes existence of upto date land records and their ready availability with the societies, and also educated members who can readily understand the implications of the above system. Unfortunately, both the above features are lacking because of which the achievements in this regard have been somewhat inadequate. Attempts have, however, been made to further simplify the procedures so that they can be easily adopted by the societies.

(c) Members' delinquency

22. One of the disquieting features of cooperatives credit is the increasing degree of delinquency on the part of the members, which in turn causes defaults by societies in meeting their obligation to the financing agencies. The total overdues of the primary credit societies as on 30 June 1971 aggregated Rs. 3,224 million forming about 41 per cent of the total loans outstanding. The high level of overdues has serious adverse effects on the expansion of credit and in many parts of the country accounts for stagnation or recession in cooperative credit. The failure of some members to repay affects the ability of the society to borrow and lend. The latter, in turn, leads to default on the part of those who are in a position to repay. This sets in a vicious circle; the members do not repay because they are doubtful of obtaining fresh finance; the society is unable to finance because the members have not repaid and hence it is not able to fulfill the condition regarding the minimum percentage of repayment to the higher financing agency to obtain loans. The condition regarding a

a minimum recover position for qualifying for fresh finance was expected to instil collective responsibility among members but has not brought about desired results. On the other hand, denial of credit to non-defaulters in the long run leads to erosion in the member's loyalty to the society.

23. Arrangements have been made in the cooperative credit system to help the cooperatives to tide over the difficulties in recovery which are likely to take place because of natural calamities such as floods, droughts, etc. In these cases, short-term loans repayable over a period of three to five years are allowed to be converted into medium-term loans repayable over a period of three to five years. If the conversion is granted in time, the cultivator does not lose his eligibility to borrow for carrying on current agricultural production activities. However, often full benefits of conversion facilities do not reach the cultivators due to administrative or procedural delays on the part of the concerned State Governments or the cooperatives.

(d) Restrictive policies

24. In some areas lack of progress of cooperatives can also be attributed to the existence of various restrictive features of cooperative credit such as low individual borrowing power and insistence on landed security for loans above a certain level etc. Mortgage on land in India is a time-consuming and elaborate procedure. Further, tenants are not in a position to provide such a security. In areas where relaxations have not been provided regarding the security for production loans above a particular level, a borrower has to face considerable difficulties particularly when he also wants to avail of long-term credit for investment purposes for which landed security is required for mortgage to a different institution which provides him the long-term credit.

(e) Inadequacy of internal resources

25. Mobilisation of resources is an important function of any institutional banking system, in which the cooperatives

have failed. The lack of adequate internal resources constitutes a basic weakness of the operation with the result they continue to be largely dependent on the Reserve Bank of India for financial assistance. Thus, as against the total loans of the order of Rs.7,845 millions outstanding against the members of the primary credit societies as on 30 June 1971, as much as Rs.6,752 millions constituting 86 per cent had been derived by way of borrowings. Due to paucity of internal resources, the cooperatives are unable to absorb overdues to any significant extent and hence poor recoveries invariably result in choking the flow of credit. Besides, the obvious need of the cooperatives to augment their internal resources, the rising rural incomes have cost a special responsibility on the cooperative credit agencies to ensure that the resources to finance agriculture increasingly come from the surplus generated in this sector, more so because cooperatives enjoy a special position in the rural sector and are better placed than the commercial banks to mop up the rural savings and encourage thrift among the members whose propensity to spend is obviously very large.

(f) Unbusiness-like working

26. A major factor of weakness in the working of cooperatives is the non-recognition of the need for following a business-like approach in managing these institutions. This is reflected in many aspects of their working such as the attitude towards collection of overdues, maintenance of books of accounts, management of funds, etc. With the increasing complexity of the task of dispensing credit and servicing agricultural loans, the need of managing the societies in business-like manner is becoming increasingly more important. One reason for the unbusiness-like working of the societies is the absence of adequately trained and qualified staff in most of the cases. The members of the societies also on their part lack responsibility and often fail to fulfil their obligations to the societies. The lack of a sense of

responsibility, perhaps, arises because the members mostly have little financial stake in the co-operatives as the bulk of resources consist of borrowings from higher financial agencies. In spite of the fact that the co-operatives are people's institutions, members often look upon them as a part of the Government. Intensive programmes of educating the members and training the officials require attention.

(g) Leadership

27. An important condition for successful working of the cooperatives is that there should be leaders of competence and integrity. By and large, there is great dearth of leaders, especially at the base level. This has, in no small measures been due to the fact that the cooperative movement has not been spontaneous but has been primarily government sponsored and developed as the most effective channel for provision of assistance to the rural sector. Societies were mainly organised under official auspices and under official impetus. Further, in many areas, leadership continues to be determined not so much by popular will as by status and position in the rural hierarchy. Under the circumstances, it is not surprising to find that the cooperative movement has failed to throw up competent leaders on a scale commensurate with the expansion which has taken place in its operation and coverage. Against the socio-economic background referred to earlier, it has not been uncommon for moneylenders to infiltrate into the societies and dominate their working. Under the circumstances the societies, often misguided by such leadership, work to the detriment of the co-operative system itself.

Conclusion

28. It will be seen that while the cooperative credit agencies in India have recorded a very significant progress during the era of planning which began 20 years ago, they will

have to strive hard to remedy the various deficiencies which have been mentioned if they have to discharge their responsibility satisfactorily. Agriculture has now ceased to be merely a way of life, thanks to the discovery of high yielding and hybrid varieties of seeds which are responsive to the use of fertilisers. The requirement of credit has multiplied several fold in the last five years and will continue to do so. The production credit needs during the Fifth Five Year Plan have been placed at Rs.30,000 millions of which the cooperative are expected to meet Rs. 12,000 millions. If they fail to rise to the occasion, the gap may remain unfilled by any institutional agencies, because although after the nationalisation of 14 major commercial banks these banks have been paying special attention to the needs of agriculture which is a priority sector for them, there are obvious limitations to the extent to which they may be able to satisfy the need. The role of these banks will at best be only supplementary and the co-operatives will have to continue to bear the major share of the burden. The hope of rural India still lies in the co-operatives. If they fail, the prospects for agricultural development cannot be rated high. Hence the Government and the Reserve Bank will continue to take measures to remedy the deficiencies and strengthen the cooperatives financially and administratively so that they become powerful instruments of economic regeneration of the masses that live in rural India.

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353

PROBLEMS OF AGRICULTURAL COOPERATIVE CREDIT

IN SOUTH-EAST ASIA

by

Lionel Gunawardana  
Specialist in Coop. Credit

INTERNATIONAL COOPERATIVE ALLIANCE  
Regional Office & Education Centre for South-East Asia  
43 Friends' Colony, New Delhi-14

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THE GENERAL ECONOMIC BACKGROUND

Most of the developing countries in South and East Asia have now enjoyed political freedom for a little over two decades. They have made noteworthy progress in economic development. Because the economic conditions which existed at the time of achieving political independence were so appallingly bad, and also because the effect of development activities at the preliminary stages of economic development is slow, development measures taken so far have not made an appreciable improvement in the economic conditions of the Region.

The size of land holdings in these countries is small and consequently the income of the farmer is low. The farms are barely sufficient to meet the subsistence expenditure of their families. The avenues of subsidiary employment are few. There is wide-spread unemployment and under-employment in both rural and urban areas.

However the numerous development projects that are being implemented in both the agricultural and industrial sectors are rapidly changing the economic conditions of these countries.

Many irrigation and colonization projects have been started in a determined effort to increase production. Price support programmes for various food crops have been put into operation to stabilize farm prices. Various laws have been enacted to ensure security of tenure and to effect all round improvement in the conditions of the impoverished and improvident peasantry. Agricultural production, though it still suffers from problems such as under-capitalization and fragmentation, is rapidly improving due to these measures. Improved methods of cultivation and especially the use of high yielding varieties of seed have contributed to this improvement in no small way. Certain countries which have been till recently importing food grains now have a surplus.

Though the major emphasis is placed by governments on agricultural development, industrial development has not been neglected. Numerous industries have been started since the attainment of independence in these countries. They have opened new avenues of employment in the cities and thereby created a tendency for people to migrate from the rural to the urban areas.

The literacy rates are rising due to the creation of better and more facilities for education. The medical and sanitary conditions have improved thus resulting in lower death rates. These improvements have aggravated the pressures of population on land.

The governments of all these countries, whatever their forms and political ideologies, have been deeply involved in implementing economic development plans designed to give meaning and purpose to their hard-won political independence. They seek to do this by creating conditions under which the teeming millions of these countries, who have long suffered the privations of under-developed economies, could enjoy a reasonable standard of living.

These efforts are rapidly changing social and economic conditions of South and East Asia. A celebrated Prime Minister of one these countries commenting on the changing conditions of his country said: "Let us remember that today we are in fact living in an age of transition, with all the factors that are inherent in such a period of transition in human history, but with those factors exaggerated and accentuated as never before, in the whole history of mankind". This aptly describes the conditions in all the developing countries of the Region. It is against this changing economic background that the cooperative movement has to develop.

BRIEF HISTORICAL REVIEW OF THE COOPERATIVE CREDIT MOVEMENT

In all these developing countries the initiative for Cooperation came originally from the government. Almost all the cooperative movements in these countries were started in the early 20th century and they began as credit movements. Thus the credit cooperatives have a long history compared to that of the other sections of cooperative endeavour. However, though credit societies have now functioned for over half a century in the countries of South and East Asia, it was only after these countries gained political independence that the cooperative movement was given a definite role in economic development and so began to have an appreciable impact on the lives of the people. During the pre-independence period, the growth of the movement was slow. For instance, in India in 1952, by when the cooperative credit movement had functioned for 48 years, the cooperatives met only 3 per cent of the credit needs of the rural people, whereas within ten years thereafter the percentage had increased to 15.

The slowness of the movement's growth during the pre-independence period may be attributed to three main reasons. Firstly; the preoccupation of the leaders with the struggle to gain political freedom left them little time to devote to other social and economic activities. Secondly; at least a section of the national leadership

was reluctant to involve itself in cooperative activities, as the movement had been started by the colonial governments. The popular leaders looked upon the gospel of cooperation and self-help, and the limited measures taken by the colonial rulers to meet the basic economic needs of the masses with a certain amount of suspicion, as they saw the efforts of the colonial rulers to promote a cooperative credit movement as an attempt to placate the masses who lived in deplorable economic conditions and so divert their thoughts from pursuing the demand for political independence which had already begun to rear its "ugly" head. Thirdly; the support the movement got from the colonial government was limited, and the movement was not part of a larger programme of economic development. The government imposed controls on the societies which were designed to keep all decision-making power concerning cooperatives with the government servants to the exclusion of the non-government leadership. The propagation of the principles of cooperation, and their application in all sectors of the economy, were not encouraged, but rather discouraged. For instance, the MacLagan Committee on Cooperation in India<sup>s</sup> (1915), which was composed mainly of government servants who were responsible

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<sup>s</sup> - Report of the Committee on Cooperation in India (1915),  
Chairman : E.D. MacLagan, Reserve Bank of India, Bombay.

for the formulation of policy concerning cooperative development, opposed the idea of teaching cooperation in schools.

Since independence, the governments in most of the developing countries have come forward to help the movement actively, and to regard the cooperatives as instruments of social and economic development. This participation of the government, however, is not without problems. These however will not be discussed in this paper as these problems relate to the entire movement.

More and more cooperative leaders have emerged from among the people, and people have come to regard cooperation as the method best suited to solve their economic problems. Their involvement in cooperative societies has steadily increased and today in the developing countries served by the ICA Regional Office and Education Centre for South-East Asia<sup>§</sup>, the total membership of the movement is over 60 million. Japan has another 11 million.

The cooperative movement has been entrusted in almost all these countries with a substantial share of implementing the economic development plans of their governments.

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§ - Ceylon, Bangladesh, India, Indonesia, Iran, Republic of Korea, Malaysia, Pakistan, The Philippines, Singapore, Thailand.

and to a very great extent it has been made a governmental instrument of economic development. The cooperative movement is charged with the tasks of providing the finances and the inputs required by the agriculturists for production as well as of marketing of their produce. In Japan and few other countries they provide farm guidance as well. Where rationing of essential commodities has been introduced by governments to ensure equitable distribution of scarce commodities, the cooperatives have been called upon to handle such schemes. The cooperatives have also been given the responsibility of providing finance for artisans and small industrialists for developing their industries. Constant attempts are being made by the cooperative movement to adjust itself to the continually changing conditions brought about by economic development, and to face up to the challenge offered thereby.

The credit activities of the cooperative societies form the major part of cooperative activities and the societies that are engaged in these activities have played their part with considerable success in spite of numerous problems and handicaps. In the Region of South-East Asia covered by the ICA Regional Office, there are more than 224,000 credit cooperatives, with a membership of over 27 million. The number of multipurpose societies which have credit as a major part of their business in these countries is over 30,000, and they have a membership of over 10 million.



Thus out of the total membership in the Region, 37 million are that of thrift, credit and multipurpose cooperatives.

Agriculture in these countries is still largely based on primitive methods. The economic conditions described by me earlier leave the rural folk in a state of chronic indebtedness. They do not have the required capital to adopt new methods of agriculture - to use better seeds, more fertilizers and better cultivation practices. To break this vicious circle of low production and poverty, the peasant cultivator must be provided with the necessary capital. Hence the vital importance of the role played by the rural credit and multipurpose cooperatives. In performing this onerous task, these cooperatives have to face numerous problems.

## THE MAIN PROBLEMS OF CREDIT COOPERATIVES

The main problems of these societies are discussed below.

### Uneconomic size of societies

Most of the credit cooperatives, specially those in the rural areas, are small. They are mostly confined to a village or even a part of a village. Consequently the volume of business handled by these cooperatives is limited. The volume is limited not only because the society is small in size, but also because the quantum of each loan extended is small, and little or no business other than credit is handled. This limitation in business obviously prevents the society from achieving the economies of scale. The scope for development becomes limited and this prevents the pursuit of dynamic policies for the economic uplift of the members. At the beginning of the cooperative movement in the developing countries, great emphasis was laid on the importance of members having personal knowledge of one another. To ensure mutual knowledge, the formation of small societies was encouraged. The MacLagan Committee observed : "We would lay stress on the importance of small beginnings. The members of a society should be few to start with, and increases should be gradual and the ultimate total moderate. The main advantage claimed

for large societies is economy of management, but this consideration scarcely affects rural society. On the other hand, small societies are more easily supervised and trained in cooperative principles, just as small classes are more easily taught in schools". Although small societies were indicated at the inception of the cooperative credit movement, it is not so under the present conditions. The Royal Commission on the Cooperative Movement in Ceylon<sup>§</sup> has observed in its report (1969) : "Whatever may be said of the social values of small cooperatives - and it cannot be denied that they are often great - their economic benefits are often slight and of short duration. We, therefore, recommend that the number of primary societies be greatly reduced, and that the first general objective of a new structure should be a much smaller number of large primary societies". To meet the vast challenge thrown to them, and to perform the increasing and complex services demanded of them by ambitious plans of economic development, the cooperatives have to be viable and strong. It is only then that they would be able to

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§ - Report of the Royal Commission on the Cooperative Movement in Ceylon, Chairman: Dr. A.F. Laidlaw (Sessional Paper No. II-1970) : Government of Ceylon, Colombo, 1970.

attract competent managerial personnel for fulfilling their obligations to the membership.

Many developing countries have realised the need for viable and strong societies, and have undertaken programmes of amalgamation in order to bring together small societies and form viable units. There are various difficulties in bringing about the amalgamation of societies. The members of a constituent unit are sometimes unwilling to locate the headquarters of the amalgamated society in the other village, or vice versa. The good societies do not like to merge with societies whose functioning has been less satisfactory. Some leaders oppose the process for fear of losing their leadership over the society. Furthermore there are legal difficulties. The cooperative laws of certain countries do not provide for amalgamation. In such cases amalgamation becomes a cumbersome procedure. In spite of these difficulties some countries have been fairly successful in their attempts at amalgamation of the credit cooperatives. An element of compulsion is sometimes enforced to bring about the desired results.

Lack of trained staff and managerial skills

Another problem is the lack of trained staff and managerial skills. At the inception of the credit movement, societies were small and their business was simple. The affairs of the societies, therefore, could be easily managed by voluntary leadership. Now the demands that credit cooperatives are expected to meet are heavy, and the tendency rightly is towards the formation of larger units. The business in these societies is becoming more and more complex, and this demands the services of highly-trained personnel with managerial skill. The uneconomic size of some cooperatives, which results in their inability to pay adequate salaries, is one of the major factors that prohibit the employment of competent personnel to manage their affairs. Their growth is hampered due to lack of managerial talent, thus setting in motion a vicious circle. However, encouraging trends towards

amalgamation are noticed. If amalgamation is properly pursued it will remove these obstacles to development.

Promotion prospects are absent or limited in most of the cooperatives. This is due to the lack of vertical integration and proper personnel policies. This situation discourages people of ability and integrity from seeking employment in cooperatives. Another important reason that keeps talented people away from employment in cooperatives is the low prestige which the employees of the cooperative societies command among the public. This is due to the poor public image of the cooperatives, as a result of the losses or irregularities that exist in some cooperatives. Irregularities in the cooperatives get publicity almost to the exclusion of their achievements. This is, firstly, because the cooperative movement is a people's movement, and in this Region one sponsored by the state, it consequently invites public attention in greater degree than it would otherwise, and secondly, because the enemies of the movement have a virtual monopoly of the available media of publicity. The lack of good publicity for cooperatives is a problem to which the movement must devote immediate attention. Due to these factors, even talented persons who get employed in cooperatives and receive training, more

often than not, leave before long in search of better employment. This quick turnover of the employees results in wastage of the limited training facilities the movement has at its command.

The governments in the developing countries, which are keenly interested in cooperative development, often depute government servants to manage the cooperatives. This is done with the intention of helping the societies to get the services of competent people, and also as a safeguard for the funds the governments have loaned or invested in the societies. By the time these government people get trained in their jobs and come to be acquainted with the techniques of business management, they get transferred elsewhere, thus taking the cooperatives back to their former positions, retarding the movement with loss of time and money, to boot.

The leadership of the cooperatives, unfortunately, has also failed to recognise the need for following a business-like approach in running their institutions, and therefore failed to appreciate the necessity of employing competent managers and giving them continuous training and incentives to function efficiently. Instead they are wont to interfere in those affairs of the society which would rightly fall within the purview of the manager, thereby discouraging men with initiative from

giving of their best to the movement.

Fortunately, however, during recent years cooperatives have been able to attract more and more talented people to their cadres than previously, due to the fact that many of these societies have grown in size and improved in their performance. The All-India Rural Credit Review Committee<sup>§</sup> has observed in its report that more primary credit cooperatives able to employ paid secretaries have emerged in recent years.

In certain places secondary cooperatives maintain managerial cadres to supply managerial services to their affiliates. This system enables the small primaries to get the services of better qualified personnel without the need to employ them full-time.

Not only have the cooperatives been able to attract better employees in recent times, but they have also been able to give more and better training to their employees due to the establishment of an increasing number of training centres and the expansion of the existing ones. The ICA Regional Office and Education Centre for South-East Asia through its training and publication programmes, has contributed considerably

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§ - Report of the All-India Rural Credit Review Committee, Chairman: B. Venkatappiah, Reserve Bank of India, 1969.



towards this orientation. The Centre has, during the last 11 years, held 88 regional and national technical meetings, where more than 2,200 persons holding important positions in the cooperative movement were oriented in various aspects of Cooperation. The Teachers' Exchange Programme of the Centre, which is designed primarily to increase the knowledge of the teachers in the national training centres with regard to the methods and techniques of teaching that are prevalent in the Region, has been of some help in this regard and has been appreciated by the movement.

Lack of adequate finance

Another problem is the lack of adequate finance. In the initial stages of agricultural development, the farmer's income is very low due to his methods of cultivation being primitive, the uneconomic size of his holdings and the lowness of his yields. His income is hardly sufficient to meet his expenses for the bare necessities of his family. Therefore, he hardly has any savings. He is, in fact, in a perpetual state of indebtedness. Thus the accumulation of capital, either individually or collectively through the society, becomes impossible, and the self-financing of the credit cooperatives becomes a difficult task.

To bring about a break-through in agricultural production, the vicious circle of low production and poverty has to be broken. It has always been difficult, if not impossible, for the farmers or their credit cooperatives to obtain the required financial facilities from the private finance institutions. The organised finance agencies are located in the big cities, and the rural people have little or no connection with them. The securities which the credit cooperatives have to offer on behalf of the farmers against loans are limited. Even when they can offer the land or produce of the farmers as security, the existence of protective legislation in favour of the farmers, which prevents the creditors from seizing such securities in the event of failure to repay due to conditions beyond the farmer's control, makes these securities unattractive to finance agencies. The risk involved in financing credit cooperatives composed of a large number of subsistence farmers is high. The fact that the return of capital in trade and industry is quicker than that of in agriculture is yet another reason why private finance agencies prefer not to provide funds for agriculture.

If these finance agencies are to be attracted to financing agriculture through cooperatives, it is essential to strengthen the farmers' cooperatives, so that they can get their members to undertake agriculture

on a commercial basis and so create among the members a realisation of the importance of both cost-consciousness and the application of the principles of management to their agricultural undertakings.

The reluctance of the traditional financing agencies to support credit cooperatives necessitates the intervention of the governments in all countries to finance the cooperatives to the extent to which they need to be financed. Most of the governments in the developing countries have realised their responsibility in this respect and have taken praiseworthy steps for financing credit cooperatives. In several countries, governments have sponsored banks for agriculture and cooperatives, or have created government finance institutions for the purpose of financing cooperatives. The Bank for Agriculture and Cooperatives of Thailand, the Agricultural Development Banks in Pakistan and Nepal, the People's Bank of Ceylon, the Agriculture and Credit Administration of the Philippines and the Agricultural Credit Department of the Reserve Bank of India, are some examples. The central banks of several countries have agreed to guarantee loans given to credit cooperatives. This has made it possible for the societies to borrow from sources other than government-sponsored institutions. This type of governmental assistance led the Rural Credit Survey

Committee of India<sup>§</sup> to remark that lack of finance, as such, was not a major obstacle for the sound development of agricultural credit.

The receipt of financial assistance from the government should not blind the credit cooperatives to the need to build up their own funds. It is also important that members of cooperatives should cultivate the habit of thrift and accumulate savings in their societies. Saving under the compulsion of bylaws willingly adopted is a self-imposed discipline of great benefit to the members. The rural development project in the Comilla District Bangla Desh, popularly known as "Comilla Project", serves as a striking example of a cooperative scheme where a self-imposed scheme of saving has proved successful. In India, the credit cooperatives have been able to mobilise the savings of the community in the form of deposits. The All-India average for deposits in primary agricultural cooperatives and central banks has gone up from Rs. 358 in 1960-61 to Rs. 729 in 1966-67 per 100 of rural population. Particular States in India, like Gujarat and Maharashtra, have impressive records of savings deposits in credit

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§ - All India Rural Credit Survey, Report of the Committee of Direction : Volume II, General Report : Reserve Bank of India, 1954.

cooperatives and central banks, with an average of Rs.2,503 and Rs.2,292 respectively per 100 of rural population.

If members learn to save through their societies regularly they will be able to increase their savings when their earnings improve. Thus a society's own funds would increase in proportion of the rate of improvement in the economic position of its members.

Inability to grant adequate and timely credit

Another problem is the inability to grant adequate and timely credit. The important considerations to any person, who borrows, whether he borrows for agriculture or for any other purpose, are that the loan is adequate for the purpose, that it is granted without complicated procedures and that it is disbursed without undue delay so that the borrowed funds could be utilized in time. These, unfortunately, are the very points of weakness in most credit cooperatives. The inadequacy of sources for financing the cooperatives may be one reason for the inability to grant adequate and timely credit to farmers, but this is not the only reason, nor even the main reason. Even when the finances were forthcoming, other factors, such as complicated procedures and methods of assessing loan requirements adopted by cooperatives, have contributed to the failure of members to get loans in time. In assessing loan requirements, the farmer's assets and the securities he can offer are given more weight than his production potential. According to this method the farmer's creditworthiness is judged, not by his repaying capacity which is reflected in the production potential; but by the value of his land and other assets. In using such methods of assessing creditworthiness the cooperatives fail to recognise the creditworthiness that

accrues to a member by reason of his capacity and diligence. The assessment of creditworthiness on the basis of a member's production potential is all the more indicated where credit is required for scientific agriculture which involves heavier capital outlay.

Another problem is the traditional reluctance of the agricultural cooperatives to lend for consumption purposes. Subsistence loans are considered unproductive, and are therefore refused, thus driving the farmer into the hands of the private moneylender with disastrous consequences. Though it is true that agricultural credit becomes dynamic only when it is utilized for financing measures which increase production, one cannot overlook the needs of the farmer. In the initial stages of agricultural development, it is difficult to distinguish between production and consumption credit. When farming is at a subsistence level, the farmer's consumption needs are normally the basic necessities of life of himself and his family. Sometimes he would need something more for ceremonies which are essential social obligations in the farming community. The farmer has to fulfil these obligations as he needs the help of the members of the community to follow his agricultural pursuits. If credit is extended to meet the cost of hired labour, there is no reason why credit

should not be extended to meet the basic needs of the farmer and his family who work on the farm. Instances are not uncommon where credit is surreptitiously diverted to meet consumption needs when it is supposed to be granted only for productive purposes. As agriculture develops and the farmer's income rises, there is less need for this type of credit as he would then have surplus savings for such expenditure.

The cumbersome procedures involved in applying for, and granting and disbursing, loans often result in delaying the farmer's operations. Occasions are not rare where the farmers get loans so late, due to the lengthiness of procedures, that the loans cannot be used for the purposes for which they have been given.

The crop loan system in India and Ceylon can be called a significant innovation in the field of cooperative credit. Under this system the creditworthiness of the farmer is judged on his repaying capacity. Consequently it is assessed in relation to his production programme, taking into account the crop grown, the area cultivated and the techniques adopted. Loans can be provided under this system to all cultivators, whether owners or tenants. The loan consists of cash and kind components. Cash is given to meet the expenses of farming operations, whilst fertilizers, seeds, etc. are

given in kind. Both in the disbursement and in the recovery of the loan, seasonal factors are taken into account, and credit is linked with supply and marketing. A degree of flexibility is allowed with regard to the amount of the loan depending on the variation in crops, seasons and areas.

#### Competition from private moneylenders

The most formidable foe of the agricultural credit cooperatives is the village moneylender. Years of effort of the cooperatives have not removed him from the village scene, though all regard him as an exploiter of rural poverty. The keen competition which the cooperatives have offered him has, however, had a salutary effect on him. The private moneylender does not now dare charge the exorbitant interest he used to charge, though his rates are still high. He has changed his ways and methods of lending, much to the benefit of the borrower. This very adjustability of the private moneylender is the biggest factor in his favour. This makes it difficult for the cooperatives to replace him.

Lending by cooperatives at cheap rates of interest has been regarded by some leaders of the movement as the surest way of ousting the moneylender. However, experience has proved this to be wrong. Interest may be an important factor. But the personal



equation that a private trader establishes with each of his customers, his simple procedures, the availability of credit at any time, the possibility of maintaining secrecy about such transaction, his willingness to accept all types of security and his readiness to lend even without security, the adjustability of his methods of recovery, and the coordination of his credit facilities with supply and marketing facilities are more important factors. These make competition with him difficult. It may not be possible for the cooperatives to imitate many of his lending procedures, as advocated by some well-meaning leaders in order to eliminate him from the village scene. Imitating his lending procedures may amount to betraying the principles of Cooperation. But there are several lessons that could be learnt with advantage from his procedures.

No sound agricultural credit system can be developed as long as the farmer remains indebted to the private moneylender. Therefore, the success of the cooperative credit system depends to a very large extent on how promptly and effectively the private moneylender is eliminated from the village scene. This is one of the problems most difficult of solution.

### Difficulties in obtaining securities for loans

Another problem is that of obtaining security for loans where such security is required. Most cooperatives still insist on the mortgage of land for even short-term loans. The absence of clear title to land makes it difficult for the farmer to pledge his land as security. Even if the title is good, the mortgage of land involves a long and cumbersome procedure. This insistence on the mortgage of land as security means that only land-owners can borrow.

The crop loan system in India, referred to earlier, seeks to get over these difficulties by relating the loan to production potential rather than to property owned by the farmer. Further, the Cooperative Acts of all the States in India have created a statutory charge on the crops of the borrower, in favour of the cooperative society. In some States the Act has also provided for the creation of a charge on ownership or other interest in land, by the borrower executing a declaration in favour of the society. These legal provisions and the method of lending provided in the crop loan system have, to a considerable extent, obviated the problem of the lack of good security for loans.

The lack of a proper tenurial system is another obstacle in obtaining securities for loans extended by cooperatives, even when such legal provisions as mentioned above exist. In the absence of a proper tenurial system the rights of the tenant-farmer are not secured and so lending to him remains risky. The creation of statutory charges on crops or interest in land may make up for the lack of tangible security but as long as the tenancy itself is not secure, the charge on the crops of the farmer can bring only temporary security and so make him only temporarily creditworthy. Long-term assistance can be given only to farmers whose tenancy is secure.

The land reform measures undertaken in India, Pakistan, the Philippines, Nepal, Ceylon and some other countries have to a great extent helped the tenant-farmer, and have made him creditworthy. Ceylon's Paddy Lands Act, which has made the tenant more or less permanent and limited the landlords' share to a fixed amount, thus giving the tenant the full benefit of any increases in yields, can be cited as one of the most progressive pieces of legislation designed to improve the tenant's creditworthiness.

Credit Delinquency

Another problem in cooperative credit societies is credit delinquency. The FAO Group of experts, who studied "The possibilities of strengthening the provision of credit to agriculture, specially to the cooperatives", observed in their report<sup>§</sup> :

"Any sound transaction postulates two points:

1. On the side of the creditor, the unqualified intention to recover the loan with integrity.
2. On the part of the debtor, the unqualified will to repay the loan in full".

These essential principles are unfortunately not always observed by creditors and debtors in the developing countries. There are numerous instances where Governments which have financed the credit operations of the cooperatives have later allowed the extension of repayment schedules or the waiver of overdue loans for political reasons. Such relaxation of rules, when made without sufficient reason, amounts to rewarding the defaulters and encouraging non-repayment. The statistics of overdue loans in most of the developing countries are alarming, and non-repayment has become an almost intractable problem.

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§ - Agricultural Credit through Cooperatives and other institutions", FAO Agriculture Studies No. 68 : FAO, Rome, 1965.

The factors which are mainly responsible for this poor performance are the lack of supervision and extension services, and the lack of firm policies of loan recovery.

The lack of supervision and extension services is sometimes due to the lack of sufficient staff. The responsibility of supervision is sometimes placed on the cooperative department and not on the financing cooperatives. A study conducted by the Agricultural Credit and Cooperatives Institute of the University of the Philippines, in collaboration with the Development Bank of the Philippines, on the repayment performance of the farmers who were financed under supervised credit programmes and of those who were not so financed, revealed that under the supervised programmes repayment was 75 per cent, while it was only 59 per cent in unsupervised areas.

The bad lending policies of cooperatives - e.g. relating the loan to the farmer's assets and not to his repaying capacity; lending indiscriminately to achieve targets of lending set up by governments because of political pressure brought to bear on them; adopting cumbersome procedures which delay the disbursement of credit - result in bad repayment performance. Inefficiency in the management is another factor that results in bad

repayment performance. The management sometimes is neither willing nor strong enough to impose sanctions on the defaulting members. The failure of even some members of the Managing Committee to repay their loans affects the management's ability to impose sanctions on the ordinary members. The non-repayment of loans by Managing Committee members results in the erosion of the members' loyalty to, and confidence in, the cooperative.

The traditional attitude of the elected leadership has been to leave matters of supervision and guidance to the officials of the government departments of cooperative development. This is the result of the government sponsorship of the movement. This lack of interest among the elected leaders in matters of supervision and guidance is a problem in the way of cooperative progress.

The other important factors that affect repayment are the indebtedness of the farmer to the private moneylender and the lack of coordination of credit, supply and marketing.

In fairness to the people of this Region, specially its rural people, it must be mentioned that they normally have "the unqualified will to repay loans in full". They regard it a great sin not to repay what

they have borrowed. People who default in repaying what has been borrowed are looked down upon in the village and lose status among their fellow-men. It is the practice, specially in the rural areas, that a father passes on his debts to his son just as he passes on his assets to him. What prevents the farmers from paying back the loans is mainly the force of circumstances created by low returns on their toil, and the defects in the methods of extending credit.

The conditions which would help to ensure the repayment of loans by the farmer are as follows:-

- i. Proper guidance and technical advice should be given to him so that the loans taken could be utilized in the best way.
- ii. All the legitimate credit needs of the farmer should be met by his cooperative in time, obviating the necessity to borrow from private sources even temporarily.
- iii. Necessary inputs should be supplied to him at the time they are required.
- iv. Proper marketing facilities should be provided so that he could get a fair price for his produce.

The last resort available to cooperatives to recover bad debts is through litigation. There is provision under the laws of most of these countries to refer cases of default to the Registrar of Cooperative Societies for compulsory arbitration without resorting to courts of law. This helps the credit cooperatives to avoid the high costs of litigation and the complicated procedures involved in the recovery of debts. Even this procedure of arbitration sometimes takes a long time for completion due to the lack of sufficient personnel for

hearing these cases.

384

An Integrated Approach : the solution

It is now being increasingly realised that a sound credit system could be developed only if the supply of credit in cash and kind, the storage of agricultural produce, and the marketing of produce (after processing wherever necessary), are all integrated against the background of effective farm guidance services. Unless such an integrated approach is adopted, all attempts to drive out the moneylenders and to improve the conditions of the farmer will end in failure and frustration, for credit alone is not a panacea which can solve all the problems of the farmer. The solution lies in the proper integration of credit with extension, supply and marketing services.

The success of the Japanese Agricultural Cooperative Movement can be attributed to this integrated approach. Ceylon and India have adopted the same approach through their multipurpose and agricultural credit cooperatives respectively. Though the success of this approach in these countries has not been as spectacular as in Japan, they have found this approach sufficiently rewarding to continue on the same lines with increasing intensity.

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International Cooperative Alliance  
Regional Office & Education Centre  
for South-East Asia,  
43 Friends' Colony, Post Box 3312  
New Delhi-14 India

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385

MOBILISATION OF RESOURCES IN THE  
SOUTH-EAST ASIAN REGION

PROPOSAL FOR THE ASIAN COOPERATIVE DEVELOPMENT BANK (ACDB)

by

M. V. Madane  
Joint Director, Technical Assistance & Trade  
ICA Regional Office, New Delhi.

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The last development decade of the United Nations (1961-70) has witnessed cooperative growth in almost every direction. Cooperatives have now entered areas where they could never have imagined to venture a few years earlier. The traditional image of cooperative as a dispenser of credit or consumer goods is fast disappearing and quite often one comes across situations where cooperatives have robust attitudes and a firm confidence in their ability to undertake and operate medium and large-sized economic ventures.

Rapid Growth in Economic Activity

In the region of South-East Asia, cooperatives are functioning in almost every field of economic activity. Starting from credit, the cooperatives have now been organised for marketing, processing, exports, housing, industrial cooperatives for production of handicrafts as well as for heavy industrial goods. In addition, cooperatives have started providing consultative services and have established joint ventures with sister

cooperatives within the country and outside.

The above statements are not intended to paint a rosy picture of the cooperatives in the Region. While on the one hand, there are cooperatives with working capital of several millions, on the other there are those village cooperatives still struggling to stand on their own. Even within the large-sized cooperatives serious problems of capitalisation, management and operational efficiency have cropped up. Quite often one comes across a situation where the growth of a cooperative has not been properly matched by development of management and operational techniques. Cooperative failures are not therefore uncommon. Nevertheless it must be conceded that in spite of all their weaknesses, the cooperatives have become a force to be reckoned with.

#### Government as partner

Another factor which has emerged during the last two decades is the presence of government or government-controlled agencies as major supporters of the cooperative organisations. Government support has, in many cases, been extended to government participation in the equity capital of the cooperatives. This has inevitably resulted in government influence on the decision making process in the cooperative movement and government regulations of cooperative activities. It is not intended, in this paper, to discuss government participation in the cooperative movement nor its effect on cooperative growth. The point I want to emphasize here is that with the increased flow of financial and technical assistance from the government, the cooperatives have now started leaning more heavily on government support than before. If this trend continues, it may be difficult to maintain for long the time honoured cooperative principles.

With the diversification of their economic activities, the cooperatives are at present constantly in need of development funds and managerial skills. The projects undertaken by them need finance which cannot be met with from within the cooperative movement. In addition to the finances from the cooperative banks, therefore, government financing agencies as well as government departments have come to the rescue of the cooperatives undertaking such ventures. In some countries like India central banks of the country (for example, Reserve Bank of India in case of India) have emerged as the major financing agencies for the cooperative movement.

Because of the availability of funds from sources outside the cooperative movement, the incentive to mobilise resources from within has been lacking. Under-capitalization is, therefore, a common factor among our organisations. It may not be an exaggeration to say that the owned resources available within the cooperative movement are far short of the total requirement for their developmental activities. The discussion in this paper therefore will mainly concern itself with mobilisation of resources from within the cooperative movement.

#### Increase in inter-cooperative relations

During the post-war period cooperatives from different countries are gradually coming closer to each other through the exchange of information and experiences as a result of the efforts made in this direction by international and regional agencies. Activities undertaken under the auspices of the International Cooperative Alliance (ICA) have made it possible to discuss, at international forums, problems faced by cooperatives in different parts of the world. Several resolutions passed at the ICA Congresses have emphasized the need for linking the cooperatives in different parts of the world through technical

assistance and international trade. As a result of the appeals made by the ICA through its Congresses as well as through its Secretariat, it has been possible for the ICA to develop technical assistance activities in a number of countries. Particular mention could be made of the Fund called "WITHOUT BOUNDARIES" raised by the Swedish Cooperative Movement for assistance to cooperatives in the developing continents of Asia, Africa and Latin America; the Fund raised by the West German Consumers Cooperatives to assist cooperative projects in India and the Fund raised by the Swiss Cooperative Movement for developing cooperatives in Dahomey. A few other developed countries have also collected similar funds for overseas assistance.

#### Joint ventures

International collaboration has taken several directions and a few concrete examples of such collaboration are in evidence. Cooperatives in India and America have recently established a joint venture for the production of fertilizers for distribution through cooperatives in the Indian sub-continent. The result of this joint venture is the establishment of the Indian Farmers Fertilizers Cooperative Limited which has undertaken the stupendous task of establishing fertiliser plants whose total investments exceed 920 million Indian Rupees. In addition to the assistance provided by cooperatives in America, the joint venture will be financed by loans from U.S. Agency for International Development, U.K. Government and a few other resources.

Another joint venture in the Region is the establishment of the Thai-Japan Chemical Company in Bangkok through the collaboration of cooperatives in Thailand and Japan. This Chemical Company, involving a capital outlay of 8,000,000 Bahts, is an extension of the joint activities undertaken by cooperatives in both the countries for improved production of maize and its export to Japan.

One more example of collaboration for the establishment of a cooperative enterprise is the Bhor Dairy Cooperative Project recently established near Poona in India with financial assistance to the tune of \$200,000 provided by the West German Cooperatives Consumers Congress out of the Fund mentioned above.

#### ICA Development Fund

The International Cooperative Alliance has itself raised a Fund called "The Cooperative Development Fund" from which occasional grants are given to member cooperatives or their affiliates for the purchase of educational equipment or other such items. The Fund is very rarely used for giving bigger size grants for purchase of machinery or equipment except in cases where emergency relief, such as the one given to Fishermen's Cooperatives in Ceylon for purchase of boats etc. destroyed during a cyclone, may be necessary.

Owing to the very limited funds available at its disposal, the ICA normally canvasses a project for support among its member organisations in advanced countries. In order to make the project eligible for such support, the ICA often undertakes feasibility studies for projects sponsored by its member organisations in developing countries.

In addition to the bilateral sources, ICA has also been trying to interest United Nations and multi-lateral Agencies in cooperative development projects although the efforts so far have been far from successful. It has also joined hands with Food and Agriculture Organisation (FAO), International Labour Organisation (ILO), International Federation of Agricultural Producers (IFAP), and International Federation of Plantation Agricultural and Allied Workers (IFPAW) in establishing the Joint Committee for the Promotion of Agricultural Cooperatives (COPAC) which is expected to coordinate technical assistance

activities of the participating organisations and for securing assistance to cooperative projects sponsored by the ICA.

Aid-weariness

The experience so far in the International Cooperative Alliance, especially the experience of the Regional Office of the ICA for South-East Asia, suggests that while on the one hand the expectations of developing cooperative movements for external assistance are continuously on the increase, on the other the total resources available for providing such assistance are on the decline. As a matter of fact, the total available resources, compared to the total development needs of the movements in our Region, are very meagre. A number of projects sponsored by the ICA member movements for which initial expenses for feasibility studies and other enquiries have been incurred by the ICA, are still lying in the Regional Office without any commitment for technical and financial assistance. Several other projects identified by the ICA Study Teams which conducted the cooperative agricultural marketing projects in the South-East Asian Region, have remained unimplemented owing to the non-availability of resources. The present trend, therefore, seems to be the slackening of enthusiasm among developed cooperative movements for providing assistance to those in the developing countries. Owing to this aid-weariness among the advanced cooperative movements, resolutions on technical assistance passed at the ICA Congresses have not found full expression among the cooperative movements in different parts of the world.

What is true of development assistance is equally true of development in the field of trade. The scope for development of exports on an intra-regional basis is very limited. The internal markets are too small to be able to undertake development of exports on a vertical basis. In the absence of a decisive lateral

broadening of international trade at all levels, it will be difficult to develop the potential capacity of the exporting cooperative organisations in the Region. And as is well-known financial support by a sound international Bank is a pre-condition for the smooth functioning of international trade transactions.

Pearson Commission Report

The Report of the Commission on International Development\* (Pearson Report) has examined in detail the present position of development assistance and has expressed the view that the question of total assistance from developed to developing countries is decreasing from year to year. In the chapter discussing "A Question of Will", the Commission states :

"However, international support for development is now flagging. In some of the rich countries its feasibility, even its very purpose, is in question. The climate surrounding foreign aid programme is heavy with disillusion and distrust. This is not true everywhere. Indeed, there are countries in which the opposite is true. Nevertheless, we have reached a point of crisis.

The question which now arises is whether the rich and developed nations will continue their efforts to assist the developing countries or whether they will allow the structure built up for development cooperation to deteriorate and fall apart.

The signs are not propitious. In the last years of this decade, the volume of foreign official aid has been stagnant. At no time during this period has it kept pace with the growth of national product in the wealthy nations. In fact, the commitments by the United States, which has been much the largest provider of aid funds, are declining. There, and in some other developed countries, we have encountered a spirit of disenchantment".

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\* "Partners in Development" (Praeger Publishers). The Commission was appointed by the President of the International Bank for Reconstruction and Development (World Bank).



It is not very likely that the quantum of assistance would rise very substantially even though the Commission has advised the developed countries "that it is only right for those who have to share with those who have not".

What future strategy?

The time has, therefore, come to reorient our strategy in the field of trade and development. I am saying this only for the Region for which we are working. On the one hand, the regional effort will have to be strengthened to consolidate the present position, to generate additional interest in the Region for regional cooperation and to mobilise the resources from among the cooperative agencies and, on the other, we shall have to increase our pressure on the advanced cooperative movements for lending greater support to cooperative developmental effort in the Region. I do not see any other way by which we could achieve our present objectives, and I am therefore outlining the course of action aimed at bringing about greater integration in cooperative activities in the South-East Asian Region.

The Continent of Asia

The Region for which we are working, namely, South-East Asia (in fact, it is the whole of Asia), is a vast Region with tremendous potentialities for development. Inter-governmental agencies, especially the United Nations Agencies, have initiated a number of development projects mainly because of the support extended to ECAFE by the governments in the Region as also by the governments in the advanced countries. In the initial period, the process of development in the ECAFE Region could not be accelerated owing to the lack of financial support to a number of projects and almost all requests for assistance had to be sent to the International Bank for Reconstruction and Development.

The requirements of the Asian Region are too vast to be met from international agencies which have involvements all over the world. Quite often, there is also the reluctance of some of the banking institutions to invest in Asia. The Regional Economic Report of the Asian Agricultural Survey sponsored by the Asian Development Bank (ADB), has examined in great detail the potentialities of the Region. While discussing the environment in the Asian situation, the Survey states : "If the physical and human environment of the Region results in unique and difficult problems of development, it provides also the potential for vastly changing the economic well-being of more than one-third of the world's population". For this very reason and in spite of some of the seemingly unsurmountable difficulties, the regional effort has been strengthened. Intra-regional cooperation has increased and institutions, such as the ADB have come into being during the First Development Decade.

The creation of the ADB was the fulfilment of the aspirations of the Asian community for an agency in the Region of which the representative governments would be the sponsors and partners in progress. A sense of involvement and participation in the regional development effort has resulted in the establishment of a powerful development bank. Welcoming the establishment of the Bank, during the debate in the ECAFE Committee on Trade at its meeting held in January, 1967, Mr. Gunasingham, delegate from Ceylon, felt that the most important consideration in the establishment of the Bank was the concept of Asia as a Region. "Without such a regional consciousness, the growth of the countries in the Region would continue to be fragmented", he added.

Within the cooperative movement itself, the regional consciousness has been growing over the past decade and the credit for this development in no small measure goes to the

ICA Regional Office at New Delhi. As stated earlier, the aspirations of the Asian cooperative community are growing very rapidly and a quick glance at the Asian panorama reveals a series of development programmes in some of which the ICA is bound to be involved for securing assistance. It is quite likely that some of these projects may be assisted by advanced movements. However, the majority of them would remain uncommitted if a suitable alternative is not found for securing financial support for their fulfilment.

#### Potential in Asia

The Pearson Commission has also spoken well of the efforts made in the developing regions for initiating development programmes and for promoting savings. Discussing "Savings and Investment", the Report states :

"In the past twenty years, in spite of all obstacles, impressive efforts have been made to raise savings. Some countries achieved very high rates of capital formation by any standard - over 20 per cent of GNP. Indeed, the average savings and investment rates in low-income countries during the 1960's compared favourably with the historical investment rates of about 10 per cent in Europe and the United States in the last century, although they were lower than the current rates in industrial countries.

There has also been impressive progress in some countries in setting up commercial banks, investment corporations, savings and loan associations, cooperative financing institutions, and stock exchanges. Many countries have established successful development banks to promote industrial projects, finance agriculture, and promote low-cost housing and house ownership.

The growth of savings in low-income countries also reflects the great improvements in opportunities for profitable investment created by growing consumer income and by replacement of imports. These opportunities have often been assisted by government policy, by the growth of entrepreneurial groups, by the adoption of modern management techniques, by the introduction of modern technology, and by external factors, particularly the availability of foreign exchange for investment".

The above analysis clearly indicates the present trend in the field of development and the willingness of the developing countries to mobilise their own resources for this purpose.

Asian Cooperative Development Bank Proposal

The ICA Advisory Council for South-East Asia has been discussing for a number of years a proposal to establish an Asian Cooperative Development Bank (ACDB) to assist the regional movements in trade and development. The proposal was first discussed at the meeting of the Council held at Seoul in the Republic of Korea in May 1970 on the basis of a paper prepared by the ICA Regional Office in New Delhi. This paper dealt with the question of finance for cooperative trade and for development projects sponsored by the cooperatives in the Region.

The paper drew the attention of the Council to the ever-widening gap between the resources required for cooperative development in the Region and the external aid available for such development. While on the one hand, the demand for resources for development projects in the Region is on the increase, on the other hand the flow of technical and financial aid from the advanced cooperative movements is on the decline. It is, therefore, necessary for the cooperative movements in the Region to evolve an alternative channel for securing development assistance.

After examining the various questions posed in the paper the Council approved the following proposal for follow-up action.

"The suggestion to set up an Asian Cooperative Development Bank detailed in the agenda note on this item was examined and discussed at great length. All the members present were of the view that such a bank was a great need in the region for the developmental and trade activities of the movements, and that the proposal was a timely one."

"The consensus in the meeting was that the ratio of assistance from advanced countries as well as multi-lateral sources to developing countries is decreasing from year to year. The cooperatives in the region are finding it difficult

to obtain foreign assistance for their projects. It was therefore felt that if such an agency were established the movements in the region would be able to participate in its equity capital as such participation will be an investment for the long-term development of the movements themselves."

Between the meetings of the Advisory Council held in the Republic of Korea and the one held in Melbourne in Australia in November 1971, the Regional Office made further studies concerning the ACDB proposal. Additional information was collected from member-movements on the financial position of business cooperative federations in the region. The Regional Office, through the good offices of the Central Union of Agricultural Cooperatives in Japan, also requested the Central Cooperative Bank for Agriculture and Forestry of Japan, to make a detailed examination of some of the technical problems involved in establishing such bank. The report given by the Japanese expert was presented to the ICA Advisory Council at its meeting held in Melbourne. The following were some of the main points of the decision taken by the Advisory Council :

- a) The Council was of the unanimous view that the Bank should be a cooperative bank and should be owned and financed entirely by cooperatives;
- b) The bank should normally function through local cooperatives in the countries of the region. However, if for business considerations an office of the bank is to be located in some country, the bank should not compete with the local cooperative banks. It should concentrate on international monetary transactions and matters relating to technical assistance, trade and development finance;

- c) The Council was of the view that an independent cooperative bank was necessary due to the low priority given by the governments in the region for securing external aid to projects sponsored by cooperatives. The proposed bank, therefore, could provide greater support to cooperative projects than is available at present from various international financing agencies including the Asian Development Bank (ADB);
- d) On the question of establishing an International Guarantee Fund, the Council felt that guarantees are dependent on the priorities of the governments for obtaining external assistance and the priorities of central banks would also depend on government policies. It is, however, possible that in some countries, where the problem of foreign exchange is not very acute, a Guarantee Fund could be raised to support borrowings from external sources. The Council was of the opinion that the question was not so much one of guaranteeing the loans as that of the actual availability of funds for cooperative development and trade. Guaranteeing should not present much of a problem in some countries of the region.
- e) The Council agreed with the suggestion of the Japanese expert that to make optimum use of the resources that may be raised by the bank, a system of linking the loaning business of the bank to supply, marketing, extension, training and other activities of the cooperatives will have to be evolved.

The Council asked the Regional Office at the above meeting to continue to make further studies of the proposal. It also suggested that the Regional Office should seek assistance from the

Banking Committee of the ICA and the International Cooperative Bank in Basle for developing the bank proposal further.

In between the meeting of the ICA Advisory Council held in Australia and the one held in Chiengmai (Thailand) in November 1972, the proposal was further discussed by the Joint Director for Technical Assistance and Trade in the Regional Office with Mr. Dieter Grethe, Director of the International Cooperative Bank (INGEDA) in Basle (Switzerland) and with Mr. Moshe Gerhard Hess, Secretary of the ICA Banking Committee Frankfurt (West Germany).

The reactions of Mr. Grethe and Mr. Hess to the bank proposal have been very positive and they have assured the Regional Office of all possible assistance in case the ICA finally decides to promote the establishment of an Asian Cooperative Development Bank. The Director of INGEDA has suggested that it is now necessary to ascertain, at an early stage, the reactions of the cooperative movements in the region concerning their equity participation, their contributions to special funds and the volume of business they would be in a position to undertake with the proposed bank.

#### Proposal in Latin America

Our discussion to evolve a separate financing agency for cooperative development has been strengthened by the information received recently concerning a similar proposal by cooperatives in Latin America where, for the last ten years, the establishment of Inter-American cooperative finance system has been looked upon as an essential element in the development of cooperation in that region. So far, three Expert Groups have studied the proposal for Inter-American cooperative finance system and the latest study has given a very positive recommendation

on the subject. The latest study gives the following four features which it considers of fundamental significance in evolving the finance system :-

- 1) Remarkable improvement both with regard to availability of funds and new institutions, thereby proving the feasibility and desirability of the system.
- 2) Sufficient experience, technical and administrative capacity actually existing at executive and management level in the conduct of cooperative finance concerns which do not require any kind of subsidy for their gradual normal progress.
- 3) Operation of mechanisms which not only permit self-capitalization of the system, but also the generation and channeling of other resources, that have made it possible to grant loans amounting to four times the capital, on short, medium and long term, according to the possibilities and the desirability of obtaining such resources as well as cooperative investment.
- 4) Existence of sufficient cooperative income-producing projects of cooperative investment requiring specialised financing.

The Study while justifying further the creation of a Regional Cooperative Finance Organisation, states "It being admitted that the lack of financing constitutes one of the main factors which hinder action to hasten the process of cooperative expansion and the contribution thereof to economic and social development particularly in favour of the low income sectors, a complete financing programme which, being based on multilateral focussing, will permit the operation of a self-supporting system in which the interested parties themselves will assume their responsibility directly, at national as well as



international level".

Another important justification for the creation of an agency of this nature, as given in the Study is "The presence of a regional finance organisation acting in connection with the national institutions can make it possible to take steps which would otherwise be impracticable, as, for instance, the transfer of short term disposable funds, the preparation of similar investment projects for the different areas, thus capitalizing greater experience, or else establishing additional projects intended to assure mutual consolidation, and other steps, all of which would permit more efficient use of resources available."

#### Situation in South-East Asia

The four features mentioned in the Latin American Study are equally relevant to the situation in South-East Asia. In our Region also, there has been remarkable improvement both with regard to availability of funds and new institutions. There is sufficient experience both in the technical and administrative field at the executive and management levels. There exists a system which permits self-capitalization and granting of loans several times the owned funds of the cooperatives. And we have in the Region sufficient cooperative projects which need specialised financing.

In our Region <sup>there are</sup> a number of cooperative banking marketing and wholesale institutions which should be in a position to support an Asian Cooperative Banking structure. Quite a number of these agencies are financially strong and have developed, over a number of years, substantial reserves, part of which can be utilised for investment in this Institution. A sample survey of the capital structure of some of the leading cooperative business organisations in the Region has revealed the fact that the total owned funds of these organisations exceed US \$350 million

and their total working capital is to the tune of US \$5-1/4 billion.

Joint ILO/FAO/IC. Study

A Study has recently been conducted jointly by the International Labour Organisation, Food and Agriculture Organisation, and the International Cooperative Alliance with the support of International Federation of Agricultural Producers (IFAP), International Federation of Plantation Agricultural and Allied Workers (IFPAW) and the Committee for the Promotion of Agricultural Cooperatives (COPAC) Secretariat on the subject of 'International Financing of Cooperative Enterprises in Developing Countries'. This Study has supported the principle of evolving regional cooperative financing institutions and has further suggested the reorganisation of the International Cooperative Bank in Basle (INGEBA). The Study does not foresee any difficulties in simultaneous functioning of regional and international cooperative banks as they appear compatible with each other. At the end of the chapter dealing with the regional banks the Study says "Thus it would appear that there are no inherent obstacles to the co-existence of both regional and international cooperative financing institutions - and, indeed, that the first might well provide a useful ally to the second."

The above Study has suggested that INGEBA should be converted into an International Bank for Cooperative Development (IBCD) which, in addition to its present commercial functions, would provide technical assistance and long and medium term investment capital for development of cooperatives of all kinds in both developing and developed countries. Justifying further the creation of IBCD the Study says :

"The purpose of this expanded INGEBA or IBCD would be to assist in financing the establishment, improvement and expansion of cooperative enterprises which could contribute to the economic and social development of member countries

by making investments in cases where local capital is not available on reasonable terms. To this end it would seek to bring together investment opportunities, domestic and foreign cooperative capital and experienced management; also it would take measures to facilitate and stimulate trade between cooperative movements."

All the developments reviewed so far lead us to the conclusion that the time is now opportune for the creation of an Asian Cooperative Development Bank (ACDB) for the South-East Asian Region. As stated earlier, the ICA Advisory Council is also seized with the problem and it is hoped that the proposal will take a concrete shape in the near future.

It must be observed here that the creation of a bank of this nature is not going to solve all the financial problems of the cooperative movements in the Region. The proposed agency would be able to meet only a part of the total developmental needs in the Region. However, in a few years it can assume the responsibility of a major financing institution which can look after most of the important development needs of the regional movements. Also if we wish that this Bank should be a development bank without undertaking any commercial transactions it may be very difficult for such a bank to assist development projects without having adequate sources of income. On the other hand, a combination of the commercial activity with those in the development field may help the bank to earn through commercial transactions and utilise the surplus for development activities.

There is considerable strength in the cooperative movements of this Region and if, through a process of regional integration, the available resources are properly mobilised, it should be possible for us to realise the objective discussed in this paper.

WORKING PAPER

403

INTRODUCTION TO AGRICULTURAL COOPERATIVES OF JAPAN

By

Shiro Futagami  
Assistant Manager  
International Department  
Central Union of Agricultural  
Cooperatives  
Tokyo (Japan)

REGIONAL SEMINAR ON "COOPERATIVE CREDIT WITH SPECIAL REFERENCE TO JAPAN"  
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CENTRAL UNION OF AGRICULTURAL COOPERATIVES  
8-3, 1-chome Otemachi, Chiyoda-ku  
Tokyo, Japan

And

INSTITUTE FOR THE DEVELOPMENT OF AGRICULTURAL COOPERATION IN ASIA  
24-9, 6-chome, Funabashi, Setagaya-ku,  
TOKYO (Japan)



By

Shiro Futagami

- I. Historical Development
  1. Before the enactment of Cooperative Act (- 1900)
    - mutual-aid association
    - credit association
    - marketing association
  2. Cooperative movement in pre-war days (1900-1943)
    - (1) Early stage (1900-1911)
      - i) Enactment of Cooperative Law (1900)
      - ii) First amendment of the Law (1906)
      - iii) Second amendment of the Law (1909)
    - (2) Development Stage (1912-1929)
      - i) Third amendment of the Law (1917)
      - ii) Fourth amendment of the Law (1917)
      - iii) Fifth amendment of the law (1921)
      - iv) Sixth amendment of the Law (1926)
    - (3) Anti-cooperative campaign
  3. During the Second World War.
  4. Agricultural Cooperative Movement in post-war period (1947-
    - (1) First stage of development.
      - i) Enactment of agricultural cooperative law.
      - ii) Reconstruction and re-arrangement of agricultural cooperatives.
    - (2) Second stage development.
      - i) Establishment of Unions.
      - ii) Three year Plan for Renovation and Expansion.
    - (3) The Third stage of development.
      - i) Agricultural Basic Law
      - ii) Amendment of Agricultural Cooperative Law and Land Law.

- II. Present Status of Agricultural Cooperatives ;
1. Characteristic feature of agricultural cooperatives :
    - i) Integrated approach - multi-purpose society.
  2. Organizational structure
    - i) Primary level
    - ii) Secondary level
    - iii) National level
  3. Business operations of agricultural cooperatives :
    - i) Marketing
    - ii) Supply
    - iii) Credit
    - iv) Insurance
    - v) Others
  4. Activities of Unions :
    - i) Guidance
    - ii) Education
    - iii) Auditing
    - iv) Planning
    - v) Legislative
  5. Amalgamation of agricultural cooperatives :
    - i) Policy of amalgamation
    - ii) Promotion system of amalgamation
    - iii) Present situation of amalgamation
  6. Recent trend and future direction of agricultural cooperatives :
    - (1) Changes in rural community
    - (2) Changes in agriculture
    - (3) Priority areas of the 3-year Plan.
      - i) Establishment of an integrated system of production and marketing
      - ii) Consolidation and strengthening better living activities
      - iii) Establishment of distribution system
      - iv) Strengthening of credit insurance functions
      - v) Strengthening of organisation and management
      - vi) Establishment of self-auditing system
      - vii) Positive promotion of education and publicity

Table 1 - (1) Progress of Cooperatives

405

	No. of societies	No. of village and towns	Membership (1,000)	Per society
1900	21	14,069	-	-
1902	512	13,547	-	-
1904	1,232	13,459	48(634)	76
1906	2,470	12,948	134(1,480)	91
1908	4,391	12,453	285(2,598)	110
1910	7,308	12,393	534(4,922)	108
1912	9,683	12,382	946(8,494)	112
1920	13,442	12,195	2,290(12,189)	188
1930	14,082	11,791	4,743(13,161)	360

Table - (2) Progress of Cooperatives (2)

	Total No. of Socs.	Total Membership (1,000)	Average membership per Soc.	Farmer members (1,000)	Farmer coverage (%)
1912	9,683	950	112	440	8
1915	11,509	1,290	124	1,070	13
1920	13,442	2,290	188	1,840	33
1925	14,517	3,640	272	2,690	48
1930	14,082	4,740	360	3,420	61
1935	15,028	5,800	418	4,060	72
1940	15,101	7,710	550	5,200	95

Table 2. No. of Federations

	Total No. of Federations	Out of which engaged in			
		Credit	Marketing	Supply	Utilization
1910	13	11	9	5	1
1912	34	30	14	15	1
1920	155	86	79	110	2
1930	185	65	121	121	23



Table 3. Increase of Agricultural Warehouse

	Warehouses at primary level owned by				Federations warehouses
	Coops	Farmers Assocs.	Village Admn.	Others	
1920	759	45	8	48	
1925	1,741	116	18	44	
1930	2,658	69	8	21	
1935	4,303	18	6	7	39
1940	5,550	9	4	4	48

Table 4 Result of Five Year Plan for Cooperative Expansion

	5 Year Plan		3 Year Plan
	1932	1937	1940
No. of Socs. (1,000)	14.4	14.5	15.1
Members (1,000)	4,980	6,210	7,710
Village where No. Socs.(%)	15	3.7	0.14
Farmer members (1,000)	3,520	4,400	5,200
Total Farm Households (1,000)	5,640	5,600	5,480
Coverage of farm households (%)	62.4	78.5	94.8
Savings (¥ million)	1,060	1,750	
Loans ( " )	1,030	1,060	
Marketing ( " )	203	599	
Supply ( " )	135	355	
Utilization ( " )	5.7	12.5	

WORKING PAPER

INTRODUCTION TO AGRICULTURAL FINANCE

By

Kanichi Suzuki  
Assistant Manager  
General Planning Department  
Central Cooperative Bank  
Tokyo (Japan)

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8-3-1, chome, Otemachi, Chiyoda-ku  
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24-9, 6-chome, Funabashi-cho, Setagaya-ku, Tokyo, Japan

INTRODUCTION TO AGRICULTURAL FINANCE

By

Kanichi Suzuki

- I. Several channels for agricultural financing and their characteristic points :
    - (1) On the system of Agriculture, Forestry and Fisheries Financing Cooperation - its organisation and characteristic.
    - (2) On the system of Agricultural Cooperative Finance - its organisation and characteristic.
    - (3) On the system by ordinary financial Institution.
  - II. Loans to agriculture classified by these channels.
  - III. Financial situation and its characteristic with special reference to member farmers.
  - IV. Credit business in the cooperative activities.
-

DEVELOPMENT OF CREDIT THROUGH AGRICULTURAL COOPERATIVES

By

Shozo Nagata  
Deputy Director  
Economic Research Department  
Central Cooperative Bank  
Tokyo (Japan)

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24-9, 6-chome, Funabashi, Setagaya-ku, Tokyo, Japan

DEVELOPMENT OF CREDIT THROUGH AGRICULTURAL COOPERATIVES

By

Shozo Nagata

- I. Effort to expel personal money-lenders (including rice-fertilizer merchant) and to establish modernized financial institutions in the rural area.
  - a) Establishment of the Hypothec Bank of Japan and prefectural agricultural and industrial banks.
  - b) Enactment of the Industrial Association Law and its development.
  - c) Establishment of The Central Cooperative Bank and accomplishment of so-called three storied system.
  - d) On some anti-cooperative movement in this period.
- II. Transition of industrial association in controlled economy.
  - a) Governmental monopolization of rice and other foods.
  - b) Enactment of Agricultural Bodies Law as a measure of the war-time foods control.
  - c) Change of the prevailing form for lease payment - from lease by crop to lease by cash.
- III. Farm land reform and its effect on agricultural finance.
  - a) Enactment of the Agricultural Cooperative Law as a measure for post-war reconstruction.
  - b) Dissolution of uncultivating land owner and diminishment of the mortgaged value of farm land.
  - c) Differences in the role for farm-land capital formation compared with pre-war condition.
  - d) Establishment of Agriculture, Forestry and Fisheries Finance Corporation.
  - e) Increase of stable cultivating owner as member of cooperative finance.

## IV. Some recent problems.

a) Increase of part-time farmers and high tide of urbanization in high speed growth of economy.

b) New tasks for cooperative finance.

1. Development of Unit Cooperative

Year	Member of Cooperative	No. of Affiliated Member	Paid in capital	Balance of Receipt deposit	Balance of Loaning Account
1903	404	-	0.9	0.5	2
1913	8533	-	1.8	3	5
1921	12,192	196	5	18	22
1925	12,880	262	11	54	44
1929	12,181	326	16	96	78
1933	12,511	356	18	102	88
1936	13,433	372	19	114	85
1940	13,430	504	-	333	90
1950	13,331	625	395	8991	2,412
1960	12,221	600	4,339	54,144	25,907
1970	6,185	1,175	29,574	825,941	406,152

Remarks : 1. Figures show persons or amount per each cooperative except number of cooperative.

2. Unit : Cooperative; in case of number of cooperative.  
Person; in case of number of affiliated member.  
1,000 Yen, in case of others.

2. Share of individual money-lender in balance of farmer's borrowings per household

	1935	1912	1935	1958	1970
Govt. or governmental financing institution (including AFFFC)		10.2	-	123	18.4
Cooperative		2.9	17.0	42.7	58.4
Private banks		17.7	27.0	6.5	7.8
Individual		35.9	32.0	27.2	6.9
Others (including merchant)		33.3	24.0	12.3	8.5
Total		100.0	100.0	100.0	100.0

Remarks : 1. Source : Survey of farm household economy, Ministry of Agriculture and Forestry.

2. Unit : %

3. Scale of the farmland reform and acreage of tenant land.

a) Scale (as of March 31, 1951).

Farm land acreage purchased by government.

Paddy field	1,006 thousand hectare
Upland	776
Total	1,782

Number of farm land owners concerned these farm land.

2,524 thousand persons.

Proceeds payable to concerned farm land owner.

by cash	2,454 million yen
by farm land bill	8,327
not yet paid	410
Total	11,191

Average farm land price per 10 are (about 0.25 acre)

Paddy field 458 yen

Upland 236

Number of farmers who were resold these farmland.

4,201 thousand person

(b) Transition of acreage of tenant farm land.

	Total of farm land	Own land	tenant land
1903	5266(2831)	2923 (1437)	2343(1394)
1919	6072(3021)	3279(1465)	2793(1556)
1929	5837(3186)	3034(1475)	2803(1711)
1939	6018(3202)	3245(1542)	2773(1660)
1949	4957(2817)	4309(2424)	648(393)

Remarks : 1. Figures in parentheses show acreage of paddy field only.

2. Unit : Thousand hectare.

4. Transition of lease rent of paddy field in war time economy.

(a) Acreage of tenant land farm classified by the form of lease payment in 1943.

	Thousand hectare
Total acreage of tenant paddy farm land.	1,665 (1,000)
Payment by rice crops.	1,440 (865)
Payment by cash	215 (12.9)
Share cropper	10 (0.6)

Remarks : 1. Figures in parenthesis show the share of each payment form.

2. Source : Statistics on farm land problems 1952, Ministry of Agriculture and Forestry.



(b)	Year	Yield of rice crop	Price of rice for cultivating farmer	Price of rice for Koku	Estimated pro- ceeds of rice per 10 are	Quantity of rice paid as lease rent	Price of rice for new cul- tivating land ow- ner per Koku	Amount of lease rent	Share of lease rent in estimated proceeds of rice (%)
		(A)	(B)	(A)x(B)	(C)		(D)	(C)x(D)	
	1941	1,781	49.0	87.27	1.04	44.0	45.76	52	
	1942	2,172	49.0	106.43	0.97	44.0	42.68	40	
	1943	2,066	62.5	129.13	1.03	47.0	48.41	38	
	1944	2,009	62.5	125.56	1.01	47.0	47.47	38	
	1945	1,376	300.0	412.80	1.02	55.-	56.10	13	
	1946	2,218	550.0	1219.90	1.02	75.0	76.50	6	

- Remarks :
1. Koku is equivalent to 150 kg. of brown rice.
  2. It is included the subsidies for production in the price for cultivating farmer.
  3. Source : ibid.

Chronicle

- 1843 Birth of cooperative movement with the establishment of mutual-aid association.
- 1896 April Promulgation of the Hypothec Bank Law.
- 1900 Mar. Promulgation of the Industrial Association Law.
- 1905 Mar. Establishment of Japan Central Union of Industrial Associations.
- 1907 Dec. Promulgation of the Forestry Association Law.
- 1909 Apr. Approval of the establishment of federations of industrial associations.
- 1910 Jan Establishment of the Central Bank of Industrial Associations predecessor of the present Central Cooperative Bank for Agriculture and Forestry.
- 1917 July Promulgation of the Agricultural Warehouse Business Law.
- 1923 Mar. Promulgation of the Central Cooperative Bank Law.
- Apr. Establishment of the National Purchasing Federation.
- 1926 Apr. Establishment of the Industrial Cooperative School.
- 1931 May Establishment of the National Marketing Federation.
- 1938 Oct. Establishment of the National Fishery Federation.
- 1943 Mar. Enactment of the Agriculture Body Law which aimed to unite industrial association and agricultural association.
- 1945 Dec. Revision of the Agricultural Body Law (Birth of democratic cooperatives).
- 1947 Nov. Promulgation of the Agricultural Cooperative Law.
- 1952 Dec. Promulgation of the Agriculture, Forestry and Fisheries Finance

WORKING PAPER

416

PRESENT SITUATION OF AGRICULTURAL COOPERATIVE CREDIT

By

Misao Saito  
Assistant Manager  
Economic Research Department  
Central Cooperative Bank  
Tokyo  
Japan

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24-9, 6-chome, Funabashi, Setagaya-ku, Tokyo, Japan

PRESENT SITUATION OF AGRICULTURAL COOPERATIVE CREDIT

By

Misao Saito

1. Financial Function of Agricultural Cooperative; Federation and Central Cooperative Bank (CCB)
  - (1) Financial Function and its limit.
  - (2) Relationship among credit and other activities.
  - (3) Systematic Finance by three stage structure and division of their function.
  - (4) Fundamental idea of cooperative credit.
  
2. Offices and personnel of Agricultural Cooperatives for Credit Activities.
  - (1) Merger of Agricultural Cooperatives and widening of business Area
  - (2) Internal set-up of Credit Department and Distribution of Personnel.
  
3. Subsidy or other supplemental measures for Agricultural Credit.
  - (1) Administration of government or Local Public Entities for Agricultural Credit.
  - (2) Supplemental Measures or Systems for Agricultural Credit.
  
4. Characteristics of Agricultural Cooperative Fund.
  - (1) Regional Differences and Seasonal Fluctuation.
  - (2) Loan-Deposit Ratio, Employment of Surplus Fund and Utilizing proportion of Upper Cooperative Financial Organisations in Employing Surplus Fund.
  - (3) Changes seen in Fund position by urbanization.

5. Problems in Credit Business Management of Agricultural Cooperative.
- (1) Incomes and Fund Raising cost (Incomes by kind of Business Department., yield of Employed Fund, Cost of raised fund).
  - (2) Characteristics of Agricultural Cooperative Deposits in comparaison with other banks' (Proportion of time deposits, interest rate regulation, land sale and inflow of money into Agricultural Cooperatives., variety of fund investments by members).
  - ((3) Characteristics of Agricultural Cooperative Credits. (Diversity of usages, increasing proportion of long-term loans, increase of non-agricultural factors).
6. Problems we are confronted with at present and prospective direction.
-

SYSTEM AND PRACTICE OF AGRICULTURAL COOPERATIVE FINANCING  
WITH SPECIAL REFERENCE TO MEMBER FARMERS

By

Kenji Yamashita  
Assistant Manager  
Cooperative Finance Promotion Department  
Central Cooperative Bank  
Tokyo (Japan)

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24-9, 6-chome, Funabashi-cho, Setagaya-ku, Tokyo, Japan

SYSTEM AND PRACTICE OF AGRICULTURAL COOPERATIVE FINANCING  
WITH SPECIAL REFERENCE TO MEMBER FARMERS

By

Kenji Yamashita

1. Savings

(1) Economic resources of savings

- a. Ordinary income
  - (a) agricultural income
  - (b) non-agricultural income
- b. Temporary income

(2) Character of savings.

- a) reserve for living expense
- b) reserve for farming operation
- c) savings

(Unit : %)

	1967	1968	1969	1970	1971
Farm household income	100	100	100	100	100
Agricultural income	50	47	42	37	31
Non-agricultural income	50	53	58	63	69

(3) Type and interest rates of deposit

- a) Type
  - a. Current deposit
  - b. Ordinary
  - c. time deposit

difference between interest rates of deposit of agricultural cooperatives and those of other banking facilities.

- a) higher rates than others
- b) subsidiary
- c) special dividend

c) Temporary interest rates adjustment law.

Interest Rates		(Unit %)
	Agricultural Cooperative	Bank
Current deposit ordinary	No interest	No. interest
Ordinary deposit	2.00 or 2.25	2.00
Time Deposit		
3 months	3.85	3.75
6 months	4.85	4.75
12 months	5.35	5.25
18 months	5.60	5.50

(4) Means of absorbing savings

- a) Agricultural income
  - a. Joint marketing
- b) Non-agricultural income
  - a. Deposit account transfer which apply to payment of public utility service rates such as :
    - telephone charges
    - radio and television fee
    - electric power rates
    - gas rates
    - water facility rates
  - b. tie ups for salary payment
  - c. approach to farm commission.
- c) Others
  - a. higher interest rates
  - b. subsidy
  - c. special dividend
  - d. consultation service

- (5) Special feature of savings
  - a. share of savings on different economic resources.
  - b. seasonal fluctuation.
- (6) Assistance of the prefectural credit federation and the CCB to the unit cooperatives.
  - a. cooperative finance promotion activities
    - (a) savings campaign
    - (b) training staffs.
  - b. deposit guarantee system for depositors.
  - c. domestic exchange centre
  - d. acceptance of business by an electric computer

2. Loan

- (1) Type of member's needs for loan
    - a. farming operation
    - b. living expense
    - c. farming facilities
  - (2) interest rates of loan
    - a. loan by notes 9.00 - 10.25%
    - b. loan by document 8.75 - 9.75%
  - (3) Government connected finance
    - a. the Agriculture, Forestry and Fisheries, Finance Cooperation Fund.
    - b. Agricultural modernization fund.
  - (4) Assistance of the prefectural credit federation and the CCB to the unit cooperatives.
    - a. loan resource fund for cooperatives' loan to members.
    - b. Underletting
    - c. Direct loan to cooperatives member
    - d. Training staffs.
-



SYSTEM AND PRACTICE OF AGRICULTURAL COOPERATIVE LOANING  
AND ITS CONTROL

By

Kozo Nakamura  
Assistant Manager  
Agricultural Loaning Department  
Central Cooperative Bank  
Tokyo (Japan)

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CENTRAL UNION OF AGRICULTURAL COOPERATIVES  
8-3, 1-chome, Otemachi, Chiyoda-ku,  
Tokyo (Japan)

And

THE INSTITUTE FOR THE DEVELOPMENT OF AGRICULTURAL COOPERATION IN ASIA  
24-9, 6-chome, Funabashi, Setagaya-ku, Tokyo, Japan

SYSTEM AND PRACTICE OF AGRICULTURAL COOPERATIVE LOANING  
AND ITS CONTROL

By

Kozo Nakamura

- I. Various restrictions attached to the loaning.
    - (1) The restrictions on the amount of loans to each member.
    - (2) The restriction on the borrowers other than the member-farmers.
  - II. The investigation of loaning.
    - (1) General points to take care of at the stage of the investigation.
    - (2) How to investigate particular loaning according to its purpose?
  - III. The control of loans.
    - (1) How to take the guarantees and mortgage?
    - (2) The fundamental set-up in getting repayment.
  - IV. The recent tendency in the loaning of agricultural cooperatives.
    - (1) Simplified pre-investigation.
    - (2) The substituting roles by the upper organisations strengthened.
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System and Practice of Agricultural Cooperative's Loanings  
& its Control

By Kozo Nakamura

I. Restrictions attached to the loanings of the Unit-coops.

1. Restrictions on the loanings to member-farmers.

- (1) The stipulation of the agricultural cooperatives financial management ordinance.

It stipulates as follows.

- a. The loan to each member must be within 20 percent of its capital account.
- b. The loan to each family must be within 35 percent of its capital account, even if there are more than one member in the same-family.
- (a) These stipulations exist to keep the cooperatives loans from being monopolized by a smaller number of its members.
- (b) In these stipulations the following loans are not involved.
- \*Loans by the central government and local governments.
  - \*Underletting of the loan from prefectural federations and ~~COB~~ which are guaranteed by central or local government and credit insurance associations.

- (2) The stipulation in the articles of incorporation in most cooperatives

It stipulates "The upper limit of the amount of loans to be advanced to one member must be decided at the general meeting of the unit cooperative"

- (3) The credit-limit deciding councillors system.

These councillors are selected from among the experienced seniors of each community.

They decide either of the following two things.

- a. The upper limit of the loan to be advanced to each individual member.
- a. The objective yardstick to measure the upper limit of the loan to each individual member.

(Example) 150,000 yen per 10 are of the paddy field.

300,00 Yen per 10 are of the mandarin orange.

But recently, this system is faced with the great difficulty, -with the increase of incomes from non-agricultural sources in recent years, its weight in the total income of many member-farmers has become larger than the agricultural income. And the amount of non-agricultural income is difficult to appraise correctly for the councillors.

2. Restrictions on the loanings to non-members.

- (1) The stipulation in the Agricultural Cooperative Association law.

It stipulates "The total amount of the loans to be advanced to non-member must be within one-fifth of the loans to its member-farmers.

- (2) The stipulation in the articles of incorporation in almost all cooperatives.

It stipulates "The upper limit of the loan to be advanced to each non-member must be decided at the general meeting.

In these days, loanings to non-member are confronted with a dilivate problem.

Especially in urban district, the loan-demand is to larger extent from the non-agricultural field- enterprises belonging to other than the primary industry in its territory. And in order to answer the demand from this side, the fund within the above-mentioned restrictions is not sufficient. Therefore the indirect loanings to these enterprises through the owner or the director qualified to represent the enterprise who is at the same time a member of the cooperative is approved. But the loanings through the director unqualified to represent the enterprise is not approved, because there is a judicial precedent that the loan through these persons is invalid and in this case the enterprise is not responsible for its repayment.

## II. The investigation of loaning

### 1. General-points to take care of at the Stage of the investigation.

Generally speaking, the investigation in a unit-cooperative consist of two steps.

- \* The business-like investigation by the clerk in charge of loaning.
- \* The comprehensive investigation from administrative view-point by the managing-director or the general manager.

#### (1) The investigation by the clerk in charge of loaning.

a. The investigation about the general situation of borrowers.

(a) The investigation about the present situation of management.

As the larger portion of farm products are generally marketed through cooperative channel, it is comparatively, easy to get grasp of the present situation of farm-management.

The estimation by the farming-coach belonging to the unit cooperative will present trustworthy data:

In complicated managements such as lovestock feedings, some important management indexes will be calculated in order to compare with the standard-figure of thses indexes.

If the management to be investigated is too complicated for the Unit-cooperative, specialists working with prefectural federations or branch-offices of CCB will give assistance to the investigation.

(b) The investigation about the daily attitude in transaction with the cooperative.

The percentage of the amount purchased and marketed throught the cooperative, and the content of transaction such as how the loan from coop. is being repaid must be deliberatively studied.

(c) The investigation about the personal condition of the person responsible for management.

trustworthiness, technical and managerial ability, health condition and so on must be studied. When this person is much advanced in years, whether or not a person to succeed him does exist must be studied as well.

(This is very important as those to stay in farming villages after finishing compulsory school education are very small in number.)

These investigation about the general situation of borrowers from a to C can be omitted in the unit-cooperative where "The member-card" of each member-farmer is put in order.

The above-mentioned member-card can be easily completed in the coop. where "The income and expenditure program" of each member is written with the help of clerks of coop. through the door-to-door guidance.

- b. The investigation about the borrowing plan.
  - (a) The business plan directly related to the loan.
  - (b) The prospect about income & expenditure of the planned business.
  - (c) The fund plan.
  - (d) The repayment plan

\*\*The detailed explanation about these plans will be made afterward.

- (2) The comprehensive investigation by seniors.
  - a. The investigation about adequacy of the judgment by the clerk in charge.
  - b. The comprehensive investigation from administrative point of view.
    - Adequacy of the business purpose directly related to the loan from coop. must be studied.
    - For instance, the loan to the following business must be kept from.
      - (a) Speculative purchases of real estate.
      - (b) Building of facilities which are apt to bring about the corruption of public morals.

2. The concrete investigation according to the purpose of borrowings.

(1) The investigation of farming operation fund.

- a. When farm-product is marketed through cooperative channel.

Overdraft-contract will be settled with the upper limit of it fixed. In this case, coop. will be given the right to apply the proceeds to repayment of overdraft.

- b. When farm-product is not marketed through cooperative channel.

(a) The judgment about adequacy of income & expenditure plan must be made, centered around the amount and price of the product.

(b) We must decide the way to advance loans.

\* To fix total amount of the loan. (in case that the loan is paid together.)

\* To fix the upper limit of the total amount of the loan. (In case that loan is paid separately)

\* To fix the upper limit to the balance of the loan. (In case outflow and inflow of the loan is frequently made)

The way to advance loan is different according to the style of outflow & inflow of the loan.

(c) The judgment about the way to preserve loans must be made.

Utilization of coop. in sending farmers' proceeds, and reservation of some portion of proceeds as the fund for repayment must be urged. (In some coops., all the proceeds are reserved in coop., and monthly living expenditure is paid to its member-farmers, just like the salary to office and factory workers. At the same time, the requirement of security and guarantee must be studied.

(2) The investigation of farming facilities fund.

- a. In case the investment is aimed at rationalization of management, not expansion.
- b. In case the investment is aimed at the expansion of management-scale,
  - (a) The judgment about adequacy of the expansion must be made. Among the most important points is whether or not the labour-powers necessary to increase can be secured, because especially in livestock feedings, different from manufacturing, saving of labour is apt to bring about spiraling decrease in profit ratio.
  - (b) The judgement about adequacy of the fund plan must be made. At least 20% of the total fund required should be covered by the fund on hand.
  - (c) The judgment about adequacy of the income & expenditure plan must be made. The price of products to be adopted should be moderate, as it is always apt
  - (d) The judgment about adequacy of repayment plan must be made. Some portion of the cash surplus expected to be brought about should be kept from application to repayment in preparation for the unexpected outflow.
  - (e) The judgment about the way to preserve the loan must be made in the same way as the operation fund.

(3) The investigation about the rest-loan of facility fund and operation fund.

When both the facility fund and operation fund are need simultaneously as in the case of increasing the number of livestock with the expansion of the facilities accompanied, and the income effect appears gradually, different from the case of vegetables whose income can be grasped within a few months in a whole scale, the rest-loan of this kind can be advanced.

But in this case, the judgment of the income and expenditure plan must be made most deliberatively.

(4) The investigation about house building fund.

The financial institutions involving cooperatives are, in these days, very positive in advancing house-loans. The reason for this tendency is that borrowers of this fund are very ardent to repay the loan because they can't dispense with the houses to live, and that the price of building-site which becomes the security of the loans is going up rapidly in these days, and this means the increase in borrowers' ability to repay the loan.

The average condition of this kind of loan is as follows.

\* Term: from 10 to 20 years.

\* Security: Always the house built with this loan and the land on which it is built are required, and in most cases the fire-insurance on the house as well.

And in some cases borrowers are required to subscribe the life insurance with the coop. as the beneficiary.

(5) The investigation of "Consumer-Loan".

With the steady increase in instalment-system of durable consumer goods and handy-loans to office-workers; by money lenders as a stimulus, many coops. as well as other finance institution are becoming positive to advance handy loans of smaller amount by the name of "Consumer Loans".

CCB has created a nation-wide model for it. The outline of it is as follows.

- \* The upper limit of the amount: 1 million yen,
- \* Term: within 3 years., \* Interest: 9% per year.
- \* Purpose: No restriction attached; \* Guarantee or Security: Not required, but coop. applies to insurance against loss and the charge is to be paid by borrowers.

(6) The investigation about the loan for debt adjustment.

- \* Before the war, especially around the time "Industrial cooperatives"
- \* Many farmers were burdened with the loan from usurers, and so this kind of loan from coops. were much in amount.
- \* In these days, however, this kind of loan is seldom seen, owing to the increase of the cooperative creditings with low interest financed by the government on one side and the development of economic level of farmers as a whole on the other.
- \* Exceptionally, we can see this kind of loan in the farmers who started farming just after the end of the world war II as new farm-settlers in mountain areas poor in fertility.
- \* In advancing this kind of loan, we must make judgment, with warm heart but cool head, about the amount of fund required and its repayment plan.

Because not a small portion of farmers who need this kind of loan are inappropriate to farming by nature, we should make recommendation with bravery to quit farming and to dispose of farm-land and other assets unnecessary for living, in such a case as earning money-surplus enough to repay the loan is found very difficult.

- \* But in the case that there is found some irresistible reason for the accumulation of debt and the ability of the man responsible for management is trust-worthy, we should advance this kind of loan with interest as low as possible and with the term as long as possible and with the term as long as possible.

### III. The control of loans

#### 1. How guarantee and security should be required.

##### (1) The historical process in the way of thinking.

As cooperatives were established for farmers who were weak by themselves to become stronger by gathering with each other, procedures to preserve loans in the days before 2nd world war were centered around mutual guarantee among farmers, and securities were exceptionally required. But in these days, the improvement in the economic level of farmers and the increase in price of lands which become securities on one side, and swelling of the fund amount needed on the other have been changing our way of preserving loans toward centralization around security.

##### (2) How guarantee is required.

###### a. Kind of guarantee

In most cases, cooperatives as well as other financial institutions, require the collective guarantee.

###### b. Merits of collective guarantee

In Japan, there are following merits in collective guarantee.

(a) We can require the guarantor for repayment before the debtor;

(b) If there are more than one guarantor, we can require any single guarantor for repayment of the total debt.

###### c. The way to choose guarantors

When the amount of loan is small, one of adult persons in the same family will be chosen as the guarantee.

But when the amount of loan is large, some other persons who are judged capable of repaying the debt on behalf of the debtor will be added to as guarantors.

##### (3) How security is required

###### a. Recommendable conditions as security.

Easy to evaluate, to dispose of, to take custody of hard to be devaluated, to change in price.

###### b. Kinds of security

In most cases, mortgage or pledge is applied, when the security is an immovable property.

Pledge is applied, when the security is an movable property.

As for the amount of money to be guaranteed by the security, there are two cases. In one case the amount of money to be guaranteed is fixed, and in the other the upper limit of the money to be guaranteed is fixed and the amount of loan can move freely within this limit.

###### c. Things apt to be used as security

From the theoretical point of view, the deventure, redemption of whose principal is guaranteed, is most welcome.

But in reality, immovables such as lands and buildings are used in most cases. And when the building is used as security, the fire-insurance is generally required as the collateral,



## d. How the security is evaluated.

## (a) How the immovable is evaluated.

Though there are various kinds in the way to evaluate immovables, such real estate as land is often estimated with the real dealings in neighborhood as reference, because the coop. can easily get this kind of information. And at the same time the annual reports on the value of land by the financial ministry and the ministry of construction are used as reference materials. Once in a while, the branch offices of CCB hold seminars to improve the ability to appraise immovables on the part of clerks of Unit-cooperatives.

## (b) Estimation-ratio as security

Deposits and negotiable securities whose principal are guaranteed are given 100 percent of estimation ratio as compared with its value.

A building site on which is nothing, built is given around 70 percent. A building site, on which some building exists and it is lent, is given around 30 percent, because superficies or the right of the building on it must be discounted.

## e Registration of Securities

In most cases, securities are registered.

But in some cases when the borrower is really reliable, only the provisional registration is made (By the provisional registration, the lender's priority is secured when the formal registration is made in future, and the charge for the provisional registration is much cheaper compared with the formal registration.)

## (4) Other ways to preserve the repayment of loans.

The contract for a unit-cooperative to receive proceeds, wages or subsidies in place of borrowers is after signed. As a way for the preservation of loans.

## 2. Cooperatives' fundamental attitude toward preservation of loans.

## (1) Guidance- loan is its motto.

Other financial institutions give priority to security as the way of preserving loans.

Cooperatives try, through farming guidance, to increase borrowers' ability to repay.

## (2) Desposal of Securities

Generally speaking, other financial institutions dispose of the security when the loan can't be repaid within the contracted term.

But cooperatives, as a whole, try to think about the postponement of the time to repay, and even when they are obliged to dispose of the security, they, try to find some proper person to pay the most money for it, keeping from the compulsory sale by official auction.

PROBLEMS AND TASKS OF AGRICULTURAL COOPERATIVE CREDIT ACTIVITIES

By

Yuzo Tanaka  
Director  
Economic Research Department  
Central Cooperative Bank  
Tokyo  
Japan

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PROBLEMS AND TASKS OF AGRICULTURAL COOPERATIVE CREDIT ACTIVITIES

By

Y. Tanaka

- I. Preface
- II. Problems about organisation.
  - (1) to make the scale of unit cooperatives optimum.
  - (2) to revalue types of unit cooperatives, single purpose or multi-purpose.
  - (3) to improve qualifications for membership of unit cooperatives.
  - (4) to reexamine the three storied system in credit business.
- III. Problems about function.
  - (1) to reorganise producers' finance
  - (2) to develop consumers' finance
  - (3) to make the best use of members' deposits.
  - (4) to contribute to cooperatives' region.
- IV. Problems about management
  - (1) to develop labour management
  - (2) to promote personnel education
  - (3) to complete mechanization of business
  - (4) to reduce the cost of raising funds
- V. Conclusion.

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