open asian conference on

cooperative credit and financial management

report & papers —

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Cooperative Credit and
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Open Asian Conference on

Cooperative Credit and Financial Management

Report and Papers

November 15 - 22, 1976

Madras (India)

INTERNATIONAL COOPERATIVE ALLIANCE
Regional Office and Education Centre for South-East Asia
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Foreword

The Cooperative credit sector is the oldest sector of the Cooperative Movement in the Asian region. It still occupies a predominant place in the movement. Various aspects of cooperative credit have formed the theme of discussions at a number of technical meetings held by the Regional Office and Education Centre for South-East Asia of the International Cooperative Alliance. Attention has also been given by the ICA during the past several years in its educational programmes to various aspects of cooperative management including financial management and several technical meetings have been held on this subject.

An Open Asian Conference on Cooperative Credit and Financial Management, the third in the series of Open Conferences, was held by the ICA Regional Office and Education Centre, in Madras, India, from 15th to 22nd November 1976. It was attended by 141 delegates from Bangladesh, India, Malaysia, Nepal, Singapore, Sri Lanka and Thailand.

This publication contains the texts of the speeches made at the inaugural session, the papers read at the conference and the group reports. It is hoped that the publication will be found useful to the cooperators of the region.

P.E. WEERAMAN
ICA Regional Director for
South-East Asia

New Delhi,
June 24, 1977.

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I

INAUGURAL SESSION

Welcome Address by Mr. R.G. Tiwari, President, National Cooperative Union of India

It is a great privilege for us—the cooperative movement of India and for me too to extend a warm welcome to the chief guest Mahamahim Rajyapal and to the distinguished cooperative leaders of our neighbouring countries of South-East Asian region, who are with us to-day. I also welcome our friends, the invitees who could join us in the inaugural function this morning organised in connection with the Open Asian Conference on Cooperative Credit and Financial Management. We particularly feel honoured by the association of Sukhadiaji who could spare some time to inaugurate this important Conference and guide us in all deliberations on very important aspects of cooperative movement—credit and financial management. Shri Sukhadiaji apart from being an astute statesman and a wise administrator, has a glorious background of service and sacrifice during struggle for freedom of our own country and has an intimate and deep association in drawing the basic policy and programmes for cooperatives *vis-a-vis* the developmental programmes for the country and with all such task that require wisdom, foresight and determination and it is in the context of such work that this quality of head and heart are exhibited in full measure. We are really happy to find him in our midst and receive his blessings and guidance for the success of the Conference and its fruitful deliberations.

I need hardly stress the significance and importance of the subject of the Conference. It has added importance for the Cooperative Movement of India as it is taking place during the cooperative week celebrations which starts in India from 14th November and thus associated with the birthday of Shri Jawaharlal Nehru, the architect of post-independence India, who had keen interest in the growth and development of cooperative movement as potent instrument of socio-economic transformation, as one of the two basic democracies, the other being Panchayat required to look after the affairs of the grass-roots designed to bring about by Five Year Plans assigning cooperative a vital role in the process of their implementation. During the Cooperative Week also falls the birthday of our Prime Minister Smt. Indira Gandhi on 19th November, who is deeply interested in the cause of weaker sections of the society and is struggling against all odds to bring a ray of sunshine in their life by taking all such measures to ensure their well being. She desires the cooperatives to take increasing responsibility in the endeavour and desires the Cooperatives of India to join hands to help and assist them in their struggle against exploitation and ensure their socio-economic growth. It was our Prime Minister who raised her finger against bureaucracy and politicalisation of the Cooperative Movement and desired its healthy growth to the service of our people. Her occasional guidance and directions have been a source of great inspiration for workers and leaders associated with the cooperative activities.

The subject of the Conference is pertinently of great significance for all the countries represented in the Conference, who share in great measure agriculture based socio-economic conditions and problems accruing therefrom, conditions, of which we all are too well aware to be enumerated in details. In all our countries cooperation is held as an effective means to meet the challenge and assist the developmental programmes, particularly, in rural areas.

Cooperation in India, as in other participating countries generally, was initiated with the limited purpose of protecting the agricultural community from exploitation of heartless money-lender, who had no interest in the well-being of his debtors, his sole attention concentrating on his maximum personal gains sometimes resulting in utter ruination of the debtor with an eye on his land—the only source of livelihood and there were millions of cases where the debtor lost everything to the money-lender creating a huge cleavage of economic disparities between him and the class of persons who strangled him with his advances. The problem assumed an enormous shape and cooperation was introduced to meet the situation. It must be said, to the credit of cooperatives, that they largely succeeded in this task. The cooperatives have spread in every nook and corner with an objective of one cooperative society in every village. In India more than 90 per cent villages (of more than 300,000 villages) have thus been covered; so also about 45 percent of the population, which constitute 80 percent of 600 million of the total population.

Cooperatives constitute one of the major institutional agencies for credit distribution in Indian villages both developmental and operational. I deem it a significant achievement. Further, the cooperatives' share in agricultural development in India as also in increasing food production has been quite appreciable.

The success achieved in the field of agriculture led to the affiliation of cooperative approach to various fields of economic interest. After the cooperative agricultural credit, agricultural marketing cooperatives were introduced to protect the producers from the exploitation of traders, who taking advantage of innocence of farmers, paid him as little and took as much as possible irrespective of the investment and cost of production. It is to the credit of agricultural marketing cooperatives, headed by the National Federation, State Marketing Federations and Primary Marketing Cooperatives that this was implemented. Till the Cooperative Marketing and later the Food Corporation of India entered the field, Support Price Scheme was more or less on paper. The need for the services of consumer distribution was felt comparatively late.

Against similar tendency to protect against exploitation of trader class particularly during abnormal conditions, the need was felt to organise consumer cooperatives for distribution of essential articles of daily needs. In my country consumer cooperatives both in the urban and rural areas are organised with National and State Consumer Federations to help and guide. Apart from these three major ventures cooperatives have entered in all conceivable economic fields like industry, housing, labour, dairy, fishing to urban thrift and credit, handicraft, to name a few and in all such areas meant for the good of people generally. This expansion has largely been due to sustained support both in policy of preference and other material and expert assistance of the National Government, which is keenly interested in the healthy growth of cooperatives to serve the interest of the community particularly those belonging to weaker sections, whose interest is the major concern of the National Government. I presume, alike are generally the problems of all participating countries in the Conference and the cooperatives in each of them have made their own contribution in the way suited to the characteristic conditions prevailing there. The cooperatives as I said, are associations of essentially non-viable units of our societies and the inherent weakness is bound to be reflected in all such associations constituted of them. To save and contribute to the funds of cooperative societies by this class of people is a difficult task unless they assume economic viability, for which not only credit but intensive extension services and education in modern technology and availability of resources, other than credit, are highly desirable and essential. I feel there is much need for improvement in cooperatives in this aspect if they are expected to serve effectively and efficiently. There needs to be greater expansion and integration between the Governmental extension services and those of cooperatives. This further necessitates greater coordination, both horizontally and vertically among the cooperatives too and a real contribution by bigger State and National Level Federations in developing the primaries which in fact serve the people. The real benefit, I feel particularly in Indian context, all accrue to our people only when the primaries are properly developed and equipped both in men and matter.

So this conference is of great importance to our countries. There are many important and exciting papers presented for the Conference prepared by people of experience and wisdom including my intimate friend Shri Kularajah, a versatile leader of Cooperative Movement of Malaysia, among other equally competent cooperative leaders of this region. It is generally realised that the cooperatives are well suited for activities associated with welfare programmes with social controls affecting the life of large masses of people and the Governments in almost all developing countries utilise generally cooperation to achieve the objects of such programmes. Cooperatives too essentially working for the socio-economic welfare of its members feel identity of objectives and purpose, associate themselves with these programmes.

Now such an association necessitates encouraging understanding between the Government and the cooperatives. It further calls for recognition of certain basic tenets and idealogies like autonomous character and democratic management and spirit of self-reliance so also appreciation of the anxiety of the Government to service the people exploited and squeezed economically, socially and morally for centuries and to give them their due in the social order of the nation. The success of achievements of these would be largely on the mutual understanding and appreciation.

It hardly needs emphasis at my hands that credit and financial management play a pivotal part in all these endeavours. Cooperatives in India, as also in other countries, face the problem of adequate credit for all these development programmes more so as they have to deal with people with limited means. Very often issues on viability of cooperatives have been raised resulting in structural changes quite too often, as in India three or four times within a decade, without much appreciable results. In this regard the ICA Regional Office and Education Centre, New Delhi, under the guidance of its Director Mr. Weeraman, assisted by Mr. Rana and Mr. Gunawardana, is doing a yeomen service to the cooperative movement of South-East Asia. It helps not only in providing materials and information of cooperatives in developed countries but also provides occasions for the cooperative leaders and workers to sit around the table, exchange experiences and notes and evolve common and effective strategy to meet the challenges and serve the common man more effectively. We express our appreciation for their services to Mr. Weeraman and his office.

I am more and more convinced that the cooperative movements in developing countries have historical role to play in the process and effects of socio-economic transformation of our society which has much in common and, may I have your permission, my cooperative brethren, to appeal to you all to address ourselves to this solemn task of building our societies in a way that it leaves no scope for further exploitation and extend our assistance to people—less fortunate ones to improve their living and bring a ray of sunshine in their life. I am sure the deliberations of the Conference would be highly purposeful and fruitful.

I am aware most of you delegates are returning from Tehran after a strenuous journey and exhausting work there and with taste of very hospitable treatment by Iranian Cooperatives and Government of Iran. In comparison to Iran's hospitality our's may look poor, but let me assure you with sincerity that in depth of emotional touch and our anxiety to serve you and make your stay within our conditions comfortable, you will not find us lacking. However I do request you to pardon us for any shortcomings, that you may find which is more due to the involvement of the cooperatives in functions connected with Cooperative Week Celebrations taking place all over the country with great enthusiasm and dedication.

I thank you all for your association in the Conference. Sukhadiaji, we are really grateful to you for your kind presence here amidst several odds and occupations.

May I assure you that we feel honoured and encouraged by your presence with us to-day,

Address by Mr. P.E. Weeraman, ICA Regional Director for South-East Asia

It is my great pride and privilege this morning to address a few words of welcome. I am very grateful to the distinguished participants in this Conference for coming here from all over the region of South-East Asia. I am very grateful to the representatives of the ILO, IFAP and FAO and above all to His Excellency the Governor of Tamil Nadu for their gracious presence.

Mr. Tiwari, in his speech, mentioned the very fine hospitality that we received in Tehran. As one who has been in India for nearly nine years, I can say that the Indian friendliness, hospitality, sincerity and humility cannot in any way be surpassed by any nation. Though Mr. Tiwari says that arrangements may not be so good, I can assure you arrangements made here have been excellent and more than that, I am sure all of you will be very satisfied with the warmth and hospitality that they will shower on you. I am also very grateful to the National Cooperative Union of India and also the State Cooperative Union of Tamil Nadu for all the arrangements that they have made for the success of this Conference.

This Conference is the third in the series of self-financing Open Conferences organised by the International Cooperative Alliance Regional Office for South-East Asia. As most of you are aware, the ICA Regional Office for South-East Asia has been in existence since 1960 and we have had over 100 technical meetings, conferences, regional seminars and workshops and we have given assistance to the national seminars held in the 14 countries which we have the privilege to serve. Upto 1974 all these seminars and conferences were financed by the ICA and by our member organisations in the region. The ICA gave half the cost of travel while the participants give the balance amount through their supporting organisations. In 1974 the ICA Council for South-East Asia recommended that we should, in addition to this, try our hand at having self-financing Open Conferences and I must say that this has been a great success. The first such conference was held in Malaysia on the subject of Consumer Cooperation. The second conference was held in Manila on the subject of Cooperative Management. This is the third Conference.

The ICA is the world body of cooperative movement. It was founded in 1895 and so it is one of the oldest international non-governmental organisations in the world. The ICA has a membership covering 65 countries and its members serve 326 million cooperators. Therefore, the ICA is not only one of the oldest non-governmental organisations but is also the most widespread non-governmental organisation in the world. The ICA seeks to set up a non-profit system of production and trade, a cooperative system based on joint self-help and organised in the interest of the whole community. The ICA is neutral ground where people holding most varied opinions and professing the most diverse creeds may meet and act in common. Cooperation is an organised service in the interest of the whole community as against the present struggle for profit and domination. It is in line with this, that the ICA started the Regional Office in South-East Asia, for it is in the developing countries that cooperation is most needed. It is very important for us to stress the social and economic values of cooperation. On the social front, the Cooperative Movement seeks to replace capitalists and middlemen with producers and consumers as controllers of the economy. It reduces the capital to the position of a wage-earner and gives it only a fair interest. This reduction of capital to the position of a wage-earner is by itself, as stated by Prof. Gide, one of the Presidents of the ICA in the early part of the century, a social revolution. More than this, the Cooperative Movement seeks to develop the self-reliance of the people, to develop their capacity for managing their own affairs and to train them in the processes of democracy and also to train them in the discipline of being loyal to democratic decisions. Unless these values and attainments are acquired by the people and unless producers and consumers become controllers of the economy thereby making the people economically independent and socially self-reliant, political democracy will come to a grinding halt. Therefore, the value of the cooperative movement cannot be overrated. It is important for the development of any democracy and it is important not only for the people but also for the government, for the cooperative movement is strongest at the very point at which any government is at its weakest — the grass-roots level. Therefore, the collaboration of the cooperative movement in schemes of development which depend for their success on the participation of the people, is very important, for without the people's participation, such development schemes cannot succeed. Therefore all schemes designed for development will fail if the cooperative movement does not collaborate with the government and if the government does not associate the people with it and if the people are not given the opportunity of being free and equal partners of the state in the great task of nation-building. The cooperative movement is also a perennial source of information to the government, barometers of public opinion, telling the government what the wishes of the people are. Therefore, the cooperative movement is a must for every country.

We know that in the countries of the region, the cooperative movement has a very big role to play. In this context, it is very encouraging for us to see that the Governor of Tamil Nadu is here to inaugurate this Conference. Once again I thank Your Excellency for your gracious presence and you other distinguished ladies and gentlemen for coming here.

Address by Mr. Mohanlal Sukhadia, Governor of Tamil Nadu

I am very happy to be in your midst to-day to inaugurate this Open Asian Conference on Cooperative Credit and Financial Management organised by the National Cooperative Union of India in collaboration with the International Cooperative Alliance. I understand that delegates of ten countries of Asia, the I.L.O., the F.A.O., the International Federation of Agricultural Producers and the National Level Organisations of India are participating in this Conference.

When one speaks of cooperative credit, one has in mind only cooperative credit for agriculture, especially when it relates to Asian countries. The Indian economy — even as the economy of most of our Asian countries — is dependent predominantly on agriculture. About 50% of the national income of India is derived from agriculture and 70% of the population depend on agriculture for their livelihood. Several factors inhibit the growth of agriculture from a mere way of life into a full-fledged industry or business. Most of the holdings are small and fragmented. Land tenure is still mostly insecure. A vast majority of the farmers are yet to take to modern methods of cultivation. Agriculture continues to be at the mercy of the vagaries of nature. Marketing arrangements are yet to improve to assure the producer of a fair price. Unless these factors are tackled and agriculture developed, rural regeneration and rapid growth of the economy of any Asian country will be impossible.

Several measures are necessary and are being taken for the modernisation and development of agriculture. Land reform legislation to establish the right of the tiller of the soil to cultivate the lands without fear of eviction has much to do in this direction. Extension of irrigation from surface or underground water, involving considerable investment and planning is another important measure. Search for newer and better high-yielding varieties of seeds and effective extension service for their adoption, as also for the application of the right type of chemical fertilizers and adoption of plant protection measures, have to be stepped up. On top of all these, the necessary inputs including credit which is the major input, should be made available to the farmer in adequate quantities and at the appropriate time. Credit plays a large part also in the development of land by way of reclamation, putting up of tube-wells and open wells, installation of pumpsets etc. It hardly requires to be stated that credit is the pivot of all agricultural development.

It has been recognised that only the cooperative organisation at the Village Level is suitable as a credit organisation for agriculture. This is true not only in the case of India, but also in the case of many of the developing countries. There may be only some difference of opinion about the area, the cooperative organisation may cover and the functions it may undertake. In India, we have gone through several stages of evolution of the size and functions of the agricultural cooperative society—from "One Village—One Society" for the provision of credit alone, to the Farmers' Service Society, covering about 10 villages with subject-matter specialists to guide the farmers in the new techniques of agriculture, dairy farming etc., and with the integrated objects of provision of credit, agricultural inputs, processing and marketing facilities and other services. The agricultural credit cooperatives in India have made a fairly good progress, especially over the last two decades, under the successive Five Year Plans. The membership has gone up from about 8 million to about 35 million and the annual agricultural advances from about Rs. 500 million to about Rs. 8000 million. The Cooperative Land Development Banks, which look after long-term credit for development of land, are also rendering a good account of themselves. The share of the cooperatives in the provision of agricultural credit has increased from about 3% to about 35% of the total credit needs.

We cannot wait till the cooperative structure becomes fully able to shoulder the entire responsibility of meeting the demands thrown up by modernisation of agriculture. We, the developing countries, have to hasten fast and improve the national economy, which is dependent on agriculture to a large extent. We, in India, have therefore thought it necessary to supplement the efforts of the co-operative credit structure and pressed the commercial banks into service. During the last 5 years, particularly after the nationalisation of the major commercial banks, the commercial banks are paying special attention to financing of agriculture in areas where the cooperatives are weak. In order to give a fillip to the provision of agricultural credit, especially to small and marginal farmers, Regional Rural Banks which combine the good feature of commercial banks and cooperative banks are being set up in the country. Since October 1975, 27 such Regional Rural Banks have been set up and 70 of them are expected to be set up by the end of 1977. I fervently hope that the cooperative credit structure will take this as a challenge and develop itself before long to play its rightful role fully.

In order to help small farmers, Small Farmers Development Agencies have been set up to intensify extension work and provide the necessary services with an element of subsidy, wherever necessary. The cooperatives have been required to set apart a certain portion of their credit for provision to the small and marginal farmers so as to ensure sufficient attention to them. The Commercial Banks have also been advised to pay greater attention to the farmers coming under these Agencies. The Credit Guarantee Corporation of India is encouraging the Commercial Banks by extending its guarantee to them in respect of their advances to small farmers. A scheme of differential interest rate has also been adopted by the Commercial Banks, under which interest is charged at 4% on the loans to the weaker sections of the agricultural community.

Besides providing credit for agricultural production and development, the cooperative credit structure is financing agricultural and allied activities such as processing and marketing of agricultural produce, manufacture of chemical fertilizers and pesticides and development of dairying, sheep-breeding etc. On the non-agricultural side, it finances small scale industries, and more particularly, the consumer cooperatives which help in keeping down the price level of essential consumer goods.

There is urgent need for the cooperative credit agencies to augment their resources by mobilising deposits, especially in rural areas, if they are to improve their role in the provision of agricultural and other lines of credit. During the last few years, the agricultural income and savings in the rural areas have gone up appreciably. These savings should be mopped up. The Cooperative Credit Structure should spearhead a national movement for savings. Savings are possible not merely on account of increase in income, but more on account of frugal spending.

The question of financial management is intimately connected with the expansion of cooperative credit. A prerequisite for the proper management of a cooperative society — let alone for the proper management of its finances — is a well-qualified Manager. Besides such basic training as may be provided to those taking position as Managers of Cooperative Credit Organisations, there should be a series of orientation courses for them, from time to time, to keep them up-to-date with the modern concepts of management. In order to ensure such equipment on the part of the Managers, as also to provide avenues of promotion to them, it is absolutely necessary to constitute common cadres of Managers and other key personnel for the cooperative credit organisations at the different levels.

Attempts are being made in this direction by the different States, but satisfactory progress has not been reached by any State. We will definitely profit by the experiences of the other Asian countries participating in this Conference.

As stated earlier by me, the cooperative credit organisations should augment their internal resources considerably, if they are to serve agriculture and allied industries to a larger extent. While raising deposits at a fairly high cost, they will have to observe an order of priorities in lending, with reference not only to the relative productivity of each type of lending, but also with reference to the cost of the funds. Wherever credit is available from the higher financing agencies at concessional or lower rates of interest for particular purposes, such credit will have to be absorbed to a maximum extent by the cooperatives, reserving their own resources for lending to other purposes, which give a better return by way of higher rates of interest.

Some of the Asian countries may have proud achievements in effective marketing of agricultural produce internally and by export, through cooperatives, thereby assuring a more or less stable price to the producer. Some other countries may have a good record in the provision of all services under one roof. Some countries may have evolved effective methods to mop up the savings of farmers.

The object of the present conference is to provide a forum for the exchange of views and mutual experiences. I have shared with you a few of my thoughts. I have great pleasure in welcoming all of you to the city of Madras and incidentally, to the rich treasures of art and archaeology of this part of the country. I wish your deliberations all success, and thank you for giving me an opportunity to inaugurate this Conference.

II

GROUP REPORTS

REPORT OF GROUP-I

Cooperative Credit Planning for Consumer and Industrial Cooperative Development (With Special Reference to the Urban Cooperative Thrift and Credit Institutions)

Chairman : Mr. M.P. Jayasinghe (Sri Lanka)
Secretary : Prof. B.N. Choubey (India)

Question No. 1

How can cooperatives assist the small and marginal farmers and other weaker sections of the rural community in improving their economic conditions? (Consider the need for membership drive for above sections; planning for their credit requirements and making them viable; should there be targets for lending for above sections; is there a need for rehabilitation finance and if so, relationship with the Government for assistance in that respect; advisability and feasibility of differential rate of interest; need and type of security.)

While considering the issue as to how cooperatives can assist small and marginal farmers and other weaker sections of the rural community in improving their socio-economic conditions, it was felt that mere credit planning, though essential and vital, will not be enough. What is required is a comprehensive plan for the socio-economic improvement of each individual farm family, so as to make it self-sufficient over a reasonable period of time.

In this context, the question arose whether cooperative credit institutions are capable of performing this task. After considering the pros and cons and the possibility of using various types of alternative agencies for the purpose, the Group felt that a strong, stable and viable Multi-purpose Cooperative Society will be the best-suited agency for undertaking the responsibility for total rural reconstruction so as to make every individual farmer a viable constituent unit of the society which is the ultimate objective.

However, the Group suggested the following pre-requisites for making the Multipurpose Cooperative Society an effective instrument for planning and implementation of total socio-economic reconstruction of the vulnerable sections of the society :

(i) Every society must achieve universalisation of membership through a variety of suitable measures within as short a period as possible;

(ii) It should achieve effective coverage of the rural population in terms of borrowing membership through mobilising matching monetary resources, besides developing human resources to secure the necessary management expertise, equal to the task;

(iii) Not only that every society should be viable in all respects, but also its constituents should, by and large, become viable within a specified period;

(iv) Efforts should be directed towards improving the credit absorbing capacity of the borrowing units, among others, through systematic production planning, farm guidance and extension service and effective cooperation of the members;

(v) Necessary arrangements will have to be made to ensure convertibility of credit into physical inputs required for carrying out the production programme and other schemes of reconstruction;

(vi) Development of necessary infrastructure facilities such as irrigation, power, transport and communication, storage, processing and marketing, etc., shall have to be developed well in time by the state or with major assistance by the state to the cooperatives;

(vii) Adequacy and timeliness are important but it is much more important that measures are devised for effective utilisation of credit through a system of positive supervision and guidance by the Multipurpose Cooperative Society; in other words, the credit provided must be a fully supervised credit; and

(viii) The entire system of integrated credit should evolve in a manner that ensures prompt and easy recovery of credit of all kinds extended to members to enable the structure to sustain its liquidity, viability and solvency.

The group suggested further that policies of the credit institutions have to be in consonance with the directive policies of the Government of each country regarding national development.

After considering various aspects, the Group felt that rehabilitation of the weaker sections is the legitimate responsibility of the State. However, cooperatives can be helpful to the State in this reconstruction programme, as one of the potential agencies, provided adequate financial and other required support are given to them by the State.

Reconstruction planning necessarily implies assessment of all kinds of credit requirements, including consumption credit, which will necessitate determining realistic targets based on total demand and availability of resources mobilised in a systematic manner out of the savings of the community involved in the development process.

On the question of differential rate of interest, the Group noted that some of the countries in the region were already following the policy of differential rate of interest in a limited manner. However, after examining its implications, it was felt that interest, not being a substantial and significant part of the total cost of production, and the farmer being primarily interested in the adequacy and timeliness of the loan, may be kept uniform, as far as possible. But it would meet the ends of justice, if a suitable system of allowing rebate on prompt repayment of loans is introduced. This will have the additional merit of motivating borrowers to make repayment of the loan on time, besides giving him monetary relief.

In regard to security for loans given to the weaker sections, the Group noted that in most of the countries of the region the emphasis has shifted from creditworthiness of the borrower to the creditworthiness of the purpose and from land-based security to personal security. This has enabled the needy persons to have easy access to cooperative credit. It was strongly felt that lack of tangible security should not come in the way of providing adequate financial support to this section, provided proper utilisation can be ensured. If necessary, the existing policy, systems, method and procedures may be reviewed and suitably rationalised. The Group recommended the introduction of Group Security Concept in lending to weaker sections.

Question No. 2

How can the cooperative credit movement adequately meet the needs of investment (long-term) finance of farmers? In what ways the investment finance can be coordinated with short-term finance?

Since it has been envisaged earlier that the Multipurpose Cooperative Society will provide integrated agricultural credit services and will function as an agency of rural reconstruction at the base level, it is necessary that all kinds of credit including requirements of long-term investment finance, are given by them. However, it will have to be ensured that adequate resources are mobilised internally by the credit structure and in order to fill the gaps, adequate finance may be made available from higher financing agencies, refinancing agencies and different structures within the cooperative movement, the Government, and the financing institutions of the public sector and if necessary and possible, even from the international financing and development institutions. In countries, where refinancing agencies are not available, efforts may be made to develop them.

Question No. 3

Discuss if there should be targets for lending and its relevance to national development programmes.

In any planned programme of development, fixation of targets becomes a necessary corollary. However, the Group felt that while formulating and fixing targets, it must be ensured that they are realistic and precisely spelt out in terms of concrete programmes and schemes (drawn up by experts), as also the levels of production or productivity to be achieved to the optimum extent, in tune with the resources and in conformity with the set national goals. Perhaps, target setting could be made more meaningful through a well designed system of pre-sanction scrutiny and post-sanction follow-up.

As an integral part of performance budgeting for achieving given targets of income levels for an individual family, targets determined in a realistic manner will be necessary for measuring performance and results, as also for locating reasons for gaps and shortcomings, so as to enable suitable measures to be devised for making improvements in future.

In this connection, the Group also considered the question of deciding priorities in case of inadequacy of funds to carry out various schemes and programmes of the society. It was felt that the principles of priority may have to be decided on the basis of local situation, considering the importance of the requirements of short, medium and long-term credit, as also the overall national priority between the various segments of the population. Preference may have to be given to meet the requirements of the small and marginal farmers and other needy persons without any prejudice to the overall viability of the society. Because of the preponderance of small and marginal farmers, production credit may continue to get greater attention in countries like India, at least for some time to come. After the take off stage, perhaps a proper emphasis on investment credit may become necessary.

Question No. 4

What should be the role and obligations of the cooperative credit sector with the other sectors of the movement e.g. agricultural marketing, processing and dairying and its relationship with them?

As regards the role and the obligations of the cooperative credit sector towards other sectors of the Movement, the Group felt that at the village level, the Multipurpose Cooperative Society must necessarily cover all the economic activities as a part of an integrated development programme.

However, as regards its obligations to other sectors, it was felt that the cooperative credit structure might provide financial support, subject to the availability of surplus resources. Other kinds of relationships as envisaged in the principle of inter-cooperative relationship should be developed.

In countries where multi-agency approach to agricultural credit is in vogue, it would be necessary to secure proper functional coordination between different credit structures until the cooperative structure emerge as the single agency with multipurpose function capable of shouldering the entire responsibility of providing credit. Hence in countries where multi-agency approach has been adopted steps to harmonize the credit function by all credit agencies would be necessary.

REPORT OF GROUP-II

Cooperative Credit Planning for Consumer and Industrial Cooperative Development (With Special Reference to the Urban Cooperative Thrift and Credit Institutions)

Chairman : Mr. S. M. Ratnam (Malaysia)
Secretary : Mr. N. Veeriah (Malaysia)

Question No. 1

Please discuss how (a) the cooperative banks and (b) the urban cooperative credit societies can provide finances to promote the development of consumer and industrial societies?

The group felt that if adequate resources were available or could be mobilised, urban cooperative credit institutions can provide credit for most of the viable cooperative enterprises including consumer cooperatives and industrial cooperatives. Introduction of the credit-cards system by urban thrift and loan societies through their respective apex institutions may go a long way to help the consumer cooperative movement. New cooperative enterprises can be organised where there is scope and felt-need and the existing societies can be further developed utilizing the resources of the urban credit societies.

Question No. 2

Please discuss the ways in which the Urban Cooperative Thrift and Loan Societies can render services specially to the weaker sections of the community such as artisans, vendors, unemployed educated youth.

The Group felt that the cooperatives have a role to play in giving a helping hand to the weaker sectors of the community. It was felt that those who are below the poverty-line have to be taken care of by the state by providing rehabilitation finance etc. A section of the Conference was of the opinion that cooperative movement has a moral duty to assist the people below the poverty-line. They suggested the formation of cooperatives with State assistance to undertake small scale industries etc. to provide employment to the people of the weaker sections, especially the unemployed youth.

Question No. 3

How can the urban cooperative thrift and loan societies mobilise to an increased extent deposits from members?

The Group noted that certain urban cooperative societies in the region are doing well in the field of promotion of savings and have succeeded in mobilising sizeable deposits from their members and have surplus funds which can be employed for the development of cooperative activities. The Group stressed the need for investing these resources within the cooperative sector so that various types of diversified cooperative activity could be promoted. There should be cooperation between cooperatives to ensure that the funds of the cooperatives do not go out of the sector. If that is ensured, the cooperative institutions at the National or State level could undertake the work of planning and distribution of surplus funds among the various cooperative institutions needing funds for investment.

The Group recommended the following steps for mobilisation of resources by thrift and loan societies :

(i) Promoting a sense of belonging among members and educating members and potential members in principles of cooperation.
(ii) Membership campaigns to enrol new members.
(iii) Giving realistic returns on investments.
(iv) Providing protective insurance covers on deposits.
(v) Issue of bonds to mop up small savings.
(vi) Other forms of incentives to attract savings and deposits.

One of the major problems faced by the urban cooperatives in mobilising and investing of funds is the inability to employ skilled and trained personnel. The Group felt that cooperative central banks who have the responsibility of channelling funds should employ experts in the fields of finance, production, marketing and evaluation etc. These experts can assist lower level organisations in their fund raising and investment activities.

REPORT OF GROUP-III

Organisational Structure and Rationalisation

Chairman : Mr. T.S.K. Chari (India)
Secretary : Mr. Gunadasa Lokuge (Sri Lanka)

Question No. 1

Suggest the ways in which the primary rural cooperative societies can achieve viability.

The primary rural cooperative societies in many developing countries are small and uneconomic units with limited business activities. The membership too is limited. Due to these limitations only small amounts of capital is invested. The uneconomic size of the societies prevents the employment of trained staff. Hence it is necessary that timely action be taken to make societies viable.

The group advocated diversification of the activities to enable them to be more economically viable units. The functions like credit, supply, marketing and welfare activities could be undertaken by them in an integrated way which would result in reduction of operational costs. The provision of these services will also enable the societies to increase their membership and capital which in turn will result in the improvement of the economic strength of the societies.

Viability of a cooperative society depends on the local conditions, stage of economic development and time. A society viable today may be non-viable tomorrow.

The Group felt that the following three factors should be taken into consideration in determining the viability of the rural cooperative societies:

(a) Geographical Factor.
(b) Human Factor.
(c) Economic Factor.

1. Geographical Factor :

The suitable geographical area for a viable society may vary from one country to another. It also depends on the economic strength of the members and demarcations, political and administrative units.

2. Human Factor :

The second consideration in determining the viable size should be the membership and the population of the area which indicates the potential membership. The societies should take steps to enrol more and more members and also ensure that they participate in the activities of the society. The activities and services rendered by the society should be able to attract more members.

3. Economic Factor :

The anticipated volume of business should be carefully ascertained by studying the economic and social needs of the members. A thorough survey should be done to look into the basic needs, along with the infrastructural facilities such as transport and communications. The possibility of expansion should be considered in order to ascertain the capital and other human and material requirements.

Question No. 2

What are the techniques for accelerating the process of amalgamating Rural Cooperative Societies at the Primary Level?

The group holds the view that the amalgamation of rural cooperative credit societies should be on a voluntary basis. Amalgamation is not desirable if the members do not agree. Hence it is necessary to enlighten the members on the advantages of amalgamation, through education.

The group also advocates giving incentives to amalgamating societies by way of financial assistance, subsidies, managerial assistance etc. This may even motivate them for amalgamation.

If the members cannot be convinced about the desirability of amalgamation through education and also cannot be motivated by incentives the group advocated the application of indirect pressure. This should be done for example, by denial of loans by their financial organisations to those societies that are not viable.

The employees too may object to amalgamation as they might fear that they may lose their positions and even jobs. It is therefore necessary to allay these fears and convince them of better prospects large and viable societies would provide them.

A section of the group felt that if all the above methods fail, non-viable societies should be amalgamated compulsorily. The Conference was also divided on this issue.

Question No. 3

Are structural changes necessary to strengthen the co-operative credit movement? If yes, please suggest the needed structural changes keeping in view the short-term and long-term finance.

The group felt that structural changes are necessary to strengthen the grass-root level credit organisations. Primarily this involves enlargement in the size of the primary units. All credit facilities, namely, short term, medium term and long term, as far as possible should be extended through the same primary society. The financing of these societies should be by the higher level cooperative financial organisations. If these institutions are unable to meet all the credit requirements of the grass-root level societies, commercial banks and other financial organisations should be approached.

The group advocated the formation of secondary level societies where such societies do not exist to ensure an efficient service to the members of the primaries. This will strengthen the primary structure. The delegation of appropriate functions to the secondary level will help the primaries to render an effective service to their members.

REPORT OF GROUP-IV

Manpower Planning, Training and Personnel Development

Chairman : Mr. P.E. Weeraman (ICA ROEC)
Secretary : Mr. D.A. Swayamprakasan (India)

Manpower Planning :

Question No. 1

What are the factors that should be taken into account for Personnel Planning in the cooperative credit sector? Please indicate the main elements of a personnel plan.

Adequate attention has not been paid to this area of the cooperative movement in most of the South-East Asian countries. It hardly needs to be emphasised that this area has a vital role to play in the growth of the movement on sound lines. Inadequate salary structure, poor service conditions, want of scope for career advancement etc. are the general features of employment in cooperatives.

This Group has taken the cooperative credit sector of the movement for making recommendations on the subject. These recommendations will apply to the other sectors of the cooperative movement also.

Forecast of the demand for manpower should be made with reference to the business plan of the sector for a period of 5 years or 10 years. The sector should be intimately associated with the formulation of the business plan. The manpower required in the different tiers of the sector should be assessed for the period of 5 years or 10 years, duly taking into account the additional requirements, the drop outs by way of retirement or otherwise, the particular jobs for which personnel are required etc. The apex society of the sector will plan the manpower required for the sector.

Recruitment and Maintenance :

Question No. 2

Please discuss the adequacy of present personnel policies and practices from the point of view of recruiting and retaining personnel of the right calibre? What role can the federal organisations be assigned in the matter of recruitment, career planning and development of personnel?

It is the considered opinion of this Group that there should be a separate organisation which may be called "Cooperative Cadre Society" for the purpose of recruitment and maintenance of the personnel of the sector. Cooperative Societies at the different levels in the sector should be the members of this society. The obligations of the member societies should be laid down in the by-laws of the cadre society so that they will be bound to abide by the decisions of the cadre society. Recruitments may be made by the society either through a Cooperative Service Commission which may be set up by it for the purpose or through any of the existing expert bodies which perform the task for the private sector organisations. There should be proper coordination between the Apex Society and the "Cadre Society" in the matter of assessment of the requirements and in recruitment. Care should be taken to determine suitable scales of pay and other service conditions, so as to attract competent personnel. It is not uncommon that a person trained by a cooperative, finds his way to the private sector which offers better service conditions. Special arrangements may be made by way of "Salary Fund" with Government contribution, wherever necessary, to assist the weak societies in the employment of suitable personnel.

The personnel recruited by the "Cadre Society" will be the employees of the cadre society. Their scales of pay, promotion, transfers etc. will be the responsibility of the Cadre Society. Once a person is deputed to work in a particular society, he will continue in that society, unless he is transferred by the Cadre Society on promotion to another society. Transfers in the same category from one society to another should be avoided as far as possible. It should be clearly laid down that so long as he works in a particular society, he will be subject to the control of the management of that society. Powers of disciplinary action should vest in the management of that society and punishments, except that of dismissal, may be awarded by that society. The punishment of dismissal alone will vest in the Cadre Society. This Group wishes to emphasise that the autonomy of the User-Society should be fully respected and complete control over the employee vested in the management of that society. There should be sufficient safeguards against arbitraries in transfers. No transfer should be made without consulting the User-Society.

"The cadre society should arrange for the basic training, in house training etc. of the cadre personnel, by close coordination with the Cooperative Training Institutions and major cooperative societies referred to below. By prescribing specific courses of training for promotion from one category to another and providing such training without cost to the trainees, the cadre society should motivate the cadre personnel to voluntarily seek training".

Training and Personnel Development :

Question No. 3

Please give your views on the adequacy of cooperative management training programmes offered by the Cooperative Colleges/Institutes in your countries. Suggest ways in which these programmes can be made more effective.

There should be three levels of training institutions. The junior level training institution should take care of the training of personnel required for the primary societies. The number of such institutions may depend on the number of persons to be trained. The key personnel of intermediate level societies and the intermediate personnel of apex level society may be trained by intermediate level training institutions. It may be advantageous to integrate different courses on banking, marketing, cooperative law etc. in such an intermediate level training institution. The national level training institution will be in charge of training the senior level executives of the Apex Society. However, so far as small states or countries are concerned, there can be one training institution, but with different faculties for different levels of personnel to be trained.

There should be a follow-up by the training institutions as well as by the Cadre Society in order to ensure that there is proper placement of the personnel trained. The evaluation of the training given at the different levels is absolutely necessary for introducing suitable modifications in the method and content of the training programmes, with reference to the needs. It should also be ensured that there is a proper system of job rotation in the User Societies for facilitating personnel development.

Besides the training in the training institutions there should also be 'in-house training' for the personnel in each society employing a large number of persons, say, exceeding 200. The society should engage specialists for the purpose of providing the "In-house-training". The necessary climate should be created for the employment of specialists.

The faculties of the training institutions at the different levels should be strengthened qualitatively and quantitatively. Further, there should also be a system of "exchange fellowships" or "visiting professors" as between training institutions of the same level within a State or country. The Presidents and the Chief Executives of such cooperatives which function with spectacular success, may be taken as visiting professors, so that the practical side of the functioning of the cooperatives may be explained with better effect.

The training of the trainers should be given the maximum attention. If he is to be very effective, the trainer should be one who is a combination of an academician and a cooperative practitioner. The International Cooperative Training Centres may play a useful role in training the trainers and strengthening the faculties of the national level cooperative training institutions.

"There is dearth of literature on cooperation, especially of text-books on the different sectors of the cooperative movement. The training institutions at the different levels should actively encourage, with State aid, the publication of text books by experienced cooperators".

The work of the paid management of a society may be better appreciated and guided, if the office-bearers of the elected management are also given training in a general way in the practices of management. Such training may be arranged by the Apex Society.

III

WORKING PAPERS

Cooperative Credit Planning for Agricultural Cooperative Development—The Indian Experience

G. B. KULKARNI*

Introduction

Agriculture has always been the most important sector of the Indian economy and rural areas have always accounted for the bulk of the country's total population. Even today agriculture contributes about 48 per cent of the total national income and rural areas account for about 80 per cent of the total population. Poverty, small incomes and low standard of living have been the chronic features of agriculture and rural areas for several decades past. Many of the economic problems of the country are therefore found in agriculture and rural areas. Numerous efforts have been made for reducing poverty and ameliorating the conditions of rural population. It was for this purpose that the cooperative movement was started in this country in the beginning of the twentieth century. The cooperative form of organisation is essentially meant for persons with small means who can derive economic benefit by pooling their resources for a common purpose; it is a via-media between capitalism and socialism. Among the problems of agriculture provision of adequate, timely and cheap credit has always been important. Therefore in the development of cooperation the credit aspect has always received the maximum attention and has shown the largest progress. But the progress of cooperation in general and even of cooperative credit was not significant upto Indian Independence.

Achievements

After independence however the progress of cooperation and especially of cooperative credit has been quite

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remarkable. The country has embarked on economic planning with maximization of income and equitable distribution as the twin objectives. A new agricultural strategy has been evolved and integrated rural development has been the aim. Considerable emphasis has been placed on intensification of cultivation through modernization of methods and practices and use of high-yielding seeds, insecticides etc. Stress is placed on development of allied activities such as dairy, poultry, fishery etc. All this has raised the demand for credit by leaps and bounds. Because of their local knowledge, responsiveness to local needs and democratic management cooperatives have been assigned a very significant role in every five year plan. The first plan observed:

> "in a regime of planned development cooperation is an instrument which while retaining some of the advantages of decentralisation and local initiative will yet serve willingly and readily the overall purpose and directives of the plan".

Similarly the Third Plan mentions

> "in a planned economy pledged to the value of socialism and democracy, cooperation should become progressively the principal basis of organisation in many branches of economic life".

The Fifth Five Year Plan has laid down removal of poverty and attainment of economic self-reliance as its two strategic goals for which cooperation would obviously be an ideal agency. From one plan to the next the outlays provided for cooperative development as also the targets fixed for different sectors of cooperation were steadily raised. The supply of cooperative credit has risen about 40 times (from Rs. 220 millions to Rs. 9,000 millions) during the last 25 years. Cooperatives now meet about 40 per cent of farmers credit needs as against just 3 per cent in 1950-51.

Diversification

Apart from increasing the total quantum of credit so considerably, cooperatives have made a significant diversification in their activities. They are now increasingly financing marketing and processing of agricultural produce as also handlooms, dairies, fisheries etc. The cooperative credit supplied for marketing and processing activities at present amounts to Rs. 850 m. and Rs. 1280 m. in the case of state cooperative banks and Rs. 1030 m. and Rs. 640 m. in the case of district cooperative banks respectively. The development and progress of cooperative sugar factories has been spectacular; they now account for about 45 per cent of the total sugar production in the country. The supply of medium credit has also been steadily rising to meet the developmental needs of agriculture and allied activities.

Cooperative credit is now being extended to the comparatively small and less creditworthy farmers also who were until recently exploited by usurious private credit agencies. Of the total credit of about Rs. 9000 m supplied by cooperatives 28% goes to the small and marginal farmers. In 1973-74 the total number of borrower members stood at about 13 m so that the average loan per borrower was about Rs. 583 indicating clearly that cooperatives are really helping the small man. Till the end of April 1975, 4.6 m. small and marginal farmers and agricultural labourers were identified as eligible for benefits under the 46 SFDA and 41 MFAL projects. Of these 2.37 m or over 50% were enrolled as members of cooperatives. During 1974-75 short-term loans to the tune of Rs. 283 m were disbursed to these members through cooperatives and Rs. 31.7 through commercial banks.

Terms and Conditions

One important feature of the supply of cooperative credit is the manner in which the terms and conditions of loaning are adjusted to the requirements of the borrowers. For years and decades the bulk of cooperative loaning was security-based, so that only the big farmers and comparatively well-to-do persons could get cooperative credit. As the economy started developing and as agricultural growth had to be stepped up rapidly, it was necessary to change this basis of lending. Loaning had to be production-oriented rather than security-oriented. It is heartening to mention here that cooperative credit agencies were able to meet the borrowers' requirements on the basis of their production requirements. This is what is popularly known as the 'Crop Loan System'' under which scales of finance on the basis of cost of production of different commodities are laid down by a group of experts according to which each credit primary advances loans to individual borrowers. Loans are given in anticipation of crop production and are recovered after the crop is harvested by the farmers. There is often a complaint that some farmers do not get all the money that they need. This is largely because many cooperatives do not have the necessary resources for meeting all the credit needs of all of their member borrowers. Being democratic organisations cooperatives prefer to finance a larger number of borrowers at a comparatively low scale of finance than finance a smaller number of borrowers at the full scale. In fact cooperatives have also to keep a ceiling on the maximum amount loanable to an individual member. There is however no doubt that the crop loan system is a novel method of loaning which has proved useful to the borrowers without creating undue difficulties for the lenders.

Rate of Interest

The rate of interest charged by the cooperatives to the farmers has always been the lowest. This rate which used to be about 7½%-8½% until recently was about 1/5 or 1/6 of the rate charged by private credit agencies. The lending rate has gone up in recent years to about 12% to 13½%. This is in keeping with the general rise in the entire range of interest rates in the country; the bank rate itself has been 9%. The present lending rate of 12% to 13½% is still not merely the lowest but very much lower than the market rates in the unorganised sector which range between 25% and 50%. Cooperative banks have also been taking into account the special needs of small and marginal farmers who cannot afford to pay the usual rates of interest and some banks have recently introduced a scheme of differential rates of interest under which the smaller borrowers are given a concession of 2% to 4% in the lending rate while the larger farmers are charged a slightly higher rate. While the influence of interest cost on the magnitude of production or the production decisions of the borrowers is not very significant there is no doubt that interest concessions are welcome to the smaller farmers.

Another important aspect of the progress of credit cooperatives has been their geographical coverage. The 28 State Cooperative Banks and 353 District Cooperative Banks have a wide network of over 5,000 branches spread over the length and breadth of the country especially in rural and semi-urban areas where commercial banks were fearing to enter until recently. These branches have developed banking habit among rural population which has always been an important problem for the country.

Shortcomings

But in this large and rapid expansion of cooperative credit, several shortcomings have come to light. Firstly, there are regional imbalances. Almost 70% of the total credit disbursed in the country is accounted for by only 6 states viz. Gujarat, Maharashtra, Madhya Pradesh, Punjab, Tamil Nadu and Uttar Pradesh. The average credit per member in these states ranges between Rs. 940 and Rs. 380 whereas in states like Assam, Manipur, Bihar and Orissa, it ranges between Rs. 93 and Rs. 4 per member. It is true that the more rapid progress of cooperative credit in the developed states is due to the basic natural endowments, the quality of leadership and the support of the state government. But it is necessary for credit cooperatives to progress more rapidly in the backward states also. Nor have cooperatives given adequate attention to the financial needs of small farmers, marginal farmers, tribal people, backward districts etc. Here again while efforts are being made to improve the position there is need for speeding them up.

Owned Funds

Cooperatives have a large dependence on external resources. The owned funds of state cooperative banks, of district cooperative banks and of credit primaries have increased from Rs. 38 m, Rs. 88 m and Rs. 173 m to Rs. 1425 m, Rs. 3143 m and Rs. 3931 m, respectively between 1950-51 to 1974-75. This is obviously good progress but it is not commensurate with the expansion of credit. Moreover a portion of the addition to the share capital has come from the state governments assisted by the Reserve Bank of India. Own funds of credit primaries, central banks and state cooperative banks as a proportion of working capital declined from 53%, 83% and 75% in 1950-51 to 42%, 68% and 69% in 1974-75, respectively. It is true that in a rapidly developing economy a lending bank has to have recourse to the central bank of the country or any other refinancing agency but 45% to 50% is too high a dependence on external resources. This has two main drawbacks. First, it creates uncertainties for the lending institutions in making its credit plans because it cannot always be certain about getting the necessary refinance from external sources. Secondly the refinancing agency has its own financial discipline which the borrowing cooperatives may not always find convenient to conform to.

Deposits

The main reason for the shortage of resources is the inadequate growth of deposits which should always form the bulk of a bank's loanable funds. At the primary level the size of deposits is very small indeed, just about 5% of total loaning but even at the level of district cooperative banks and state cooperative banks deposits ordinarily come to about 30% and 50% of their loaning respectively. It is true that the deposits of state cooperative banks have increased from Rs. 720 m to Rs. 4890 m and of the central cooperative banks from Rs. 1120 m to Rs. 7180 m between 1960-61 and 1973-74. The rate of growth of cooperative banks' deposits at about 18% per year has been slightly higher than that of commercial banks. But in absolute terms the amounts involved are small and inadequate to meet the ever increasing demands for cooperative credit.

Overdues

One serious weakness of credit cooperatives is the large and mounting overdues which now account for about 45% for the country as a whole. Actually there are states where the overdues have been in excess of 75%. This is rather serious especially because this percentage used to be relatively low around 20%-25% for several years in the past. For this enormous rise in overdues one factor which is responsible is the very rapid rate of loaning unaccompanied by adequate supervision and control. Natural factors such as droughts, floods etc. have also had their share. The Overdues Committee appointed by the Reserve Bank of India has after analysing the various aspects of the problem came to the conclusion that it is the human failure which is largely responsible for the mounting overdues. A large proportion of overdues is accounted for by wilful defaulters. Most cooperatives have not made the necessary follow-up and supervision arrangements. They have not paid necessary attention to modern management including selection, training and posting of staff. There have also been political factors responsible for non-payment even in the case of borrowers who have the capacity to pay. This committee has recommended several measures for improving the supervisory and managerial arrangements as also for creating a proper climate for repayment in which the government and political leaders will have an important role to play. If the proportion of overdues goes down and recoveries are effectively made the resources position of cooperatives will improve which in turn will raise their loaning capacity.

The shortcomings mentioned above have given rise to some structural weaknesses in cooperative organisations. A large number of credit primaries is dormant and quite a few district cooperative banks are weak. Several attempts are being made especially by the government and the Reserve Bank of India for revitalising the primaries and rehabilitating the central cooperative banks but progress has been quite slow.

Tasks Ahead

Credit cooperatives have before them numerous, varied and huge tasks to be accomplished during the next few years. The short-term cooperative credit target for the Fifth Five Year Plan had been previously fixed at Rs. 13450 m but in view of the rise in the prices of fertilizers and some other inputs it has been subsequently raised to Rs. 18440 m. The medium-term credit target has been fixed at about Rs. 5000 m. These are indeed very high targets especially in relation to the past performance of credit cooperatives, the annual increase in cooperative credit supply being of the order of Rs. 500-600 m. But the targets fixed are to be related to the total farm credit requirements. These may be estimated at Rs. 35000-40000 m and credit cooperatives should meet about 45% of these requirements. The objective of the Fifth Plan is to consolidate and strengthen cooperatives as a democratic and viable structure responsible to the needs of the peasants, the artisans, the workers and the consumers. Maximum possible institutionalisation of agricultural credit is the overall policy objective. Reduction of regional imbalances, ensuring a substantial increase in the flow of institutional credit to small farmers, marginal farmers, tenants and share croppers etc. are the other main objectives of policy. The Prime Minister of India has recenly said :

> "We expect cooperatives to play a far more effective role and an increasing role in our economic activities. We stand, i.e. the Government of India stands for a cooperative approach to all problems".

This is indeed a challenge as well as an opportunity for cooperatives. Concerted, systematic and continuous efforts have to be made by the cooperatives for fulfilling these tasks. These efforts will have to be two fold—by cooperatives themselves and by public authorities. Considering the various shortcomings which have come to light in the working of cooperatives it is most necessary that cooperatives must set their own house in order so as to be able to take larger responsibilities that lie ahead of them. For this purpose the greatest emphasis will have to be on modern management—use of various techniques and skills which are necessary for success in business. It is true that profit is not the sole object of cooperative organisations but co-operatives are business organisations and must be run on business principles and make profit. They have therefore to practise all techniques of modern management—financial management, personnel management, etc.

Credit Planning

Credit planning and performance budgeting should be of considerable advantage to cooperatives. Credit planning has however not so far received the attention it deserves in our economic planning. In fact it is only the Fifth Five Year Plan which takes into account the resources of financial intermediaries for development purposes. Credit planning is done at different levels—national level, state level, district level and unit level. The Reserve Bank of India which is the central bank of the country has been following a policy of controlled expansion which means that expansion of monetary resources necessary for development are ensured but at the same time there has to be control on them so as to contain inflationary forces. The bank has been using most of the instruments of central banking control for this purpose and when an individual bank makes and implements its own operational plans it has to give effect to the policies, directives and wishes of the Reserve Bank.

Lead Bank Scheme

The first systematic effort at credit planning was initiated in 1970 under the Lead Bank Scheme as recommended by the Study Group on Organisational Framework for the Attainment of Social Objectives. Under the scheme all the districts of the country were allotted to the 24 major none. It is therefore good to start with as best estimates as possible and to try to improve on them in the course of time in the light of actual experience and with the guidance from more knowledgeable persons.

New Branches

The third aspect of credit planning is to decide on the locations for new branches. With the continuous increase in credit business and the need for maximising deposit mobilisation, every cooperative bank has to extend the network of its branches to as many places as possible consistent of course with the possible viability of these branches in the near future. Here again the techniques developed by commercial banks for identifying growth centres would be quite useful to the cooperative banks also with this difference that cooperative banks will have to go to still smaller places. Under the Fifth Five Year Plan, the state cooperative banks are expected to open about 100 new branches and the district cooperative banks about 2400 new branches. If the network has to be so extended it is necessary that very systematic efforts for selection of places, for appointment of staff and for their training will have to be undertaken. Some subsidy for the initial few years may have also to be provided for.

Management

The next and perhaps the most important problem for cooperative banks is to ensure efficient management of its affairs so that its responsibilities for credit supply are adequately met and its operational results are favourable enough to provide for reserves, return on capital and future growth. For this purpose every cooperative bank must accept and implement the principles and practices of modern management. Two important aspects need to be specially emphasised. Firstly, the selection, training, posting, promotion, transfers, etc. of the different categories of staff need to be done on very objective grounds and in a systematic manner. The salary scales etc. in cooperatives may not be as high as in some other organisations, but there is no dearth of well qualified and promising young persons even for those scales. The cooperative banks have only to make an effort to select the right type of persons. Staff training both on the job and in specialised training institutions is another aspect which need to receive much greater attention. The Chairmen and Chief Executives of different cooperatives need to be made training conscious. It is also necessary to professionalise the management of cooperatives. The method, techniques and practices of management are all changing. New jobs and new types of responsibilities have to be shouldered by banks. Banks have to prepare, finance, supervise and evaluate new types of projects. Different types of specialists are required and it is necessary for a cooperative bank to appoint and train staff for these various special purposes. Financial management is again another field to which a great deal of attention needs to be paid. It is necessary for banks to undertake performance budgeting from time to time so that the objectives of profit, growth, service and social responsibilities are achieved. There is also need for some self-discipline and self-denial.

External Support

While a cooperative bank would do its best to improve its internal management it does require assistance, support and guidance from public authorities—the Reserve Bank of India, the Government of India and the State Government—both in respect of resources as well as organisation. The Reserve Bank's policy of controlled credit is understandable in the context of the overall monetary situation. But the Reserve Bank should make refinance facilities available to the cooperatives to a larger extent and on more liberal terms. Care can always be taken to see that this easy and cheap finance from the Reserve Bank will not lead to a sense of complacency among cooperative banks. Moreover, for financing the newer and more difficult activities such as consumer cooperation, tribal development and consumption loans, cooperative banks should certainly get refinance more liberally. For this purpose the Reserve Bank of India should be given directives by the Central Government or if necessary the Reserve Bank of India Act should be amended.

Another source of funds to cooperative banks is the commercial banks whose deposits have been very large (about Rs. 150,000 m) and have been continuously rising at the rate of about 15% per year. The bigger commercial banks are nationalised and have responsibilities for financing the priority sectors of which agriculture is the most important. The efforts which are being made by commercial banks in this direction have not yet shown good results mainly because of their inexperience. Meanwhile if they lend to cooperative banks about 3% to 5% of their deposits it will greatly help cooperative banks in discharging their responsibilities. This is done in some of the foreign countries.

Government of India and each State Government have a very crucial role to play in strengthening and improving the cooperative movement. If the state governments remove the discrimination against cooperative banks in respect of deposits and if they give them positive support the resource position of cooperative banks would definitely improve. One major help which the cooperative banks expect from Government is in respect of reducing overdues. If the Government and the political leaders urge on cooperative borrowers to repay their debts and if they take stern action against wilful defaulters the overdues of cooperatives will decline and their resource position will improve. Fortunately, the Prime Minister has recently urged on the Chief Ministers to help cooperative credit agencies in recovering their dues and the position has now considerably improved. This needs to be kept up.

In respect of organisation also the Reserve Bank as well as Government should help cooperatives. Introduction of staff cadres and management trainee schemes are some of these matters. Coordination of activities between cooperative banks and commercial banks is yet another field where a great deal needs to be done. The Government as well as the Reserve Bank should not undertake frequent experiments and start new organisations for agricultural finance without strengthening the existing cooperatives. No doubt, the Multi-Agency approach has been accepted and has come to stay but Multi-Agency approach should not mean multiplicity of operating agencies with confusion and complications. In the field of rural credit quite a few experiments have been undertaken during the last few years. After nationalising the bigger commercial banks these were brought in for financing agriculture without the necessary demarcation of areas or functions. The commercial banks have been feeling that cooperative banks are following a 'dog in the manger' policy while cooperative banks have been feeling that they are being ousted by the commercial banks. This feeling of distrust and suspicion is obviously undesirable. Similarly the setting up of Farmers Service Societies is another experiment which has been quickly introduced without taking due account of their impact on the existing credit cooperatives and now the regional rural banks have been started. If these regional rural banks are started in areas where cooperative banks have not done well or not likely to do well or if the operational area and functions of these banks are clearly demarcated both the types of banks can function. But merely saying that the country is vast, that the conditions are varied and there is large room for experimentation does not justify the frequent setting up of new organisations. Cooperative banks will naturally become more effective and useful to the community if Government and the Reserve Bank ensures necessary coordination among the lending agencies while helping cooperatives to strengthen themselves.

There is also some rethinking about the structure of credit cooperatives both short and medium-term and long-term. There is a suggestion to drop one of the three tiers of the short-medium structure in some states where the district cooperative banks have not been functioning effectively. Similarly there has also been a move for integrating the short and medium-term structure with the long-term credit structure. There is no doubt that all the genuine credit requirements of farmers and other rural population must be met adequately, timely and cheaply and that the country cannot wait for long for the existing organisations to do this. But frequent experimentation and setting up new organisations is not likely to solve the problems because the problems of agricultural credit are closely linked with the basic conditions of agriculture, the infrastructure facilities available and the competence as well as the interest of the farmers themselves which should improve simultaneously. Time is of essence. With necessary support from the Government and the Reserve Bank and with intensified efforts of their own it should be possible for credit cooperatives to succeed in achieving the tasks set for them.

Summary

Many of India's economic problems are found in agriculture and rural areas. Several efforts are being made during the last few decades to tackle these problems. Cooperatives are regarded as the most suitable agency for agricultural progress and rural reconstruction. Every Five Year Plan has placed considerable reliance on cooperation and credit cooperatives have achieved remarkable progress during the last 25 years. The supply of cooperative credit has increased from Rs. 223 m to about Rs. 9000 m. There has also been significant diversification in their activities—in financing marketing, processing and consumer cooperatives as also other activities allied to agriculture. The terms and conditions of loaning have been adjusted to the requirements of farm producers. The rate of interest charged to the final borrower has always been the lowest and is about 1/3 or 1/4 of the rate charged by private credit agencies. Credit cooperatives have also been paying attention to the special needs of small and marginal farmers and other weaker sections of the community in keeping with national policies and priorities.

While cooperative credit has expanded rapidly some shortcomings have come to light such as regional imbalances, large dependence on external resources, inadequate growth of deposits, large overdues and insufficient supervisory and managerial arrangements.

Cooperatives have been assigned a very important role under the Fifth Five Year Plan, the target for short-term credit has been fixed at Rs. 18440 m and that for medium-term credit at Rs. 5000 m to be achieved by 1978-79. These are indeed very high targets especially in relation to the past performance of credit cooperatives. But the total farm credit requirements are estimated at about Rs. 35,000 to Rs. 40,000 m and cooperatives should meet about 45 per cent of these requirements. The task is really very big and further cooperatives have also to reduce regional imbalances and increase their loaning to the weaker sections of the community as also to consumer cooperatives. For the achievement of these tasks, very intensive and systematic efforts will have to be made both by the cooperatives themselves and by the Reserve Bank of India and the central and state governments. Credit cooperatives must maximise their own resources mobilisation especially the deposits. They must also reduce the overdues so as to increase their loaning capacity. Urgent attention needs to be paid by cooperatives to modern management particularly selection, training, posting, transfer and promotion of all categories of staff on the basis of merit and on objective, systematic lines. Professionalisation of management also needs to be introduced as quickly as possible. Credit planning and performance budgeting techniques need to be introduced so as to improve operational efficiency and working results.

Cooperatives will also require the active support and guidance from the government as well as the Reserve Bank of India both in respect of increasing their resources and improving their performance. The Reserve Bank's refinance facilities to cooperatives need to be liberalised. A small portion of commercial banks' deposits should be made available to credit cooperatives. Government should help cooperatives in reducing their overdues and in creating a proper climate for prompt repayment. All attempts should be made to strengthen the existing cooperatives wherever possible before establishing or introducing new agencies in agricultural finance and when new agencies are set up their areas of operation and functions need to be clearly demarcated so as to avoid conflicts between them and the cooperatives. Steps need to be taken for securing effective coordination of activities between cooperatives and other agencies operating in agricultural finance. Efforts have also to be intensified for improving agricultural conditions, infrastructural facilities and the competence of farmers. With support from public authorities and with determined efforts of their own credit cooperatives should be able to achieve the tasks set before them.

Credit Planning in Cooperative Banks

G. B. KULKARNI*

Introduction

Soon after attaining Independence in 1947 India has embarked on economic planning for two main objectives viz., maximisation of production in every sector and equitable distribution of national income among the different groups of the community. Four Five Year Plans have been completed and we are going through the Fifth Five Year Plan. Economic planning pre-supposes an assessment of all the available resources of the country—internal as well as external—and their best utilisation in the national interest. It is obvious that in this over-all economic planning the role of financial intermediaries like commercial banks, cooperative banks, Life Insurance Corporation of India etc. should be important. But it is rather strange that until recently the resources of financial intermediaries were not taken into account and credit planning did not receive the attention it deserves. The First Five Year Plan stated that:

> "central banking in a planned economy can hardly be confined to the regulation of the over-all supply of credit or to a somewhat negative regulation of the flow of bank credit........For the successful fulfilment of the plan, it may be necessary to direct special credit facilities to certain lines of high priority. The banking system will thus have to be fitted increasingly into the scheme of development visualised for the economy as a whole for it is only thus that the process of mobilising savings and utilising them to the best advantage becomes socially purposive".

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But in actual practice this was not done until recently.

The Reserve Bank of India has of course been following a policy of "controlled expansion" so as to ensure supply of the required monetary resources for production especially in the priority sectors and at the same time to restrain or restrict supply of these resources for undesirable purposes and non-priority sectors. The bank has been directing commercial banks and cooperative banks to channel their resources accordingly. But credit planning in the real sense of the term was not attempted systematically. It is only after the nationalisation of commercial banks in 1969 that some serious thought has been given to credit planning as such and action has been initiated for that purpose.

Credit Planning

Credit planning implies allocation of resources at the disposal of a credit institution in such a manner as to achieve the objectives of the institution, to meet the requirements of the borrowers and to serve the interests of the nation. Credit planning is very important especially in a country which has a shortage of resources and which has to raise the rate of its economic growth rapidly. Credit planning is done at the national level by the Reserve Bank of India and in the co-operative sector, at the State level by the state cooperative bank, at the district level by the district central cooperative bank and at the unit level by the primary credit society. The following few details given in this article relate to DCC Banks.

The lead bank scheme introduced in 1970 on the recommendations of the NCC Study Group is the first systematic effort made at credit planning. It was found that in the growth of Indian banking (commercial as well as cooperative) there were regional imbalances and credit gaps; several sections of the population did not get any bank credit at all. The Group therefore recommended an area approach to the problem and emphasised the need for banking and credit planning with district as the unit. All the 353 districts in the country were allotted to the 24 bigger commercial banks. Each one of these banks was given the lead role, viz., to assess the credit needs as well as potentialities of each district and to ensure speedy economic development of all the allotted districts. It is rather unfortunate that no co-operative bank was selected as a lead bank, but the methods and techniques adopted by commercial banks for banking and credit planning under the lead bank scheme should be useful to the cooperative banks also.

Credit activity like every other economic activity has two sides—the demand side and the supply side. On the demand side the borrowers would like to get adequate, timely and cheap credit while on the supply side the bank is influenced by safety of funds, liquidity of assets and profitability of operations. To these, two more considerations may be added namely service to customers and social responsibilities. A bank has to match demand side with supply side.

Demand Side

It may be useful to begin with the demand side. The first demand on the resources of a bank comes from fixed assets such as land and buildings, furniture and fixtures, etc. which are necessary for business. These vary from bank to bank but in the case of a DCC Bank they may be taken at about 20% of its total resources. Next is the demand for cash and liquid assets for which statutory requirements have been laid down and these are 28% of demand and time liabilities. A margin of about 7% may be provided for operational flexibility. The total requirements for fixed assets and liquid assets may thus be taken at about 20-25% so that the loanable resources of a bank would be about 75-80% of its total resources of which 80% could be lent to credit primaries and the remaining 20% for other purposes.

These loanable resources will have to be spread over different regions, different sectors and different durations. Planning has also to be done on the basis of rates of interest charged so as to achieve the desired profitability for the bank. In doing all this the priorities, policies, directives and wishes of the Reserve Bank and government have to be given effect to.

A DCC Bank largely finances the primary agricultural credit societies in its district. Agriculture is of course the most important sector. The first task would therefore be to make an estimate of the credit requirements of the different primary societies for agricultural production the bulk of which would be short-term credit. This can be done by finding out the acreage under cultivation, the cropping pattern and the average per acre cost of production of each crop. It is necessary further to take into account the farmers' own resources so that the balance of money is to be provided by the bank through the societies. Sales of finances required per acre for each type of crop are generally worked out by a group of experts and by multiplying the acreage under a crop by the scale of finance one can get an approximate idea of the total credit demand for agricultural production. It is also necessary further to have an idea about the cash and non-cash parts of these credit requirements, the A and B components. It is desirable that whatever credit the farmer requires for buying his production inputs such as seeds, fertilisers, pesticides etc. should not be given to him in cash but should be paid directly to the suppliers of these inputs. It is also necessary to work out the credit requirements of farmers for medium-term purposes such as improvement of land, digging of wells, purchase of bullocks etc.

In making the credit estimates, account has also to be taken of the potential requirements of the different developmental projects coming to fruition from time to time. Secondly the credit requirements of the weaker sections of the community such as small and marginal farmers, tribal people etc. have to receive special attention. The RBI has been insisting that at least 20% of loans should go to small and marginal farmers. Under the Fifth Five Year Plan this percentage is expected to be raised substantially. Thirdly a DCC Bank has to provide for revitalising the weak primary societies too. Finally every bank has also to function as a catalytic agent for encouraging development of all the sectors of the district economy such as marketing, processing, industries, consumers cooperatives which have been given high targets under the Fifth Plan and the Prime

Minister's 20-point economic programme. Similarly in many states legislation has been passed to liquidate the debts given by private credit agencies to the weaker sections of the community. Credit cooperatives are the only agencies to substitute them and must therefore provide some resources for this purpose. Also at least a portion of the consumption needs of low income groups of people are to be met for which again cooperative banks will have to spare some resources.

A systematic credit plan has thus to be made by every DCC Bank on the basis of the estimated requirements as mentioned above with emphasis on the need for removing regional and other imbalances as also to provide credit to the needy sections of the community. Care has to be taken to see that the supply of credit is channelled in such a manner as to be in line with the emphasis and policies of the Government and the RBI.

Supply Side

Each bank has also to make an estimate of the resources likely to be available to it firstly from its own share capital and reserves and secondly from external resources such as deposits and borrowings. Obviously the reliance on borrowings from the higher financing agencies especially RBI will have to be kept to the minimum. The RBI has its own formula and discipline for re-financing cooperative banks. These have to be adhered to.

There is an urgent need for maximising deposit mobilisation. The experience of commercial banks in mobilising deposits in rural and semi-urban areas has been quite encouraging and there is no reason why cooperative banks should not be able to get much larger deposits than what they have done so far. A DCC Bank should work out the total savings potential both in the agricultural and non-agricultural sectors in its area of operation as also its own share in this potential. On the basis of the distribution of land holdings and the cropping pattern an estimate can be made of the net income available to farmers and after deducting about Rs. 2400 per family per year as consumption expenditure some idea can be had of the savings potential of farmers. Similarly by obtaining an estimate of the non-agricultural income and by deducting about Rs 3,600 as the annual family expenditure, the savings potential of the non-agricultural sector can be obtained. The total of these two will be the total savings potential out of which the deposit potential of banks in general and of the individual cooperative bank in particular should be estimated. The rate of growth of deposits of the bank during the past three years or so should be noted. Obviously this rate is to be considerably stepped up to get the estimated potential share for which the cooperative bank has to make all efforts— opening of new branches, appointment of special staff, publicity and public relations and attention to customer service. The support of the State Government will of course give an advantage and this must be enlisted.

It is obvious that the estimates of credit requirements as well as deposit potential will be rough. But planning presupposes estimation and some estimates are better than none. It is therefore good to start with as best estimates as possible and try to improve upon them in due course in the light of actual experience and with the guidance from more knowledgeable persons.

New Branches

The third aspect of credit planning is to decide on the locations for new branches. With the continuous increase in credit business and the need for maximising deposit mobilisation every cooperative bank has to extend the network of its branches to as many places as possible consistent of course with the possible viability of these branches in the near future. Under the Fifth Five Year Plan, the state cooperative banks are expected to open about 100 new branches and the DCC banks about 2,400 new branches. The number of new branches to be opened by each cooperative bank will of course depend upon several factors. But before a decision about opening any new branches is taken, it is necessary to identify systematically the growth centres where there is need for banking services and where there is the necessary potential. The total population of the place, the main occupations, the levels of incomes would be the primary considerations. The availability of infrastructure facilities such as police station, post office, telegraph office, school, college, market yard, warehousing facilities, transport and communication etc. will have also to be taken into account. It is necessary to make a rough estimate of the loaning potential, the income to be earned and the expenditure to be incurred by operating the branch so as to have an idea about the viability of the new branch over a period of years.

Performance Budgeting

After making all these estimates of credit requirements, resources available and the new branches to be opened, a DCC Bank has to prepare an action programme and to see that it is properly implemented. For this purpose all attention needs to be paid to modern management with emphasis on professionalisation and proper supervision on a periodical basis. A continuous watch has to be kept not only on the supply of credit on the lines planned but also its utilisation as well as repayment and on the income and expenditure of the bank for rendering efficient service to customers and making a reasonable profit for itself are the twin goals of every bank. For this purpose the technique of performance budgeting should be adopted by every cooperative bank.

Cooperative Credit Planning for Consumer and Industrial Cooperative Development

N. A. KULARAJAH*

I am once again given the honour of addressing another Co-operative Management Conference organised by the ICA in conjunction with the Indian Co-operative Movement. I still remember the conference held in Manila and at which conference I gave the keynote address on the subject of Co-operative Management. This conference is a continuation of that and I believe that it will continue as an annual event bringing together co-operators in Asia to discuss, exchange and develop the management concept in its proper form for the general well-being of co-operatives in the region. It is a conference aimed at placing importance on management and to prod or urge co-operatives to have proper management structures which are essential for the development of co-operatives. A co-operative has to consider itself a working organisation to be run like a machine efficiently and systematically to produce the results desired by the general members. To run the machine well will require having it oiled regularly and to ensure that no parts are failing, require the necessary supervision and checking. This can only be undertaken by a properly constituted management body that is also functioning efficiently. This conference is a very important tool for creating awareness and appreciation for converting co-operatives into well-managed organisations that are at the service of the members.

It is not necessary for a conference of this nature to impart technical skills to the participants. If that is the objective, the conference will obviously be a failure as it would be impossible to do so. However, the main objective of the conference is to allow the participants to understand the general and basic concept of management and the need for

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the proper running of co-operatives. Management is a wide and diverse subject and it needs different skills for different aspects. Most of the participants here are of advisory or Board level members of their societies. What is really required for them to know is the need and importance for the development of management bodies in their respective movements or societies to gear their organisations to be economically suitable and viable institutions that are not a burden on their members, but genuine providers of the services that members seek.

The subject I am to speak on is related to the expansion or development of the movement into specific areas; the general planning required for such development and the method to be employed generally to pursue the development. In this paper I shall not go into depth or detail, but I shall speak from my personal experience in the Malaysian Movement which shall form the basis of the development of this subject. We come from different countries and our systems and experiences are different for me to be specific. Again following my usual approach of subjects at conferences of this nature, I would like to take the opportunity to be provocative as well as innovative. It is out of necessity that I take this approach and the reason is all too obvious.

We in Asia are still in a developing stage and our institutions are still in that stage too. We may have been successful and well established in some areas of economic activities but in the context of the movement as a whole we are still growing and looking for a firm and established movement. Each of the individual organisations that are established and successful are still trying to fit themselves into the overall situation. They are still looking for leadership and direction and accommodating to changes which seem to be very constant because of the developing status of our respective countries. The Co-operative Movements in Asia are all the time looking for new directions or leaning towards one and changing from time to time.

This is happening as the overall economic, social and political developments in the countries are also not established into any set philosophy or way. India is an excellent example. The immediate direction that India as a whole is following is radically different from that 5 years ago, at least iu terms of sense of purpose and discipline. New opportunities, new challenges and a new atmosphere has been created for co-operatives to work in. The co-operative movement will have to fit into this to meet the challenges and exploit the vast opportunities created for stable and dynamic progress. There are definitely countries in Asia which are exceptions, the most obvious being Japan. We are not talking about exceptions but of the general development. Philippines is another case where co-operatives are progressing in new directions with great confidence and inspiration. Even in these countries the climate could change but as it stands co-operatives know what they could do and how they could go about doing it and the backing they have.

It is for these reasons that I say that we cannot fix ourselves into set ways because changes constantly take place in developing countries where priorities are concerned particularly in economic, social and even political developments. These changes have great impact on the general members' attitude and aspiration and therefore we shall always have to be innovative and should be able to accommodate ourselves into these situations. When I say ourselves I mean not only the leaders but the whole of the co-operative family which include members, management, employees and other related bodies of people.

From the aspect of co-operative credit we shall have to begin analysing the credit movement and its historical development before we could talk about credit planning for consumers and industrial co-operative development. When we go into historical aspects we will have to go right back to the basic idea of co-operation and relate the credit movement development to the basic concept and then to planning.

In the developed countries the co-operative movement has no problem regarding management. Management is a highly developed science in the co-operative movements in Europe and the U.S.A. Again co-operative members in Europe or the U.S.A. are so highly tuned to the co-operative concept and so faithful to that concept that they are not keyed up towards anyone particular thing or obsession as we are in this part of the region. Co-operative movements in Europe and the developed countries can go into development of varied kinds without any problem or objections or obstacles from the members simply because membership desires such development arising out of the deep appreciation and understanding of their co-operative involvement.

In Asia, members of co-operatives seem to have given mandate to their leaders only for definite activities with one desired result. Any activity undertaken must result in a dividend on capital invested by the member within a short period and lack of result or failure to get the desired result which is a return on share capital or benefit reflects failure of the society or the management to deliver the goods. It may be so that the organisation may be providing valuable or worthwhile services but this is not a consideration that matters much to the general membership that has invested capital. Viability of a project is primarily and directly related to profits made. One would expect that a membership of a co-operative reflects an intention to participate in collective self-help as conceived by the Rochdale Pioneers. It is also an involvement more to see or realise a beneficial service for the many and less to look at a co-operative as a safe and sound institution for investment. This attitude has formed the crux of the development of the co-operative movements in Asia. This is so for various reasons and mainly because membership is not enlightened or developed to think in terms of overall upliftment of living standards or to want activities that would improve services, make such services accessible and readily available to the needy to provide competition to the capitalist organisations so that they do not go on to raping consumers particularly from the lower income groups through monopolistic structures. The ordinary members of the movement in Asia do not look at the larger perspective or problem or even think about the predicament in this context. Instead they look at co-operative institutions as a small man's capitalist institution which permits him with his small savings or resources to have a stake in a large organisation or institution. Values are misplaced or wrong. Maybe he believes and thinks because of circumstances and the established positions of capitalistic organisations that a co-operative institution built up of the small man's resources can never achieve its overall and highly valued objectives. This I think and I believe has been the primary hindrance in the rapid and extensive development of co-operative activities in Asia.

Co-operative leaders in Asia work with their hands tied behind their backs. Success in co-operatives in Asia means declaration of dividends. Co-operative leaders are to be blamed greatly for this too. Many have become leaders fully aware of this base desire of members and have exploited these desires and entrenched themselves in positions to stay on for a long time. They have been contented in getting the results wanted by a large segment of the membership and in the process have failed to provide the real services that the co-operative movement wishes to provide in the economic and social set up in the country. In turn you find that co-operatives of this nature have not made real progress but have been highly successful remaining in that form.

The credit movement in the Asian countries are very highly developed but have not been generally useful to the overall development of the co-operative movement. The many thrift and loan societies in the countries have specialised in building savings and lending but without far reaching objectives. They have not built their resources for development of the various other services or even thought of that except in recent times. Even in recent times the problem still exists and it will take further time for complete solution. However, I must say that we should now correct the situation and look towards using the various credit institutions for far reaching purposes to achieve the objectives of co-operative development.

For a start, we should define the purpose of having credit institutions in the context of the movement as a whole. A national manifesto should be created for the movement defining the aims, directions and objectives of the co-operative movement, the methods and ways of achieving these aims and the steps that should be taken and the institutions that should be set up to implement and achieve these objectives. The various sectors in the movement including the credit movement should then harmonise their operations with this.

The credit movement in the various countries should become the base and power for the development of the rest of the movement. In any country, the mobilisation of resources, particularly financial resources play the most important role in social and economic development. So it is in the co-operative movement and the development of highly effective credit institutions should be a primary aspect in the development of co-operative services. The co-operative movement like the rest of the country cannot set up economic, industrial, commercial and social institutions which would be the determining factors in the standard of living of the people if it does not possess the resources. The resources are there and have to be mobilised. A well established co-operative credit movement with the necessary central institutions is essential for co-operative development. The mobilisation of funds is the major and most important function of the credit movement. Co-operative movements in Asia have a well developed thrift and loan movement which have become quite adequate in mobilising funds. They have developed their institutions through careful and simple methods and built substantial funds. They have however limited their credit functions to personal lending. The surplus funds they accumulate have not been deployed for other co-operative development at any level or on any scale but generally invested in outside institutions or kept as deposits. We have therefore the necessary institutions and various schemes to mobilise funds. To tap these available resources and to monitor them for the rest of the movement is the problem facing the movements. Towards that I make some suggestions. In any co-operative movement the ideal would be to have a central institution with many offshoots and independent smaller institutions to mobilise resources. These independent institutions should however be linked with the main institutions to find outlets. In Asian countries co-operative savings institutions have to compete with other established commercial institutions including the government institutions, like the Postal

Savings Bank. However, the savings institutions of co-operatives have an advantage in that they enable small sums of money to be saved regularly. In Malaysia for instance, thrift and loan societies which form the backbone of the Malaysian Movement have large resources and play a very important role in the mobilisation of savings of their members. These thrift and loan societies are able to function successfully because they are confined to homogenous groups. In one town itself you may find 2 or 3 different such societies, serving exclusively members involved in the same activity or occupation. In this way these thrift and loan societies have been able to function effectively and successfully serving their limited members. They are, however, unable to decide on the deployment of their resources because of restrictions and lack of outlets and eventually end up depositing them in commercial banks. There are two central institutions in Malaysia which can serve all these societies. One is the Co-operative Central Bank Ltd. and the other is the Co-operative Bank or Bank Rakyat. These two institutions are able to receive the surplus funds of the credit institutions. In addition their constitution allows individuals direct membership. While the small credit institutions confine their borrowing and lending to their individual members, the larger institutions are involved in a wide range of lending activities. The mobilisation of savings by these larger institutions are promoted by various savings schemes and by deposits. I believe that this kind of structure which is found in the Malaysian Movement is a very ideal way of mobilising resources to a very large extent in a very effective way.

What should be established, however, is a direct relationship between the smaller institutions and the central institutions. Currently there is no such relationship except the normal relationship based on free choice.

In proper co-operative credit planning an established relationship should exist so that the flow of resources could not only be tapped but would enable the central institutions to forecast the cash flow and provide statistics for analysis and development. The small credit institutions in the urban sector are not in a position to lend money on a large scale or outside their institutions or for any other need except for personal needs of their members. They are not even geared organisationalwise for lending activities. Their objectives allow them to lend to their members only. This would I suppose apply in many other countries. It is therefore necessary that specialised central financial institutions be established and they become the major sources of lending for the whole movement.

At district and regional levels, the branches of the central institutions could also undertake the credit activities leaving the thrift and loan institutions to continue with their activities while feeding their surplus funds to these specialised institutions. As I said earlier, for this to work effectively there must be a definite understanding and relationship existing between credit institutions and central financial institutions. An understanding of such a nature will not only avoid overlapping or duplicating of services but provide the impetus for the development of services for co-operative expansion.

We should now examine what should be the loaning policy. Without doubt the loan policy of co-operative credit institutions should be geared to meet the needs of its environment. However, problems arise. It is often difficult to state a policy that will ensure smooth and effective functioning. One of the major problems that face any loan scheme is the question of security or collaterals to be provided for loans. Often such securities or collaterals are not available and new co-operative institutions in particular are not able to meet the conditions. This is the major problem that hinders development.

The loan policy on the orthodox basis invariably will find few takers. In the case of individuals, small loans for personal consumption can be provided on the basis of guarantors. In the case of housing loans, the security is there and so no problem. The loan policy in case of home ownership might take the form of the terms and conditions which may be worked out by the society. It is necessary that in the case of individuals the loans be confined as in the present situation for personal loans and against mortgages. Such loans should be regulated to ensure that a member does not live on credit and as a slave of a co-operative credit institution. Loans should be provided for the economic and social upliftment of a member. However, limits should be established.

In many kinds of loans, a definite loan policy cannot work and will not work. How do we then reconcile the situation? This is the big question that faces co-operatives and credit institutions in the region. One method by which this can be overcome is to be flexible and to relax when an institution is involved which is endeavouring or intending to provide a service that would benefit co-operative members as a whole.

Consumer services sector is a good example. In such cases then the loan policy could take a different form and members may be invited to participate like in a joint venture. Even then it is only possible for the raising of the initial capital. Subsequent developments will have to be met by very long term credit arrangements if service is what we are interested in.

Another example is the case of established co-operative institutions already providing service which should be encouraged to expand their activities through capital injection and through additional financing. Credit institutions can play a very important role in this respect. Time and again it has been found that a small consumer store functioning effectively and usefully could be enlarged or made to expand through the increase of its capital or through additional finance provided. However, these institutions because of their lack of know-how in applying for loans or in increasing or finding additional capital will remain small and limited. Only a national co-operative policy which synchronises the credit movement with the rest of the movement could foster or enhance co-operative development in the main economic fields. It is in the context of this that we should talk of an overall planned programme that could enable co-operative development in as many areas, not just in consumer and industrial fields. I would like to make some contentions here for effective determination of desired objectives in co-operative development in the future for real progress in Asia.

Co-operatives in the Asian region have to first accept and follow Co-operative Principle No. 6 before they decide on any activity. Co-operative Principle No. 6 is well-known, i.e., all co-operatives at all levels should co-operate with each other. For effective co-operative credit planning there must exist a unified co-operative movement in the first place and a very closely knit credit movement. There must be co-ordination and integration. The credit movement must have a central financial institution which in essence provides the leadership to the credit movement. Just as it is required that the credit movement is co-ordinated and integrated with the central institution at its helm, the rest of the movement should also be well organised, unified and functioning in tune. The various sectors of the movement should be acting as one with the credit movement. All these should agree upon and work in line with a co-operative Master Plan formulated at a national congress or at the highest level and accepted by all in the Movement. This Master Plan should identify and define the establishment and development of priority sectors in terms of co-operative development. Without any question we could say that the consumer movement and the development of consumer services should hold priority over all others in developing countries. Housing would be another. Once these priorities are established in the Master Plan, the Master Plan should spell out the steps and details, the roles of the different sectors and institutions. targets, dates and organisational set-ups. The credit movement invariably would become the main source for the financing of these projects.

As mentioned earlier, the current problems that exist in co-operative development are because of lack of management expertise, lack of finance and lack of membership support. These will continue if they are not corrected or improved.

Resources mobilised cannot be freely utilised for other co-operative development projects if those saving or the members do not consent to or are agreeable to such use of their funds. There has to be a campaign to instill into all sectors of the movement, particularly the credit movement that the mobilisation of resources is to enhance development of co-operative services. If money is mobilised from the membership without such knowledge such money can never be used for co-operative services development as individual credit institutions will in response to their members' feelings and desires refuse to extend credit for services or for development projects that they feel may not succeed. No one can say for certain that any project can succeed because of so many factors. However, it should be stated that consumer and other co-operative services can succeed and have a greater percentage for success since the resources and support for the services is readymade. Many members react against lending to other co-operatives because of the failures that have been experienced. But this can be explained by the fact that poor planning, poor management, poor member participation, poor budgeting and poor projections have caused well intention and viable projects to fail. Often it has been found that the projects take off and proceed well until a point when funds run out and no other arrangements have been made for continued financing. At that juncture when the organisation turns for assistance or for further injection of capital and funds from the co-operative movement, it is not forthcoming because co-operatives have decided that the very fact that the organisation needs additional fund indicates that it is not succeeding. There could also be further reasons or other rational. The project might have been in stream for some time and no returns on capital invested had been forthcoming or is expected in the near future. Such a failing again cause co-operative financial institutions to avoid any further assistance or involvement. It is for this reason that I say that an overall scheme must exist and which must be known to all co-operatives and their members. In a Master Plan it should be clearly enunciated that the purpose the funds are being mobilised for and priority which would be placed in respect of development of various projects. It should be also stated that those projects are specifically the services they intend to provide to the members, how they are to be developed. All these should be contained in a booklet, if necessary and distributed to every co-operative and its members, regardless of costs. Once members' support is gained, mobilisation of funds and the use of such funds becomes easier. Leaders and management can work with greater confidence, with greater determination and the previous fears will become non-existing. It would also mean that the movement as a whole is involved in the formulation and implementation of co-operative projects, that the credit movement is planned and geared to fund co-operative projects regardless of their nature. There is also the added confidence that proper procedures and checks would be introduced over the use of the credit provided. Invariably in a situation of this nature management structures would be created to plan, develop and supervise these projects. Participation and representation in the management by all sectors will exist. Greater importance and emphasis would be laid on proper management. In short, the movement will work in unison and move as one.

Slowly and surely membership would be oriented towards accepting and wanting services in a direct form that would benefit them rather than in cash. An ordinary member can gain much more for his yearly savings through direct services in consumer and consumer activities than from getting a dividend of 6% or more per year.

Let us take, for example, of a member who saves $10 a month. His total savings for the year would be $120. If a dividend of 10% is given on his savings, he would receive anything from $18 to $24 at the end of that year or may be less depending on the basis of dividend declaration. That would amount to $24 which is a pittance. If that money is allowed to go into co-operative consumer and other services without restraints by form of expectation of a dividend every year from the society in which it is saved with which in turn causes the committee of management to look for high returns or charge high rates of interest and in safe investments, the benefit for the entire membership and for individual members in terms of value would exceed the $24 in a large way. This is why co-operative credit planning must begin with individual members and must be geared to the co-operative movement's needs. Many co-operative projects do not take off the ground because leaders intending or envisaging such projects are held back by fears of loss or support and failure. Many projects that are implemented also fail because the management is unable to concentrate on the organisation as they are concerned about repayment of loans and of continued financial assistance. If these fears can be removed many co-operative projects could have succeeded and could realise results much earlier than they have done so in our region. I suppose it boils down to the simple and elementary concept of co-operation and what it hopes to achieve. Membership loyalty and unselfishness and complete belief in co-operative is what is required to overcome these problems.

In this paper, I have deliberately concentrated on planning and development on a national scale. I have ignored credit planning at lower or smaller levels of co-operative activities because I think and I am justified in saying that the trend in urban co-operative development is towards a larger or national scale. Co-operative services which failed have contributed to this development. In order to compete with capitalistic organisations which have become national and multi-national in sizes this trend is necessary.

I also believe that credit planning from a national level can be effective even in supporting credit for weaker sections of the community. But this could be channelled through voluntary organisations or offshoot organisations of the national institutions.

Let me put in a word of caution. Rehabilitation finance and consumption credit for the weaker sections of the community can and should only be considered when you have a very highly developed movement which is functioning successfully and effectively. It must have the necessary infrastructures, the skills and expertise. At this stage of our development, rehabilitation finance and consumption credit cannot be considered for there is not in the first place the resources, nor the expertise and management to undertake such schemes. More stringent supervision is required for this and most movements do not possess the capacity to extend their organisational efforts into these areas. However, these are areas which have to be eventually entered into in the co-operative spirit.

I would like to conclude this by saying that like in all aspects of management co-operative credit planning also requires various skills and cannot be successfully or effectively done, if the mobilisation of resources on one hand is not in tune with the credit needs of the movement on the other hand. This can only be achieved through a unified and co-ordinated movement which acts and interacts, responds and co-operates in all areas of its activities.

Organisational Structure and Rationalisation

LIONEL GUNAWARDANA*

Introduction

In all developing countries the initiative for Cooperation came originally from the government. Almost all the co-operative 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 the 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 then 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 amount of credit extended by the credit cooperatives in India in 1961-62 more than trebled itself by 1973-74.

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.

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

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for South-East Asia,** the total membership of the movement is over 90 million. Japan has another 13 million.

The cooperative movement has been entrusted in almost all these countries with a substantial share of implementation of the economic development plans of their government 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 for marketing of their produce.

Credit forms the major part of the cooperative activities and the societies that are engaged in credit 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 250,000 credit cooperatives, with a membership of over 60 million. There are a larger number of multipurpose societies which have credit as a major part of their business in these countries.

Agriculture in these countries is still largely based on primitive methods. The economic conditions 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 fertilisers and better cultivation practices. To break this vicious circle of low production and poverty, the present cultivator must be provided with the necessary capital. Hence the vital importance of the role played by the rural credit and multipurpose cooperative. In performing this onerous task, these cooperatives have to face numerous problems. Most of these problems arise because of weakness of the organisational structure of the credit movement.

Structure

The general pattern on which the cooperative movement is built and the relationship between various organisations of the whole system is referred to as structure. The structure

**Bangladesh, India, Indonesia, Iran, Rupublic of Korea, Malaysia, Nepal, Pakistan, the Philippines, Singapore, Sri Lanka and Thailand.

also reflects the ultimate ownership, the method of control of the system and how investment flows from one tier to the other.

In any attempt to strengthen the cooperative structure, logically, attention has to be first given to the primary societies on which the structure fundamentally rests.

Uneconomic Size of Societies

Most of the primary 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 upliftment of the members. The uneconomic size of the societies prevents them from employing trained staff possessing managerial skills and commanding adequate finance resulting in the inability to grant adequate and timely credit.

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, formation of small societies was encouraged. The MacLagan Committee (India) 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 co-operative 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 All India

Rural Credit Survey Committee (1954) observed: "The future line of development of cooperative credit at the level of the village should be unhesitatingly in the direction of bigger societies covering larger areas. Primary agricultural credit societies should hereafter be established, or wherever necessary existing ones re-organised, so as to cover, according to local conditions, groups of villages with a reasonably large membership and reasonably adequate share capital. The headquarters of the larger-sized primary credit society, new or reorganised, should be conveniently situated for the people of the villages comprised in its jurisdiction. If there is a marketing centre in the area it should, if possible, be located at that centre. As a rule, the area of operation of the society should be such as to provide it with adequate business".

The Royal Commission on the Cooperative Movement in Ceylon* 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 attract competent managerial personnel for fulfilling their obligations.

Viability

The viable size of a society depends on the local situation and on the stage of economic development. A size that was considered large at one stage of economic development may be considered small when a more advanced stage of

*Report of the Royal Commission on the Cooperative Movement in Ceylon, Chairman: Dr. A. F. Laidlaw (Sessional Paper No. II-1970), Government of Ceylon, 1970.

development is reached. For instance in India the Conference of State Ministers of Cooperation held in 1964 laid down the minimum criteria of viability of a primary agricultural credit society as "the ability to appoint a full-time paid secretary, set up a regular office in a building owned or hired, contribute to statutory and other reserves on the scales considered necessary and pay a reasonable dividend". The Conference suggested that "areawise standards of quantum of business-credit and non-credit—necessary for attaining viability might be worked out".

The Working Group on Cooperation for the Fifth Five Year Plan 1973 suggested that "societies with potential credit business of Rs. 2 lakhs and an actual credit business of not less than Rs. 1 lakh may be considered potentially viable".

The Study Team on Cooperative Agricultural Credit Institutions in Maharashtra recommended the following criteria for determining viability: "(i) A primary agricultural credit society which is having at present (1973-74) a minimum loan business of Rs. 2 lakhs may be considered as viable, (ii) A primary agricultural credit society which is having at present (1973-74) a loan business of Rs. 0.75 lakh with a potential to increase the same up to Rs. 2 lakhs in the next five years from 1974-75 may be considered as potentially viable, (iii) All other societies, whether in a group or otherwise should be deemed non-viable and eliminated either by amalgamation or liquidation as may be warranted, (iv) In the case of societies which are in forest and hilly areas as also in the tribal areas a longer question period, say 7 years, may be allowed for their attaining a viable status".

Concept of Group Viability

This concept advocates getting together of several small societies in order to employ personnel collectively. A group of 3 or 4 small societies which individually cannot afford to employ a secretary or a manager get-together and appoint one person to work for all of them.

This method at best can be regarded as only a temporary solution. The All-India Rural Credit Review Committee (in 1961) commenting on the system of several small societies employing one secretary observed, "one who is simultaneously employed by many masters can successfully evade serving any one of them".

Determination of Size

In determining the viable size three sets of factors should be taken into consideration.

Geographical Factor :

Physical area of operation of the society, crops grown, or industries and work places situated in the area and facilities for communication should be considered.

Human Factor :

The number of members including potential members and number of employees have to be taken into consideration.

Economic Factor :

Anticipated volume of business, the size and kind of facilities and equipment that will be necessary and the amount of capital required for the operation of societies' business, have to be considered.

Reorganisation of Cooperatives

Most countries in the region have undertaken programmes of reorganisation of the cooperatives with a view to creating large and viable societies. Larger societies are being created by amalgamating smaller ones or liquidating some and extending the area of operation of others. In implementing these programmes of reorganisation various problems are being encountered. Some of the more important ones are discussed below.

Problems in the Process of Amalgamation

Unwilling Directors:

Opposition of the members of the management committees to amalgamate their societies due to the fear that they might not get elected to the board of directors of the amalgamated society and would lose their authority in the village or the town is a major obstacle in implementing programmes of amalgamation.

Unwilling Employees:

Employees object to amalgamation through various fears—sometimes real and sometimes imaginary:

Some of these fears are:

1. The number of employees might be reduced after amalgamation and some of the employees might have to be retrenched due to the fact that creation of larger societies would allow rationalisation of management and increase in the per-employee performance.
2. The employees of good and well managed societies fear that amalgamation with weaker societies would result in the creation of larger but weaker societies which might endanger their own position.
3. Fear that creation of larger societies would increase the work-load of individual employees.
4. Managers of small societies may object amalgamation as they would not get top managerial positions in the amalgamated societies.

Absence of Regular Employees:

The small societies in some countries do not have regular employees. This has both advantages and disadvantages in promoting amalgamation. If there were regular employees, the prospects of higher pay and better working conditions which the larger societies would be able to provide, would serve as an incentive to the employees and they could be used to promote amalgamation.

On the other hand the objection that may come from employees due to fear of losing their commanding position or due to the unwillingness to change the place of work etc. may not arise.

Sectoral Loyalties

Opposition to amalgamation also comes from members sometimes due to the reluctance to work with persons of different castes, classes or religions.

Possible Loss of Benefits from Reserves

The stronger societies might oppose amalgamation through the fear that the members would not receive full benefits of the contributions they have made to various reserve funds of the society.

Different Value of Shares

The possibility of the value of shares of strong societies going down when amalgamated with societies with deficits.

Demand for Equalizing Per Member Assets

The societies with large assets and therefore the value of assets per member more than in other societies with which they amalgamate might demand that the excess value should be paid back to their members so that the value of assets per member in all amalgamating societies becomes equal.

Opposition to the Location of the Society Office in other Villages

Inconvenience caused when the headquarters of the society is located in a distant place and the desire to get one's own village selected for the location of the society's office can also be an obstacle in implementing amalgamation programmes.

Lack of Provision for Adequate Representation for Large Societies in the Secondary Societies

System of every society getting equal representation in the federal organisations irrespective of their sizes causes discouragement for amalgamation. This system of equal representation deprives larger societies of the benefit of having greater voice in the affairs of the secondary societies.

Relationship between Primaries and Higher Tier Organisations

The primary societies, as they see the need to join together for various functions and services, form secondary societies which in turn may form tertiary societies. The ultimate object of this federal structure is to ensure most efficient service to the individual members at the primary level who are the ultimate owners of the whole system. To ensure this essential efficiency the importance of proper and healthy relationship between cooperative societies at various levels cannot be over-emphasized. For proper and effective functioning of the federal structure the primary societies should delegate to their federal bodies the functions that can more effectively be carried out by them. This will enable the primary societies to serve their members economically and effectively. Similarly the secondary level cooperative institutions should delegate appropriate functions to tertiary federal bodies. The organisation at the higher level should serve their constituent members properly in order to assist them to discharge their functions efficiently and effectively.

In ensuring healthy relations between federal bodies and their constituent members it is essential that the constituent members share equal responsibility and authority in the management of the federal bodies. The quality gives the proper basis for democratic management. Equality can be ensured only when the constituent members get a voice in the decision-making of the federal body proportional to their primary membership. The rule of one member one vote works satisfactorily only in organisations where there is no great disparity in size between affiliated societies. The best way to extending "one man one vote" to federal bodies is by giving each affiliated society votes in proportion to its own individual membership.

The purpose of democracy would be best served by this method as the voting power at the secondary level will reflect the strength of membership at the primary level. "A variant of this system is found where voting power may be based on capital contributions which are themselves based on membership". Another way is "to take account of the different degrees of interest displayed by the affiliated societies in their common organisation as indicated, for example, by their value of purchases from it or of produce marketed through it".

The volume of purchases of produce marketed and deposits made or loans taken may be not the proper yardstick to measure the degree of interest an affiliated society has in its federal organisation. The volume may represent only a few transactions of a few rich consumers or large producers. A smaller society in richer communities may get a bigger voice than a large society in a poorer community. In spite of these drawbacks the proportional representation at the secondary and tertiary level, whether it is based on membership of primary and secondary level respectively or of the value of business transacted by them is far more equitable than each member of a federation having equal voting power irrespective of its own membership and its involvement in the federation.

As the primary societies grow larger and stronger through amalgamation and development of business a tendency can creep in to bypass the secondary federations and deal with tertiary federations direct, or transact business independently without going through the federated structure.

It is very important to examine such tendencies thoroughly and take remedial action if the healthy relation and integration that should exist for smooth and effective functioning of the federated structure is to be ensured. Various tiers of the federal structure, however, should exist only as far as they serve a useful function. If their existence add unnecessarily to the cost of services and come in the way of efficiency they should be eliminated. The view that presence of several tiers in the cooperative credit structure add to the cost of credit disproportionate to the services rendered by these organisations at various levels is held by many cooperators. There are instances where when loans advanced by governments at an interest rate as low as

3 per cent to assist agricultural development reach the farmer he has to pay 10 or 12 per cent.

In Japan for instance where during recent years large primary societies have been created through amalgamation, some large primaries have shown a tendency to bypass the secondary federation and deal directly with the national federations. The desirability of changing the present three-tier system eliminating the middle level prefectural federations and the primaries directly becoming members of the national level organisations is now being debated.

In Sri Lanka during the reorganisation of cooperative societies in 1970 the middle tier was eliminated. Nearly 5,000 primary multipurpose societies were reduced to about 375, and they are directly federated at national level into various federations.

Enhancing Efficiency to Meet Competition

The ultimate object of strengthening the primary societies and the relationship between organisations at various levels in the cooperative structure is to render most efficient services to the individual member whether he is a farmer or an urban worker. In this task cooperatives have to face competition from various sources. The strongest competition is from the private moneylender. He is the most formidable foe of the credit cooperatives. Years of effort of the cooperatives have not removed him from the village or the urban scene, though all regard him as an exploiter of poverty. He is stronger in the village than in cities. 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 exhorbitant 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 transactions, 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 or the urban 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 cooperative credit system can be developed as long as the farmer or the city worker 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. This is one of the problems most difficult of solution.

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 farmers 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. Several countries in the region have adopted the same approach through their multipurpose and agricultural credit cooperatives. 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.

Manpower Planning, Training and Development

M. M. K. WALI*

It is not proposed in this paper to dilate on the importance of manpower planning, for to do so would be to stress the obvious. For overall planning its relevance is undisputed, as the process through which the manpower needs, both in terms of numbers and skills can be systematically and cogently projected for a desired period of time and educational and training facilities devised, oriented or tailored to generating the required manpower and imparting the needed skills on the needed scale. From the point of view of any specific organisation, be it cooperatives, or for the matter of that, any organised corporate activity, this is the only process by which the organisation can ensure that it has "the right number of people and the right kind of people in the right places at the right time doing things for which they are economically most useful". The relevance of such planning is not diminished even in conditions of widespread unemployment, such as India as well as many other developing countries have, because far and large the situation of unemployment exists in respect of fresh or new labour force entering the market without any experience in job skills. Moreover even in conditions of unemployment, there are shortages of people with certain skills.

The purpose of this paper is to examine whether manpower planning has at all been done in the cooperative sector in India. And if so, to what extent? And if not, what are the constraints? The answer to the last question may lead us to certain problem areas and correspondingly to some logical directions of development. The issues which are relevant in this context in India will perhaps find some echo in the situation in some other developing countries also.

Manpower planning can only be done centrally, e.g. by

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the Government or a Planning Authority in respect of a country, and by a corporate body in respect of itself. The object of the former, however, is to project trained manpower needs in the context of the anticipated national growth so that appropriate educational and training infrastructure could be created to make such manpower available. The object and scope of manpower planning by a corporate body is far more intimate. It is itself the employer of men who are the instruments of its operation and on whose performance rests the entire success and state of health of the organisation. For it, therefore, the process of manpower planning will not be confined merely to making forecasts of manpower needs but also finding and developing the needed personnel, such as will efficiently serve and further its business operations and objectives. Manpower planning in their case will be integrated with a whole range of important issues, such as:

(a) Policy of personnel development to enable systematic identification of existing personnel and building them up for suitable upward or lateral movement.
(b) Wage structure attractive enough to retain competent personnel, as also recruit new ones of merit.
(c) Availability of career advancement opportunities within the organisation, so that the competent among the staff can look forward to advancement within that organisation itself.

Before, however, we consider these issues, it will be best to begin with the existing situation and to clearly understand the perspective and its complexities.

No comprehensive census has so far been taken of the total personnel employed by the cooperatives in the country. However, at times, sample surveys have been undertaken in a number of States in regard to specific types of cooperatives, say Credit and Banking Cooperatives, with a view to quantifying on an approximate basis the number and categories of persons employed by that group of cooperatives. The Indian cooperative movement is characterised not only by a large number of cooperatives, but also their wide diversity. There were around 333,000 cooperatives in the country in

1974 (period for which firm figures are available) of which as many as 153808 were primary village service (agricultural credit) cooperatives, 47296 small industrial and artisans cooperatives, about 2400 housing cooperatives, about 1000 processing cooperatives and about 14000 primary consumer cooperatives and a large number of other types of credit and non-credit cooperatives. Many of these, particularly the primary village cooperatives and artisans cooperatives etc; which are necessarily small in size, do not employ wholetime staff and make do with part-time or honorary employees. It is this factor which makes the task of an employment census difficult. However, on a rough reckoning it can be estimated that the cooperatives in India employ today roughly about four hundred thousand persons of various categories on full-time basis. Bulk of these persons, of course, belong to the general-purpose type without any specific technical qualifications. The surveys referred to earlier were undertaken primarily with the object of devising training facilities for the various categories of personnel at junior, middle and senior levels. I will revert to these training arrangements later in the paper.

A detailed assessment has, however, been made in regard to the personnel of the primary village cooperative societies. Because of their importance a little elaboration about them would be of interest. These societies, known variously as village service societies or village multi-purpose societies, are the base on which the cooperative super-structure in the country, particularly in the most important segments of cooperative activity in the rural areas, is founded, viz; credit, marketing, supply of agricultural inputs and articles of daily consumption. Though credit is the main staple of their activities, these societies, as their name implies, deal in a large range of goods and services and are the principal and often the only contact-point with the rural population. In view of their key importance in schemes of agricultural development, they have been the focus of considerable attention on the part of the Government and the national planners and have gone through a great deal of policy changes from time to time in terms of their area of operation and services.

Starting sporadically as small scattered cooperative societies formed by small groups (often more than one society even in one village), a school of thought developed that further expansion should be in terms of larger sized societies covering a number of villages. Therefore, further expansion took that direction. It was felt later that to have one society for one village would be more suitable from the point of view of homogeneity. Consequently, the main thrust came to be towards the organisation of one-village-one-society. But as the needs of rural economy expanded and got diversified, it was realised that a small single-village society was not in a position to generate enough business to be able to afford the services of even one wholetime qualified person, the lack of which in turn affected the growth of business of the society. A programme of re-organisation was, therefore, set afoot about ten years ago and the number of these societies got progressively reduced by process of amalgamation. With further spurt in agricultural activity, even that reorganisation was found inadequate and currently a major programme of re-organisation is under way to expand the area of the societies by merging some of the weaker and inactive societies with the more efficient ones. Minimum criteria of viability have been stipulated to facilitate the process of re-organisation and mergers. Many of the State Govts. have found the persuasive and voluntary process of re-organisation somewhat slow and have therefore introduced legislative provisions to force compulsory mergers if necessary. To give an idea of the impact of re-organisation over the years in terms of numbers, there were (in round numbers) 115,000 village primary agricultural societies in 1950-51, which went up to 222,000 societies (one village-one society) in 1960-61, and came down to 153,000 in 1973-74 (as a result of earlier re-organisation). Now under the fresh re-organisation programme which is currently under way, the number is likely to come down to below 100,000 though the exact number will be known only when the programme is completed in a few months. In some States the reduction is as much as half and even one-third.

An assessment of the likely manpower requirements in these village societies has been made in most of the States in the country, largely with a view to recruiting the right kind of people for these societies as managers and for tailoring the training capacity of the respective training institutions to meet the training needs of the personnel. As of today there are 66 Training Centres, known as Junior Training Centres spread over all the States in the country, to cater to the training needs of the personnel of these primary societies, besides junior level government personnel. These institutions in number are barely adequate to meet the ongoing training needs at that level. These are not in a position to meet the training needs on a crash basis of the large numbers recruited for the reorganised societies. Resources are a constraint in any large scale expansion. Hence training programme of these persons is being phased out over an extended period. Situation, however, varies from State to State. Here and there marginal shortfalls in training capacity are being made up by establishing new centres or expanding the capacity of the existing ones. Where the shortfall is more, a shorter duration capsule training is being organised at existing centres, to be followed at a later stage with another course.

Above the Junior Training Centres are the Cooperative Training Colleges located in various States, which look after training needs of the key personnel of intermediate level societies, like Marketing Societies, District Cooperative Banks, Primary Land Development Banks, Dairy Cooperatives, Consumer Stores etc. The Cooperative Training Colleges also cater to the training needs of the middle level personnel of higher level institutions. Though, as stated earlier, no comprehensive survey of manpower needs of this class of societies or personnel has been undertaken, yet on the basis of sample surveys a fairly reliable profile has been built up and the curriculae and the scope of courses at the training colleges devised on that basis. The same applies to the senior level personnel of higher federal institutions or larger societies, who are being catered to by the National Institute of Cooperative Management at Pune.

Training, however, is merely an input. The basic postulate remains that the raw-material itself should be satisfactory.

If right people cannot be attracted, even the best of training will not have the same impact. No amount of manpower planning and the training facilities designed to impart needed skills to the personnel will be effective and meaningful unless simultaneously one takes a look at the entire range of operative recruitment and personnel development factors. These are some of the factors critically related to the question which had been posed earlier in the paper. Now, let us look at the scenario.

Often, when we talk of manpower training and personnel develoomont in relation to the cooperatives, we tend to treat them as one unified whole, like a single corporate organisation which is free to coherently project its personnel requirements and devise suitable policies and actions in relation to their placement, training and development. The cooperative sector, whereas, comprises hundreds of thousands of cooperative institutions in the country, each one of them an individual body corporate, ranging from a small village level cooperative, to a medium industrial cooperative like a Sugar Factory or a Spinning Mill employing about 400-600 regular workers and a range of experts, to a giant production enterprise like IFFCO or big trading and marketing organisations like Marketing Federations, Consumer Federations and State Cooperative Banks. Global demand forecasts of manpower, though vital and an important aid to planning for various purposes, often founder in implementation because of this vast multiplicity of employing authorities of various sizes and status, making the task of recruitment and personnel development extremely complex.

It has been observed that most of the cooperative institutions are unable to attract right kind of people. Firstly, because of their incapacity to offer adequate salaries and other service conditions in comparison with the private and government sector. Secondly, most of these institutions, being small, provide little opportunities of upward movement and career advancement to the staff. This leads to good persons leaving the institution in course of time for better opportunities elsewhere, or causing frustration and decline in morale. It is not unusual for frustrated persons to tend to make use of the job for private gain in undesirable ways. If therefore, the cooperatives are merely to attract the left-overs and the below-average, it surely does not portend well. Undoubtedly, larger cooperative organisations like the big federal societies and institutions like the IFFCO, which are comparable to any large corporate organisation, can and do attract suitable qualified people.

This, thus, is according to me the central point of the whole situation. We have necessarily to devise a system by which we should be able to recruit key personnel for the whole range of small and medium cooperatives in an organised manner, which should make it possible to offer adequate wages to the people employed, provide reasonable opportunities of career advancement to them within the sector as a whole, and make them feel part of a larger system, with potentialities of development to each one according to his capacity and competence. In other words a cooperative sector or structure must operate as one inter-linked whole in this matter rather than as a mere collection of small scattered institutions. The stability and security of employment is itself a factor which is of considerable importance in India. This is due partly to some cultural factors and partly to poorer job opportunities and job mobility. In India it has generally been observed that a man would want to choose an organisation where he can foresee a reasonable level of advancement for himself, rather than opt for immediate gain with the hope of moving from one organisation to another, as happens in many countries with fuller employment. Yet, at the same time the system we contemplate has to be such which reconciles to the extent possible the sensitivity and the autonomy of the individual organisation where the person recruited will be actually employed.

The significance of professionalisation of management in the cooperatives, indeed, transcends mere management considerations. It influences their very autonomy and identity. Cooperatives have been recognised and accepted by the Government in India as the principal instrument of economic re-generation of the agrarian economy and have been given a distinct place in the plans and programmes of national development. The Government, therefore, takes a far deeper interest in cooperative development than merely the helpful and sympathetic interest of a Government in a socially useful organisation. The Government is setting targets of development for the cooperatives and is also assisting them in a very substantial way. Government intervention in their affairs is, therefore, equally vigorous and not infrequent, if in its judgement a particular cooperative or a set of cooperatives was not operating in the way it ought to and was falling short of governmental expectations. And so also the appointment of personnel is one of the important areas in which the Government does inevitably come to take interest. There has been an increasing tendency on the part of the Departments of Cooperation to depute government personnel to man key positions in the cooperatives particularly in the intermediate and state level cooperatives. The logic of this situation can easily be seen. The cooperatives themselves have not been able to develop by far and large a satisfactory managerial infrastructure and thereby invite governmental intervention. Institutions which have developed good managerial personnel of their own are generally not interfered with by the Government in personnel matters. However, the Government also does not really have a set of professional personnel because the primary function of the Departments is supervisory and regulatory and their knowledge of the functional business areas is vicarious rather than direct. Hence, apart from the principle involved, this is in no way on any consideration a satisfactory situation managerially. Further, this practice has highly deliterious effect on the building up of professionalised cadres of personnel in the cooperatives. While the cooperatives should have no hesitation in taking competent people from any source, government or otherwise, it should be a selective and deliberate decision on individual basis rather than the norm as it is now tending to become. It affects not only the autonomy of the institution but also their morale and self-reliance. The cooperatives in India claim today a business turnover of more than Rs. 1000 billion annually. The total membership is of the order of 70 million. Yet in terms of their social and economic responsibility, the potential for growth which lies ahead is limitless. The full potential of development of cooperatives could be realised only if they are able to muster suitable professional personnel, who would belong to the cooperatives and whose own advancement would be inextricably linked with the growth of their organisation.

Much discussion and debate has taken place in the country on the unsatisfactory management situation. A number of committees have been appointed from time to time which have made various suggestions. It was realised that in view of the small size of the bulk of the cooperatives in the country, they on their own will neither be able to offer adequate salary scales and service conditions to their personnel nor afford them adequate opportunities of career development, and would, therefore, not be able to attract and retain the best persons. The first positive step that was taken in this direction was the establishment of pools of key personnel by a few higher level federal organisations who had the resources and the image to attract suitable persons. The intention was that these persons would be put at the disposal of the lower level institutions in suitable positions, and while there they would be totally within the control of the lower level institutions where they were working. These persons were in due course to be considered for higher appointments within the sector, subject to their stability and other considerations. However, this experiment undertaken by a few organisations did not succeed largely because in many cases the lower level organisations did not show any inclination to hire the person recruited by the federal organisation in the pool. In a situation of widespread unemployment, the right to appoint persons is a right highly prized by the institution or the authority concerned, and often such personal considerations get the better of the larger institutional interests in the appointment of personnel.

Dissatisfied with the experience of the Pools, thinking later veered to establishment of formal cadres of key personnel by higher level federal institutions for their constituents, backed by the authority of law or pressure from the State Departments of Cooperation. In many States, therefore, a few such cadres have been formed. For instance, the cadre of managers of village primary societies is maintained by the

District Central Cooperative Banks. The recruitment is done by the Bank through a committee constituted for the purpose. The placements of these managers in the primary societies is made by the Banks or the special committee, some time with the consent of the primary society and often not so. The training is also looked after by the Bank. The salary of the person is paid by the primary societies where he is placed as manager and if the society is not in a position to fully meet his salary, the shortfall is met by contribution from the Bank, and if the deficit still remains, from State subsidy or by contribution from the State Cooperative Bank. The actual mechanics varies from State to State. In some cases regular salary funds have been created and in some cases agreed arrangements of contributions worked out. These persons can also be transferred by the Bank from one society to another, if this is considered necessary. They are considered for promotion to higher jobs in the Bank appropriate to their level of experience. Likewise, in some States cadres for the managers and accountants for the primary marketing societies have been established by the State Marketing Federations, and so also in respect of some other sectors. However, the experience of this also cannot be stated to be entirely satisfactory so far. While in some States the cadre scheme is working fairly well but in some other States not so. The reasons are largely of a personal nature. Where due consideration is shown by the cadre authority in meeting the wishes of the client society and the placement and transfers are done in consultation with them, harmonious relationship has developed. But in some cases where authoritarian attitude has been taken by the cadre authority, i.e., the higher level society, tensions have developed to the detriment of smooth operations.

The experience thus whether of the pool scheme or the cadre scheme is a mixed one. The pool scheme has apparently the greater disadvantages, because under an informal arrangement of that nature it is unlikely, at least for the time being, that there would be great eagerness on the part of the lower level society to take persons recruited by the higher level society.

The compelling need for professionalisation of management and manpower development in the cooperative sector is, indeed, such that it cannot be ignored any longer. Volume and diversity of services is already beginning to touch a level which cannot be handled by general purpose multi- functional employees. Yet, individually the cooperatives, most of them being still somewhat small in size, will not be able to recruit right kind of people. Some centralised recruitment seems, therefore, inevitable. The only way which offers maximum possibilities of success to me is the development of appropriate cadres of personnel in different branches of cooperative activity. What is to be ensured, however, is that maximum consideration is given to the feelings and needs of the client institutions and their sense of autonomy protected to the extent possible. They must also have full satisfaction that the recruitment done is fair and objective and not on considerations other than merit.

The question arises as to who should make the recruitment, whether at the initial entry or at a later stage for promotion to higher jobs in the sector. Even with the best of goodwill, cadres maintained by higher level institutions would be somewhat suspect. They may also perhaps in course of time, depending on circumstances and personalities render the lower institutions in effect to the status of branches of the higher level institutions. Much, however, depends on the manner in which the system is operated and the healthy working traditions that are established. Given these conditions, the system can operate successfully to the general satisfaction of all concerned.

The other alternative is that an independent authority in the nature of a Service Commission, may be set up at the State level, comprising a number of carefully chosen and respected men. The functions of the Service Commission would be only to select people for specified key jobs like Managers, Assistant Managers, Accountants and other professionals for different branches of cooperative activity. The Commission would prepare panels of persons found suitable for appointment. The panels will be sent to the needy cooperatives for their consideration. It should be incumbent on the cooperative to appoint one of the persons from the panel. Removal from service of any of such persons would be done only with the approval of the Commission. Serving personnel would be eligible for promotion within the cooperative sector, for which also the screening would be done by the Commission. Promotion, however, within a cooperative itself would be fully within the scope of authority of that cooperative. It is assumed that appropriate service conditions would be laid down and it will be incumbent on the client cooperatives to follow these service conditions. The general idea in this arrangement is that selection of personnel on appropriate and assured service condition may be undertaken through an independent and objective body like a Commission, but enough flexibility is allowed to the client cooperative organisation to appoint persons from a panel, also retaining their full rights of administration and disciplinary control and intra-cooperative promotion. No transfers are envisaged except on promotion or on otherwise agreed basis. Naturally, such an arrangement cannot be established entirely on a voluntary basis and will have to have some legislative support to bring it about, however much we may otherwise wish to avoid legislative encroachment on the cooperative sector. Even this arrangement may have its flaws both in principle and practice. But a practical system which has to be necessarily a compromise between conflicting considerations, is needed to be evolved if sound manpower planning and development has to be ensured for the good of the cooperative movement as a whole and the present day chaotic, disoriented and widely scattered and incohesive management situation avoided.

It is also necessary that manpower cells should be created at appropriate levels in order to systematically consider the problems of manpower planning in the cooperative sector. This can best be done by the National and State level cooperative federal organisations in their respective sectors of business activities and from the overall national point of view by the National Cooperative Union of India. The training arrangements could be suitably juxtaposed with these requirements.

Training

Training is recognised as an important input for increasing job competence and is talked about most fervently. Yet, when it comes to actual allocation of resources for the training schemes and programmes, it tends to get viewed from the wrong end of the telescope-appearing so distant in the list of priorities. The cooperatives often hesitate to send their personnel for training. It has also been observed that often persons sent for training are not the ones most appropriate for the same, chosen on chance rather than any personnel development consideration. Instances are also not lacking of persons trained for a particular purpose being used for something else, often soon after the training. These are matters that lie purely within the will and good sense of the employing organisation. The solution lies in exercising the needed self-discipline and seriousness of purpose. Undoubtedly, problems of very small cooperative societies can be appreciated who do not have enough personnel of their own and consequently absence of a person for any length of time may affect their business operations.

As for the trainers, one find that assembling the right kind of faculty itself poses certain problems, particularly when the training infrastructure needed is extensive and large, as in India. While the basic postulates of management and technical operations are the same in cooperatives as in other organisations (say, private companies), cooperative management in nature has a somewhat different complexion. In a private organisation the shareholder is merely an investor who looks for reasonable return on his capital invested and is not otherwise involved with the operations of the organisation. On the other hand, the member-shareholders in a cooperative organisation are not only the owners by virtue of their membership but are themselves the beneficiaries of its business as buyers, producers, suppliers or workers. Their participation and involvement in the affairs of their cooperative enterprise and its management is, therefore, intimate and their interest deeply personal. A cooperative manager has consequently to be not only a good manager in the commonly accepted sense, but also something more. He has to be imbued with the philosophy and nuances of the cooperative style of management. Correspondingly, therefore, the trainer himself has to be a person who is fully alive to the cooperative style of working, if he is to be a useful and successful trainer. This calls for a trainer who is a judicious combination of both an academician and a cooperative practitioner. While there is not much difficulty in finding persons with desired academic levels with knowledge of the practical as relevant to private organisations, there is an acute dearth of academically oriented people with practical experience in the cooperatives. As discussed earlier, good managerial infrastructure in the cooperatives has yet to develop, from which people with academic aptitude could be picked for training institutions.

The need for appropriate programmes of faculty development in cooperative training institutions, therefore, becomes even more important and urgent in the present context. There are little or minimal facilities for the training of trainers. While this is a problem which has to be tackled within the country itself and suitable arrangements devised, faculty development is an area in which the International Cooperative Training Centres can also play a useful role. These centres are operating a number of courses for cooperative personnel of various levels. These courses have a utility to the extent experiences and theoretical applications in one country are of practical relevance in another. But perhaps, it is time that the ICTCs might think more vigorously on the important area of faculty development. Investment in a trainer is a gain to the hundreds whom he trains in turn. One possibility could be the establishment of exchange fellowships, as is being done in the universities. The fellows would undertake specific study and research, as also conduct some teaching at the host centre. The centres too would gain from the practical experience and knowledge of the fellows and thereby enrich their own training content.

Question often arises as to who or which agency should undertake the training arrangements. It will be useful to first broadly classify the training areas. The main fields of training appear to belong to three categories : (i) foundation training, (ii) managerial training, and (iii) job training.

Foundation training would be in the nature of basic training relating to specific lines of activity like banking, marketing, etc. given to a person on his initial entry into service. These basic courses would by and large be of a longer duration, combining both a theoretical and practical content.

Managerial training would be in the nature of executive development programmes and of specialised management functions or techniques and aids, like project financing, performance budgeting, marketing management, inventory management, management information system, network analysis etc. Such courses would be largely relevant for middle and senior level managers and, in the nature of it, would be of shorter duration, ranging from a few days to a few weeks.

Job training would include training in basic skills both at the entry level as well as refresher courses later. There are a host of front line operators doing jobs, skilled or semi-skilled, who need job training. For instance personnel who handle fertilisers and agricultural commodities in the storage godowns. Most of them have no idea of proper storage practices, how frequently bags should be turned and so on, with the result that there is much wastage and spoilage. Counter clerks in the Bank and the Salesmen in the consumer store need training. Indeed every cooperative will have front-line personnel of this type whose quality of work and conduct have a vital bearing on the overall performance and image of the society.

Reverting now to the arrangements for training, there are different arrangements prevailing in different countries, evolved over the years. What works well in the context of a particular country need not, however, be necessarily applicable to the others. It is, therefore, pertinent to consider a system which on all apparent considerations would seem to be the more suitable, consistent with economy and operational efficiency.

There is a particular school of thought which advocates that training of personnel belonging to respective sectors of the cooperative movement could best be handled by that business sector itself, through either the apex organisation of that sector or some other internal arrangement. This could, perhaps, be useful where one or two sectors are predominant in the movement. However, where there are a number of more or less equally important sectors operating (and happily the trend increasingly in the developing countries being to support cooperative activity in various directions of national development), such segmentation of training arrangements may turn out to be somewhat wasteful, and also perhaps, on overall considerations of the cohesiveness of the movement, somewhat undesirable. In a country with limited resources it may be of advantage to pool together as much of the training facilities as possible, to avoid duplication and overlapping. Basic foundation courses in various functional areas and management training, as also certain types of job training, can be imparted easily under one training set-up. If the Institutes of Management and other well-known faculties of business management can undertake training for different operational specialisation, there is no reason why the same cannot be successfully done in the proposed cooperative training set-up.

Training of front line operators, some examples of which were given earlier, as also certain types of refresher courses or specially designed short duration ad-hoc courses, can best be undertaken by the functional business sector itself. There is no point, nor would it be feasible due to the large numbers involved, in bringing these persons to the general training institution. For such personnel, internal courses can be conveniently organised by the organisation itself or by a higher level organisation in that sector. The training institution can however help in designing these courses and also assist, if possible or needed, by providing some faculty support.

Cooperative Training Set-up in India

In India the training set-up is three-tiered. At the base are the 66 Junior Training Centres widely scattered all over the country, intended to train managers and other personnel of village level primary societies and also the clerical and junior supervisory staff of the secondary level societies like District Cooperative Banks, Marketing Societies etc. The number of centres in a State varies from state to state, depending on the training capacity needed. These centres also cater to the training needs of the junior personnel of the State Departments of Cooperation. The most important area of their training continues to be the training of managers of the village primary service societies.

The next rung of the ladder is that of the 16 Cooperative Training Colleges, located in the different states in the country. The colleges look after the training requirements of the key personnel of secondary level societies and the junior personnel of the state level societies. These colleges undertake eight kinds of Diploma Courses, namely, (i) Higher Diploma Course in Cooperation, which is a general basic diploma course, (ii) Diploma in Cooperative Banking, (iii) Diploma in Industrial Cooperation, (iv) Diploma in Cooperative Audit, (v) Diploma in Cooperative Marketing, (iv) Diploma in Consumer Management, (vii) Diploma in Land Development Banking, and (viii) Condensed Higher Diploma in Cooperation for experienced intermediate level officials. These diploma courses are in the nature of foundation courses for middle level personnel in various disciplines enumerated above. In addition, the colleges are also conducting over 200 short-term job oriented programmes, depending upon the specific needs of the cooperative institutions concerned. Illustratively courses for milk diary cooperatives, deposit mobilisation, recovery of cooperative loans, banker-customer relationship, agricultural financing, budgeting etc. The list is too elaborate to be reproduced here. The courses of somewhat more technical nature have also now begun to be undertaken, like a course in cotton grading.

At the apex is the Vaikunth Mehta National Institute of Cooperative Management at Pune, which looks after the training needs of the senior executives from large societies or state and national level federal organisations. The National Institute conducts a core course in Cooperative Business Management, which is recognised as a Post-Graduate Diploma Course. This course is intended to develop the conceptual and decision making skills of senior executives and departmental officers through exposer to modern management concept, methods and techniques. This course also provides specialisation in different sectors of cooperative activity, viz. banking, marketing, processing, consumer co-operation, industrial co-operation, co-operative law and administration.

A seven-week Cooperative Executive Development Programme is also organised at the Institute to provide orientation in co-operative organisation, management and administration and co-operative development and socio-economic environment in which the co-operatives function. Besides, the institute also conducts several short-term job-orientation courses in particular specialisations, e.g. marketing management, personnel management, inventory management, management communication, merchandising management etc. The institute also holds seminars and conferences to provide a forum to the policy makers and key executives to discuss their managerial and operational problems. The institute also undertakes research studies.

Arrangements for the training of trainers presently are inadequate. However, the National Institute is conducting faculty development programmes for the faculty of the Co-operative Training Colleges. This by itself is not enough because the National Institute has yet to acquire fuller expertise in this behalf.

On an average the National Institute is training about 700 persons, the Cooperative Training Colleges a little over 4500 persons and the Junior Training Centres a little over

10,500 persons in a year. Consistent with the availability of resources, efforts are being made to further strengthen in faculty and capacity of these institutions, to improve training facilities and to provide more suitable environmental conditions than presently exist.

The Junior Training Centres are within the operation control, with a few exceptions, of the State Cooperative Unions. The two higher tiers, however, viz. Co-operative Training Colleges and the National Institute are managed by National Cooperative Union of India, through a special wing called the National Council for Cooperative Training. The National Council comprises senior and knowledgeable persons of standing from within the co-operative sector as well as from other renowned institutions like the Institutes of Management, Agricultural Universities, Indian Council for Agricultural Research etc.

The entire expenditure on the National Institute and the Cooperative Training Colleges operated by the National Cooperative Union of India is met by the Government of India. Likewise at the State level the expenditure on the Junior Training Centres operated by the State Cooperative Unions is met by the State Governments. There is, thus, a good deal of support from the Government for training activities. Nonetheless resources continue to be a limiting factor in faster expansion and improvement of training facilities. Many of the courses organised at these training institutions have been undertaken at the instance of various cooperative organisations at their cost. Government assistance is, therefore, supplemented by the user co-operatives.

A number of special short-term courses have been organised internally by some cooperative institutions themselves for their own personnel as and when needed. Recently a crash programme of training has been initiated by the Land Development Banks for their junior supervisory personnel covering about 8000 employees. In organising this kind of house training the co-operatives concerned have drawn on the assistance of the faculty of the training institutions as also other organisations.

The training institutions have by far and large, been able to build up a permanent faculty of their own, and take officials on deputation only rarely, particularly for such disciplines like audit where practical work experience is of the utmost importance and is available only in the cooperative auditors of the Department.

Thought is also now being given to initiate correspondence courses for the benefit of those who cannot be spared from their job (as in institutions with small personnel) for an extended period, or for those who want to improve their knowledge and skills but are not in a position to go to the training institutions for certain personal or official reasons. An expert committee has been set up by the National Council for Cooperative Training to examine and design a suitable programme for the introduction of correspondence courses.

It would be seen that the training set-up in India is an integrated one, looking after the diverse training requirements in principal fields of different sectors. Even the Junior Training Centres which are operated by the State Cooperative Unions look to and receive superior academic guidance from the National Council for Cooperative Training which manages the two top layers of training. There is no visible trend on the part of cooperative institutions, however big, to break away from this integrated set-up. Only in one case cooperatives in a State have set up a training institute of their own, but even in this case the role of that institute is considered supplemental and personnel from institutions in that state are continued to be sent to the appropriate level training institutions.

It will be pertinent to mention here that the Reserve Bank of India is operating a college of Agricultural Banking at Pune. The Reserve Bank is the principal financier of the cooperative banking sector and being the central bank of the country responsible for controlling and regulating banking operations, their interest in the matter can be clearly understood. Cooperative banking sector makes use of that college as also the cooperative training institutions.

Financial Management

PROF. VARANASY S. MURTY*

The twin dimensions of financial management at enterprise level are: setting realistic targets of financial performance and monitoring the achievement of the targets set.

Target setting for financial performance particularly of the enterprises falling into the privileged category of public and co-operative sectors should be broadly in tune with the national economic objective i.e. growth rate of national output desired and the required savings rate. Profit generation at enterprise level should be viewed in a broad economic sense as creation of savings facilitating capital formation i.e. growth of investment. The profit goals of an enterprise at micro level should, therefore, be meaningfully related to the national economic objective in terms of rate of savings.

The national savings rate is the average for all the sectors of the economy and, therefore, it should be taken as the absolute minimum. The desired annual generation of savings, however, has to be worked out for each enterprise as a going concern taking into consideration its expected level of operations, capitalisation structure and the nature of assets employed.

While the annual cash flow generation is useful for setting short run targets of operational performance, guidelines need to be developed for determining minimum return required on incremental investment in order to facilitate investment decisions. The financial variables that need to be taken into consideration for determining return on

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incremental investments are:

(a) dividend policy/rate of retention;
(b) financial leverage; (debt equity ratio)
(c) cost of debt; and
(d) desired growth rate of earnings.

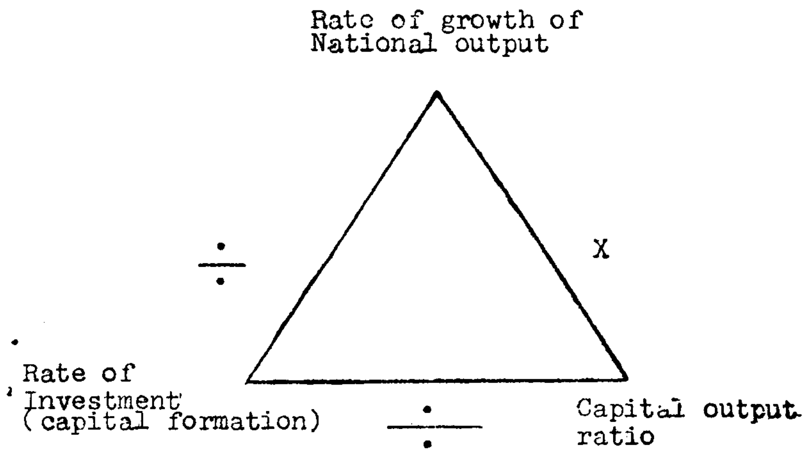
For translating the financial goals set into the targets of operating performance the ROI concept could be applied. The basic components of ROI framework are sales, cost and investment. A number of closely inter-related ratios—all centering directly or indirectly on the ROI components--could be developed for periodic appraisal of performance.

Financial Management

Cooperative enterprises are expected to play an increasingly important role in developing economies. Management of financial resources committed to any co-operative enterprise particularly in manufacturing and processing activities should, therefore, be examined in the broader perspective of the economic goals of any nation. The process of financial management at micro-level involves the twin dimensions of setting realistic targets of financial performance and monitoring of achieving the targets. Specifically the financial target setting at micro-level should be broadly in tune with the national goal. This financial goal congruance becomes particularly significant in the case of cooperative enterprises which are supposed to function as agents of economic development by virtue of the state support and encouragement given to them.

In order to develop an approach for setting financial goals at enterprise level which could be directly tied to the national goal, the broad parameters used in the formulation of the national plan should be appreciated. In macro perspective, the productivity of investment may be viewed as the rate of capital formation. The rate of capital formation (investment) is one of the key variables of economic development as outlined below:

The rate of investment (i.e. the percentage of investment to national output) divided by capital output ratio gives the rate of growth of national output. The capital output ratio is an indicator of productivity of capital. Capital output ratio is affected by the degree of personnel efficiency with which capital equipments are handled and the



general level of managerial skills. The capital output ratio multiplied by the desired growth rate of national output gives the minimum rate of investment required. The national economic objective of any country is to optimise the rate of growth of national output. One of the key variables conditioning the rate of growth is the rate of investment. Other conditions being equal the higher the rate of investment the higher the rate of growth of national output. The importance of high rate of capital formation (investment) can be seen in the high investment targets set by planned economies.

The key variables affecting the national plan in terms of national output are presented in Chart No. 1. For example, with an implied capital output ratio of 3.45 and savings rate of 16% the growth rate of national output is derived at 5.5%. We are interested in interpreting the national economic objective of 5.5% growth rate of national output in terms of its implied growth rate of investment. In a broad sense if the total investment in all sectors of the country is about 16% of the national output, the rate of savings must also be around 16% of national output. It means that in order to sustain the desired rate of growth of national output at 5.5% per year the rate of savings in co-operative sector must also be around 16% of the net output added by each co-operative enterprise. The net output of each enterprise is the sales revenue minus materials and services purchased from outside and depreciation. The macro model of economic variables is translated into a micro model as presented in Chart No. 2. The net output added by any enterprise is, therefore, equal to the sum of

(i) Wages, salaries and other personal benefits;
(ii) Rent and royalties;
(iii) Interest; and
(iv) Savings (profit before tax).

Given the desired minimum rate of savings so as to conform to the national average, it should be possible to calculate the actual savings rate of an enterprise to see if it conforms to the national minimum. In such calculations due provisions for depreciation and interest on total capital employed must be made. If the actual savings of an enterprise falls below the national target the following areas need to be investigated:

(a) Whether the firm is getting a realistic price for its output;
(b) Whether there is under-utilisation of the firm's installed capacity;
(c) Whether there is improper utilisation of the personnel employed in the firm either because of over-employment or low productivity;
(d) Whether realistic prices are paid for inputs such as raw materials and services supplied by the members.

Once the saving target is set in light of national minimum the standard capital-output ratio of the firm can be worked out so that return on capital employed and return on equity may be easily calculated.

The process of deriving the savings target in light of the national economic objective is illustrated using the data of Union Industries Limited as given in Exhibit-I. The basic ratios of Union Industries Limited are as follows:

(i) Net output=wages 328+interest 58+profit before tax 62=Rs. 448 lakhs;*
(ii) Savings as percentage of net output=62/448=13.8%;
(iii) Gross capital employed=total assets of 1498 lakhs —current liabilities of 341 lakhs=Rs. 1157 lakhs;
(iv) Capital-output ratio=1157 : 448=2.5 : 1;
(v) Interest at 6% (assumed) on gross capital employed=Rs. 69.4 lakhs;
(vi) Adjusted savings ratio=51/448=11.4%;
(vii) Interest+Savings/gross capital ratio=120/1157=10.4;
(viii) Savings/equity+reserves ratio=62/432=14.3% (before tax).

It may be noted that the actual interest included in the net output was only Rs. 58 lakhs. As the debt equity ratio and the actual rate of interest paid differs from firm to firm, it becomes necessary to assume a minimum rate of interest on the total capital employed so as to figure out the savings generated after providing for minimum interest. If we assume a minimum of 6% interest on total capital employed of Rs. 1157 lakhs the interest amount would be Rs. 69.4 lakhs and the effective savings would be only Rs. 51 lakhs (120—69) or 11.4% of net output which would be below the national minimum of 16%. At the desired minimum rate of savings of 16% of net output the amount of savings to be generated by Union Industries Limited will be Rs. 75.6 lakhs which is derived as follows:

$$.16\,(328+69+X)=X$$
$$\therefore 63.52+.16x=X$$
$$\therefore 63.52=.84x$$
$$\therefore 75.6=x$$

where:
x=the amount of saving
328=wages, salaries and employee expenses
69=interest @ 6% on total capital employed.

*One lakh=100,000

The gross cash generation (interest + savings) will be Rs. 145 lakhs (69·4 lakhs+75·6 lakhs) as against Rs. 120 lakhs currently generated. Out of this

(a) explicit interest on debt (actual interest paid)	=Rs. 58.00 lakhs
(b) interest on accumulated depreciation funds at 6% on Rs. 263 lakhs	=Rs. 15.80 lakhs
Total	Rs. 73.80 lakhs

(c) balance available to equity=145 lakhs—73.8 lakhs =Rs. 71.2 lakhs

(d) profit/equity+resource ratio=71.2/432=16.5% before tax.

The crucial assumption in the above calculations is the interest required in regard to depreciation funds which are accumulated from year to year and retained in business. Depreciation is in the nature of recovery of investment; if a part of the investment is recovered, technically funds to that extent are freed for the time-being and become available for investment, and wherever such funds are invested they must earn a rate of return. Here the same rate of interest of 6% is applied for such funds. The above calculations indicate that at 16% rate of savings on net output of the Union Industries Limited, the net profit on equity and reserves will be 16.5% before tax.

II

The return of 16.5% on equity and resources should, however, be regarded as the absolute minimum and the actual minimum return required should be estimated in the context of the actual operational framework of each firm. Specifically, the annual cash flow generation required in any firm would depend on factors such as:

(a) annual provision for depreciation;
(b) incremental net working capital to be financed from internal sources;

(c) minimum dividend payable on equity;
(d) minimum return on investment of accumulated depreciation funds;
(e) minimum cash required to meet recurring annual capital expenditure.

Applying the above factors to the Union Industries Limited the cash flow generation required by the firm could be calculated as shown below making such of the assumptions as may be necessary:

(i) cash required for paying minimum dividend amount on paid-up equity capital (10% dividend rate is assumed as the investors could otherwise earn at least 10% on fixed deposits in banks) ..	Rs. 18.00 lakhs
(ii) annual depreciation provision (assumed to be the same at last year)	Rs. 44.00 lakhs
(iii) minimum return on investment of accumulated depreciation funds (10% rate assumed) ..	Rs. 23.60 lakhs
(iv) cash required to meet recurring annual capital expenditure (assumed to be 1% of the value of gross fixed assets) ..	Rs. 7.40 lakhs
(v) incremental net working capital to be financed internally (based on the following assumptions: sales increase over previous year 7%; working capital, net of trade creditors, to be 20% of sales; short-term bank finance 40% of working capital) ..	Rs. 14.50 lakhs
Total ..	Rs. 110.20 lakhs

Required return on equity and accumulated depreciation funds=110.2/695=15.8%

OR

Return on equity (after depreciation)=66.2/432=15%.

The above cash flow generation is exclusive of actual interest payable on existing debt. Under this approach the cash flow required to be generated should be regarded as what is essential from the view-point of a going concern so that the "phenomenon of sick unit multiplication" could be discouraged in the larger social interest. The required cash flow could be expressed in terms of the familiar return on equity and such a ratio, in a way, could be considered as the cost of equity funds. But what is more important at the operational level is relating the cash flow directly to the level of operations required and exploring the different avenues of achieving the level of cash generation. To be able to derive the level of operations based on the cash flow desired the familiar break-even concept could be applied as follows:

> "Fixed commitments divided by contribution profit= break-even level of operation."

Where

I. Fixed commitments=fixed expenses (i.e. personnel expenses of 328, capacity costs of 66 and administration expenses of 109+interest on explicit debt i.e., Rs. 58 lakhs+depreciation provision (Rs. 44 lakhs)+ cash flow generation required.

II. Cash flow generation required=

(a) fixed elements representing dividend on capital, interest on accumulated depreciation funds and recurring annual capital expenditure i.e. a total of Rs. 51·7 lakhs.

Plus

(b) variable element representing net working capital i.e. 60% of 20% of sales.

III. Contribution profit=sales revenue—variable costs i.e. material costs (61·4%).

IV. Break-even level of activity=X.

In the above example:

$$X = \frac{503+58+44+51.7+12(x-1728)}{.386}$$

$$X = 1689.$$

In the above illustration the indicated break-even sales volume of Rs. 1689 lakhs happens to be less than the present sales volume of Rs. 1728 lakhs because the profit volume in the minimum cash generation required happens to be less than the current profit volume.

III

While the cash flow approach outlined in Part-II above is useful for setting targets of financial performance in the short run of one year or so, so as to improve performance particularly of those running units which have not been generating the minimum cash to sustain continued operations in the long run, the approach may not be directly useful for incremental investment decisions. In any going company there will be incremental investments taking place from time to time and the crucial question facing the management is:

> What should be the minimum rate of return on such incremental investments?

The answer to this question is partly dependent upon certain policies of the management which influence the return on total investment, such as

(i) extent of financial leverage;
(ii) cost of debt capital;
(iii) rate of retention of profits (dividend policy);
(iv) desired growth rate on equity earnings.

If the above policies are clearly spelt-out by the management, it is possible to build them into a model so as to determine the minimum ROI on incremental investment.

For example:

(i) the desired growth rate on earnings is 8% (which is also the present ROI of Union Industries Limited);
(ii) rate of retention of profits is 80%;
(iii) leverage is 1 :1 i.e., 100% of the equity;
(iv) interest on debt is 12%.

We can build the above variables into a model as follows and derive the required return on incremental investment as 11%.

Desired growth rate of earnings %	=	Return on retained earnings %	+	Degree of leverage %	×	Return on incremental debt %	Rate of retention %

$$\text{i.e., } 8\% = X + \underline{(100\% \times} \; 12\% \quad 80\%$$
$$11\% \times X$$

The growth rate of earnings at 8 per cent for Union Industries Limited is illustrated in Exhibit No. 2.

In the above formula the key variables are:

(i) leverage;
(ii) rate of retention;
(iii) desired rate of growth of earnings.

As you vary any of the variables its likely impact on the required minimum return on incremental investment can be readily calculated, as for example:

(a) the higher the leverage, the lower the required ROI and vice-versa;
(b) the higher the rate of retention, the lower the required ROI and vice-versa;
(c) the lower the desired growth rate on earnings the lower the required return on incremental investment.

Suppose Union Industries Limited is considering an investment involving Rs. 200 lakhs and if the expected return on the project is 8%, it can be readily compared with 11% which is based on the management's desire of 8% growth rate of earnings. To what extent the desired growth rate of earnings can be sacrificed so as to accommodate a particularly marginal investment is a question involving management strategy. It must, however, be noted that by maintaining the present ROI on all incremental investments the earnings will not be growing at a rate equivalent to the ROI of the firm because of the following financial variables which affect the quantum of net earnings from year to year:

(i) dividend policy and rate of retention;

(ii) leverage;

(iii) cost of borrowings.

Management must, therefore, take the above factors into consideration and fix the financial target based on the volume of earnings desired.

This will greatly facilitate the process of pinpointing the required return on incremental investment. The underlying assumptions in the above model are:

(a) all earnings growth is derived from added capital i.e., the current level of capital generates the current level of earnings and all growth must come from added capital (the assumption of constant capital from existing capital is not a necessary condition because either growth or deterioration in profits could be built into the model);

(b) all added capital comes from additional debt and retaining earnings;

(c) if additional equity capital were to be raised its effect on earnings growth rate would be computed independently of this model.

IV

After setting the financial targets and taking the investment decisions as discussed in the preceding section the targets need to be translated into operational budgets for performance control. Here the ROI concept could be readily applied.

Profit in relation to the total investment i.e. resources commitment is called return on total investment or earning power of the firm. Profit is surplus i.e. excess of current revenue over current production.

In terms of cash inflow it is the conventional net profit before tax plus depreciation and interest. The ratio of such cash inflow (profit or surplus) total investment (cash outflow) may be called return on total investment or more appropriately, productivity of investment or financial resources. The task of management of any firm is to optimize productivity of its financial resource. Hence the emphasis should be on the cash flows in the economy of the firm.

The flows of funds in the economy of any business enterprise are in the form of: (i) Operating costs (outflow), (ii) Revenue (inflow), and (iii) Investment (outflow).

The cost-revenue-investment relationships shape and determine the state of economy of the enterprise. It is the function of management in charge of the economy of an enterprise to optimize these relationships. The relationships may be stated as follows:

$$\frac{(\text{Revenue—cost})\ 100}{\text{Revenue}} \times \frac{\text{Revenue}}{\text{Investment}} = \frac{(\text{Revenue—cost})}{\text{Investment}}$$

=Sales Margin × Turnover of Investment = Return on Investment

OR

Earning power of the firm.

The objective of the firm is to optimize the "surplus" or earning power of the enterprise within the framework of restraints. This optimization is possible either through optimizing the margin or the turnover of investment or both. It may be possible to optimize either of the components at the cost of the other. But the overall effect may be neutralized. Hence the need for an integrated approach. For example, the relationship or ratio between cost (input) and revenue (output) is the index of performance:

(a) The ratio may be increased by keeping the revenue or output constant but by reducing the cost or input. This is called efficiency; or

(b) The ratio may be increased by keeping the cost or input constant but by increasing the revenue or output. This is also efficiency; or

(c) The ratio may remain unchanged when revenue or output is increased with proportionate increase in cost or input. This is called effectiveness.

Emphasis on (a) and (b) above leads the company to a static condition, whereas emphasis on (c) ensures expansion without efficiency. Where an enterprise is only efficiency-oriented, the search for economy in operations becomes vigorous and the management will be preoccupied with the conservation of resources already committed to operations rather than seeking new opportunities for additional commitment of resources. Such an enterprise tends to be myopic and invites stagnation. On the other hand, where an enterprise puts a premium on effectiveness only, it seeks expansion through new products, markets, customers, etc. but with no proportionate increment to "surplus". When an attempt is made to consolidate the gains of such an expansion, the hollowness of such expansion reveals itself. Where efficiency and effectiveness are maintained, there is said to be efficient expansion, which is called growth of economy. In a growing economy of a firm, the rate of return on investment is greater than the opportunity cost of capital. It is this relationship between cost of capital and return on investment that clearly marks the growth potential of stock of some companies in preference to others. Therefore, in managing the economy of a firm, attention should be paid to the three integral components, viz. management of costs, management of revenue and management of investment.

The concern of management in managing these variables efficiently is given expression in the' 'drives" launched from time to time such as cost reduction drive (efficiency drive, productivity drive, etc.) sales drive and investment drive (inventory control, collection drive, plant utilisation drive). Experts are employed to study systematically each of these key areas, and based on the analysis obtained the top management finally determines the desired ROI as the objective to be achieved. The final objective thus set can be transmitted down the organizational hierarchy in the form of a network of sub-objectives to be achieved by the management staff. Every member of the organization, irrespective of his functional responsibility, directly or indirectly affects the financial flows in the system. Therefore, managing the cash flows so as to attain the desired ROI should be the concern of every member of the organization.

The variables affecting the ROI of a firm are presented in Chart No. 3. Management can readily identify the areas which have affected performance adversely and take corrective action. In order to facilitate such corrective action i.e. control, ROI budgets need to be prepared, say, on a quarterly basis so that actuals at the end of each quarter can be compared with the budgets and action taken before is too late. In larger organizations similar ROI performance planning and control charts can be prepared for each division or profit centre.

An integration of operating performance with financial performance on one hand and with the return on output (as discussed in Part-I) on the other hand is also attempted in the same chart so as to give the management the multi-dimensional perspective of the firm's performance.

V

For attempting periodical appraisal of the operating performance, ratios as tools of analysis could be used.

Ratios give the impression of precision in calculations. But what all they indicate is only the trend of operations. Financial ratios for the sake of convenience are classified as:

(a) *Activity Ratios*: These ratios generally establish a relationship between sales activity on one hand and investment of funds in the various assets, on the other. These ratios are, therefore, a measure of activity of funds employed—funds in an organization may be more actively employed or less actively employed or sometimes they remain idle. The activity or circulation of funds has direct bearing on profitability of investment. Although activity ratios are no indication of profitability they are an important adjunct to profitability ratios.

(b) *Profitability Ratios*: These ratios indicate the margin on sales, productivity of investment and return on equity fund.

(c) *Liquidity Ratios*: These ratios establish a relationship between current assets and current liabilities. They throw light on the liquidity of the company i.e. capacity of the company to meet its short-term obligations.

(d) *Leverage Ratios*: These ratios establish a relationship between:

(i) debt and equity;

(ii) debt and fixed assets; and

(iii) debt and profit.

These ratios help determine the capacity of the company to meet its long-term obligations and the extent of risk involved in long-term financing. These ratios are illustrated in Exhibit No. 3 using the data of Union Industries Limited. Financial ratios alone do not reveal the true picture of performance unless the relevant physical ratios are also used as suggested in Exhibit No. 4.

It should be emphasised in conclusion that ratio analysis should not be attempted as an exercise in itself; it must be meaningfully related to the financial objective and the targets of performance as outlined in Chart No. 3. It may be recalled that the ratios as listed in Exhibit No. 5 are conceptually woven into a meaningful framework of managerial performance.

Exhibit No. 1

UNION INDUSTRIES LIMITED

Balance Sheet

(Rs. in '00,000)

Liabilities	1975	1974	1973	Assets	1975	1974	1973
Trade Creditors	299	316	92	Cash balances	16	21	11
Working Capital loans	146	125	84	Sundry Debtors	310	306	250
Other current liabilities	42	81	121	Loans & Advances	85	107	95
	487	522	297				
				Stocks	348	398	238
Fixed Deposits	193	173	128	Current Assets	759	832	594
Term loans	123	57	90	Cross fixed assets	739	538	466
Reserves and Surplus	297	327	292				
Share Capital	135	68	68				
Accumulated Depreciation	263	223	185				
	1498	1370	1060		1498	1370	1060

UNION INDUSTRIES LIMITED

Condensed Income Statements

(Rs. in 100,000)

	1975	1974	1973
Sales:	1728	1610	1102
Less :			
Materials, store, power, fuel etc. consumed	1061	990	653
Personnel Expenses	328	335	237
Capacity costs (repairs, rents, rates etc.)	66	63	41
Administration Expenses	109	88	60
Depreciation	44	38	37
Financial costs	58	36	27
Total Expenses	1666	1550	1055
Profit before taxation	62	60	47
Provision for taxation	16	19	—
Profit after taxation	46	41	47

Exhibit No. 2

UNION INDUSTRIES LIMITED

Growth Rate of Earnings 11% per year (Rs. in '00,000)

Sr. No.	Particulars	Year 1	Year 2	Year 3
1.	Net income in the previous year	62	66·96	72·31
2.	Less Cash Dividends (20% dividend payment)	12·4	13·39	14·46
3.	Net earnings retained (reinvested)	49·6	53·57	57·85
4.	Added debt 100%	49·6	53·57	57·85
5.	Total incremental investment	99·2	107·14	115·70
6.	Cumulative incremental investment	99·2	206·34	322·04
7.	Return on incremental investment (Required)	11%	11%	11%
8.	Increase in earnings @ 11%	10·91	22·69	35·42
9.	Less incremental interest expenses 12%	5·95	12·38	19·32
10.	Incremental net earnings	4·96	10·31	16·10
11.	Normal level of earnings	—62·00	62·00	62.00
12.	Reported total earnings	66·96	72·31	78·10
13.	Increase in net earnings	8%	8%	8%

Exhibit No. 3

Financial Ratios of Union Industries Limited

Ratios		1971	1972	1973	1974	1975
A. Activity Ratios						
A1 Inventory Turnover (cost of goods sold ÷ Average Inventory)	Times	11·38	7·71	4·23	4·33	3·87
A2 Sundry Debtors Turnover (sundry debtors ÷ Average daily sales)	Days	48	83	88	71	62
A3 Current assets as % Net sales	%	48·09	55·96	58·00	54·27	45·20
A4 Total assets turnover (Net sales ÷ Total assets)	Times	1·08	1·05	0·97	1·13	1·12
A5 Current assets as % of Fixed Assets	%	108	142	127	157	103
B. Profitability Ratios						
B1 Gross operating profit to sales	%	22·34	14·03	9·85	11·95	14·14
B2 Net operating profit to sales (before depreciation, interest and tax)	%	16·56	8·57	3·16	5·41	6·91
B3 Net profit to total assets	%	17·89	9·00	3·06	6·09	7·74
B4 Return on Equity	%	17·10	14·37	12·98	10·29	10·62

C.	**Liquidity Ratios (Credit)**						
C1	Current ratio (current assets ÷ current liabilities)	Times	1·12	1·19	1·22	1·14	1·09
C2	Quick assets to current liabilities	Times	0·97	0·80	0·73	0·61	0·59
C3	Creditors turnover (Ave. Sundry creditors ÷ Ave. cost of goods sold)	Days	24	28	41	43	67
C4	Sundry creditors to inventory	%	58·22	59·62	38·87	59·63	85·83
C5	Net working capital to sales (current assets minus current liabilities as % of sales)	%	5·24	8·86	10·57	6·74	3·64
D.	**Leverage Ratios (Stability)**						
D1	Long-term debt—Equity ratio (Pref. capital+Long-term debt as % of equity)	%	22·71	18·72	8·13	6·56	24·34
D2	Net Fixed Assets to Net Worth	%	99·65	81·48	78·03	79·86	110·14
D3	Total liabilities to Net Worth	%	107	106	84	91	107

Exhibit No. 4

Productivity Indices

Description of Ratio		Actual Ratio for the year evaluated.	Whether increase over previous year's ratio	Whether decrease over previous year's ratio	No change.
A. Materials					
1. Output/material (units)					
2. Material Wastage (Rework) ratio	%				
3. Unit cost of carrying inventories	Rs.				
4. Ratio of indirect materials to direct materials	%				
5. Annual Material consumption/ Inventory of Materials	Times				
B. Human Resources					
1. Output/Labour units (hours)					
2. Total Gross investment/No. of Employees	%				
3. Wages/Value added	Rs.				
4. Management staff/operatives	%				
5. Labour Turnover	Times				
6. Ratio of idle labour hours to productive hours					
C. Capital Goods Area					
1. Capital Employed—Value added Ratio	Times				
2. Ratio of Actual capacity to Practical capacity	%				

Description of Ratio		Actual Ratio for the year evaluated.	Whether increase over previous year's ratio	Whether decrease over previous year's ratio	No change
3. Ratio of Gross Working Capital (A/R+Inventories) to Gross F. Assets	%				
4. Capacity costs per day's output (Activity) (Capacity costs=rents, rates, taxes, insurance, security, fixed maintenance, depreciation etc.)	Rs.				
D. Financial Area (Funds)					
1. Investment productivity (net profit before depreciation and interest as % of total gross investment)	%				
2. Management cost per unit of activity (output) (management costs include all salaries, benefits, convenience, facilities, entertainment, travelling, health and insurance, special office decoration, air conditioning etc. provided to management staff)	Rs.				
3. Rate of capital formation (rate of increase in total gross investment)	%				
4. % of annual capital formation internally financed	%				

Exhibit No. 5

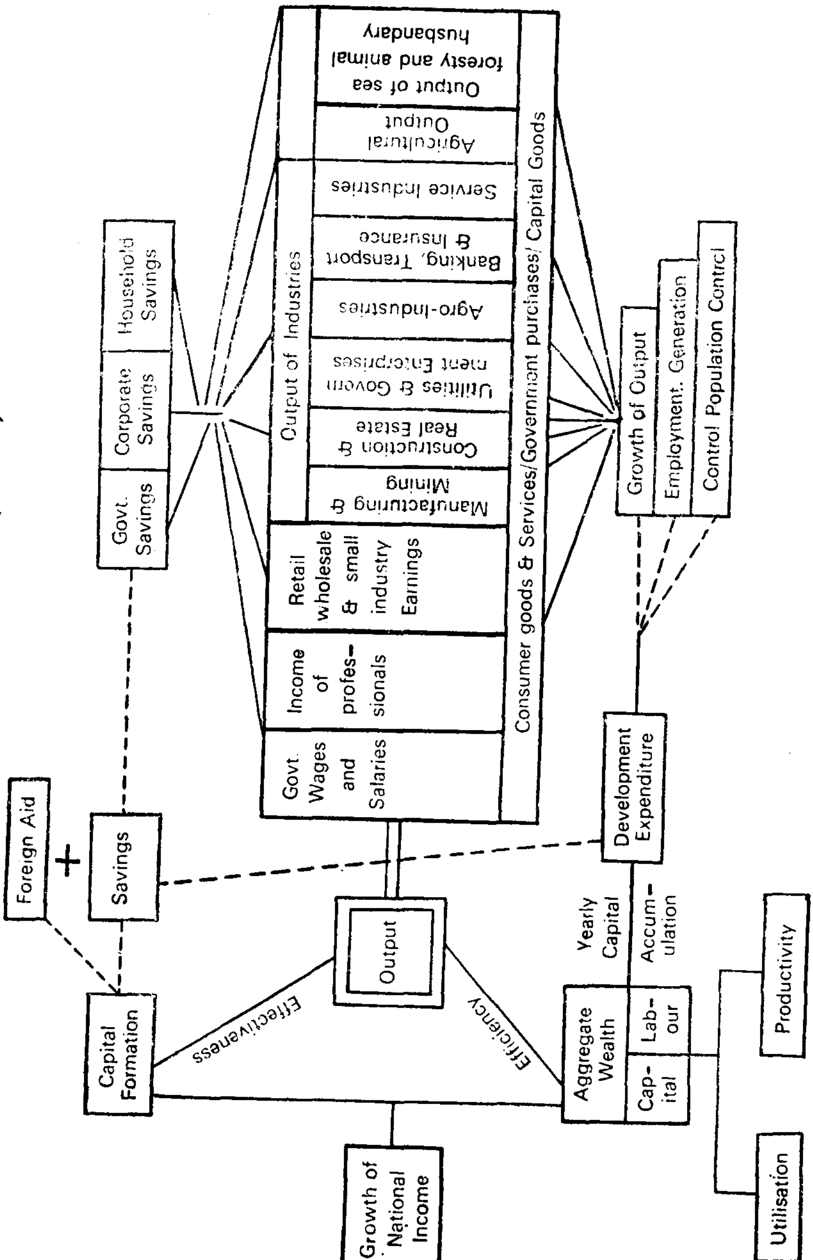
List of Ratios as used in Chart No. 3
Union Industries Limited

S. No.	Ratio —		1975	1974	1973
A.	**Turnover Ratios**				
A1	Turnover of total assets (sales ÷ total assets)	Times	1·15	1·17	1·03
A2	Turnover of current assets (current assets as % of sales)	%	43·9%	51·6%	53·9%
A3	Sundry Debtors Turnover (Sundry Debtors as % of sales)	%	17·9%	19·0%	22·7%
A4	Stock (inventories) Turnover (Stocks as % of sales)	%	20·1%	24·7%	21·6%
A5	Current assets/fixed assets ratio	%	102%	154%	127%
A6	Capital employed/Net worth ratio	Times	3·46	3·46	2·94
A7	Capital output Ratio	Times	3·34	3·17	3·40
B.	**Profit Ratios**				
B1	Contribution Margin (contribution profit as % of sales)	%	38·6%	38·5%	40·7%
B2	Operating profit margin (operating profit as % of sales)	%	9·3%	8·1%	9·8%
B3	Operating profit/contribution profit ratio	Times	0·24	0·21	0·24
B4	Net profit/operating profit ratio	Times	0·28	0·30	0·42

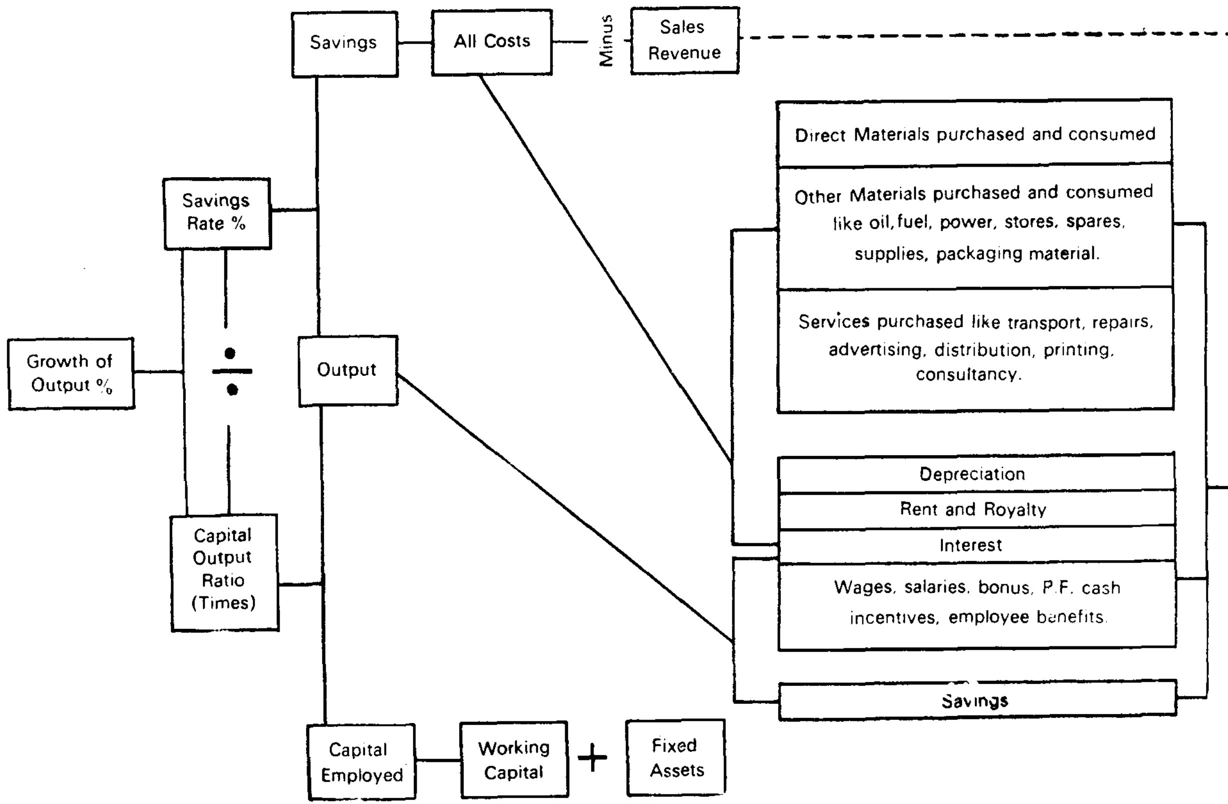
B5	Financial performance index (capital/net worth ratio X N.P/O.P ratio)	Times	0·96	1·03	1·23
B6	Savings/output ratio	%	13·8%	13·9%	15·1%
B7	Return on Total investment	%	10·7%	9·5%	10·1%
B8	Return on Net Worth	%	10·3%	9·8%	12·4%
C.	**Input Ratios**				
C1	Variable costs (materials) as % of sales	%	61·4%	61·5%	59·3%
C2	Wages & Salaries as % of sales	%	19·0%	20·8%	21·5%
C3	Overheads as % of sales	%	10·1%	9·4%	9·1%
C4	Interest, depreciation and tax as % of contribution profit	%	17·7%	15·0%	14·2%
C5	Wages and salaries as % of net output	%	73·2%	77·7%	76·2%
D.	**Credit Ratios**				
D1	Stocks/Trade Creditors ratio	Times	1·2	1·2	2·6
D2	Current Assets/Current Liabilities Ratio	Times	1·5	1·6	2·0
D3	Debt/Gross fixed assets ratio	%	42·7%	42·7%	46·7%
D4	Capital/Gross fixed assets ratio	%	58%	73%	77%
D5	Debt/Equity ratio	Times	0·7	0·6	0·6

Note : The above ratios are calculated on the basis of condensed data as given in Exhibit No. 1 and therefore they do not tally with those given in Exhibit No. 3 which are calculated on the basis of original data contained in the annual reports of the company.

Financial Control Chart (Macro)

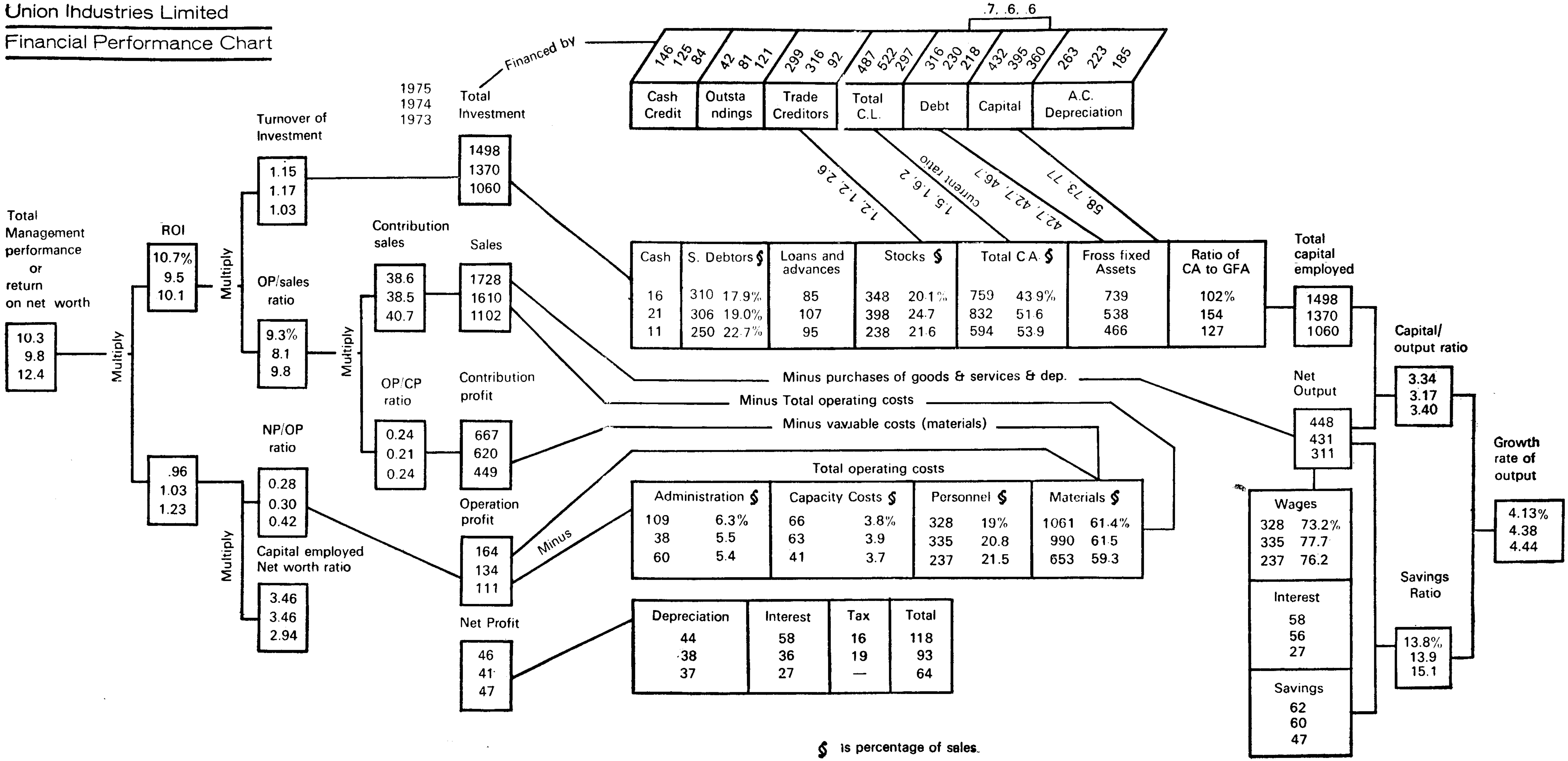


Financial Control Chart (Micro)



Union Industries Limited

Financial Performance Chart



Financial Management

G. LOKUGE*

Introduction

Management is the establishment of the environment for individuals working as a group to perform their duties efficiently and effectively towards the attainment of group objectives. The leader of the group is the manager who is expected to make it possible for the group members to contribute their best to achieve such objectives. The manager thus takes over duties which are entirely managerial in character. His task is to utilise the group effort effectively. The management process constitutes several management functions. They are planning, organisation, staffing, direction and control. In a business enterprise the success or failure depends on the managers who are entrusted with different management functions. They are responsible for decision making and implementation of such decisions in order to attain the best possible results.

The primary intention of a business is to produce and distribute goods and services to its customers. This process requires the preliminary investment of funds in both fixed and current assets. Thus cash is invested in raw materials which are processed by fixed assets and are sold: thus converting the processed goods to cash. The profitability of the business depends on the rate of conversion of the original capital investment. If the rate of the flow of funds could be accelerated, the profitability could be increased, while a slow rate may lead to low profits or losses. It is this flow of funds that is ultimately considered by financial management. Funds that is the pivot on which the whole business process functions. Therefore it is necessary to plan and control the funds in order to ensure the maintaining

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of the flow at the expected level of production and distribution. Financial management is concerned with this process of financial planning and control.

Funds are invested in the business with the objective of reaping the best possible returns. Idle funds do not produce any returns while funds mismanaged may lead to waste of capital invested. Therefore the managers should forecast the requirement of funds and should obtain the required funds at the required time at minimum cost to achieve speedy returns. This process demands both planning and control of funds.

Financial management is the management of the financial resources of the establishment. In a smaller co-operative society the manager himself is able to manage the finances, while in a larger society a financial manager may be required. The financial manager's primary task is to plan the requirement of funds. He must then raise the funds either from within the business or from outside. The funds thus raised should be allocated for investment within. Once the funds are allocated the financial manager should devise methods and techniques of controlling such funds.

Planning and control play an important role in Financial Management. The Financial Manager should plan and control the funds of the society. His major task is the preparing of the Budget for the next year. This has to be prepared in consultation with the managers and other officers of the society. He should devise methods of forecasting and controlling cash and other components of working capital. The performance should be evaluated with the plans and the reasons for major deviations should be looked into. Steps should be taken to tighten the measures of control where deviations occur. This facilitates the achievement of enterprise objectives with minimum cost.

Financial Needs and Sources in a Co-operative Enterprise :

A large co-operative enterprise is complex in character and financial structure and involves many financial problems. Hence it is necessary to assess its complex nature in relation to its financial needs. It is necessary primarily to identify the sources of finance in a cooperative society. In order to do so the future financial needs of the society should be carefully ascertained and the financial policy be determined. When funds are invested in the society a subsequent application and control of funds is necessary.

Financial Needs

A co-operative society needs finances to establish, operate, expand and maintain the organisation. Its immediate problem is to meet the capital cost to purchase fixed assets. They are necessary to commence the business and are required for long term use; and the funds invested in them should also signify long term financing. The requirement of fixed capital depends on the nature of the business undertaken by the society. A processing society requires a large proportion of fixed capital in relation to working capital, while a consumer society requires less.

In addition to fixed capital a society needs working capital. Working capital is necessary to be invested in raw materials or finished goods in order to commence production or consumer sales. The society further needs operating capital to pay the operational expenses. Therefore it is necessary to forecast the working capital requirements of the society and the fixed capital requirements and make necessary plans to obtain such capital, after taking into consideration the internal sources of capital formation.

The immediate need for funds to finance fixed capital can be reduced by substituting outright ownership with lease. The amount required as working capital to meet operational expenses, purchase raw materials and stock in trade, depends on the time factor between the initial expenses and the receipt of revenue. If goods are sold for cash and the raw materials or finished goods are purchased on credit the working capital requirement is less. This will be further reduced where the production cycle and the stock turnover are high.

If the society purchases raw materials or finished stocks for cash and sells goods on credit, a high working capital is required to finance an enterprise. The society can take the following steps to reduce the time lag between the initial expenses and the receipt of revenue, thus reducing its working capital requirements:

(a) Cash sales.
(b) Purchase of raw materials or finished goods on credit.
(c) Sale on consignment basis.
(d) Prepayment from customers.
(e) Increase stock turn-over.

The need for working capital including cash is important to maintain the business activities at the same level. If there is a deficiency of working capital the business activities may be reduced which will ultimately affect the profits. On the other hand if the working capital is increased, a progress in business activities and profits could be expected. In order to assess the increase or decrease in working capital the society should prepare a Sources and Application of Funds Statement. The working capital including cash should be planned. Hence it is necessary to prepare a cash budget and a working capital requirements forecast. These plans also facilitate control. This function of financial management comes under the purview of the financial manager which will be discussed in further detail. Hence the society should take steps to plan the capital requirements and take subsequent steps to control.

Sources of Finance

A cooperative society can be financed from capital provided through internal or external sources. Before looking forward to external financing the society should as far as possible try to raise its funds internally. The financing of co-operative societies in the past was different.

The Rochdale pioneers depended mainly on the share capital of the members and raised further capital through members savings and undistributed profits. A special feature in the Raiffeisen credit societies was that they did not have any share capital of the members, but solely depended on borrowed capital which they raised by pledging the unlimited liability of the members. Due to limitations to raising capital internally, most cooperative societies are today heavily financed by borrowed capital to meet the complex and heavy business operations.

Internal Sources

The basic source of capital formation in a cooperative society is the share capital contributed by the members. Since the share contribution in some co-operative societies is small, and since shares are withdrawable, share capital does not constitute a strong source of funds. There is a limitation to even subsequent contribution towards share capital by the members. In some societies where the area of operation is small or the membership is limited to occupational groups, or the members may be reluctant to contribute towards more than one share, a substantial contribution cannot be expected.

Retained profits is a strong source of internal financing. In cooperative societies in Sri Lanka today the by-laws specify that at least 25% of the net profit should be ploughed back. This contribution can be increased even up to 90% provided the membership is willing to do so. Building up reserves thus is a long term capital investment which increases the borrowing power of the society. It is the cheapest source of financing which gradually stabilises the financial position of the society. It is also the cheapest source of finance as no payment of interest is involved. But at the initial stages of the society this contribution is very low and has to built up gradually in the course of time.

Depreciation provision too contributes towards internal financing in a cooperative society.

Depreciation is a provision against profits where equivalent cash is retained in the society for the future replacement of assets. In some societies the cash thus retained is invested in a Depreciation Fund while in some others it is invested in the business itself. Those societies that have fixed assets are able to build up a strong reserve which is regarded as a permanent loan from the society itself.

Conversion of current assets to cash itself is an internal source of financing. In this process of conversion the rate should be high and the society should also earn profits. If cash is invested in idle stocks or in debtors who delay payments the society's progress may be financially retarded while a high rate of stock turnover will yield quick profits which can be re-invested in the business.

External Sources

The external sources of financing a co-operative society is mainly through borrowings from a bank or from other financial institutions. These borrowings may be long term loans which should be as far as possible invested in long term assets or short term loans to finance the day to day business operations. Purchasing raw materials or finished goods on credit is also an external source of financing where the time lag for payment will reduce the society's financial requirements. In addition to these sources borrowings may be made from the members by way of deposits or from banks by way of overdrafts. The society is also able to provide banking and pawn broking facilities to the members which also will strengthen the external sources of financing.

Hire purchase is also a useful form of financing where large quantities of assets are purchased. This will restrict the payment of large sums of money at the initial outlay.

The funds thus raised should be the immediate concern of the financial manager of the society. He should as far as possible try to raise funds internally. Any funds required from outside borrowings should be carefully planned and controlled. The funds should be utilised to maximise the capacity to yield maximum returns to the society.

Financial Planning and Control

Two important aspects of financial management are financial planning and financial control. Taking into consideration the internal sources of finance the financial manager should carefully plan the need of funds from important sources. These requirements should be ascertained by careful budgeting as both under-financings and over-financing may be harmful to the business. In planning finance the cost of finance and high liquidity should be two important considerations of the Financial Manager.

Financial planning reveals the financial needs of the business. It should also reveal the time and the amount thus required. Since planning enables managers to take decisions in advance the management can arrange such finance in advance, perhaps seeking cheap sources of financing.

In a cooperative society an adequate cash flow is necessary to run the business. It must be able to meet its financial commitments and progress by expansion. It should therefore possess adequate financial resources. A cooperative society requires finances to purchase the necessary fixed assets for production and distribution. It also needs finance to purchase raw materials, finished products and to meet the day to day operational expenses.

Financial planning also facilitates financial control. A plan once formulated should be put into operation. When in operation the financial manager should examine whether the operations are carried out in accordance with the plans. Any deviations should be examined and corrective action should be taken. It is necessary to discuss some important financial planning and controlling techniques which are most applicable to cooperative societies. They are:

(a) Cash Budget.
(b) Working Capital Forecast.
(c) Break-even Analysis.
(d) Budgeting and Budgetary Control.

Cash Budget

The cash budget shows the cash requirements during the period. It assures whether the society has the cash to meet its expected needs. The cash budget should show the monthly requirements of cash. The preparation of the cash budget has many advantages to the society:

(a) It shows whether the business can be financed internally.
(b) It reveals the need for additional cash.
(c) It shows the time when additional cash is required.
(d) It reveals any excess cash which could be invested.

If the cash budget reveals the shortage of cash the society should try to finance such capital either internally or externally. As far as possible funds should be raised internally. If internal funds are not available the society should borrow from outside. The external borrowings can be short term or long term. If fixed assets are to be financed the society should probe the possibility of hire purchase. Failing this the society should raise a long term loan. Short term funds should be raised to finance any requirements of working capital.

In preparing the cash budget, all cash receipts and disbursements for the budget period should be carefully assessed and considered. Details of cash disbursements could be obtained from the functional budgets prepared by the society. The sales budget will show the cash receipts from sales; the purchases budget the payments for purchases and the time lag for payment of creditors; the operational expenses budget the cash payments for the day to day expenses; and the capital budget the expenditure to be incurred on purchase of assets.

Working Capital Requirements

The total assets of any business venture can be divided into two main recognisable groups i.e. the fixed assets and current assets. Fixed assets are permanent in nature and are used to earn profits. Occasionally they may be sold and the objective may be not to earn a profit but to improve the overall efficiency of the business. If the asset is worn out or becomes obsolete it may be disposed of as it loses its ability to earn profits. The fixed assets required by a society depends on its nature. A production society may require more fixed assets than a consumer society.

In addition to fixed assets there are other assets which are less permanent in nature and which change their form from time to time. They are current assets and the money invested in them are circulating or floating capital. A significant feature of these assets is that during the course of business activities of the society—they constantly change their form and ultimately are converted to cash which in turn is required to pay creditors, meet expenses and purchase stocks. They may include the following:

(a) Stocks—Raw Materials
Work in Progress
Finished Goods.
(b) Debtors.
(c) Bank and Cash Balances.

The total assets are sometimes termed working capital. But the current assets by themselves do not give a clear indication of the financial position of the society. Hence it is necessary to find out the difference between current assets and current liabilities. It is more opportune to identify this balance as the working capital. Therefore, in short, working capital can be defined as the excess of current assets over current liabilities. The current liabilities of a business may be the following:

(a) Creditors.
(b) Bank Overdraft.
(c) Short-term Loans.
(d) Other Payments.

A continuous supply of stocks is necessary to continue production and to maintain it at the expected level. The process of production will continue till the raw materials are converted to finished goods. The finished goods should be sold either for ready cash or for credit. The debtors arise due to credit sales where a period of time elapses for the realisation of goods, while the creditors arise due to credit purchases where the settlement is made on a subsequent date.

The conversion of the whole working capital into cash is very important as profits are realised when cash is thus converted. The rate of conversion may expedite the earning capacity and if the amount of working capital at the end is less than at the beginning a loss may be incurred. It is important to note two significant items which comprise the working capital. Production societies are expected to maintain heavy stocks of raw materials in order to ensure the continuity of production, while consumer societies should maintain stocks of finished products in order to meet the consumer demand.

Credit Facilities

In cooperative societies the sale are for cash, and purchases too may be on cash. But there may be occasions where credit facilities are granted to buyers while credit facilities may be given by the suppliers too. Hence it is important to note that the credit allowed by suppliers will reduce the need for working capital, while credit allowed to debtors will increase the working capital needed. It is necessary to take into consideration the production and sales cycles which are determinants of the working capital requirements. If the society extends credit with the idea of increasing the sales, a higher income could be expected in the future. Increased sales means increased costs i.e. raw materials and factory cost. As cash does not come in for a considerable period of time, depending on the credit period, there will be an urgent need for more cash. This situation will further worsen if no credit facilities are afforded by the creditors.

Importance of Working Capital

A society should have adequate working capital to proceed uninterrupted towards its objectives. In most countries the cooperative societies have to face stiff competition from the private sector. The society should show progress and expand. Hence attention should be paid to planning and control of working capital. A society expanding its business should be aware of its commitments. If no attention is paid to the payment of creditors and if working capital is used to expand the business, the result will be overtrading. The final result will be bankruptcy.

If adequate working capital is not maintained the society will find it difficult to pay the creditors. As a result no credit facilities will be extended by them. This will further affect the cash resources. The time lag from the purchase of raw materials to ultimate realisation of cash, will be further lengthened and the society will be faced with the problem of raising further funds. If the society, on the other hand, maintains excessive working capital, this will result in losses incurred by retaining idle assets. Such cash should be invested to yield further income. Inadequate cash may retard activity, as the society will find it difficult to replenish the stocks when necessary.

Planning Working Capital

This is a very important factor as the profits are realised when the current assets are converted to cash. It is also significant to note that the rate of conversion will either intensify or diminish the profit earning capacity of the society. Therefore special attention should be paid to the important components of working capital.

(a) *Inventory*

The stocks may be raw materials or finished goods. A production society will have to maintain large stocks of raw materials while a consumer society will maintain finished products. In both processes capital is locked up and if the conversion is delayed, sufficient funds may not be available to meet the timely obligations to creditors and meet operational expenses.

Most cooperative societies carry excessive stocks. Attention should be paid to the level of stocks that the society should maintain i.e. minimum and maximum levels, reorder levels and re-order quantities. Sometimes due to unplanned stock holding the society has to incur heavy losses on obsolete or unsaleable stocks. The economies of maintaining large stocks should be measured against the cost of locked up capital, storage and other overheads.

(b) *Bad debts*

Capital may also be locked up in debtors. The failure of debtors to repay the debts in time may lead to delay in conversion to cash and may result in bad debts. However the cooperative societies should plan their credit sales, as most societies have incurred heavy losses due to non-payment of debts.

(c) *Cash*

Special care should be taken in the management of cash. Cash by itself is an unproductive asset. It is required by the society to pay the creditors, purchase stocks and meet the operational expenses. Hence it is necessary to foresee the cash requirements and plan the loans from the bank. It may be more prudent to operate on bank overdrafts where short term cash is needed. Any excess cash should be invested to earn profits.

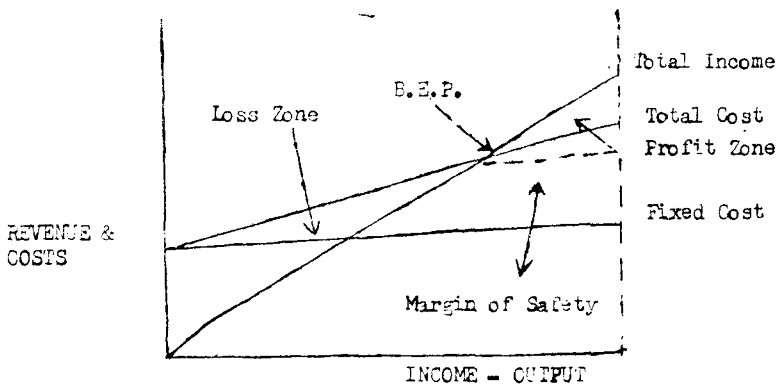
(d) *Creditors*

In regard to creditors the payments should not be done before the due date and any discounts should be obtained wherever necessary. If the creditors are not paid in time they may not extend further credit facilities.

Break-Even Analysis

The Break-even Analysis is a very useful device that provides information regarding the effects of costs and revenue at varying levels of output. It is a useful technique of planning and control. The break-even is the point at which the estimated costs and revenue of any project or business venture are equal. The break-even point is therefore the volume of output, sales or income at which neither profit nor loss is incurred. This information is useful for planning and control.

A break-even chart will reveal further information to the management. The chart shows the profit and loss zones and the margin of safety. The higher the margin of safety, the greater the possibility of expanding within the framework of available costs.



Break-even Chart

A narrow margin of safety indicates the necessity to reduce total costs to operate safely.

Budgets and Budgetary Control

A budget is a predetermined statement of management policy for a given period of time showing the expected results in numerical terms. It may be expressed in financial terms or in man hours, units of products or machine hours. It is both a planning and control device. It incorporates the future programmes of the important departments or sections of the society to form the Master Budget.

In order to prepare a budget it is necessary to carefully and accurately forecast the future plans and programmes. The forecasts for the respective departments or sections should be made by those who are well experienced in that section.

The main activities of a cooperative society can be divided into the following areas:

(a) Production.
(b) Marketing and Sales.
(c) Administration.
(d) Capital.

Budgets should be prepared to cover these activities. The works manager is responsible for preparing the production budget. He will have to anticipate the output of production for the future period, the purchases of raw materials, cost of factory labour, direct expenses and factory overheads. The sales manager should be made responsible for the preparation of the sales and marketing budget. He should estimate the anticipated sales, the selling and distribution expenses etc. The accountant on the other hand is responsible for the preparation and administration of capital budgets. The administrative budget shows the operational expenses of the society and the capital budget shows the purchases and disposal of fixed assets, provision of depreciation and financing the current assets.

Budgetary control is a system of control of costs which involves preparation of budgets and performance in accordance with the budgets, while taking corrective action where necessary to achieve maximum profitability with minimum costs. Efficient control through budgets could be established by conferring responsibility to each person in the society whose performance should be measured from time to time. They should be involved from the time of preparation of the budget till the established targets are achieved.

Steps in Budgetary Control

It is necessary to adhere to certain fundamental principles in achieving maximum efficiency and profitability through budgetary control. The following steps may be necessary to achieve this:

(a) Preparation of a plan for each department with targets to be achieved by the group.

(b) Coordination of these plans to form the master plan for the society with the aim of achieving the society's objective.

(c) Record the actual performance.
(d) Compare the actual performance with the plan. This should be done at least monthly.
(e) Find out major deviations or variances of the plan and the actual performance.
(f) Analyse the reasons for such deviations.
(g) Act immediately to take corrective action.

Once corrective action is taken, it is necessary to examine whether such corrective action has enabled the society to achieve its targets by controlling costs.

Objectives of Budgetary Control

Budgetary control aims at achieving maximum profitability at minimum costs. It combines ideas of all levels of employees of the society in whom responsibility is placed. All activities of the business are co-ordinated through the budget. The budget plans and controls the income and expenditure of the society in order to achieve maximum profitability. A budget will also ensure sufficient working capital for the operation of the business and the utilization of assets to achieve the best results. It is a yardstick to measure the actual performance with the planned results and will best indicate to the managers where corrective action is necessary, in order to achieve the pre-planned objectives of the society.

Budgeting in a Cooperative Society

It is necessary that cooperative societies pay more attention to the preparation of budgets and budgetary control. Cooperative societies in developing countries are gradually gaining economic viability and are competing with private organisations. It is necessary therefore to device controlling measures to improve the operating efficiency of these activities.

Role of the Accountant

The accountant in most cooperative societies functions as a recorder of historical information with a view to preparing statements showing the profitability of the society during the bygone period and reporting the financial position as at the end of such period. This role of the accountant should be changed so that he would make use of the historical information and past records of the society to formulate future plans and implement them. He should assert the role of a management accountant and should be the chief financial advisor to the board of directors.

Experiences from Sri Lanka

In order to examine the emphasis laid on the necessity of financial management and control in cooperatives in Sri Lanka, it is necessary to briefly trace the rapid expansion of the movement from 1957. In 1957 legislation was passed to set up Multipurpose Cooperative Societies. During the period 1957 to 1960 there was a rapid expansion of the activities and the number of societies increased fast. As most of these societies were not economically viable the Government implemented a re-organisation plan by which the multipurpose societies were amalgamated to form about 341 large viable units, thus amalgamating about 5000 societies.

In addition to the primary functions of production and sales the cooperative societies undertook more responsible tasks like rural banking, manufacturing of agricultural goods, building of boats, repair of motor vehicles etc. Under the Land Reform Law No. 1 of 1972 the government fixed a ceiling on the individual ownership of land and the excess land was vested in the Land Reform Commission. Some of this land was vested in cooperatives to step up production, while others were converted to cooperative settlements.

With the rapid expansion of the movement especially during the period 1970 to today, there is an urgent need for systematic planning and control of the activities of cooperative societies.

Cooperative Department

The Commissioner of Cooperative Development realised the need to emphasise on the management needs and controls as far back as 1968. Prior to this period the department concentrated more on the auditing aspect and the management needs were less recognised. The department was very keen on bringing the audit of societies up-to-date and the training was geared to achieve this end. In 1968 a new accounting system was introduced in cooperative unions which was implemented in a few selected societies as a pilot project. With the reorganisation of the societies in 1971 this system was introduced in all societies.

Unlike during the period prior to 1968 where auditing was felt to be the primary need, and the preparation of final accounts and the balance sheet at the end of the financial year was the ultimate aim of accounting, the period subsequent to 1968 saw that greater emphasis was placed on management and management control. The new accounting system was devised with the aim of achieving management control.

The Commissioner, during this era also issued a circular to all multipurpose cooperative societies that the society should prepare and work on a Budget for the coming year. Further, the Budget should be discussed and approved by the Board of Directors of the society and the General Body. The societies were also requested to evaluate the monthly performance with the Budget and take necessary corrective action regarding any noticeable deviations. An Assistant Commissioner (Management) was appointed at Head Office to supervise and advise on the implementation of the Budgets and Budgetary Control, and several senior officials at Head Office were entrusted with the task of implementing the New Accounting System.

Training and Curriculum

The Curriculum at the School of Cooperation and the Education Centres were changed during the period to include management as a subject. The new accounting system too was embodied in the syllabus. Ad-hoc courses for the field staff were conducted both at the school and the field on the new Accounting System and Management. The school also conducted short courses of Financial Management for those trainees who passed out prior to the introduction of management as new subject. The lecturers themselves were trained in management to handle the situation more effectively and efficiently. The accountants of these societies had to be trained in the new system of accounting and budgetary control.

Re-organisation and the Need for Financial Management

The re-organisation of the cooperative societies in 1971 and a further improvement in 1976 demanded the need for improving the organisational set up of the society. Management planning and control was also a felt need. The accountant of the society had to play a more important role. His tasks were not confined to historical and financial accounting alone, but had to play a more responsible role of a Management Accountant. Large societies sought assistance of Financial Managers.

Though the primary function of these societies was the distribution of essential consumer commodities, the activities of these societies extended to other fields too. They had to provide farmers with agricultural credit and inputs and engage in processing and marketing of agricultural products. With the land ceiling and land reforms the societies set up agricultural farms. The setting up of District Development Councils promoted the societies to undertake agro-based industrial projects.

Present Trends

(a) *Budget*

All cooperative societies are expected to prepare a budget for the forthcoming year. The Department of Cooperative Development has insisted that the Board of Directors discuss the monthly performance of the society at their Board Meetings. The Accountant or the Financial Manager obtains from the sectional managers the annual estimates which are finally incorporated in the Master Budget. The experiences gained by these officers during the past year and the training they have received on Financial Management have enabled them to prepare budgets today with greater competence and accuracy.

(b) *F 28*

A general form is devised for Budgetary Control. The monthly performance of the society along with the monthly estimates of the current year and the preceding year with the respective cumulative totals are recorded in this form. It is a performance evaluation form showing the net results with any major deviations. A copy of this form is sent to the divisional office of the department and the lending institution. The Board of Directors discuss the monthly performance comparing the results with the previous months in order to ensure that controlling measures are taken in regard to any major deviations.

(c) *New Accounting System*

A new accounting system is devised for cooperative societies in Sri Lanka which is being successfully implemented in societies. This system is devised with the prime objective of implementing a systematic control of the activities of the society. It enables the financial manager to obtain the data for performance evaluation and it also facilitates better financial control.

(d) *Project Budgets*

All projects envisaged by the society are supplemented by budgetary estimates and the Board of Directors are today very particular and conscious of the fact that such reports be presented to them. These reports are further scrutinized by them to take decision.

(e) *Cash Budgets*

Most managers today foresee the cash requirements in the societies through cash budgets. They help the lending institutions to ensure the cash requirements of the society. The Board of Directors too are satisfied that they authorise the required cash which could be obtained at minimum cost.

(f) *Feasibility Studies*

The managers, especially those of major unions and societies, are becoming more and more conscious of project evaluation. They appraise the social and economic effects of the projects they intend to undertake. For example, a society which intends to open up a new branch or undertake a new venture analyses the cost benefit of such projects in order to take decisions. Though this is not done in a very elaborate way, both top level managers and Board of Directors are conscious of the fact that such feasibility studies are beneficial.

Evaluation :

Through past experience the cooperative societies today have set standards in various fields of activity. These standards are compared with the standards of past periods and the standards of other societies. The steps taken in standard costing are as follows:

(i) Determination of Standards.
(ii) Comparison of the Actual Costs with the Standard Costs.
(iii) Determination of Cost Variance.
(iv) Reporting of Corrective Action.

The societies also use accounting ratios for planning and control. They are used to improve profits and efficiency of the society. The Managers and the Directors use both standards and ratios to determine the performance of societies and take decisions.

Conclusion

The co-operative societies today are large business organisations with a considerable financial turnover. In Sri Lanka, they are today called upon to actively participate in several areas of development activity. This trend is noticeable in the developing countries where the cooperative societies are expanding very fast and they have to face stiff competition from the private sector. Large capital funds are being invested in the co-operative sector, the funds being drawn from both internal and external sources. The co-operative leaders are confronted with the task of manning and running the cooperative organisations efficiently. Co-operative training and education have not kept pace with the rapid expansion of the movement in many countries. The private sector organisations are powerful and financially strong, and they are able to attract efficient personnel from the cooperative sector by offering better conditions, incentives and high remuneration. With these problems, the societies are faced with the task of improving the management in order to run them more efficiently.

During the past years attempts have been made to improve the management in cooperative societies. Management is included as a subject in training and educational programmes. There has been a recent trend to recruit experienced management accountants and steps have been taken to train the existing staff in important fields of management. In spite of these attempts there is still a need for improving the financial management in cooperative societies in developing countries. There is an urgent need to train the existing staff in the field of financial management as in most cooperative societies the functions of the accountants are limited to financial accounting. They also have to play an important role in assisting the top management to take decisions and hence they have to play the role of a financial advisor.

Cooperative education and training should also be geared to training managers in principles and practices of financial management. Specialised training courses should be conducted in this field for Financial Managers and Accountants. There is a dearth of training material and case studies in this field. The Cooperative Training Institutes in the developing countries should pay more attention to this area, and should meet, in order to procure and develop the requirements in this field. They also should develop short courses in this field. A training in basic principles and practices of Financial Management should be given to all managers who are responsible for planning and control of finances.

The apex cooperative institutes in these countries should set up a management advisory body to the co-operative sector. This body should extend both consultancy and advisory services to the cooperative institutes and should develop training material in Financial Management.

The requirements in Financial Management for cooperative societies in developing countries today is not the highly sophisticated techniques in Financial Management. The societies should ensure that the managers use the basic requirements in Financial Management to plan and control the finances of the society. Every society should prepare a Budget for the forthcoming year and a monthly assessment of the performance with the Budget should be examined and corrective action should be taken where necessary. Cash requirements should be estimated by means of a cash budget and working capital budgets. The overall performance of the society should be compared with the performance during the previous months and years, and also with that of other similar societies. The society should develop standards and ratios which help such comparison. Any new ventures and profits should be decided upon on feasibility reports and estimates. These basic requirements in financial planning and control should be developed in relation to all activities of the society.

The necessity to improve the efficiency of cooperative societies in the developing countries is a felt need today. With the expectations to improve the management efficiency of the societies, the implementation of successful training programmes based on the requirements in cooperative societies in the developing countries should be considered seriously. In view of the urgent need for training managers in management techniques, the establishment of a centralised Management Training Institute for developing countries could be looked into. Such an institution will help the managers of these countries to meet and exchange views, solve problems and follow common training programmes on management methods and techniques.

The objective of cooperative societies is sound financing.

The society should plan to obtain the required funds for investment in pre-considered projects at the right time. The society should be able to appraise the investment to ascertain whether the funds invested have yielded the expected returns. If this planning and control of funds is absent, the societies will have to face adverse results. Thus it is obligatory for societies to train their managers in Financial Management.

In the past years a large number of societies were liquidated. This is not a feature peculiar to Sri Lanka alone. Practically in all developing countries there is a noticeable discontinuation of business by cooperative societies. The reason that could be attributed for this state of affairs is the failure of managers in the area of Financial Management. Therefore it is the bounden duty of the cooperators, especially those in developing countries, to pay special attention to this state of affairs and formulate a practical solution to ensure that the society managers are made familiar with sound financial planning and control.

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MULTIPURPOSE CO-OPERATIVE SOCIETY LIMITED
STATEMENT OF OPERATIONS FOR THE MONTH OF........197 .

Previous Financial Year	Current Financial Year	Approved Budget for the Financial Year from	Particulars	Total This Month	Total Previous Year Relevant Month	Budgeted Income and Expenditure Relevant Month	Variance from the Budget	Com-ments
			1. Sales					
			2. Closing Stock					
			3. Total (1+2)					
			4. Opening Stock					
			5. Purchases					
			6. Transport Cost					
			7. Other Buying Expenses					
			8. Total (4 to 7)					
			9. Other Income					
			10. Commission					
			11. Sale of Empties					
			12. Others					
			13. Total Other Income (10 to 12)					
			14. Total Income (9+13)					
			15. Rent and Rates					
			16. Salaries					
			17. Travelling (Staff)					

18. Travelling (Directors)
19. Bank Interest and Charges
20. Insurance
21. Postage, Printing and Stationery
22. Depreciation
23. Other Expenses
24. Total Expenses (15 to 23)
25. Net Profit (14—24)

Income from other Activities

26. Agricultural Marketing
27. Rural Bank (Credit Activities)
28. Motor Vehicle
29. Contracts
30. Land and Buildings
31. Industrial Operations
32. Interest of Investments
33. Other Incomes
34. Total Income

Operating Rates

35. Gross Profit to Sales
36. Net Profit and Sales
37. Salaries to Sales
38. Total Expenses to Sales
39. Value of Condemned Goods
40. Condemned Goods and Tare to Sales
41. Detail Sales for Ration Book

Sales Analysis

ANNEXE-1

Programme

15th November 1976

09·30	Inauguration of the Conference Tea
11·30	Address by Mr. A.C. George, State Minister for Civil Supplies and Cooperation, Government of India.
12·00—13·00	**Cooperative Credit Planning for Agricultural Cooperative Development** —Prof. G.B. Kulkarni Director V.M. National Institute of Coop. Management, Poona.
13·00—14·30	Lunch by the Ministry of Civil Supplies & Cooperation, Government of India.
14·30—15·30	Discussion on Paper 1
15·30—16·00	Tea
16·00—17·00	**Cooperative Credit Planning for Consumer and Industrial Cooperative Development (with special reference to the Urban Cooperative Thrift & Credit Institutions)** —Dato N.A. Kularajah President Cooperative Union of Malaysia, Kuala Lumpur.
17·00—18·00	Discussion on Paper 2 Dinner by Government of Tamil Nadu

16th November, 1976

09·30—10·15	: **Organisational Structure and Rationalisation** —Mr Lionel Gunawardana Specialist in Agricultural Cooperation, ICA ROEC.
10·15—11·00	Discussion on Paper 3
11·00—11·30	Tea
11·30—12·30	: **Manpower Planning, Training and Development** —Mr. M.M.K. Wali, Chief Executive, National Coop. Union of India, New Delhi-24.

12·30—13·00	: **Manpower Planning, Training and Development** —Mr. J.M. Rana Director, (Education) ICA ROEC.	
13·00—14·30	Lunch by National Cooperative Development Corporation	
14·30—15·30	Discussion on Paper 4	
15·30—16·00	Tea	
16·00—17·00	: **Financial Management** —Prof. Varanasy S. Murty, Director, Extension Management Programme, University of Bombay, Bombay.	
17·00—17·30	—Mr. Gunadasa Lokuge, General Secretary, National Cooperative Council of Sri Lanka, Colombo-3.	

17th November, 1976

09·30—11·00	Discussion on Paper 5	
11·00—11·30	Tea	
11·30—13·00	Group Discussions	Group I : Paper 1 Group II : Paper 2 Group III : Paper 3 Group IV : Paper 4
13·00—14·30	Lunch by NAFED & NCCF	
14·30—17·30	Group Discussions (Contd.) and Preparation of Group Reports	
19·00	Cultural Programme Dinner by the ICA ROEC and the NCUI	

18th November, 1976

11·00—13·00	Final Plenary Presentation and Adoption of Group Reports
13·00—14·30	Lunch by Cooperative Movement of Tamil Nadu
14·30—17·00	Final Plenary (Contd.)
17·00	Presentation and Adoption of Group Reports (Contd.) Tea

19th, 20th and 22nd November, 1976 : Study visits

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THE INTERNATIONAL COOPERATIVE ALLIANCE

is one of the oldest of non-governmental international organisations. It is a world-wide confederation of co-operative organisations of all types. Founded by the International Cooperative Congress held in London in 1895, it now has affiliates in 66 countries, serving over 326 million members at the primary level. It is the only international organisation entirely and exclusively dedicated to the promotion of cooperation in all parts of the world.

Besides the Head Office of the ICA, which is in London, there are two regional offices, viz., the Regional Office & Education Centre for South-East Asia, New Delhi, India, and the Regional Office for East and Central Africa, Moshi, Tanzania. The Regional Office in New Delhi was started in 1960 and the office in Moshi in 1968.

The main tasks of the Regional Office & Education Centre are to develop the general activities of the Alliance in the Region, to act as a link between the ICA and its affiliated national movements, to represent the Alliance in its consultative relations with the regional establishments of the United Nations and other international organisations, to promote economic relations amongst member-movements, including trading across national boundaries, to organise and conduct technical assistance, to conduct courses, seminars and conferences, surveys and research, to bring out publications on cooperative and allied subjects and to support and supplement the educational activities of national cooperative movements. The Regional Office and Education Centre now operates on behalf of 14 countries, i.e. Australia, Bangladesh, India, Indonesia, Iran, Japan, Republic of Korea, Malaysia, Nepal, Pakistan, Philippines, Singapore, Sri Lanka and Thailand.