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CONSTRAINTS ON DEVELOPMENT  
OF COOPERATIVES IN PAKISTAN

By

R E S E A R C H   A S S O C I A T E S

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Views expressed in this report are those of the Research Associates, Islamabad. Members of the Research Team and the Respondents in whatever capacity they were associated, are not to be held responsible for any thing reported therein.

## TABLE OF CONTENTS

ACKNOWLEDGEMENTS	.....	
EXECUTIVE SUMMARY		
1. <u>INTRODUCTION</u>	.....	1
1.1 Project Background	.....	1
1.2 Study Objectives	.....	2
1.3 Case Studies	.....	3
1.4 Data Collection and Analysis	.....	4
2. <u>REVIEW OF LITERATURE</u>	.....	6
2.1 Country's Experience	.....	6
2.2 Cooperatives of Selected Countries	.....	13
3. <u>COOPERATIVES IN PAKISTAN</u>	.....	37
3.1 Strategy and Policy	.....	37
3.2 Organizational Set-up	.....	38
3.3 Development Perspective	.....	39
3.4 Operational Realities	.....	49
3.5 Cooperative Regulations	.....	51
3.6 Conclusions	.....	53
4. <u>WORKING OF COOPERATIVE CREDIT SYSTEM</u>	.....	54
4.1 Background	.....	54
4.2 Federal Bank for Cooperatives	.....	56
4.3 Provincial Cooperative Banks	.....	68
4.4 Overall Assessment	.....	79
5. <u>PERFORMANCE EVALUATION OF MARKETING COOPERATIVES</u> ....		80
5.1 Background	.....	80
5.2 Potato, Vegetables and Fruit Growers Cooperative Society Ltd., Okara	.....	81
5.3 Kandi Hayat Mallago Fruit Growers and Marketing Society, Peshawar	.....	95
6. <u>WORKING OF LIVESTOCK AND DAIRY COOPERATIVES</u>	.....	109
6.1 Introduction	.....	109
6.2 Al-Mehran Livestock & Dairy Development Society, Hyderabad	.....	109
6.3 Chowk Pindori Dairy Cooperative Society, Rawalpindi	.....	118

7.	<u>PERFORMANCE OF FARMING COOPERATIVES</u>	.....	128
7.1	Introduction	.....	128
7.2	Cooperative Farming Society, Chak No.18-B/7-R, Chichawatni	.....	131
7.3	Cooperative Farming Society, Chak No.45/10-R, Khanewal	.....	143
8.	<u>ANALYSIS OF CASE STUDIES</u>	.....	155
9.	<u>SUMMARY CONCLUSIONS AND RECOMMENDATIONS</u>	.....	158
9.1	<u>Conclusions</u>	.....	158
9.1.1	Philosophy & Structure	.....	158
9.1.2	Cooperative Credit System	.....	160
9.1.3	Legal Fram-work	.....	161
9.1.4	Specialized Cooperatives	.....	162
9.2	<u>Recommendations</u>	.....	164
9.2.1	Organization & Structure	.....	165
9.2.2	Cooperative Credit System	.....	166
9.2.3	Institutional Support	.....	168
9.2.4	Legal Frame-work	.....	169
	<u>REFERENCES</u>	.....	170
	<u>RESEARCH TEAM</u>	.....	174
	<u>Annexure-I</u>		
	Official Interference in the working of cooperatives	.....	175
	<u>Annexure-II</u>		
	Proposed Amendments in Cooperative Societies Act-1925	.....	178
	<u>Annexure-III</u>		
	Proposed Organizational Structure of Cooperatives	.....	180
	<u>Annexure-IV</u>		
	Proposed Internal Organizational Structure of the Federal Bank	.....	181
	<u>Annexure-V</u>	.....	182

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## EXECUTIVE SUMMARY

### INTRODUCTION

The idea of formal cooperative efforts both among consumers and producers of raw material originated in Europe during the 19th Century, more specifically in Germany. It spread to other parts of the world mostly through colonial regimes. Pakistan too inherited the cooperative ideology, its legal framework and organizational structure set up by the British, essentially to solve the farmers' problems arising out of their heavy indebtedness to non-farming class of money lenders. Despite functioning for more than three quarters of a century, the achievements of cooperative movement in Pakistan have remained limited. In fact its critics pass a verdict of failure against it. It is however, still considered desirable as it combines social responsibility with sound business management.

To draw on experience at home and abroad, particularly in the field of farming and marketing of perishables through cooperatives, Ministry of Food, Agriculture and Cooperatives, Government of Pakistan commissioned this study. Following were the main tasks:-

- general review of the working of agricultural cooperatives in the country;
- analysis of the working of cooperative credit system since re-organization in 1977;
- performance evaluation, through case studies, of the cooperatives established in the field of farming, livestock and dairy and fruit and vegetable marketing; and
- review of available literature on cooperatives in respect of countries like: Egypt, Japan, the Philippines, Thailand and India.

Conclusions drawn from review of literature and case studies were inter-linked to deduce elements of success and failure and to suggest measures for improving the working of cooperatives in the country

### COOPERATIVES IN SELECTED COUNTRIES

Like Pakistan, the rise and expansion of modern cooperative system in most developing countries have its roots in the far reaching socio-economic and political changes which took place in Europe in the beginning of 19th Century. Adhering to the basic principles, each country/community developed its own organizational structure, operational mechanism and the legal and institutional infrastructure in the context of prevailing socio-economic conditions and cultural values. The level of achievements thus varied not only among countries/communities but also among cooperatives organized for different activities.

Review of literature in respect of selected countries indicates that the cooperative efforts in Japan and Egypt were of great success whereas in the Philippines, Thailand and India, the success was limited to certain activities. It appears that cooperatives having adequate membership of like minded people representing the activity units of similar nature and operating as business enterprises have greater chances of success. The main factors which contributed to success of cooperatives in these countries were:

- Well-knit organizational structure having all the centrifugal connections and centripetal links which operate as push-forward and pull-backward forces in the process of development.
- Large membership of people doing the same business making it possible to provide cheaper services by availing the benefits of economies of scale.

- Availability of sincere and honest leadership and effective education and training programme.
- Regular assured income and availability of desired infrastructure enabling the society to plan and implement viable development projects.
- Adequate government support, atleast during early stages of development.
- Collective decision making process helping the development of confidence and mobilization of resources internally.
- Linking of input supplies (including credit) with output marketing activities resulting in continuation of some of the services to keep the members' interest alive.

#### PAKISTAN'S COOPERATIVE MOVEMENT

Pakistan inherited the cooperative philosophy and structure essentially developed for tackling the problem of rural indebtedness through the supply of credit. A striking feature of cooperative movement in Pakistan is that it did not start from the grass roots as in the Western Countries, instead it was sponsored by the Government in consequence of which it became over-dependent. After independence in 1947, the Provincial Governments encouraged the establishment of cooperatives in different fields of activity. Their numbers have increased manifold, particularly in rural areas but effective coverage and performance remained much less than desired. Their operational capability depends upon the performance of officials of Provincial Cooperative Departments as most of the primary societies do not have their own managerial staff. Another reason of ineffectiveness may be the absence of much desired linkages both horizontal and vertical.

Primary societies organized at local level have no linkage with each other. For credit purpose their linking factor is the membership of the Provincial Cooperative Bank. For business operations relating to input supply and produce

marketing there is hardly a worth-mentioning secondary institution. The local societies (most of which are not viable institutions for obvious reasons) are constrained to work in isolation. The situation deteriorated further after 1979 due to the policy of interest-free credit to small farmers. A large number of bogus societies were got registered by unscrupulous persons. These are the one man/family concerns organized with the sole aim to grab the interest free loans.

The rules and regulations incorporated to deal with credit oriented movement remained intact. A few modifications, made in the meantime, have in-fact increased the official hold --- a strong handicap in the transformation/development of cooperatives as business enterprises. As such, besides structural and operational short-comings, the most damaging aspect of the present day movement is its being non-genuine and non-viable. It thus requires changes in the organizational restructure, policy strategy and operational modalities specifying the role of each component of the system.

#### COOPERATIVE CREDIT SYSTEM

Prior to 1976, there was three-tier cooperative credit system in the Provinces of Punjab, Sind and Baluchistan whereas in NWFP, it was two tier. Under three tier system, the primary societies formed the basis and were affiliated with the district level central cooperative bank. The system had the following drawbacks:-

- Central banks being small units could not afford to employ properly qualified staff and hence their banking standard was not upto the mark.
- Being controlled locally, the Managing Committees were in a comfortable position to exploit public resources for their own benefit and for the benefit of their kith and kin.
- In the event of weak financial position of a central bank, credit flow to all the societies of the area

became blocked and the cooperative movement therefore suffered.

To solve these and resultant problems the Federal Government with the consent of Provincial Governments established the Federal Bank for Cooperatives and restructured the cooperative banking system. Accordingly, one provincial cooperative bank in each province was allowed to function and the central cooperative banks were dissolved. The present system thus operates through a network of provincial cooperative banks and caters to the requirements of about 42,000 affiliated cooperative societies. The effectiveness of the system depends not only on the performance of the Federal Bank and the Provincial Cooperative Banks but also the borrowing societies.

A detailed analysis of the working of this system indicates that Federal Bank has not been able to deliver the goods. So far it has acted as conduit between the State Bank of Pakistan and the Provincial Cooperative Banks. The Provincial Banks have operated as revenue offices of the Provincial Cooperative Department. Local level primary societies remain at the mercy of the field functionaries of the cooperative department. Not only their organization, registration, inspection and financing operations but also the management is looked after by the Government officials. The cooperative credit system in vogue is without checks and balances. The lending strategy is not conducive to mobilization of resources internally. This coupled with the prevailing frustration among the employees has led the system to suffer from misuse of resources and inefficiencies at various levels of activity. There is, thus, an urgent need to reconsider the policy strategy, operational modalities and internal organizational pattern of the management systems of the Federal Bank and the Provincial Cooperative Banks.

## MARKETING COOPERATIVES

This type of societies were first organized in 1953 at 'mandi' towns with membership to village level primary societies. The idea was to use the primary societies as collection and distribution units whereas the actual purchase and sale business was to be handled by the 'mandi' level marketing and supply societies. However, the village 'beoparies' and commission agents managed to get the membership and control of management of 'mandi' level societies. The interests of primary societies (representing the producers) were jeopardised and the effort failed. Likewise, service societies at Union Council level and farm service centres in selected market towns too, failed to achieve their objectives mainly due to the excessive official control over their management affecting the members' interest and efforts for mobilization of resources internally, lack of entrepreneurship capabilities, non-existence of education and training facilities and absence of institutional support from the concerned public sector organizations.

To overcome the specific problems of producers of agricultural perishables, organization of specialised cooperatives was encouraged by providing subsidy under the development schemes. However, on the expiry of such schemes, most of the societies became in-operative or preferred to continue their operations as credit organizations without taking care of the much desired services like: technical assistance, plant protection and marketing/processing facilities. A few of these did achieve success in the selected areas of activities. Following were the main factors.

- A genuine society organized on initiative of the like mind persons doing almost the same business helping the development of strong will to contribute to self-help.
- Collective decision making process creating better understanding paving the way to development projects.

- Large membership providing opportunity to earn more due to large volume of business.
- Sincerity and efficiency of leadership enabling the society to continue some of its activities which kept the members' interest alive.

#### LIVESTOCK AND DAIRY COOPERATIVES

Role of cooperatives in livestock sub-sector, so far, has been negligible despite the fact that efforts in the field started as early as 1925 when a number of Cattle Breeding Societies were organized in the province of Punjab. Further efforts were directed towards organization of Veterinary First Aid Centres under cooperatives in 1940. More steps in this field were taken after the Partition. A number of Livestock and Dairy Societies were organized in the districts of Sahiwal, Lahore, Sheikhupura and Rawalpindi. For the purpose, besides technical assistance, credit facility was also made available on subsidized rates. Most of these societies, however, were organized by the big land lords to grab the public money. Consequently these efforts remained more or less limited to selected families. Barring a few exceptions, almost all these societies have become defunct. Their failure has been attributed to the following factors:-

- These were organized not because of realization of need but on persuasion of the government officials to achieve targets. As such, instead of developing the organization, the managements' enthusiasm was centered on grabbing the facilities.
- Lack of ability to plan and manage the development activities resulted in financial losses. The government's technical support also remained inadequate.
- Instead of mobilization of resources internally, operations of these societies were made dependent on external sources. Non-availability of the needed funds hindered the development process.

- Lack of adequate milk processing facilities in the area multiplied the market problems of these societies.

#### FARMING COOPERATIVES

Farming cooperatives in the country were first organized under Colony Cooperative Farming Scheme launched for the rehabilitation of refugees and tenants. In all about 140 thousand acres of land was awarded to 132 cooperative societies. Of the total area, about 130 thousand acres were leased to 10,898 members at the rate of 12.5 acres per family. The remaining land was utilized for village sites, roads, public utilities. Being lease holders, these societies received 40 percent of members' produce for paying government dues and to meet the development and management expenses. The system was discontinued in 1960 and to meet the management expenses every member was asked to pay Rs.200/- annually.

Another experiment was undertaken in 1962 in enclave areas situated in the districts of Sahiwal and Sialkot. The project, however, could not accomplish the desired objectives due to financial constraints in the wake of wars of 1965 and 1971 with India.

The latest effort in this direction was undertaken through a special enactment called Cooperative Farming Act-1976. Main objectives of the scheme were:-

- Joint cultivation of land by using farm machinery;
- managing government support in the form of grants; and
- establishment of federations of farming societies at district and provincial level.

Only 11 such farms were set up. The scheme was at its beginning when shelved because of change of government in 1977.

Thus practically only the societies organized under Colony Cooperative Farming Scheme worked and achieved their objectives. Their success has been attributed to the following.

- Regular managerial staff and availability of desired physical infrastructure facilitated the continuation of activities particularly the maintenance of account correctly and enabling the society to know its overall financial position in general and that of the specific activity in particular.
- Assured income enabled the society's management to plan and execute various development activities in an effective manner.
- Existence of well developed forward and backward linkages facilitated the development of agricultural land and other infrastructure.
- Linking of the process of land development with input supply including additional irrigation water from tube-well, farm machinery on rent and desired credit on soft terms did help improve village agricultural economy.

#### SUGGESTIONS FOR IMPROVEMENT

Conclusions of the study are indicative of the fact that performance of the cooperative system in the country at all levels of activity has been quite un-satisfactory. Despite various efforts, main components of the system remained underdeveloped because these efforts did not address to its basic problem of survival. In order to achieve meaningful cooperative development and to improvise viable organizations, there is need to create climate conducive to their establishment and growth through policy framework and institutional infrastructure on the pattern of Japan/Egypt. For the purpose, following suggestions are made:-

#### Organization and Structure

- i) To provide sufficient volume of business, societies be organized for multipurpose and the membership be

given to activity units instead of individuals.

- ii) The existing societies be brought under new system through legislation for amalgamation.
- iii) To provide necessary linkages, federated system of cooperatives as per Annexure-II be adopted.
- iv) Official control over the management of cooperatives be done away with.

#### Cooperative Credit System

- i) Besides reorganizing the internal structure of the Federal Bank as suggested in Annexure-IV, the large sized Board of Directors be reduced to 10 members with the Chief Executive as its Chairman.
- ii) The Board of Directors of Provincial Cooperative Banks also be restructured giving appropriate representation to FBC, Provincial Governments and Cooperative Societies.
- iii) Instead of depending on borrowed staff, the Provincial Bank's own cadre of field staff be developed and much desired banker-customer relationship be established.
- iv) To improve capability and efficiency of the staff of the Federal Bank and the Provincial Banks a properly structured training programme be prepared and implemented.
- v) To encourage resource mobilization locally, the present lending policies be changed.
- vi) Magnitude of financing to cooperatives (including Provincial Cooperative Banks) be made a function of their own funds.
- vii) To encourage the cooperatives to become business like enterprises, credit facility be extended on the condition that borrowing society will undertake all the major activities envisaged in bye-laws.

#### Institutional Support

- i) The Federal Bank in collaboration with the Provincial Cooperative Banks should help develop physical infrastructure and managerial services at grass root level for the affiliated societies.
- ii) The Federal Bank should attend to trainers' training and the neglected aspect of applied research on priority basis.

- iii) Public sector organizations dealing with supply of improved seed, fertilizers and pesticides should distribute the same through cooperatives. Similarly the procurement of food grains, on behalf of government, be done through cooperatives to the possible extent.

#### Legal Frame Work

The rules and regulations governing the working of cooperative societies, the credit structure and for produce marketing and farm input supplies be modified accordingly.

Some of the desired modifications in cooperative law are suggested at Annexure-II.

## 1. INTRODUCTION

### 1.1 Project Background

The idea of formal cooperative efforts originated and spread as a reaction to the capitalism of the 19th Century Europe. In the new economic order characterized by the factory system of production, the artisan class was squeezed and rapidly replaced by a new class of industrial workers who were mere wage-earners as employees of factory owners. To safeguard their socio-economic interests, a group of artisans (weavers) in England organized the first (consumer) cooperative society in 1844. Almost simultaneously, in Germany, Friedrich Raiffeisen launched a similar experiment by organizing producers' credit cooperatives in the field of agriculture. Both type of cooperatives were quite successful proving that the cooperative technique can be applied in different socio-economic conditions and for various activities.

Pakistan inherited the cooperative ideology, policy framework and organizational structure from the western colonial regime of the sub-continent, essentially set-up to solve the farmers' problems arising out of heavy indebtedness at the hands of the non-farming class of money lenders. These cooperative organizations were thus rather welfare oriented than economically viable business units. Although the movement widened its scope, in actual practice, however, it remained and is still a credit oriented activity.

Despite functioning for more than three quarters of a Century, the cooperative movement has made limited achievements. In-fact, most people pass a verdict of failure against it. It is still considered desirable as it emphasises social responsibility

and sound business management at the same time. It would be real service if the cooperative system is enabled to succeed after necessary changes in its organizational structure, working pattern, management practices and various provisions of law affecting the movement adversely.

Realizing the need to draw on experiences at home and abroad, particularly in the field of cooperative farming and marketing of perishables through cooperative enterprises, Ministry of Food, Agriculture and Cooperatives, Government of Pakistan under its Food Security Management Project commissioned this study.

## **1.2 Study Objectives**

The study is intended to analyse experiences in the field of cooperative farming and marketing of perishables with the object of extracting elements of success and suggesting measures for improving the working of cooperative enterprises in the country. For the purpose, the following activities have been undertaken through this research study:-

- aggregate evaluation of the working of agricultural cooperatives in Pakistan on the basis of review of literature and secondary data available with offices of Registrars of Cooperative Societies and other agencies;
- analysis of the working of cooperative credit system since re-organization in 1977;
- evaluation of cooperative operations, attitudes and perceptions on the basis of case studies of farming societies and the cooperatives dealing in marketing of perishable agricultural commodities; and
- review of available literature pertaining to agricultural cooperatives in selected countries like: Egypt, Japan, the Philippines, Thailand and India.

### 1.3 Case Studies

In Pakistan, a number of societies have been registered as fruit and vegetable marketing, livestock and dairy development and farming cooperatives but only a few are known to be active.

Since performance record of the individual society is kept only at society's office in the village where it has been established, therefore, lists of successful and un-successful cooperatives based on the criteria stated on ensuing pages could not be prepared. Due to this constraint societies for the case study were picked up on the basis of general assessment by officials of the Cooperative Departments and the Provincial Cooperative Banks keeping in view the working and willingness of the society's management to give access to necessary information.

The following societies were accordingly approached for detailed information:-

1. Potato, Vegetable and Fruit Growers Society, Okara.
2. Kandi Hayat Mallago Fruit Growers and Marketing Society, Tehsil Peshawar.
3. Al Mahran Livestock and Dairy Development Society, Hyderabad.
4. Chowk Pindori Dairy Cooperative Society, Rawalpindi.
5. Cooperative Farming Society, Chak No.18-B/7-R, Chichawatni.
6. Cooperative Farming Society, Chak No.45/10-R, Khanewal.

**Performance Criteria:** The primary aim of cooperative enterprise is to ameliorate the living conditions of its members by increasing their income and by improving the surroundings. In this behalf, while a marketing society tends to supply inputs at the possible cheapest rates and arrange marketing of surplus

production at the maximum net-return to the member producer, a farming society is also required to ensure efficient management of the farm. The performance of selected societies was judged on the basis of criteria emanating from this context.

A cooperative society was treated successful if:

- i) it had undertaken the functions for which it was organized;
- ii) it had helped its members to increase their production and income by extending different facilities/services;
- iii) it had proved to be a financially viable institution;
- iv) it had mobilized internal and external resources effectively to meet its requirements; and
- v) its management had proved to be efficient one. This was judged from its ability to plan and implement different activities.

#### **1.4 Data Collection and Analysis**

The desired information in respect of selected cooperative society was collected from its record by filling in a survey schedule designed for the purpose. Similarly information and views of members and non-members (five each in case of each selected society) were obtained also through a pre-tested interview schedule.

Data so collected were analysed separately and inter-linked with the opinions/views of the members and non-members residing in the area and doing the same business to pinpoint factors responsible for success or failure accordingly. The analysis was mostly confined to simple comparisons on the basis of averages and/or percentages. However, the financial viability of a society was judged on the basis of debt-equity ratio as per practice in cooperatives.

Conclusions drawn from review of literature and case studies were inter-linked, to the extent possible, to deduce elements of success and failure and to suggest measures for improving the working of cooperatives in the country.

## 2. REVIEW OF LITERATURE

### 2.1 Country Experience:

In Pakistan, very little applied research has been undertaken on the subject of cooperation. The discipline has been treated as merely a form of credit system. The studies primarily dealing with credit have also looked into the working of cooperative sector. Only a few research efforts were directed to the study of its organization, management efficiency, productivity and effectiveness of the regulations in vogue. This seems to be partly due to lack of institutional support and partly due to non-availability of information through secondary source. Most important studies are the official reports prepared by different committees constituted for the purpose and are based on secondary source data. Besides, there are a few research studies and articles which cover the subject. In consideration of their significance and relevance to the subject, some of these have been reviewed hereunder:-

2.1.1. The Cooperative Enquiry Committee (1952) observed that introduction of cooperative movement in commercial sector, after 1947, had given rise to mal-practices and inefficiencies because of resource constraint and managerial limitations. Extending membership to individuals in the cooperative banks led to corruption as a result of which huge amounts were stuck-up. Inadequate supervision by the government officials resulted in mis-use of resources by vested interests. To increase the official control, the Committee therefore favoured adoption of the Cooperative Societies Act of 1925 replacing the Act of 1912, thereby providing for a more effective control on the management of societies by the Registrars Cooperative Societies.

2.1.2 The Credit Enquiry Commission (1959) isolated the following three kinds of reasons for the failure of cooperative movement in Pakistan:-

- Factors internal to the local community such as lack of education, failure of an authentic rural leadership to emerge to replace the official leadership and the divisions in village life based on social groupings, land tenure and occupational status.
- Factors within the organization of cooperatives such as the unpopularity of the principles of unlimited liability, dependence on unpaid honorary staff and the low credit limits fixed in relation to land revenue making it inadequate to meet the production needs.
- The failure of the Provincial Cooperative Departments to guide and assist the movement to become an operationally viable enterprise.

The Commission concluded that the cooperative movement had become virtually stagnant at the primary level while the higher financial agencies had largely directed their funds to non-cooperative purpose.

2.1.3 The Food and Agriculture Commission (1960) observed that the upper tier of the cooperative movement had turned into ordinary banking, financing the very merchant against whom it was designed to protect the small man and neglecting the primary societies and that due to lack of expertise many of the central banks were insolvent. At primary level, credit was mis-used and the repayment record was extremely poor. The managing committees of the marketing and supply societies brought dis-credit to the system due to their vested interests. The dual nature of the job of the cooperative staff (supervisory and managerial) had further complicated the things. The Commission also observed that the Government had never really backed the cooperatives.

2.1.4 Nisar (1966) concluded that the following socio-economic and managerial factors contributed to the success of a

cooperative society:-

- Educated and large membership with some social or cultural homogeneity played a major role in strengthening the working of societies.
- Integrity and experience of the cooperative leadership of the managing members.
- Availability of ample working capital base and other banking business.

2.1.5 Niaz (1968) observed that the following were the main causes of failure of a primary agricultural cooperative credit society:-

- Political activities of the members of the Managing Committee did not leave much time to them to look after the affairs of the society in an effective manner.
- High percentage of illiteracy, small size of membership and lack of interest specially on the part of members were the main factors responsible for the failure of a cooperative society.
- Insufficient working capital and irrational policies of central cooperative banks were the main causes of stagnation in the movement of the area.

2.1.6 Ashiq (1970) while evaluating the Colony Cooperative Farming Scheme of Khanewal, came to the conclusion that the societies organized under this scheme were able to achieve significant progress in the field of agricultural growth. Not only heavy expenditure was incurred on sinking of wells, purchase of tractors and implements, the societies also accumulated substantial capital reserves. The societies had also been successful in extending social services in the form of schools, hospitals, community centres, drinking water etc.

The success of these cooperatives was attributed to factors like:-

- Timely and adequate supply of farm inputs with the assistance of Colony Cooperative Union.
- Arranging technical assistance and linking credit with marketing.
- Installation of tubewells and provision of farm machinery on rent.
- Assured and adequate income from the charge on members for meeting establishment and development needs.

2.1.7 Khan (1972) observed that neither the sample farm credit cooperatives became viable after having existed for a period ranging between 9-49 years nor they could create any significant impact on the economy of the member farmers. Cooperatives remained under the influence of a single person or family while rest of the membership performed mostly acclamatory and rectifying role, consequently members were not doing any business with their cooperatives. The requisite volume of owned capital could not be built up. As such, working capital was mostly constituted by the loans obtained from secondary societies (cooperative banks). That 86% of managing committee members were defaulters as against 37 % of the ordinary members and because of the influence and social status of the former, no effort was made to remove them. It was, therefore, felt that without trained local managers, proper bank-customer-relationship and desired physical infrastructure, the movement cannot become a viable proportion.

2.1.8 The Pakistan Academy for Rural Development (1976) while reviewing the development of cooperative movement in district Hazara found that growth of cooperatives in terms of membership and capital base grew fast during the first 5-6 years of the introduction of cooperatives in the area in 1925 and gradually slowed down thereafter. It thus felt the need for thorough analysis and a fresh look at redefining their role in the context of changing conditions and rising aspirations of the people. That

cooperative Laws, supplemented from time to time with amendments, required complete over-hauling instead of piece-meal efforts at patch works. It also concluded that regular disbursement of dividend, however small it may be, needed to be practiced for removal of disillusion and allowed as incentives for encouragement of members.

**2.1.9** Qurni (1977) concluded that:-

- Cooperative movement in Pakistan has neither taken roots among the rural masses whose movement it should have been to start with or become so over a period of time nor has cardinal principles of cooperation, i.e., thrift, self-help and mutual assistance been brought home to them through any educational campaign and training.
- Serious and conscious efforts were required to evolve new village cooperatives which should grow from the grass roots based on the good and relevant characteristics of Raiffeisen and Comilla models.
- The Government may provide initial guidance, training and finance, but at the same time should clearly declare its policy of de-officialization i.e., transferring the management control and supervision to the local leadership within a period of five to ten years.

**2.1.10** Siddique (1980) observed that:-

- The organizational structure of the movement did not provide effective linkages which could guarantee viability and success.
- The cooperatives were controlled by the official bureaucracy on the pretext of supervision. And the actual responsibility of being friend, philosopher and guide has been abandoned.
- Primary societies were organized around influential individuals and not the felt needs. As such, most of the societies were one man/family concerns.
- The use of MCL (practically a function of land revenue) as financial bar has tightened the official grip inhibiting the societies to launch any development project on their own.

- Most of the societies have failed to mobilize internal resources and for taking up major activities for which these were established.
- The age-old rules and regulations through which the movement is being governed were not for which these were established.
- The training and research has almost been ignored, affecting adversely the process of improvement.

It has also been observed that following were the factors which contributed to the slow progress or failure of cooperatives:

- a) The societies were not managed democratically and became instruments in the hands of influential persons/government officials.
- b) In-flexibility of rules and working procedures hindered efforts at improvement.
- c) Present membership criteria, small size and the principle of unlimited liability affected the growth in business thereby reducing the chances of becoming a viable enterprise.
- d) Shortage of qualified staff and lack of education and training facilities.

**2.1.11** The FBC (1984) concluded that:-

- Nearly 50% of agricultural cooperative societies in the country were dormant and need to be weeded out.
- The secondary tier of the non-credit societies was very weak.
- There was too much dependence on outside borrowing. The required build-up in the finances of the cooperative institutions in the form of share capital or deposits was generally lacking.
- Although the linkage between credit and input supply has established since the beginning of the policy of giving loans in kind, but the same was missing between credit and marketing. In fact, marketing cooperatives were almost non-existent with only a few exceptions.
- Credit has increased sharply particularly as a result of the interest-free loaning policy.

- The coverage of farming community by the cooperative movement remained inadequate (below 40%). Effective coverage was below 15%.
- While the number of societies have registered a marked increase, quality has not kept pace with quantity.

**2.1.12.** Sarwar, et al (1986) found that among sample societies, 64% were bogus or under the control and utilization of only one man. As regards quality of membership it was observed that only 17% members were genuine small farmers whereas a large number of sample operators (33%) had business as their main occupation. It was further detected that, on an average, 73% of the loans constituting 72% of the amount was going to bogus loaning. Majority of beneficiaries of mark-up free loans were the large and influential farmers. As such, need for improving the management of cooperatives and the supervision with regard to use of funds was felt very badly.

**2.1.13** The National Commission on Agriculture(1988) observed that:-

- There were about 45,000 agricultural cooperatives in the country out of which more than 50% were dormant and of the remaining, probably about 5% were genuine, viable and active undertakings. The movement has failed to mobilise resources of its own and relied almost entirely on state credit. There was no practice of thrift and collection of deposits.
- The number of credit cooperatives has increased rapidly since the introduction of the policy of mark-up free loans for subsistence farmers but the bulk (over 70%) of this cost free credit of nearly Rs.2000 million was utilized by bigger farmers and businessmen who have got their "pocket societies" registered with the department of cooperative societies.
- The Provincial Cooperative Banks presently disbursing loans of over Rs.2.5 billion a year were just functioning as pay offices. All credit operations right from the sanctioning of borrowing limits and preparation of loan applications till the release of funds by the cooperative Banks, were virtually handled by the

cooperative officials. The staff of the Cooperative Banks was scared of questioning the justification of the demand, genuineness of the documents and other procedural requirements. A financing bank, except with the prior permission of the Registrar of Cooperatives (Sec 44-A Cooperative Societies Act 1925) cannot have access to the society or its record for ensuring/checking the proper utilization of the funds. Thus there was complete absence of the banker-customer relationship between the financing cooperative banks and the borrowing cooperative societies. The financing banks were just on-lookers in the whole drama.

- The Cooperative field staff was now virtually directly managing the affairs of the so-called cooperatives in disregard of its development and promotional role. Its statutory obligation of "audit" has been totally ignored. No concrete measures were taken to train the managements of societies enabling them to administer their affairs by themselves. The societies, for their day to day operations, have thus been made entirely dependent on the cooperative field staff. The cooperatives therefore cannot be expected to grow as self-sustaining autonomous institutions unless and until the role of the Cooperative Department was considerably narrowed down.
- Some of the obstacles to development were inherent in the situation and owed their existence to the social, political and administrative environment in which cooperative societies have to function. Poverty, illiteracy, the prevalent economic system, social traditions and individualistic attitude of the people, opposition from vested interests, lack of public commitment of policy makers, authoritarian attitude of administrators, lack of conviction among those responsible for the promotion of cooperation and generally low ethical standards of social conduct were the factors which, though external to the movement, were nevertheless the basic cause of its gradual decline.

## 2.2 Cooperatives of Selected Countries

The cooperative movement both among the consumer societies and the producers of raw material originated in Europe during the 19th century. Both types of societies on success in Europe spread all over the world, mostly through colonial regimes. Adhering to the basic principles, each country/community developed specific

organizational structure, operational mechanism and the legal and institutional infrastructure to suit the prevailing socio-economic conditions and their cultural values. The level of achievements varied not only among countries/communities but also among cooperatives organized for different activities. Realizing that a review of the same, even of a few countries, would prove to be useful in pinpointing the main elements of success and failure, an effort on the basis of available literature, has been made as under:

### 2.2.1 Egypt<sup>1</sup>

Cooperatives in Egypt are not a phenomenon of the recent past. As early as 1908, Omar Lotfy, a private philanthropist, sought to introduce agricultural cooperatives for arranging credit for the small farmers for seeds, fertilizers and farm machinery. Just before the Revolution of 1952 the movement had spread over half of the Egyptian villages and was said to be serving 500 thousand farmers through 1700 cooperative societies.

The activities of these cooperatives were actually confined to the supply of seeds and fertilizers which could meet the needs of a minority of its members, who were in fact the big land-owners whereas the remaining section of the farming community was usually deprived of the cooperatives' services. Boards of Directors were ineffectual and mostly non-existent in the management of cooperatives. Members were apathetic towards the General Assembly (Body) meetings which resulted in the following weaknesses of the cooperative movement in Egypt:

- The supremacy and influence exercised by big landowners over the cooperatives' affairs and the monopoly of seats on the Board.

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1. References: Compbell (1951), El-far(1970), Mayfield(1976) FLS(1976) and Siddique(1984).

- The inclusion of merchants and the intermediaries into the cooperatives and Boards of Management, with the intention of dominating the movement and directing it towards their own vested interests, thus depriving the small farmers of the benefits of the movement.
- Mis-use of funds and improper management of cooperative's finance, holding up the action on the decisions and involving the societies in long judicial procedures to get the loans back.
- Procedural difficulties in advancing loans to tenants (who formed the majority of farmers needing credit).
- Loaning procedures were cumbersome and the service centres were at far distance from the headquarters of the local cooperatives. Loans were given through bank sub-agencies. Seeds and fertilizers had to be obtained from stores and shops which were far away required lot of time and efforts for the minimum desired services.
- The cooperatives were not being managed efficiently mainly because of inadequacy of orientation, lack of proper supervision and control, poor standard of cooperative consciousness and awareness among cooperative members, and the untrained management.

In short, the cooperative system was working within a feudal framework and cooperative services were conducted almost entirely to meet the interests of big landowners.

The declared purpose of the land reforms of 1952 was to bring about an immediate re-distribution of income in the country side. The measures also gave to the government a strong control over the agricultural production on the expropriated estates. Because most of the land (to be distributed to the new smallholders) was to come from breaking up large estates that were viable agricultural units, the government considered it desirable to establish organizations that would carry on the management functions of the former owner in order to maintain efficient operations and to avoid the economic disadvantages the new owners would suffer from un-coordinated small-scale farming and marketing. Therefore, the law required that new cooperative societies

be formed among those farmers given land under the Land Reforms Law.

These agrarian reform cooperatives were given wide powers not only to provide to their members usual services like storage and transport but also to organize cultivation of the members' land, specify the crops, carry out pest control and irrigation works, and handle marketing and other financial transactions. Because of the inexperience of the ordinary member, the cooperatives were officially controlled and put under supervision of state agents appointed by the Ministry of Agriculture.

Cooperatives in Egypt also experienced another system in 1955, of unified crop rotation through cooperatives, in areas not covered by agrarian cooperatives. The main objective was to cope with the problem of fragmented holding. Through this system the small holdings around a given village were combined to form economical plots (cf at least 50 feddans) to be sown in accordance with a long range plan of rotation. This system proved to be successful in increasing yield and farm income and was gradually expanded to include nearly every village in the Nile Valley.

The unified rotation cooperatives and the land reform cooperatives have now been merged in the re-organized structure of multi-purpose cooperatives one in each village. These cooperatives are not just institutions which provide peasants with requirements for agricultural production, today they are perceived as instruments for implementing much of the social and economic policies of the state in the rural areas. Specific functions outlined for the agricultural cooperatives include: soil improvement, crop production, plant protection, livestock development, farm mechanization, storage and marketing arrangements, irrigation and drainage improvement, rural industries and handicrafts, and financing facilities.

Prior to 1980 every farmer was supposed to be the member of respective village cooperative society because only then he was to avail the subsidies. Although in 1980 the individuals were given option to remain members or not, yet none has left the village cooperatives; may be because the agricultural policy implementation and marketing of almost all crops except cotton is handled solely by the cooperatives. As such, all the 3.4 million farmers are members of cooperative societies.

**Organization and Management:** The agricultural cooperative structure in Egypt is headed by the National Cooperation Authority and the General Cooperative Organization (which are the official bodies) responsible for the establishment of the cooperative system through the promotion of the nation-wide cooperative programme and policy, provision of the requisite technical and financial help to the local cooperative organizations, and supervision of their activities.

The base of the cooperative structure in Egypt is the local multi-purpose cooperative society which embraces all the farmers at the village level. Each village cooperative has a Board (Majlis al-Idara) of five people elected by the members of the cooperative through a secret ballot. Each cooperative society is provided with a trained agricultural supervisor (Mushrif), who is usually a graduate of a local agricultural college, an accountant and a clerk. The supervisor is specifically responsible for the pattern of crop rotation in the village area, the field lay-out and organization of agricultural work scheduling, and the allocation of farm equipment. The members of each cooperative have both collective and individual responsibilities in areas assigned to the cooperative society. Since the agricultural supervisor has final authority in all matters pertaining to the agricultural production in the area of jurisdiction assigned to

him by the Ministry of Agriculture through the Director (Mudir) of Agriculture in each governorate, the cooperative board tends to be an advisory group providing an institution through which the agricultural supervisor can present government policy to the local peasant leaders and through which the local leaders can communicate their problems, complaints and suggestions to the higher authorities. Although most communication has tended to be downward in the general cooperative system, there is evidence that the local boards are playing quite positive role in articulating their concerns to higher officials.

Immediately above the village level cooperative society is the Combined Multi-purpose Cooperative of the district (markaz) level. Each district (there are 122 in Egypt) has a cooperative organization that includes one representative from each local cooperative. This combined cooperative at the district level, headed by an agricultural specialist selected by the Ministry of Agriculture provides a whole series of services to the local cooperatives including: coordination and implementation of all national agricultural programmes and policies, marketing of crops and livestock, management of cooperative training centres, and supervision of consolidation of holding programme.

At the Governorate level are General Cooperative Organizations, having under its aegis all the local cooperatives. At this level the Director of the General Cooperative Organization is responsible for the provision of large-scale supplies for the cooperatives, the establishment of cooperative agricultural mechanization stations, the supervision of pest control programmes, and the formation and implementation of general policy for cooperative marketing, plus specific administrative and personnel responsibilities for all employees of the cooperatives in the governorate.

Although decentralization of function and responsibility is an announced goal of the Ministry of Agriculture, the cooperative system, as it now functions in rural Egypt, is still characterized by significant centralizing tendencies. The levels of agricultural production are still considered too important to the general economy of Egypt to be left to the decision of the local farmers and peasants.

**Other Salient Features:** The following provisions of the Law have also contributed towards the revitalization and smooth working of the cooperative movement.

- A new local level agricultural cooperative can be organized and got registered only with the approval of Ministry of Agriculture.
- Every local cooperative is to have a manager (who takes responsibility for it) to be selected from the two agronomist engineers (Agri. Graduates) nominated by the Board, of course, after seeking the permission from the competent authority.
- The Central Cooperatives undertake functions of control, supervision and inspection of administrative and financial matters, book-keeping, stores and documents.
- 80 percent of the Board (Managing Committee) seats are reserved for farmers (a person whose sole job and source of income is agriculture and lives in a village on conditions that either he, or his wife and children should own or lease more than 10 feddan).
- Local multi-purpose cooperative pay 20% of its capital to the markaz cooperatives which pay 50% of its share capital to Governorate level cooperatives. These governorate cooperatives subscribe 30% of their share capital to the state level General Cooperatives.
- From the application of the statues of the penalcode, cooperatives are considered public institutions.
- The Government (competent minister) can appoint at his pleasure a civil servant or others including those of the public sector at any type of cooperatives with a view to strengthen them.

- Every cooperative is supposed to insure its safes, stores, constructions, assets, etc., according to the given system.
- Since cooperatives are an instrument to implement Government policies at local level, they are exempt from a number of taxes, duties etc.

An overall review of the working of agricultural cooperatives reveals that their successful performance has been due to following:-

- i) Organizational structure has been provided with all the desired centrifugal connections and centripetal links which operate as push-forward and pull-backward forces in the process of development.
- ii) Adequate and timely Government support is provided in the form of:-
  - a) Making available desired managerial staff at different levels of cooperative organizations.
  - b) Granting special privileges viz., subsidies, grants, rebates on taxes etc.
  - c) Assigning monopoly control over the distribution of farm inputs and produce marketing.
- iii) Input supplies, credit and technical assistance (extension services) have been linked with the farm produce marketing operations.
- iv) Cooperatives are being used as developmental catalyst agents particularly for the implementation of agricultural development plans.
- v) Compulsory membership at initial stages was conferred only on the farming units providing reasonable business to the societies to make them financially viable.
- vi) Big land owners are not allowed to become members of Managing Committee to avoid exploitation.
- vii) Effective official guidance and supervision in the implementation of policies has added to the efficiency of these local institutions.

### 2.2.2 Japan<sup>2</sup>

Modern cooperative movement started with the enactment of Cooperative Society Law in the year 1890 which authorized formation of four types of cooperatives: credit, marketing, purchasing and processing. In 1906, credit societies which had hitherto been restricted to advancing of loans to their members were authorized to perform additional function of marketing business. Thus the nucleus of the present-day multi-purpose cooperatives was created in the country.

With the outbreak of World War-II, cooperatives were re-organized into compulsory organizations in order to meet the demands of a war time controlled economy. Coupled with this, the policy of obligatory membership substantially altered the cooperative character of the movement.

With the establishment of the National Guidance Federation of Agricultural Cooperatives after the end of World War-II, and its reorganization into the present Central Union of Agricultural Cooperatives in 1954, the agricultural cooperatives began their activities in a more integrated manner based on needs and demands of their members. They carried out admirably the "Integrated Business Planning Campaign of Agricultural Cooperatives", which was then followed by the "Three-Year Plan for Renovation and Expansion of Agricultural Cooperatives". In 1961, the Law of Amalgamation Assistance for Agricultural Cooperatives was enacted under which the merger of cooperatives, in the larger financial and management was promoted. In 1967, the 11th National Congress of Agricultural Cooperatives adopted the "Basic Agricultural Development Scheme" to pave the way for transforming agricultural activities into an efficiently managed

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2. References: Ogura (1963), Eco.Research Deptt.(1973), Kanazawa(1981) and Matsuhira (1986).

and high income earning industry. Based upon such an approach, efforts were made to create cooperative farming complexes.

In Japan, as has been observed earlier, the primary agricultural cooperative societies are organized at the city, town and village levels, with their membership composed of farmers as regular members and non-agricultural inhabitants as associate members. At present, almost all the farm households in the country are enrolled in the cooperatives organized and established in the agricultural sector.

The primary agricultural cooperatives, can be classified into two categories: multi-purpose and single-purpose types. The former are engaged in such activities as marketing of various agricultural products, inputs supply, credit, mutual-insurance, processing, etc. They try to cater to almost all the needs of their members in the matter of supply of inputs, required in agricultural operations, besides taking up processing and marketing of their produce on collective basis. Moreover they also make available to their members, almost all the daily necessities of life, nearly on the same pattern as do the consumer stores in a number of Western European countries. These cooperatives thus form the sheet anchor in the Japanese cooperative movement in the agricultural sector of the economy.

In certain specific fields, such as fruit and vegetable growing, sericulture and livestock raising, there are single purpose cooperatives which have been organized with the main objective of concentrating on the marketing of specific produce of their members.

The primary cooperatives are organized into federations at prefectural level according to specific functions they undertake for satisfying needs of their members. There are federations

of economic, credit, mutual insurance, welfare, etc. These federations are comprised mainly of multi-purpose cooperatives. Single purpose agricultural cooperatives like: dairy, sericulture, horticulture, etc., have also their own federations which like multi purpose cooperatives have been organized on prefectural level. The latter complement the functions of the former.

Each of the 47 prefectures has a union of agricultural cooperatives whose members are primary cooperatives and prefectural federations. They do not engage in any economic business but function in the areas of guidance, coordination, research and survey, education, information and auditing on behalf of its members.

Each federation at the prefectural level has its counterpart organized at the national level. The national federations are of two categories i.e., those related to multi-purpose agricultural cooperatives and those related to the single-purpose agricultural cooperatives, such as the National Federation of Livestock Cooperatives.

The Central Union of Agricultural Cooperatives is a nation-wide organization, and its members are primary agricultural cooperatives, prefectural federations, prefectural unions of agricultural cooperatives, and various national federations. It not only engages in services such as guidance, coordination, investigation, education, information, auditing etc., but also represents the interests of the country's agricultural cooperative movement.

### **Business Operations:**

Business operations of agricultural cooperatives are diversified to include banking, supply, marketing, insurance,

joint-utilization, extension and better living. The multi-purpose agricultural cooperatives which are the primary contact points with farmers are federated into respective single-purpose federations at the secondary (or prefectural) level. These federations organize their respective national level cooperative federations. In the case of the credit federation, its main function is to coordinate the efforts of primary cooperatives in terms of receiving deposits from and extending loans to them. At the national level, the Norinchukin Bank performs a similar function for the federations. As such, the prefectural credit federation is mainly responsible for the adjustment of surplus and shortage of funds within the prefecture insofar as the cooperatives are concerned while the Norinchukin Bank is assigned the task of coordinating the business activities of 47 prefectural credit federations.

**Agricultural Cooperative Banking:** Agricultural cooperatives have been accumulating personal savings, out of which they extend loans to member farmers. Available information indicates that within cooperative banking institutions - multi-purpose agricultural cooperatives, credit federations and the Norinchukin Bank - floating funds are abundant and easily made available. However, there are limitations which cause stagnation in loan-extension services of agricultural cooperatives.

To meet the farmers' needs for agricultural investment, the government established in 1953 the Agriculture, Forestry, and Fisheries Finance Corporation (AFFFC) with exclusive capitalization from the government. The AFFFC was empowered to gain access to the Trust Bureau, Ministry of Finance, for borrowings at concessionary rates of interest.

The main objective of the AFFFC is to provide long-term, low interest rate loans to small farmers, forest-owners,

and fishermen which is very difficult for other financial institutions including cooperatives to do. The AFFFC direct lending efforts to farmers led to a dual lending window, i.e., the AFFFC and the cooperatives. However, since the AFFFC has only 22 offices throughout Japan compared to the more than 16,000 offices of multi-purpose agricultural cooperatives, former's access to the facility was limited. To remedy the situation, AFFFC decided to make best use of this expanded service network of cooperatives by designating the Norinchukin Bank, all prefectural credit federations of agricultural cooperatives (47), and fisheries cooperatives (35), together with some commercial banks as its agents. Now, more than 60% of outstanding loans of AFFFC are being made through these agents and less than 40% are under direct lending.

**Concluding Remarks:** Like other sectors of the economy, the record of performance of cooperative enterprises in Japan, is quite striking. The system has proved to be a great success attributed to the following main factors:-

- Reorganization of cooperative structure through amalgamation of small units into large enterprises enabling them to have better management practices, economies of scale, large volume of business and better financial standing.
- Government patronage in the form of incentives, effective education and training programmes and implementation of various development schemes (involving subsidies) through cooperatives.
- An effective system of internal resource mobilization through deposit banking.
- Effective linkage between credit and input supply (including technical assistance) with produce marketing and processing.
- Last but not the least is the nation's higher literacy level and discipline in general which has helped in developing the sense of cooperation among the community members.

### 2.2.3 Philippines<sup>3</sup>

Cooperation, in the Philippines, was not a new concept when initial attempts to institutionalize it were made in 1915 following the enactment of the Rural Credit Law. In fact, cooperation among community dwellers has long been part of the Filipino's day-to-day activities and this is known in the native tongue as "bayanihan". The Act of 1915 however, sought to help the farmers in their credit needs through the establishment of rural credit cooperatives. In this system, the amount of funds available to farmers was dependent on the amount saved by them.

In 1952, agricultural cooperatives were given a big boost with the enactment of act for creation of Agricultural Credit and Cooperative Financing Administration (ACCFA). The ACCFA was entrusted with the functions of extending agricultural loans to farmers on liberal terms and organizing them into Farmers Cooperative Marketing Association (FACOMAS). The experiment however did not succeed and the government in 1963 had to extend further support through the passage of another Act known as the Agricultural Land Reform Code. The law reorganized the ACCFA and renamed it as Agricultural Credit Administration (ACA). It shifted the responsibility of promoting and organizing cooperatives to the Agricultural Productivity Commission while retaining only the functions of registration, supervision and financing of cooperatives with the ACA.

Despite the legislative change and government financial support from the time the ACA took the lead in supervision and financing of cooperatives, agricultural cooperatives did not develop to the desired level due to the following:-

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3. References: ACCI (1980), EDF (1981), TBAC (1981) and TBAC (1983).

- Cooperatives sponsored by the government were primarily organized in consideration of some attractive government concessions and privileges;
- Cooperatives were organized by the government without the support of volunteer leaders;
- The early laws were strong on government support and grants which worked against the concept of self-reliance; and
- Dedicated cooperative leaders were hard to find and expertise for membership training and education was lacking.

**New Cooperative Development Programme:** Cognizant of the initial failure of the movement, the government re-examined the principles of cooperative organization and re-directed cooperative development strategies. In 1973, Presidential Decree entitled "Strengthening the Cooperative Movement" introduced a new system designed to remedy the inherent flaws of the previous cooperatives. The Decree, which consolidated all the cooperative laws, was designed to provide a sound basis for a truly systematic cooperative programme. The programme had four objectives:

- Development of cooperatives into viable and self-reliant institutions;
- Organization and development of grass roots level cooperatives;
- Federation of different types of cooperatives into business and non-business organizations; and
- Establishment of an Integrated Philippines Cooperative System.

The first decade of the new cooperative law witnessed the rapid growth of SNS (Samahang Nayons) in the early years but stagnation at later stages. Studies of the Agricultural Credit

and Cooperative Institute (ACCI) in 1980, revealed that more and more farmers were losing interest in the SNs; only some 39 per cent of SNs were enforcing given rules, the majority of which were not remitting the collections; discipline among members was deteriorating; and SNs were found to be structurally weak and dis-organized. A synthesis of findings pointed out that the following difficulties constrain the SNs:

- SNs were not allowed to undertake economic activities to generate profits for their members. Restrictions on the membership size and capitalization also hampered their growth;
- The various committees established to fulfil the multiple long range goals of the SNs were generally inactive and not effectively functioning due to:
  - 1) declining interest of members and officers;
  - 2) lack of time due to occupational demands; and
  - 3) lack of know-how;
- SNs' savings/capital build-up performance was below expectations as members viewed the contributions as additional burden;
- Discipline seemed to be a major problem resulting in inadequacies of both members and officers;
- Members were ill-equipped to manage the affairs of the SNs and many of the officers were dishonest and trifled with the funds of the organization; and
- Many of the rural folks did not quite understand and were not ready to adopt the new cooperative principles as a way of life.

Similarly the performance of Cooperative Rural Banks was hampered because of the following problems:

- The system operated within a framework of broad ownership of a relatively low capital base, a province-wide scope of operations and a paternalistic structure coupled with a confused regulatory system.
- Lending orientation was largely towards the high-cost, high-risk, low-yielding agricultural loans. While average loan sizes were rising, loan volume on a per bank basis was

declining. Only about 16 percent of the SN membership were granted loans.

- Slow collection on matured loans was noted; average past due ratio was 23.3 percent, with half of the CRBs exceeding the ceiling; repayment rate averaged 56.6 percent only.
- Resources were inadequate as a result of low capitalization, low deposit generation and low financial leverage.
- Subscriptions receivables remained unfilled and Government equity capital was provided to the extent of 29 percent only; un-matched capitalization totalled P11.8 million. Deposit to asset and debt-equity ratios of CRBs were lowest in the financial system.
- Gross revenues were low but operational expenses were high thus operations were generally not profitable. Half of the CRBs were in the red as a result of inefficient management and high operating costs, particularly on employee's benefits, travel, representation and the like.
- The CRBs were unable to compete effectively with other banks due to smallness of resources and uniqueness of clientele.

From unfavourable results of operations and numerous instances of mismanagement, conflicts and inefficiencies, management skills of the CRB personnel needed further strengthening to make the CRB viable banking units.

The failure of these projects could not be traced to any particular factor, but the following are said to have contributed to their downfall:

- Farmers were not able to respond well to the sudden inflow of wealth. Financial saving apparently were forgotten and instead, household appliances, even unnecessary ones, were acquired;
- On experiencing large profits from one particular activity, the farmers poured all resources into that activity at the expense of others. As a result, when that business failed, the farmers had no way of bailing out;
- The government, in its effort to aid the farmers, unwillingly included in them the "dole out" mentality, too many agencies were involved, and sources of the problems could not be pinpointed;
- Amounts reportedly got misdirected with no effort to trace

them. This led to complete lack of trust on the farmers' part;

- The technology brought by the foreign experts was not adequately absorbed by the farmers. Hence, when they left, most of the projects had to be abandoned;
- There was a basic conflict between the Barangay (project) Council and the cooperative officers, resulting in mutual distrust; and
- There was no binding force among members such that the cooperative was organized only during the good times and bypassed during the bad times within the cooperative cycle.

#### 2.2.4 Thailand<sup>4</sup>

The history of cooperative movement in Thailand can be traced from 1916 when the first cooperative organization was formed in the rural area as village credit cooperative on Raiffeisen principles. The purpose was to help relieve farmers from severe indebtedness and prevent their mortgaged lands from being foreclosed by the money lenders. After the promulgation of first Cooperative Societies Act in 1928, other types of cooperatives were given their place, forming a movement of both producers and consumers.

In 1968, the Cooperative Societies Act of 1928 was modified to facilitate the expansion and improvement of the cooperatives. The first government programme of cooperative amalgamation was then designed for a three year operation during 1969-72, combining several village level credit societies into a district level cooperative performing the same activities as production credit cooperative but was called "agricultural cooperative". By the final year of the operation, the amalgamation programme realized its goal to merge and transform all credit societies, which num-

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4. References: Ward(1966), Coop.Promotion Deptt.(1979) and ICA(1979)

bered 9,000, into 400 agricultural cooperatives.

**Structure of Cooperatives:** The cooperatives in Thailand are vertically organized at three levels: primary societies at the local level, secondary societies at the provincial level and the apex societies at the national level. Primary society consists of individual farmers, divided into various groups of a village for training purposes, business activities or determination of proposals for forwarding to the Board of Directors. The primary cooperatives get together to form a secondary federation at provincial level. These secondary federations undertake joint activities (on behalf of their primary affiliates) including processing of agricultural produce. At the national level, the Agricultural Cooperative Federation is the apex society of the agricultural cooperatives while the Consumers' Cooperative Federation and the Thrift and Credit Cooperative Federation are the federated apex organizations for the consumers' cooperatives and the thrift and credit cooperatives respectively. The other two federations are Sugarcane Growers Cooperative Federation Ltd., and Swine Raising Cooperative Federation.

The Cooperative League of Thailand, established under the Cooperative Societies Act of 1968 is regarded as the apex organization of the cooperative movement to function as a promotional and educational cooperative body at the national level.

### **Performance of Cooperatives**

There are eight types of cooperatives namely agricultural, fishery, land settlement, consumers, thrift and credit and services cooperatives. Most important of which are the agricultural cooperative societies which consist of farmer members who have their own land, or have the right of holdings. The activities of agricultural cooperatives include agricultural credit services,

supplying farm inputs, processing and marketing of farm products, extension services and occupation promotion for the benefit of their farmer members.

The organization of this type of cooperatives has been in various forms according to the kinds of members' occupations and the cooperation from related authorities. Their main activities are:

- 1) Credit & Marketing Business.
- 2) Exporting and Importing.
- 3) Processing of Farm Produce.
- 4) Development of Agricultural Cooperatives' Management Efficiency.

**Problems and Obstacles:** Cooperatives in Thailand have not been able to flourish to the desired extent. The Cooperatives Promotion Department, as the government agency concerned with the cooperative development studies has stemmed from the management of the cooperatives themselves as well as from other factors. While lack of understanding among members of how a cooperative functions and what is necessary for a successful cooperative and the lack of sufficiently trained personnel for employment in cooperatives particularly in the area of management, together with the inadequacy of operating funds are the main causes of low performance. It is also accepted that factors like uncertainty in the government policy towards cooperative development, the inefficient marketing system and duplicatory and competing structure of farmers' organizations (promoted by government agencies) have, to some extent, also affected the progress of the cooperative movement in Thailand.

### 2.2.5 India<sup>5</sup>

The cooperative movement in India till 1947 remained credit oriented as in Pakistan despite advocacy for multi-purpose cooperatives which got impetus from the Nagpur Resolution (1959) of All India Congress Committee. Accordingly, a programme of "Service Cooperatives" was introduced. The main objective of the service cooperatives was to provide services and supplies necessary for increasing agricultural production and income and for improving the standard of living of the members. The Indian cooperative movement today is the largest in the World in terms of numbers and membership. There are nearly, 300,000 cooperative societies in the country with a membership of 125 million. Nearly two-third of these cooperatives are for farming community. Recent years have witnessed substantial expansion in and considerable diversification of the activities of cooperatives. The total agricultural credit disbursed by cooperatives increased from Rs.7.45 billion in 1970-71 to nearly Rs.29 billion in 1983-84. During the same period, the value of agricultural produce handled by cooperatives increased from Rs.6.5 billion to over Rs.25 billion. Cooperatives accounted for 55% of total institutional credit and 44% of the total fertilizers distributed in the country. Farmers' cooperatives have emerged as a dominant sector in the country. Farmers' cooperatives have emerged as a dominant sector in the sugar industry, accounting for 55% of the national production of sugar.

The 'Operation Flood' under which nearly 24,000 dairy cooperatives have been organized, covering over 2,6 million rural families, is another example of cooperatives helping in in-

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5. References: Madan(1951), Swaroop(1964), Jhol(1974) and Rajulu(1985).

creasing the production of milk, ensuring remunerative prices to milk producers in rural areas and providing regular supplies of milk to urban consumers at a reasonable price. Since the introduction of 'Operation Flood' the milk production in the country has increased from 20.74 million tonnes in 1969-70 to 36.3 million tonnes in 1983-84.

**Structure of Cooperatives:** The primary agricultural credit society (PACS) at the village level constitutes the sheet anchor of the agricultural cooperative movement. Individual farmers are the members of the local level agricultural credit societies. A PACS provides short-term and medium-term credit, inputs and consumer goods and other services to the farmers. In its credit activities, it is served by the District Central Cooperative Bank, which in turn is affiliated to the State Cooperative Bank. At the national level cooperatives are served by the National Bank for Agricultural and Rural Development by extending re-financing facilities.

For input supply and marketing of outputs, a PACS is serviced by the primary cooperative marketing society organized on the basis of catchment area of agricultural market (mandi). There are over 3,600 primary marketing societies in the country. These primary marketing cooperatives are affiliated to State level cooperative marketing society. In some States, there are also district cooperative marketing societies. At the national level, there is the National Agricultural Cooperative Marketing Federation (NACMF).

For long-term credit, there is a separate structure consisting of primary land development banks which are federated into State land Development Banks. In some States, there are only State land Development Banks with branches. There are 19 State Land Development Banks with over 1700 primary land development

banks/branches.

A recent development in structural innovation is the organization of function cooperatives which are specialised commodity cooperatives. Almost all the dairy cooperatives of India are based on Annand Model and are considered successful. This model envisages a primary dairy cooperative at the village level, a district union and a State federation. The primary cooperative deals with the milk producers, collects milk, makes payment, distributes cattlefeed and also provides artificial insemination and veterinary first-aid. The district union has the processing facilities, owns a cattlefeed plant and facilities for production of semen and its distribution. The State Union plans, coordinates and monitors the entire programme of dairy cooperative movement in the State.

Functional cooperatives are also being organized for oilseeds and tobacco. A salient feature of the functional cooperatives is a vertical integration of all activities in the cooperative system, covering input supply, extension, disease control, processing, storage and marketing of the commodity.

**Government Support to Cooperatives:** The strategy for cooperative development in India includes organization as well as funding of specialised institutions at the national level besides organization of national cooperative federations to provide business, financial and technical support to the cooperative movement in the country. At the national level, the agricultural cooperative credit movement in India is supported by the NABARD both in terms of financial and guidance, and by the National Cooperative Development Corporation in respect of rural economic activities of cooperatives. Both these institutions have been set up under Acts of Parliament. Besides, the national level cooperative federations provide business and technical support to coopera-

tives. For dairy cooperatives there is the Indian Dairy Corporation and the National Dairy Development Board at the national level for providing technical guidance and financial support.

Training of cooperative personnel is an area in which Government provides large support to the cooperative movement. A national net-work of training facilities for cooperative personnel has been evolved and established. There is a National Council for Cooperative Training (NCCT) which is located in the National Cooperative Union of India - the spokesman of the cooperative movement in the country. This Council has overall charge of the cooperative training programme in the country.

**Areas of Weaknesses:** While the overall progress of cooperatives is impressive, there are certain areas of weakness which relate to regional disparities in the growth and operations of cooperatives, mounting overdues in the credit system, structural weaknesses of cooperatives, manpower development and professional management, and members' loyalty. For example:

- Six States in the country account for nearly 80% of total marketing of agricultural produce by cooperatives. Likewise, over 60% of the total agricultural produce handled by cooperatives is accounted for by two commodities, namely: cotton and sugar.
- The credit system is bedevilled by mounting overdues which have reached, an all-India average of 40%. This affects the flow of credit and other package of services. Nearly 35 to 40% of the PACS are incurring losses.
- Some of the processing units for commodities like paddy and fruit are under utilized pointing to the inadequacy of member-loyalty to the cooperative. This is also a reflection on professional management.

### 3. COOPERATIVES IN PAKISTAN

#### 3.1 STRATEGY AND POLICY

Pakistan inherited cooperative ideology and organizational structure from the colonial regime. The legacy remains more or less unchanged. Unlike India where the political leadership of Indian Congress, in opposition to colonial regime, had developed a certain ideology about rural development and the role of cooperatives in it; in Pakistan the political leadership was too pre-occupied with more important issues to develop a suitable ideology reflecting the social needs and aspirations of the rural people and the role which cooperatives could play. It could be argued that the All India Muslim League which led the Pakistan Movement was dominated by urban based leadership with inadequate awareness of rural backwardness and poverty. Its extensive influence in rural areas was appropriated by a small number of big land owners whose vested interests did not let them speak for the common people or work for causes conducive to the amelioration of their lot.

The initial lack of concern for the rural development and the role of cooperatives persisted long in the country. Even the intellectual community has not shown much inclination to advocate, defend or criticize the colonial legacy of cooperatives or to demonstrate their relevance or irrelevance to the problems of national development; cooperatives in Pakistan have thus developed in a kind of intellectual vacuum. The leadership of the cooperative movement has come from the upper ranks of the civil service; partly out of a conviction about the superiority of various colonial institutions and partly out of self-interest. The cooperatives have been preserved and expanded generally along colonial lines. Whenever departures have been made or new experiments conducted, these too have generally been undertaken by a small number of civil servants. Even after the year 1988 which

witnessed return of a democratic rule in the country, all the major institutions meant for cooperatives are headed by the civil servants trying hard to win the confidence of cooperators through administrative maneuvering.

After the Independence reaffirmation of the basic policy was made from time to time with varying degree of commitment in several official documents including the Punjab Agricultural Enquiry Committee Report. The evaluative studies of the unsatisfactory working of cooperatives, instead of suggesting alternative means re-inforced the conviction "if cooperation is lost, the most hopeful means of rural reconstruction and development will be lost".

### **3.2 Organizational Set-up:**

Administratively, cooperatives have been placed under the Cooperative Department in each Province. The Secretary, Department of Cooperation appointed by the Provincial Government is the administrative incharge while Registrar Cooperative Societies of the province is the executive chief. Diagram at Annexure-V shows the organizational structure of the cooperatives in the country at federal as well as provincial level.

Besides government set-up the diagram shows the Provincial Cooperative Unions and other secondary level organizations. Membership of Cooperative Union comprises cooperative institutions/organizations of the province and is open to all types of primary and/or secondary societies. Main functions of a Provincial Union are to develop, extend, assist and guide the cooperative movement, to work for the common good of all cooperatives (member organizations), to aid in the work of cooperative society and to act as spokesman on behalf of their members. For the past few years some of the cooperative institutions and the

interested cooperators have also organized a national level Cooperative Union to represent the cooperative organizations/ institutions at the federal level. For distribution of credit the Federal Bank at national level and Provincial Cooperative Banks through their branches in provinces are operating.

### 3.3 Development Perspective

The post-Independence history of the cooperative movement can roughly be divided into five phases on account of the changing circumstances in which it functioned and the developments which influenced its direction and pace.

First Phase which extends over a period of eight years (1948-55) was a tumultuous phase for the movement as it had suddenly to face a formidable challenge. In the wake of the establishment of Pakistan there was a mass migration of population from either side of the border of the two newly established countries and almost the entire commercial and banking community consisting mostly of non-muslims in the Western Wing of Pakistan migrated to India causing chaos and disruption in economic life. Apart from the fall in production and imports resulting in shortage of food, cloth and other necessities of life, the distribution system also broke down. Since there was no other well organized institution except cooperatives, the government had to engage them in commercial activities. As such the cooperatives though shattered by the sudden departure of many of their members and management staff, stepped into the diverse fields of commercial activity such as processing of agricultural produce, procurement and distribution of food grains and consumer goods and financing of whole sale and retail trade. Besides, thousands of landless refugees were settled on state land in cooperative groups for clearing and tilling land and establishing new village habitants for themselves. A cooperative textile mill, a cooperative woollen mill, a

bicycle manufacturing factory, a whole sale cooperative store and a cooperative insurance society were also set up. Many new societies doing all sorts of business came into being as is evident from the following table and did a good job in helping to keep the economic machine moving.

**Table-3.1 Cooperatives in 1948 and 1956**

Year (30th June)	No. of Cooperatives	Membership (000)	(Rs. in million)	
			Share Capital	Working Capital
1948	11,542	381	22.7	183.7
1956	14,812	592	37.5	298.1

Source: Compiled from the information collected from unpublished reports of the Provincial Cooperative Departments.

While the movement played a useful role in the economic crisis of the period immediately following the Partition and also made sizable profits in its commercial dealings, it suffered a serious set-back on the ideological and moral front. Many profit seekers seized the opportunity of a deserted commercial field to organize spurious societies and obtain finance from cooperative banks to do their own private business thus changing the direction and maligning the character of the movement. That funds meant for agricultural credit societies were diverted to individual traders and commission agents who got themselves enrolled as members of the central cooperative banks and with the connivance of the officials of Cooperative Departments acquired the control of these banks. Many of the banks found their loans blocked on account of faulty loaning policies and incompetent handling of business.

In the process, a large chunk of funds advanced to individuals were gradually blocked jeopardizing the interests of the farming community. Further, the commercial banks, conspicuous

by their absence since the Independence period, developed fast and because of their managerial efficiency started giving tough competition to cooperative banks in collecting deposits from urban classes and rural gentry. The real worth of the assets of cooperative banks, built in over half a century, depleted fast and quite a number of them became defunct. The government thus decided to withdraw the movement from commercial sector.

Second Phase which covers the years from 1956 to 61 was in fact a period of uneasy re-adjustment. The increase in number of cooperatives was marginal as is evident from the following table:

**Table-3.2 Cooperatives in 1956 and 61**

Year (30th June)	No. of Cooperatives	Membership (000)	(Rs. in million)	
			Share Capital	Working Capital
1956	14,812	592	37.5	298.1
1961	15,172	617	39.2	301.5

Source: Compiled from the un-published official reports of the Provincial Cooperative Departments.

The withdrawal from commercial business was slow and painful. Many farmers who were members of Central Cooperative Banks had established whole-sale business in agricultural produce and were utilizing cooperative credit more as middlemen than as farmers. The Managing Committees of the Central Banks were thus dominated by traders who did not understand the wisdom of government's directive to withdraw from commercial business. It took more than a decade of forceful persuasion before the central banks stopped giving loans to individual members for trading purposes.

During the phase, two important developments affecting the cooperative movement took place. The first was the unification of establishments of Cooperative Departments of the different

provinces leading to the integration of service cadres and operational control over the cooperative movement. As the movement had different features besides legal frame-work in different areas, it gave rise to a number of administrative and procedural problems.

The second significant event of this period was the formulation of the First Five Year Plan of Pakistan (1955-60). This document was of considerable importance as it contained a well argued case for promotion of cooperatives as an instrument for the economic and social uplift of the small farmer.

Third Phase from 1961-66 saw the initiation of vigorous efforts to expand and revitalize the cooperative movement. The status of the Registrar Cooperative Societies was raised designating him as the Commissioner of Cooperative Societies. The Government of Pakistan made a policy declaration in February 1962 pledging support to the cooperatives and declaring, inter alia, that "The present government is convinced that the cooperative movement which represents a system of economic democracy has great potential as an instrument of national advancement and has, therefore, decided to give its full support and assistance to the organization and development of cooperative societies in all fields of economic activity".

The movement was envisaged to play a bigger role i.e., not only to channel credit to the farmers but also to organize distribution of agricultural inputs such as seed, fertilizer and pesticide and make arrangements for collective marketing of agricultural produce. It was also expected to enter the field of mechanized farming, processing of agricultural commodities and promotion of rural industries and handicrafts. Ideally, the responsibility of planning and implementation of cooperative development programmes should have rested squarely on the

cooperative movement itself, but no such capability was developed in the cooperative system. The concept of friend, philosopher and guide was infact, not enough because of complexities of the development stage. And the Registrar (friend, philosopher and guide) by himself seemed to be no longer in a position to provide leadership to the movement for its development.

To solve the problem a new set of arrangements was developed in 1962 by establishing Cooperative Development Board with the dual purpose of creating the required capacity for development planning and project preparation on the one hand and of promoting self-management within the movement through collaborative action between government officials and non-government leadership on the other. The Board was to perform all functions for promotion and development of cooperatives leaving only the routine regulatory functions such as registration, audit and arbitration to the Cooperative Department. The Board was conceived as an autonomous body with a high degree of freedom in administrative and financial matters. It consisted of 11 members, five officials appointed by the Provincial Government and six as non-official cooperators to be nominated by the Provincial Cooperative Union. Secretary, Cooperative Department of the Prvince was the Chairman of the Board. The post of Commissioner, Cooperative Societies was abolished and departmental set-up was decentralized. The province of West Pakistan was divided into six regions and the Regional Registrars were required to report directly to the Secretary, Cooperation. The headquarter of the Commissioner Cooperative Societies was merged with that of the Board alongwith its personnel and budget. Additional funds were provided to the Board for enabling it to hire experts and other staff without reference to government.

Instead of strengthening directly the village level societies, the Board opted for developing secondary level large

organizations for supporting the primary level cooperatives. The Board also established a development fund by pooling government grants, long term loans and contributions from large cooperatives. The fund enabled the Board and large secondary level organizations to acquire/establish a few industrial units. The Development Fund was also utilized for giving subsidies and long term loans at concessional rates of interest to a number of cooperatives mostly belonging to influential groups. Realizing the need for specialized skills to handle the industrial and commercial undertakings, the Board established a separate agency called Cooperative Investment and Management Agency (CIMA) wherein the membership was given to societies and individuals for establishing and managing the commercial and industrial organizations, atleast at initial stages. The Cooperative Board was, however, a short-lived institution and was abolished in 1966. Although no specific reason for the decision was given yet those who were directly involved considered this as the outcome of capitalistic approach of the Board and also alleged favouritism to some influential cooperators at the cost of large majority of small rural based agricultural cooperatives.

Towards the end of this phase a number of legal measures were undertaken in the light of the Wazir Ali Report on Cooperatives. The most important of these was taken on April 30, 1965, when the Sind Cooperative Societies Act of 1925 was made applicable to the whole of West Pakistan thus abrogating the Act of 1912 which was in operation in Punjab, NWFP and Baluchistan. The 1925 Act was preferred probably because it gave greater powers to the Registrar in the matter of supervision of cooperative societies. He could supersede the managing committee of a society, take punitive action against individual office bearers for mis-management and recover cooperative overdues as arrears of land revenue exercising the powers of a collector. Further, by an amendment in the Ordinance issued on April 27, 1966, the members

of managing committees of cooperatives were declared to be public servants as defined in the Pakistan Penal Code. This brought the Managing Committee within the purview of the anti-corruption and other agencies dealing with delinquent government servants. Another law made applicable to cooperatives in 1966 related to repayment of overdue loans. It contained stringent clauses for recovery of over-due amounts and prescribed a punishment upto 7 years' imprisonment for any contravention of the Law. All this in fact brought the movement under greater bureaucratic tutelage.

During this phase, addition to the number of societies was slow as is evident from the table given below. The activities were, more or less, focussed on strengthening the existing organizations and establishing large secondary level cooperative institutions:

**Table-3.3 Cooperatives in 1961 and 1966**

Year (30th June)	No. of Societies	Membership (000)	(Rs. in million)	
			Share Capital	Working Capital
1961	15,172	617	39.2	301.5
1966	16,848	712	42.3	381.6

Source: Compiled from the information collected from unpublished reports of the Provincial Cooperative Departments.

**Fourth Phase** extends over a period of 10 years from 1966 to 1976. During the first five years there was little activity directly affecting the routine functioning of cooperative movement. The year 1972, witnessed the enforcement of the Cooperative Societies Reforms Order which provided, inter-alia:

- i) that no individual shall be a member of an apex or a central cooperative bank;
- ii) that no person shall be a member of the managing committee of a cooperative bank for more than two consecutive terms;

- iii) that no bank other than an apex or central cooperative bank shall be registered; and
- iv) that no trader shall be a member of an agricultural credit or marketing society.

The provisions of the law, no doubt, upset most of the managing committees of the cooperative organizations but only for a short while. Later on the existing management was able to take hold of the affairs of these organizations by bringing in their kith and kin on the management of these institutions.

Another important development during this phase was the legal measures undertaken in 1976 to re-organize the entire cooperative credit system. Accordingly, the existing 46 central cooperative banks (35 in Punjab, 4 in Sind and 7 in Baluchistan) were dissolved, leaving only the Provincial Cooperative Bank to serve the cooperative sector of the respective province through its branch network. And, to guide and regulate the credit operations of the Provincial Banks, the Federal Bank for Cooperatives was established at national level with the Governor, State Bank of Pakistan as Chairman of its Board of Directors.

During the intervening 10 years, the number of societies increased from 16,848 in 1966 to 29,528 in 1976 with 1645 thousand members. Out of these, 23 thousand were agricultural cooperatives reported to be covering 1150 thousand farmers<sup>6</sup>. Province-wise distribution of agricultural societies was as under:

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6. As individuals of the age of 18 years and above are eligible to become member of the cooperative society & practically almost all the household members are admitted to the society, the given number of members, therefore, does not reflect the class coverage.

**Table-3.4: Province-wise Number of Agricultural Societies in 1976**

Province	No. of Societies	Membership (000)	(Rs. in million)	
			Share Capital	Working Capital.
Punjab	16,922	840	47	78
Sind	944	123	5	96
NWFP	3,108	122	8	37
Baluchistan	411	13	1	6
AJK	1,547	48	5.7	34
Northern Areas	102	4	0.5	6
Total:-	23,064	1150	67.2	257

Source: Compiled from published and unpublished reports of the Cooperative Departments.

**Fifth Phase** began in 1977 with the operations of the re-organized cooperative credit system under the influence of the Federal Bank which has provided increasing amounts of credit to agricultural cooperatives and has determined the loaning policies and procedures for the Provincial Cooperative Banks in particular and the cooperative societies in general. The annual disbursement of various types of credit has increased manifold and so has the liability of the cooperative credit system because of heavy overdues.

An important development of the period is the introduction of cheap credit facility, firstly in Punjab province in 1978 and later on throughout the country in 1979 as Interest (Mark-up) Subsidy Scheme of the Government of Pakistan. The scheme, no doubt, helped increase the flow of credit to agricultural sector but at the same time led to mushroom growth of cooperatives, particularly in the province of Punjab. In the process, a number of spurious cooperative societies have been registered which grabbed the major portion of the subsidized credit. This mis-use of the limited economic resources has denied the small farmers of their due share and role in the national economy. By the year 1986,

there were more than sixty thousand societies in the country serving over three million members.

**Table-3.5: Province-wise Number of Agricultural Societies in 1986**

Province	No. of Societies	(Rs. in million)		
		Membership (000)	Share Capital	Working Capital.
Punjab	50,128	2024.95	242.84	5342.15
Sind	2,741	685.54	51.88	1022.16
NWFP	4,277	282.98	48.84	253.22
Baluchistan	683	62.94	18.55	112.04
AJK	2,850	31.35	4.01	42.67
Northern Areas	141	4.53	3.02	54.14
Total:-	60,819	3092.29	369.14	6826.38

Source: Compiled from the un-published reports of the Provincial Registrar, Cooperative Societies.

Out of these, 82 percent were agricultural credit and non-credit development societies said to be serving about two million farmer members. To what extent, these have been successful in achieving the objectives for which they were established has been reviewed through case studies dealing with fruit and vegetable marketing, livestock and dairy development and cooperative farming. Distribution of agricultural societies was as under:-

**Table-3.6: Agricultural Cooperatives as on 30th June, 1986**

Type	Nos.	Membership (000)	(Rs. in million)	
			Share Capital	Working Capital
- Agricultural Credit	32,990	1315	88.32	1105.47
- Multi-purpose, supply service and development	8,739	425	54.43	433.56
- Livestock dairy	509	12	4.45	33.94
- Fruit & Vegetable Growers	76	6	0.91	4.03
- Agri. Marketing (commission shop)	125	8	1.53	10.42
- Farming Cooperatives	368	22	11.44	43.39
- Water users & tubewell societies	9,389	254	10.99	55.02
- Others	980	15	13.44	53.81
Total :	<u>53,176</u>	<u>2057</u>	<u>185.51</u>	<u>1739.64</u>

As is evident from the above table, most of the societies have been registered for provision of credit, input supply, multi-purpose/service and development societies. Practically, however, all of these were operating as credit cooperatives entirely depending on borrowings from Provincial Banks.

### **3.4 Operational Realities**

It can be established beyond any doubt that officials of cooperative departments have since long dominated the working of the cooperative movement in the sub-continent. However, prior to the late seventies they used to work according to the internationally accepted principles of organizing, developing and supervising the cooperative institutions. For organizing a cooperative society, the field staff used to prepare the ground carefully through motivation and persuasion. It was ensured that a cooperative society should not be started as a result of a single visit. The officials used to visit the area and talk to the people at least three four times to explain the general principles of cooperation, practical working of a cooperative society and the procedures for managing the affairs of the society and main-

tenance of record and accounts. The organizer proceeded on the assumption that the trouble taken before the start of a society could save him from troubles afterwards. An important consideration for him was that any one having vested interests should not be allowed to enter the cooperative fold. Also organization of more than one society in the same locality for the same purpose was discouraged.

This approach continued till the end of 1970s; thereafter, may be because of growing needs and importance of credit in the transfer of technology the officials of the cooperative department started receiving targets for the disbursement of credit in the form of farm inputs, for implementing various policies formulated at planning offices in the country. The performance of the officials was linked to the number of organizations registered, credit disbursed and amount recovered. To save their skin, the officials started approaching the influential and well-to do individuals/families in the villages for organizing societies without paving the ground for the purpose. This resulted in organization of one-man/family societies. Later on, after the introduction of cheap credit in 1978 in Punjab and in 1979 in the whole of the country, the clever farmers, traders (having agricultural base), retired officials particularly from the cooperative departments started organizing their own societies with the connivance of the officials of the cooperatives department. In many cases societies were got registered with fictitious membership and fake particulars. Over a period of time the situation worsened to such an extent that even the same individual/family organized more than one society to get maximum funds or to avail fresh loans because of default of the previously organized society. In some villages, as many as, 18 societies were got registered to grab funds otherwise meant for poor small farmers.

The societies were thus registered only to serve the vested interests. In such a situation, organization of a genuine cooperative of needy men with limited means can hardly be envisaged because these people are unlikely to reach an understanding with the field staff of a cooperative department who were all out to exploit the various provisions of Cooperative Law to the disadvantage and hardship of genuine groups<sup>7</sup>.

The provincial Cooperative Banks presently disbursing over Rs.3.0 billion a year are just functioning as pay offices. All credit operations right from the sanctioning of borrowing limits, preparation of loan application, recommending the loan limit to the release of funds by the cooperative banks are virtually handled by the cooperative officials. The staff of the cooperative banks is scared of asking for the justification of the demand, and of ascertaining genuineness of the documents and other procedural requirements. A financing bank, except with the prior permission of the Registrar Cooperative Societies (Sec 44-A of Cooperative Societies Act 1925) cannot have access to the society or its record for ensuring/checking the proper utilization of the funds. There is complete absence of banker-customer relationship between the financing cooperative banks and the borrowing cooperative societies. The financing banks are just on lookers in the whole show.

### 3.5 Cooperative Regulations

Cooperative Institutions in the country are being organized/managed through the provisions of Cooperative Societies Act 1925 and Rules framed thereunder in 1927. Besides this comprehensive law, specific enactments have been promulgated from time to

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7. The extent of interference in the working of cooperatives, particularly that of the Provincial Cooperative Banks, has been reported in annex-I.

time to take care of specific type of cooperative organizations. For example, Multi-unit Cooperative Societies Act of 1942 was enforced to solve the problems arising due to the expansion of area of operation of a primary society from one province to others. Similarly to introduce cooperative farming, on the basis of Yugoslavian experience, National Cooperative Farming Act 1976 was passed. As mentioned earlier, to re-organize the cooperative credit system, establishment of the Federal Bank for Cooperatives and Regulation of Cooperative Banking Ordinance was promulgated in 1976 by the Federal Government with the consent of Provincial Governments. Nevertheless, the main legislation for organization, registration, management/ operation, financing, loan recovery and liquidation, continues to be the Cooperative Societies Act 1925 and Rules 1927.

Experience during the last 2-3 decades indicates that various provisions of age-old law are not conducive to the growth of genuine and viable cooperatives. The cooperative bureaucracy, supposed to provide guidance and administrative support, has totally failed in giving a sense of direction to the movement. There would hardly be two percent cooperatives which would manage their operations independently as true and real business enterprises. The attitude of the officials of the cooperative departments towards the scheme of things has created a situation of conflict and rivalry among the cooperative departments, provincial cooperative banks and the Federal Bank for Cooperatives. There is thus urgent need to take steps to liberate the cooperative system from the stronghold of the cooperative departments allowing the cooperative organizations to work unhindered by undue interference. This is all the more essential because the cooperative bureaucracy is neither trained nor qualified to handle business activities. The role of the cooperative department should be confined to registration, audit and education of the societies. For the purpose, the Cooperative Societies Act

1925 requires basic amendments in its sections 10,34-38,40,44-A,48,50-A and the relevant rules. (A brief description of the proposed amendments is given at annexure-II).

### 3.6 Conclusions

From the position reported above it is evident that:

- Like India, Pakistan inherited the cooperative movement alongwith its ideology and policy strategy from the colonial regime but failed to redefine its role in rural/agricultural development.
- Proper procedure for organizing a cooperative society has not been followed since 1978.
- Almost all the new societies have been set up by unscrupulous persons as one man/family concerns with the sole aim to grab the interest-free loans. Informed individuals are of the view that most of the managing committee members of the old societies have individually organized their own societies which in some cases are more than one. These are in fact bogus institutions and the finances made available to them are grossly mis-utilized.
- The rules and regulations incorporated to deal with credit oriented movement remain intact. A few modifications made in the meantime have infact increased the official hold - a strong handicap in the transformation/development of the movement as business enterprise.
- In the wake of the reorganization of cooperative credit structure in 1977 and introduction of the scheme of interest free loans in 1978/79, there has been a rapid increase in the number of societies with little improvement in their working.
- Besides structural and operational short-comings the most damaging aspect of the present day movement is its being non-genuine and non-viable.
- Besides re-structuring, the movement requires changes in the policy strategy and operational modalities. Also there is a need to specify the role to be played by each component of the system, for which, relevant Law and Rules (framed thereunder) require modifications.

#### 4. WORKING OF THE COOPERATIVE CREDIT SYSTEM

##### 4.1 Background

As mentioned earlier, cooperative movement in this part of the world was introduced with the main objective of solving the problems of rural indebtedness. Even though it has since passed through various phases/re-organizational processes, it has remained dominated by credit operations. Prior to December 1976, there was three tier cooperative credit system in the province of Punjab, two tier in NWFP and a mixed two and three tier in the province of Sind and Baluchistan. Under three tier credit system the primary level societies formed the base and were affiliated to the central cooperative banks mostly at district level. These banks were federated into apex level Provincial Cooperative Banks.

The question of re-organization of Cooperative Banking Structure engaged the attention of the government and the State Bank of Pakistan during the period following the Banking Reforms of 1972 primarily because the three tier cooperative credit system in vogue was not capable of fulfilling the demand for much desired credit expansion and that too at cheaper rate for introducing the new technology due to following drawbacks:-

- Central Banks being small units, could not afford to employ properly qualified staff and hence their standard of banking operations was not upto the mark.
- In case the Central Bank of an area became weak, the credit flow to all cooperatives in the area became blocked and the cooperative movement, therefore, weakened.
- In a number of cases the Managing Committees exploited the Bank's resources for their own benefit and the benefit of their kith and kin.

A seminar on cooperatives was organized by the State Bank of Pakistan in 1973 in which a number of proposals were mooted by experts drawn from all over the country for improving the working of cooperatives. These proposals were considered by the Agricultural Credit Advisory Committee (ACAC) and it was felt that if the cooperatives were to play an effective role in the financing of agriculture they must be re-organized and subjected to some Federal Authority.

Following the recommendations of the ACAC, the State Bank formulated a proposal for the establishment of Federal Bank for Cooperatives to supervise, promote and oversee the cooperative banking system in the country. The proposal was approved by the Federal Government after obtaining the consent of the Provincial Governments. Consequently in October 1976, "Establishment of the Federal Bank for Cooperatives and Regulation of Cooperative Banking Ordinance" was promulgated.

Under this Ordinance, besides establishing the Federal Bank for Cooperatives, cooperative banking structure was also re-organized. Accordingly, only one Provincial Cooperative Bank in each Province, was allowed to function and the then central cooperative banks were dissolved. The cooperative societies operating as banks were given the option to convert themselves into primary cooperative societies within a period of 60 days failing which they too stood dissolved.

The FBC thus operates through a network of four provincial intermediary banks and two affiliated Azad Jammu and Kashmir and Northern Areas Banks. Under the system there are 205 branches to cater to the requirements of about 42,000 affiliated cooperative societies, out of a total of around 61,000 societies throughout the country. Province/Region wise break-up is as under:-

**Table-4.1**

**Branches of Provincial Banks and the affiliated Societies**

	Punjab Prov. Coop.Bank	Frontier Prov. Coop.Bank	Sind Prov. Coop.Bank	Baluchistan Prov. Coop. Bank.	Northern Area Coop.Bank	A.J.K. Govt. Coop.Bank.
Bank Branches	149	28	12	2	6	8
Affiliated Societies	33,289	3729	1413	396	262	2710

As such, effectiveness of the cooperative credit system depends not only on the performance of the Federal Bank and the Provincial Cooperative Banks but also on the borrowing societies.

**4.2 The Federal Bank for Cooperatives**

The Federal Bank came into existence in December, 1976. The initial fully paid up share capital of the Bank is Rs.200 million contributed by the State Bank and the Federal/Provincial Governments. The general direction and superintendence of the affairs and business of the Bank vests in a Board of Directors which comprises all the Directors of the State Bank of Pakistan and official and non-official representatives of the Federal and Provincial Governments. The Governor of the State Bank of Pakistan is the ex-officio Chairman of the Board, while the Managing Director FBC is Chief Executive of the Bank. It has also constituted an Advisory Committee consisting of official functionaries which advises the Board in important operational and policy matters.

The Bank functions as a principal financing institution for the provincial cooperative banks and multi-unit cooperative societies and also acts as central regulatory authority for the provincial cooperative banks.

#### 4.2.1 Financing Policy

Essence of the Federal Bank's financing policy is the provision of agricultural credit of different types i.e., short term (production), medium term (development) and long term (project financing). The financing is provided to the Provincial Cooperative Banks for meeting the credit requirements of the members of affiliated societies.

**Short Term Financing:** Short term agricultural financing is given mainly for the purchase of farm inputs i.e., seeds, fertilizers and pesticides, etc. The facility is extended for a period which may commence two months before the sowing season and extend upto two months after harvesting. The short term financing prior to 1st July, 1988 was available free of cost to small farmers subject to fulfilment of certain conditions. The farmers owning/cultivating land not exceeding subsistence holding i.e., 12.5 acres in the Punjab, NWFP, Northern Areas and Azad Kashmir, 16 acres in Sind and 32 acres in Baluchistan, were entitled to cost-free financing of Rs.12,000 in a year provided the same was utilized for the purchase of farm inputs and repaid by the due date. The scheme of cost-free credit stands abolished. Credit requirements are now met on different rates of return.

**Table-4.2 Short-Term Credit Disbursement by Federal Bank**

(Rs. in million)				
Year	Short Term Production Loans			
	Total disbursement	Interest Free Amount	Subsistence farmers	Interest bearing
1976-77	45.74	-	-	-
1977-78	203.74	-	-	-
1978-79	246.24	-	-	-
1979-80	581.89	389.12	138132	192.77
1980-81	1118.18	812.31	234426	305.87
1981-82	1091.90	832.40	295644	259.50
1982-83	1320.10	1042.97	379249	277.13
1983-84	1449.50	1182.93	430842	266.57
1984-85	1561.10	1385.53	448964	175.57
1985-86	2020.11	1585.80	451945	414.31
1986-87	2424.75	2084.00(E)	593930(E)	410.75

In view of the different ecological conditions prevailing in various regions, uniform financing plan did not suit the farmers. Accordingly, the Federal Bank has devised a financing schedule for various agro-ecological zones. The proposal has been approved by the Agricultural Credit Advisory Committee (ACAC) and National Credit Consultation Council (NCCC) for adoption by the Commercial Banks and Agricultural Development Bank of Pakistan (ADBP).

**Medium Term Financing:** These loans were advanced, primarily, for the purchase of tractors, vehicles for produce transportation, meat and milch cattle and bullocks and installation of tubewells. Amount of financing to be provided varies from case to case. The repayment period ranges from 3 to 8 years and the dues are repayable in half yearly equal instalments. Financing provided under this portfolio is given below:-

**Table-4.3 Medium Term Credit Disbursement by Prov.Coop.Banks**

Year	(Rs.in million)					
	Tractors & Implements	Tube-wells	Live-stock & Dairy	Others	Total*	Refinancing by FBC
1977-78	2.96	-	-	0.73	3.69	2.50
1978-79	8.03	9.32	-	0.12	20.13	17.47
1979-80	10.73	8.50	-	0.45	20.23	19.34
1980-81	7.39	-	0.32	3.90	11.61	10.07
1981-82	9.85	2.00	0.14	1.19	13.18	8.90
1982-83	2.57	-	0.82	0.93	4.32	0.83
1983-84	1.61	-	1.46	0.12	3.19	0.39
1984-85	9.99	-	0.25	0.14	10.38	6.50
1985-86	11.49	0.30	0.76	7.78	20.33	28.47
1986-87	30.85	0.46	12.27	35.77	79.35	75.00

The Punjab Provincial Bank was able to provide some finances from its own resources as well.

**Project Financing:** The Bank has recently introduced project financing for live-stock, dairy development, agro-based industries etc. For the purpose, finance is provided on case to case basis. So far the Bank has approved finances for three dairy projects. More projects are being received and it was expected that substantial financing will be provided in years ahead.

#### **4.2.2 Achievements of Credit Targets**

Although the Bank has been able to deliver increased amounts of credit over the years yet its disbursement was less than the allocations approved by the NCCC as is evident from the following table:

**Table-4.4 Credit Targets and Disbursement**

(Rs. in million)

Year	Allocations by NCCC	Actual disbursement through Provincial Banks of					
		Punjab	Sind	NWFP	Baluchistan	A.J.K.	Nortnern Areas
1980-81	1653.13	1048.58	39.96	20.50	13.71	5.50	-
1981-82	1362.39	950.00	110.30	34.00	1.50	5.00	-
1982-83	1379.79	1220.00	60.00	33.03	-	6.90	1.00
1983-84	1716.46	1390.00	45.396	-	10.00	4.50	-
1984-85	1781.10	1390.00	82.75	71.50	-	12.95	10.40
1985-86	2460.06	1582.30	182.16	210.77	-	37.75	15.60
1986-87	2547.25	1851.30	201.60	323.93	-	48.75	39.17

The short fall in disbursements is attributed to the fact that the Federal Bank has so far not evolved a scientific system of assessing the credit needs of its clients, fixation of higher targets is favoured by way of precaution. The practice has hindered the other financial institutions to plan for higher targets and has thus deprived the rural sector to have more funds.

#### 4.2.3 Lending Rate

With the introduction of Non-Interest Banking System, interest has been eliminated. Since April, 1985, the Federal Bank has been financing the Provincial Cooperative Banks on the basis of service charge. The rate of service charge is calculated on the basis of its cost operations. The rate for the financial year (1986-87) has been 1.39% P.A. The seasonal credit provided by the Federal Bank is meant mostly for meeting the input credit requirements of the farmers. The Provincial Cooperative Banks have therefore been advised to provide credit in kind. The inputs (seed, fertilizer, pesticide etc.) are thus supplied on mark-up basis.

The mark-up in price is not to be calculated on daily product basis. Instead, it is calculated on the Bank's purchase price of the input to be provided to a farmer, irrespective of

the actual period for which the finance remains outstanding. Since finance for both Rabi and Kharif crops other than sugarcane is generally provided for a period of 8 to 10 months and 2 months after the harvesting of the crop are allowed for repayment, mark-up in price is fixed on uniform basis in all cases. However, for providing incentive to the farmers for prompt payment three prices have been given for each input as under:-

- i) Cash price which is the cost of the input to the Bank.
- ii) Credit price which is the sale price payable by the farmer and is 14% above the cash price.
- iii) Prompt payment price which is the price payable by the farmer if he pays the sale price within the prescribed/agreed period and is 10% above the cash price. This means that in case of prompt payment, the farmer is entitled to prompt payment bonus @ 4%.

As regards sugarcane, the crop is grown in both the seasons and period in case of Rabi season extends from 15 to 18 months while that of Kharif season extends upto about one year. When the finance is provided for one year crop, the rates of mark-up for credit price and prompt payment price are the same as for other crops. And in case the credit is provided for a longer period i.e., upto 18 months, the credit and the prompt payment prices are fixed at 21% and 15% respectively.

The return received in the form of mark-up as mentioned above is to be shared between the Provincial Cooperative Banks and the Societies according to the ratio determined by the concerned Provincial Government. In most cases, the ratio of 7:3 has been adopted.

#### **4.2.4 Recovery Position**

No doubt the Bank has succeeded in increasing the flow of credit manifold during the last decade, however it has neither

been able to improve the quality of lending nor managerial capability and operational efficiency of the cooperatives in general and provincial cooperative banks in particular. The result is that besides mis-use of resources, the amount of stuck-up loans has increased over the years as is evident from the following table:

**Table-4.5: Recovery of FBC Loans**

(Rs. in million)					
Year	Total	Actual	Recovery	Overdue	Total outstand-
30th June	Recoverable	Amount	%		(including interest)
1977	-	-	-	-	45.74
1978	131.27	89.25	68	42.02	169.42
1979	250.77	166.02	66	84.75	285.16
1980	552.61	423.78	77	128.83	493.89
1981	1002.88	773.42	77	229.46	905.13
1982	1217.01	952.19	78	264.82	1129.93
1983	1888.78	1497.05	79	391.73	1133.27
1984	1514.16	1275.98	84	*238.18	1392.04
1985	1748.56	1498.17	86	**250.39	1563.29
1986	2027.57	1881.69	93	***145.88	1783.89
1987	2111.81	1936.25	92	175.56	2394.29

\* A sum of Rs.321.27 million accumulated overdue (since 1977) towards Sind Provincial Cooperative Bank were rescheduled.

\*\* A sum of Rs.22.83 million overdue towards Baluchistan Provincial Cooperative Bank were rescheduled.

\*\*\* A sum of Rs.85.12 million overdue towards Agri. Marketing and Storage Ltd., (a subsidiary of the Bank) are in the process of rescheduling.

Rescheduling of loans was undertaken merely to facilitate the Provincial Banks to qualify for further financing because repayment below 80% of due loans renders a Provincial Cooperative Bank ineligible for further financing.

Another feature of the system is that the Punjab Provincial Cooperative Bank has its own resources also and at times it has repaid FBC loan despite the fact that its loan was outstanding against a number of defaulting societies. As such, recovery position of the Federal Bank does not reflect the performance of the system as a whole.

#### 4.2.5 Inspection of Provincial Banks

During the period, repeated inspections have been carried out of all the Provincial Cooperative Banks but the type and magnitude of deficiencies have remained almost the same. The Federal Bank has not been able to persuade the managements including Boards of Directors of the Provincial Cooperative Banks to realize the need and importance for developing their banks into viable and efficient financial institutions. Most commonly observed shortfalls in the working of the Provincial Cooperative Banks are listed below:

1. The Actual Accounts did not depict the correct picture, as the Banks have inflated profit vouching the interest on bad and doubtful debts.
2. Huge funds were placed with commercial banks in interest bearing deposits instead of lending to cooperative societies.
3. The Capital and Reserves of almost all the Banks have been found to be inadequate to cover the advances classified as loss and doubtful.
4. These Banks have made certain investments in un-profitable enterprises on the directions of the Registrar Cooperative Societies.
5. Heavy amounts of advances made to Officers of the Cooperative Departments and others were lying in Suspense Accounts for many years.
6. Not to speak of allocating the targets for deposit collection to the officials of the Provincial Cooperative Bank, there existed no concept of deposit banking.
7. The recovery of loans was not effected at the time of harvesting of crops for which loans were issued. On the contrary, the adjustment of the said loans was from the loan disbursed for the next crop.
8. Huge amount of overdue crop loans were outstanding against the cooperative societies.

9. These Banks withheld the amount recovered from the societies beyond prescribed period against the terms and conditions of the loan agreements with FBC.
10. Huge amounts were got transferred by the Field Staff of the Cooperative Department from the Savings Accounts of the societies to their loan accounts by way of presenting fictitious and bogus resolutions prepared by themselves in the name of the said societies.
11. The facility of interest subsidy to small farmers was being grossly mis-utilized.
12. Often fictitiously registered cooperative societies were advanced heavy credit.
13. Most of the societies sold their pay orders (for purchase of fertilizers) to the dealers at a discounted rate.

#### **4.2.6      Training**

For improving the professional capability of the staff of the Provincial Cooperative Banks, the FBC has established a Training Institute which has recently been upgraded as National Centre for Cooperative Training. The Institute conducts training courses for the officials of the Provincial Cooperative Banks. However, neither the range of its activities has shown significant improvement nor has the impact of training been very impressive as a result of which the field operations of the system have remained in the hands of officials of the Cooperative Departments, having least orientation for the effective management of agricultural credit system.

#### **4.2.7      Cooperative Development**

As required under its charter, the Bank could not establish even one national level cooperative development project to evolve new strategies or test the ones already proved successful elsewhere. The meagre funds spent so far on this account were utilized for developing new cadre of field officers of the Provincial Cooperative Banks. This scheme proved quite successful in the

Northern Areas but in NWFP and Sind its impact remained insignificant, partly because of non-cooperation of the officials of the Cooperative Department and partly due to lack of interest on the part of managements of the Provincial Cooperative Banks.

As part of its development efforts, the Bank established the Agricultural Marketing and Storage Ltd., as its subsidiary to help the cooperative sector in marketing business. The Company, however, could undertake only one major operation during 1983 which resulted in huge losses. Similarly, the Bank participated with other financial institutions in organizing the Youth Investment Promotion Society (YIPS) to assist the educated unemployed youth's for establishing their own business. As cooperatives of eligible youths have not been formed as yet no financial assistance has been approved on this account since the establishment of Youth Investment Promotion Society (YIPS).

#### **4.2.8 Applied Research**

Another activity in which the Federal Bank was required to engage was to carry out research in the field of cooperatives, especially the farm credit. Except for arranging a study (which is not based on analytical research) through a private consultant, the Bank has not been able to undertake a well thought out research programme, apparantly because of lack of staff and interest in the field.

#### **4.2.9 FBC Regional Offices**

For accelerating its field operations, the Bank established Regional Offices at all the provincial capitals. From the review of their working during the last many years, it was found that their role in cooperative development and streamlining the credit system has been negligible. One of these offices had been without

any field work for the last five years while others were operating just as Post Offices for the activities of Banking Operations Department of the Bank besides looking after the protocol duties of the Head Office officials on tour.

#### **4.2.10 Management in General**

From the foregoing discussion, it is evident that the Federal Bank has neither been able to undertake a number of important functions given in its Charter nor improve efficiency and managerial skill of its functionaries. The Bank is poorly manned and most of the departments/sections are working with considerably less than the required number of personnel. A review of the staff position indicates that after inducting the early batches of officers in 1977 and 1980, the Bank has failed to attract new officers. Instead of developing bank's own staff in a well planned manner, the management preferred the adhoc arrangement by engaging officers on deputation who have generally little interest in the Bank's development and lack technical competence to handle the functions of a newly established national level financial institution.

Investigations carried out in the course of the present study indicated that, almost all the officers were frustrated and dis-interested in the work. Every one was found looking for an opportunity to get assignment on deputation with the Provincial Cooperative Banks or transfer to Regional Offices. Many officers with good performance record have been sitting at the maximum of their pay scales since long without promotion. There has not been any promotion in the Bank during the last six years (said to be) for want of policy decisions.

Presently five of its senior officers are on deputation with other organizations while its own work is being handled through

borrowed staff (eight in number) mostly from the Government Departments. Lack of interest on the part of the Bank's management could also be observed from the fact that it took more than eight years to finalize the Staff Regulations; staff promotion policy framed under these regulations was no doubt approved in 1987 after deliberating for more than 3 years but it has not been possible to implement it so far (October 1, 1988) mainly due to indecisiveness. Under these circumstances, one simply cannot expect a better level of performance, efficiency and productivity. The capability, sincerity and integrity of the Bank's Board of Directors was certainly beyond doubt. The apparent lack of interest and delay in the decision making process was mainly due to:

- Large size of the Bank's Board of Directors which at times has led to indecision on vital issues.
- Little effort to develop technical and managerial skill of its own staff, particularly the officers.

Management's lack of interest in getting the things done within a reasonable time can also be judged from the fact that a number of decisions taken after lengthly discussions have not been implemented even after a elapse of years. For example in 1979, a high level inter-provincial meeting under the Chairmanship of the then Federal Finance Minister took a number of decisions to improve the working of cooperative credit system. For the purpose, in each province, Implementation Committees were established but none of the Committees undertook its assignment seriously and the Federal Bank failed to pursue the matter effectively. Similarly recommendations of the report on the Sind Provincial Cooperative Bank made in 1983 by Dr. Ziauddin Ahmad (the then Deputy Governor, State Bank of Pakistan) and the decisions taken by the Board in 1985 on the recommendations of the Report got prepared from the Centre for Administrative Research and Development Studies, Lahore could not be implemented effectively.

### **4.3 Provincial Cooperative Banks**

As a result of re-organization of cooperative credit system, there are now six Provincial Cooperative Banks (one in each province, one each in the Northern Areas and Azad Kashmir). Except for the Northern Areas Cooperative Bank (whose operations are entirely through its own staff), the financing operations of all other Provincial Cooperative Banks are dependent on the performance of officials of the Cooperative Department of the province concerned. The branches of these banks are in fact the cash windows for disbursement of funds received from the Head Office either in cash or pay orders in favour of dealers/suppliers and recovery of dues from the borrowers. Deposits held by these institutions are mostly the share money of affiliated cooperative societies. No efforts are made for deposit banking. Even in future there are no prospects for resource mobilization in cooperative sector because of the policy of providing subsidized credit to the Provincial Cooperative Banks/Cooperative Societies out of the credit provided by the State Bank.

Presently, funds to the Provincial Cooperative Banks are made available @ about 1.4 percent per annum. The Provincial Banks (under non-interest banking system) extend credit facility @ 10-11 percent to the farmer members. Out of this, 3 % is retained by the cooperative society and 7-8% remains with the Provincial Cooperative Bank. An effort for deposit collection would mean not only additional administrative cost but also the cost of funds (around 8% on an average). In other words, the cost of credit operations for the Provincial Bank would not be less than 11-12 percent while return on investment will be 7-8 percent. In this situation, no Provincial Bank will be ready to opt for deposit collection for further financing unless the terms and conditions of credit flow system of the FBC are modified.

Performance of the Provincial Cooperative Banks has been reviewed on the basis of following indicators:-

#### 4.3.1 Credit Operations

Since re-organization of the structure, the magnitude of credit disbursement mostly to the members of agricultural societies has witnessed rapid increase. Almost the entire credit business of these banks (except in the case of the Northern Areas) has however been dependent on funds made available by the Federal Bank. Bank-wise loans and advances (outstanding) as on 30th June of each year were as under:-

Table-4.6: Loans and Advances Outstanding against Cooperative Societies

Year (30th June)	(Rs. in million)				
	Punjab	Sind	NWFP	Baluchistan	Northern Areas
1977	181.34	46.81	18.35	7.29	-
1978	255.89	102.51	22.72	6.94	-
1979	229.87	147.21	29.05	N.A.	-
1980	500.10	226.42	33.45	10.66	-
1981	536.67	234.15	43.05	20.07	10.35
1982	673.12	270.20	43.79	23.69	11.85
1983	670.19	310.91	51.08	23.94	17.07
1984	890.42	320.80	69.13	N.A.	22.52
1985	897.21	369.12	98.24	22.34	34.06
1986	966.61	481.39	175.63	20.70	49.90
1987	1359.02	559.12	322.80	20.15	65.44

Despite increased lending operations, the financial position of these banks has not improved significantly. In certain cases, it has rather deteriorated because of large sums stuck-up against cooperative societies. One however, does not find any justification for this position particularly when most of these funds were said to have been provided for agricultural production purposes and that too to small farmers under the interest (mark-up) subsidy scheme of the Government. From the internal reports prepared from time to time by the officers of the Federal Bank it appeared that almost all the stuck-up loans have either been advanced to

newly registered fictitious societies or the funds have been utilized by one or two persons of the Society who are no more traceable. Another reason given is that heavy loans (beyond the absorption capacity) were extended to influential individuals, particularly in the provinces of Baluchistan and Sind. Still another factor which contributed to the default on the part of the societies was the impression given by the field officials of the Provincial Cooperative Department that the provincial banks would write off the defaulted amounts and there was no need to take action for recovery by resorting to legal measures against the defaulting members.

As regards coverage, the available data was quite misleading because not only large number of borrowing societies were one man/family concerns and most of the credit business was fictitious but also the record of area served was not correct. Most of the borrowing members were being reported to own/cultivate subsistence holding to avail the cheap credit to the maximum extent.

Loan Utilization: As stated earlier, non-availability of requisite information at secondary source hinders to ascertain the extent of actual coverage of the loan operations of cooperative credit system. The question regarding extent of utilization of loan for the purpose it was extended, is rather more difficult to answer. Detailed information is neither collected by the Provincial Cooperative Departments nor the Provincial Cooperative Banks. Test check conducted by the Federal Bank is confined to the record of branches of the Provincial Cooperative Banks or cooperative societies. To what extent the entries in the record of cooperatives are correct has never been looked into even by the Federal Bank not to speak of the Provincial Cooperative Banks or the Provincial Cooperative Departments. End-use reports in respect of some of the branches of the Provincial Cooperative

Banks indicate that in the provinces of Punjab/Sind a large amount of loan was utilized for payment of previous loan as is evident from the following:

**Table 4.7 Recovery through Adjustment**

(Rs. in million)						
Name of the Branch	Borrowings for Rabi 1986 - 87		Adjusted Towards recovery of Kharif-86		Total Amount of Kharif - 86 loan	
	Socie- ties	Amount	Socie- ties	Amount	Socie- ties	Amount
<b>Sind Bank</b>						
- Jaccobabd	28	9499	27	5217	27	9503
- Khairpur	15	2791	15	1376	15	3998
- Dadu	27	10540	21	4624	27	13631
- Nawabshah	48	17442	37	7173	43	15995
<b>Punjab Bank</b>						
- Kabirwala	251	17562	205	10179	247	15456
- Hafizabad	303	17104	272	10154	282	15391
- Arifwala	228	12615	121	6909	234	11962
- Sialkot	121	7107	93	3667	96	5114
- Pasrur	111	7254	71	1487	83	3915
- Bhakkar	214	14589	103	7120	138	7655
- Tandlianwala	169	12282	64	4052	133	7121
- Mianwali	174	13163	84	6294	137	9371
- Kamalia	104	7394	81	4329	114	6868
- Depalpur	213	11259	165	8349	200	8961

From the above table it is evident that:

- In the province of Sind, 98 percent of the borrowing societies repaid their previous dues through total or partial adjustment from the fresh borrowings. However, in Punjab, such societies were 76 percent.
- Magnitude of adjustments for actual recovery of old loans was 43 percent in Sind and 71.4 percent in Punjab.

Since Provincial Banks were not allowed to make payment in cash, they were instead required to issue pay orders in favour of dealers, therefore the modus operandi for adjustment is as under:

The said pay order is encashed by the dealer at agreed value and society's management deposits the desired amount towards repayment of previous loan on or the next day of issuance of pay order. Another alternate is that for making repayment the dealer advances the desired

amount to the society for one or two days prior to the issuance of pay order. The pay order is then encashed by the dealer at agreed value.

#### 4.3.2 Share Capital

With the enhanced credit operations of the Provincial Cooperative Banks, not only the number of cooperative societies affiliated with these banks have increased resulting in increase in share money but also in some provinces (Sind and NWFP in particular) the borrowing societies were asked, rather forced to purchase more shares of the provincial bank. As a result, the paid-up share capital of these banks has increased as evident from the following table:

**Table-4.8: Increase in the Share-Capital of the Provincial Banks**

Year (30th June)	(Rs. in million)				
	Punjab	Sind	NWFP	Baluchistan	Northern Areas
1977	9.53	5.06	1.21	5.91	-
1978	9.67	6.09	1.22	5.90	-
1979	10.18	6.26	2.24	N.A.	-
1980	13.42	7.41	3.32	6.11	-
1981	15.26	7.81	7.45	6.74	0.24
1982	17.04	7.96	8.86	7.06	0.22
1983	18.44	9.22	11.14	7.04	0.28
1984	19.44	9.25	15.13	N.A.	0.34
1985	20.35	9.83	16.39	7.01	0.39
1986	21.23	11.83	19.18	7.02	0.44
1987	24.87	15.45	22.66	6.99	0.54

#### 4.3.3 Reserves

Due to increased lending and availability of cheap credit to the Provincial Cooperative Banks, their earnings, atleast on papers have shown a significant improvement. Since under cooperative law, a part of the net-earning (profit) is to be taken to reserve funds, the result is that banks' reserves have also increased over the period, as under:

**Table-4.9: Accumulated Reserves of the Provincial Banks**

Year (30th June)	(Rs. in million)				
	Punjab	Sind	NWFP	Baluchistan	Northern Areas
1977	17.27	9.17	1.05	1.26	-
1978	17.27	9.19	1.06	1.69	-
1979	17.27	9.20	1.05	N.A.	-
1980	17.26	9.17	1.06	0.46	-
1981	85.65	9.18	1.06	0.80	1.67
1982	85.25	9.06	1.04	0.77	1.44
1983	85.25	7.65	1.04	0.77	1.32
1984	86.87	8.97	1.04	N.A.	1.56
1985	86.33	8.99	1.04	0.76	2.13
1986	85.92	9.18	1.04	0.76	2.41
1987	106.63	20.06	1.02	N.A.	2.45

#### 4.3.4 Deposits

For capital formation of a cooperative institution, pooling of own resources by the participants through regular savings is the basic principle as laid down by the pioneers of cooperative movement. The idea is to reduce dependence on outside borrowings and the organization conducting its operations with own resources is considered a model organization. It also helps in building up confidence among the management and participating members of the organization and their commitment to jointly solve their common economic problems. Resource mobilization efforts are thus considered a primary indicator of performance.

During the last decade, the cooperative banks have shown some increase in the amounts held as deposits as given in the following table:

**Table-4.10: Deposits held by the Provincial Banks**

Year (30th June)	(Rs. in million)				
	Punjab	Sind	NWFP	Baluchistan	Northern Areas
1977	107.15	13.59	30.64	1.81	-
1978	150.80	14.88	38.06	1.42	-
1979	219.50	10.56	40.00	N.A.	-
1980	226.40	14.78	40.12	2.53	-
1981	310.42	8.13	43.94	2.91	15.33
1982	286.34	12.08	44.73	2.40	20.03
1983	325.19	7.55	52.50	2.12	28.46
1984	369.24	8.85	49.40	N.A.	31.05
1985	393.52	9.77	53.98	2.15	49.14
1986	446.09	12.37	62.34	1.59	71.14
1987	562.65	15.64	72.76	1.77	87.77

In actual practice, however, Provincial Cooperative Banks (except for the Northern Areas Cooperative Bank) have not made any effort to mobilize savings. In fact they do not have the desired capability and access because of non-existence of banker-customer relationship even with the cooperative societies not to speak of members of the cooperative societies. The increase in deposits is attributed to the funds of the cooperative societies lying in their savings accounts as share-money and funds arising out of interest subsidy share of the society. These banks are neither under any compulsion nor have any incentive to mobilize own resources. Even in future the same may not be possible because under existing instructions of the State Bank and the FBC, provincial banks are supposed to first utilize their own funds and then borrow from the FBC. Funds available from the FBC are much cheaper as compared to cost of funds, if collected through savings. Not to speak of financing from own resources, at times the provincial banks of sind and NWFP do not even disburse the entire amount borrowed from the Federal Bank.

#### **4.3.5 Investments**

As a result of increase in the share money, reserves and deposits, the provincial banks were in a comfortable position to

invest in government securities, Modarba Certificates, cooperative ventures, etc., but this has not been done as is evident from the following table:

Table-4.11: Funds invested (other than credit) by the Provincial Banks

Year (30th June)	(Rs. in million)				
	Punjab	Sind	NWFP	Baluchistan	Northern Areas
1977	16.45	3.55	5.50	0.25	-
1978	33.36	3.43	5.33	0.25	-
1979	38.67	3.43	5.32	N.A.	-
1980	41.53	4.51	5.34	1.93	-
1981	104.26	4.51	5.34	2.34	0.21
1982	119.14	0.04	5.34	2.38	0.31
1983	115.80	0.04	5.39	2.38	0.41
1984	136.54	0.04	5.47	N.A.	-
1985	116.96	1.24	6.47	0.64	-
1986	147.03	1.24	13.76	0.72	1.00
1987	156.73	1.24	17.97	0.74	3.50

The increase in investments is considerably less as compared to increase in their share capital, reserves and deposits. In fact much of the investment is the minimum funds required to be invested to maintain liquidity under SBP and FBC instructions. The phenomenon of less investment could be attributed to the fact that much of their funds have either been stuck up against societies or consumed on salaries and benefits of the staff.

#### 4.3.6 Over all Financial Position

Over the last few years the financial position of the Provincial Banks (as per their balance sheets) seems to have improved as evident from the following table:

**Table-4.12: Yearly Profit & Loss of Provincial Cooperative Banks**

Year (30th June)	(Rs. in million)				
	Punjab	Sind	NWFP	Baluchistan	Northern Areas
1977	1.68*	1.28	1.66*	0.10	N.A.
1978	5.81*	0.16	1.26*	0.39	N.A.
1979	2.47	0.39*	2.09*	N.A.	N.A.
1980	11.75*	0.52*	0.90*	0.10	N.A.
1981	15.80	0.46*	2.50*	0.80	0.36
1982	14.46	6.11	1.32*	0.45*	0.31
1983	35.15*	7.32	1.32*	1.38*	0.33
1984	20.18*	3.40	2.40*	1.40*	0.46
1985	0.03	3.17	1.66*	1.43*	0.57
1986	33.39	3.08	5.45	2.17*	1.54
1987	73.76	8.85	10.72	0.37*	2.17

Note: Figure with \* indicate losses during the year.

The improvement could be attributed to the earnings due to increased lending and higher return (margin) now available to cooperative banks under non-interest modes of financing. It may, however, be mentioned that the position was good only on paper because large amounts may not be available to the cooperative banks on liquidation of defaulted societies.

#### **4.3.7 Banks' Solvency**

Calculated on the basis being adopted by SBP and FBC, the overall financial position of provincial banks (in terms of solvency) is un-satisfactory as is evident from the following table:

**Table-4.13: Estimated Solvency Position of the Provincial Banks**

Year (30th June)	(Rs. in million)				
	Punjab	Sind	NWFP	Baluchistan	Northern Areas
1977	22*	38*	8*	4	-
1978	23*	76*	10*	2	-
1979	59*	76*	10*	0	-
1980	30*	76*	11*	1	-
1981	10*	65*	12*	3	-
1982	0.5*	44*	15*	1	-
1983	0.5*	58*	18*	0	0.5
1984	0.5*	87*	13*	3*	0.8
1985	0.5*	105*	111*	5*	0.8
1986	0.1*	66*	5*	6*	1.0

Note: Figure with \* indicate negative values.

This position prevails despite the fact that the salaries and allowances of General Managers of the Provincial Cooperative Banks (excluding the Punjab and the Northern Areas) are being paid by the Federal Bank. Besides, the Federal Bank has also shared the expenses of field operations of these banks through their own field staff.

#### **4.3.8 Management in General**

The affairs of the Provincial Cooperative Banks are looked after by their respective Boards of Directors headed usually by the Registrar Cooperative Societies of the Province as Ex-officio Chairman. Although the Provincial Cooperative Banks are supposed to act as independent democratic institutions regulated by the Federal Bank but practically are working as a cooperative society under the supervision, in fact administrative control, of the Registrar Cooperative Societies and thus care little about the instructions/guidelines issued by the Federal Bank.

Except for the Northern Areas Bank (may be because of absence of an effective department) none of the cooperative banks operates on its own as a commercial or development finance in-

stitution. Their field operations are being taken care of by the field officials of the cooperative department. The system is thus without checks and balances. Not only the organization, registration and management of the Society is at the discretion of officials of cooperative department but they also have control over its business operations, more particularly the credit transactions. Preparation of loan applications, their verification/recommendations, sanctioning of MCL and the recovery functions which otherwise should have been with the financing institution are being handled in one or the other way by the departmental functionaries. The provincial banks do not have the access to the record of the societies even to ensure or check the proper utilization of funds without prior permission of the Registrar Cooperative Societies.

To improve the situation, the Federal Bank introduced the scheme of Provincial Bank's own field staff in the Province of NWFP, Sind, Northern Areas and lately in AJK. The scheme has not proved to be quite successful in both the provinces of Sind and NWFP because of indifferent attitude of the officials of cooperative department. However, it did succeed to a great extent, in the Northern Areas may be due to the non-existence of cooperative department.

The management of provincial cooperative banks excepting that of the Northern Areas too have not been able to appoint on regular basis, the General Manager of their Banks. Even after a decade the affairs of these banks are being taken care of by the officers brought on deputation. The practice seems to suit the cooperative department as the Bank's chief executive on contract is liable to accept pressure easily and act according to their interests.

Most of the staff of provincial banks is untrained, particularly in business management and development finance. Not only that, almost 75 percent branches of the Punjab Provincial Bank are being operated through two-man staff i.e., Manager and Cashier (most of whom are under-graduate), but there is also hardly any man-power planning in any of the provincial banks. Under these circumstances, one simply cannot expect better performance from these institutions even in future.

#### **4.4 Overall Assessment**

From the foregoing discussion, it is evident that the Federal Bank has not been able to deliver the goods in an effective and efficient manner. So far it has acted as conduit between the State Bank of Pakistan and the Provincial Cooperative Banks. The Provincial Banks are operating as revenue offices of the Provincial Cooperative Department. Primary societies are also at the mercy of field functionaries of the Cooperative Departments. Not only their organization/registration, inspection and financing operations but also the management is looked after by the officials of the Cooperative Departments.

The cooperative credit system is without desired checks and balances. The lending system is not conducive to mobilization of resources internally through deposit banking. This coupled with the state of frustration and lack of motivation among the employees of the Federal and the Provincial Banks has led the system to suffer from corruption, mal-practices, mis-use of resources and inefficiency at all levels of activity. There is thus an urgent need to reconsider the policy strategy, operational modalities and the internal structure of the organizations concerned.

## **5. PERFORMANCE EVALUATION OF MARKETING COOPERATIVES**

### **5.1 Background**

Societies for this purpose were first organized in 'mandi' towns of Punjab province in 1953-54 with membership to village level primary societies. The idea was to use these primary societies as collection and distribution units whereas the actual purchase and/or sale business was to be handled by the marketing and supply societies established for the purpose. However, with the connivance of the government officials, the village beoparies and commission agents managed to get the membership and control over the management of these societies. As such, the interest of member societies and the producers were jeopardized, resulting in failure of the effort. Likewise, for arranging timely and adequate supply of various farm inputs close to the farm, service societies were organized at union council level in 1962. And to support them, supply and marketing societies were organized in nearby market towns. These arrangements, however, could not work long mainly due to excessive official control over their management, lack of entrepreneurship capabilities of these organizations and limited participation. Another experiment was undertaken in 1967 by establishing farm service centres in selected 'mandi' towns of the Punjab Province with the main objective of arranging farm input supplies in bulk, farm machinery (tractors and implements) on rent, agricultural machinery repairs and other farm services and storage facilities. It proved to be a partial success during early days, thereby encouraging development of similar arrangements in other provinces. The new arrangements, in the long run, however could not succeed largely due to lack of technical and managerial capabilities and official control which made it a government activity adversely affecting local participation and resource mobilization.

To overcome the specific problems of producers of agricultural perishables, organization of specialized cooperatives was encouraged by providing technical assistance, subsidized credit, etc. However, on the expiry of government scheme, most of these have become inoperative. A few are working as credit organizations without taking care of the much needed services like: technical assistance, plant protection, transportation and marketing on cooperative basis.

To identify the factors responsible for their success or failure as the case may be, working of the following two societies has been analysed and reported here:

- Potato, Vegetable and Fruit Growers Society, Okara.
- Kandi Hayat Mallago Fruit Growers and Marketing Society, Peshawar.<sup>8</sup>

## **5.2 POTATO, VEGETABLE AND FRUIT GROWERS COOPERATIVE SOCIETY LIMITED, OKARA**

### **5.2.1 General Information**

The Okara district is situated at about 120 Kms from the provincial capital (Lahore) to the west on G.T.Road. It is one of the central districts of Punjab province and is well known for its agricultural production. The area is irrigated through canal supply supplemented with water from the tubewells installed by the farmers individually. The cropping intensity of the district is more than 150 percent. Main crops of the area are: wheat, rice, sugarcane, maize and potato. Almost 10 thousand hectares of the district's cropped area is brought under potato annually producing over 94,000 tonnes. Not only production-wise but also in terms of the area put under potato OKARA is number one in the county. The farmers of this district are known for their higher

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8. As per original plan, The Adizai Kholazai Fruit and Vegetable Growers Society, Peshawar was to be studied but it could not be done for want of society's record.

standards of farm management practices.

### **5.2.2 Initiation of Group Action**

Potato being a perishable commodity, its producers were facing problems relating to acquisition of quality seed in time, disposal of marketable surplus at reasonable return, inadequate storage facilities and lack of market information. To overcome these major concerns and other related issues, like-minded potato growers of the area organized this cooperative society at their own initiative and established its office in Okara town.

The society was organized in 1979 and it started functioning in the year 1980. It developed its capabilities slowly but steadily. Today not only its financial position is quite strong but it also enjoys good general reputation. In district Okara, there were more than 1400 cooperative societies being served by 6 branches of the Punjab Provincial Cooperative Bank. Regretably the society under study is the only one to have been registered for fruit and/or vegetable production and marketing purposes. None of the other societies has regular managerial staff or an office.

### **5.2.3 Membership and Production Pattern**

Society's initial membership was 53 which increased to 99 during the same year and is now 100. All the members are farmers owning land more than subsistence holding. As per record, 96 per cent members own less than 50 acres and only 4 percent are the big farmers but practically most of them are cultivating farms above 50 acres.

Of the members' cultivated farm land, area put under potato crop was 49.23 percent, whereas in case of non-member potato

growers, it came to about 42.67 percent as under:

**Table 5.1 Land Utilization**

Average per Respondent	Total Farm area	Cultivated area	Area in acres
			Area under potato crop
Members	121	117	57.6
Non-members	86.6	83.4	35.8

**Farm Productivity:** No doubt the society arranged only the potato seed and technical assistance for raising this crop on scientific lines. Compared to that of non-members productivity of members' farm was higher as is evident from table below:

**Table 5.2 Farm Productivity and Marketable Surpluses**

Items	Area (acres)	Production		Marketable
		Yield	Total	Surplus
- Production of potato in bags.				
- Production of wheat & rice in Mds.				
<b>Members</b>				
- Wheat	207	40.18	8318	6653
- Rice	209	39.75	8303	7595
- Potato	288	91.63	26391	23127
<b>Non-Members</b>				
- Wheat	168.5	39.17	6601	5530
- Rice	145.5	38.07	5539	5280
- Potato	202.0	84.48	17065	16520

**Input use and Management:** The above table shows that on an average yield of members' farm was 2.55 percent higher in case of wheat, 4.37 percent in case of rice and 8.46 percent in case of potato (the main crop). Higher yield could be attributed to a number of factors. All the members of the society were for instance, well educated and progressive farmers of the area with considerable own funds and easy access to credit sources making far better management and greater use of farm inputs like fer-

tilizers and pesticides as reflected in the following table:

**Table-5.3 Input use Level**

Respondent	Fertilizer Qty.in bags.				
	Farm Inputs (average per acre)				
	Fertilizer (Urea)		Fertilizer (DAP)		Pesticides amount
	Qty.	Amount	Qty.	Amount	per acre.
Members	1.82	241.15	0.89	130.61	612.75
Non-Members	1.78	236.47	0.81	119.03	580.50

From the above it is evident that use of fertilizer by members was somewhat higher than that by non-members. High doses of fertilizer on members' farm could be attributed to their better financial position. Also they were able to avail credit facility better as is evident from below:

**Table 5.4 Availability of Credit**

Respondent	Cropped area (acres)	Investment out of credit (Rs)
Members	738.5	616,000
Non-Members	690.0	452,500

As regards cost of fertilizer per unit, it was almost the same because both category of farmers purchased it individually at the prevailing market rates.

**Produce Marketing:** Non-member as well as the member farmers arranged marketing of their produce individually. The cooperative society except for the year 1979-80 and 1980-81 did not help its members in their marketing operations for reasons explained in the following pages.

Almost all the respondents having large area under cultivation sold their wheat and rice produce through the Food Depart-

ment of the Province whereas small farmers preferred to sell through village beoparies. As regards potato, the crop for the years 1986 and 1987 was sold through commission agents of Okara market by almost all respondents who received the same rate.

Because of its satisfactory performance and good reputation, many other farmers of the area have shown interest in its membership but the Society's management is not ready to accomodate the new members, atleast for the time being, because of practical limitations of available managerial capabilities.

While the membership was not allowed to increase, Society's management continued its efforts to mobilize own resources by increasing the share capital. The same was now Rs.510,000 as compared to Rs.99,000 in 1979-80. On average, per member contribution has increased from Rs.1000 to 51000 during this period. The increase became possible because, in 1981, it was decided not to distribute dividend, instead the amount was taken to member's share-money account. Besides increase in share money, out of yearly profit, a considerable amount has also been taken to reserves and other funds.

#### 5.2.4 Organizational Structure

The General Body of the Society is the supreme authority which takes policy decisions and lays down broad guidelines for its working. The Society's record showed that even though the number of meetings had decreased over the years, the participation level had remained quite encourageing. Greater number of meetings in initial years has been attributed to the need for dissemination of information and for developing members' confidence in management. After this early phase the Society requires fewer meetings for the transaction of its business.

Subject to such resolutions as the general body may adopt from time to time, the executive authority of the Society vests in the Managing Committee, consisting of 14 members including Assistant Registrar Cooperative Societies as ex-officio member. Like general body, the frequency of meetings of managing committee, over the years, has decreased but the level of attendance remains intact. Decrease in number of meetings has been attributed to the fact that during early days members of the Managing Committee had little experience and were reluctant to take long term decisions on their own. As such, they tended to contact members frequently on each and every issue. However, on gaining experience, the routine matters have now been left to the President and the Manager of the Society.

#### 5.2.5 Activities Undertaken

To achieve the ultimate objective of enhancing members' income from potato cultivation, the Society not only undertook various steps for improving the production and quality of the produce but also struggled for ensuring better return to the members for their farm produce in general and potato in particular. For the purpose, it has undertaken the following major activities.

a) Produce Marketing: After organizing the Society and streamlining the in-house arrangements, the Management was able to receive supply orders for 200 tons potato for export to the Middle East and Singapur and about 6 thousand maunds for supply to the Afghan refugees. On successful operations during the first year, the Society planned for a higher target in 1980-81 but could only repeat its previous performance. After that, the Society had to abandon the activity because of:

- Non-existence of grading, packing and other desired support services for export of perishables like potato.

- Society's in experience in export business.
- Non-availability of adequate and proper transport from Okara to Karachi and requisite onward airconditioned shipping facility in time.
- Lack of funds to purchase, handle and sell in the foreign markets, particularly where realization of sale proceeds sometime takes more than three months. Also because of non-availability of L.C. facility on perishables.
- Unfavourable terms of trade in the local market, particularly during harvesting season in general and bumper crop year in particular.
- Society's inability to withhold the stock in rented cold storages because of financial limitations.

The volume of business and the Society's earnings from this activity were as under:

**Table 5.5 Volume of Produce Marketed**

Year	Quantity procured for		Value Rs.	Net Earnings.
	Export	selling in local market		
1979-80	200 tons	5954 Mandis	263,650	19,970
1980-81	200 tons	-	285,650	5,329

b) **Supply of Quality Seed:** The Society's limitations in undertaking the marketing business led the management to concentrate, at least for the time being, on improving the farm production and its quality. For the purpose, it started selling potato seed imported for the purpose. Yearwise quantity imported and sold to members was as under:

**Table 5.6 Quantity of Seed Imported**

Year	Potato Seed Imported		Value in 100 Rs.	
	Qty. (tons)	Value	Sold to members Qty. (Crates)	Value
1980-81	50	267	1000	351
1981-82	595	2359	9901	3267
1982-83	614	3424	12280	4305
1983-84	434	2778	8677	3724
1984-85	545	2590	10900	3724
1985-86	594	3640	11882	5384
1986-87	247	2416	4940	2951
1987-88	238	2328	4750	3475

From this and the other record of the society it was observed that:

- Society's management was not only able to continue the activity without break over the years but also undertook it at profit.
- The decrease in volume of business relating to imported seed during 1986 was due to society's ability to get prepared quality potato seed locally in Hunza Valley.
- The potato seed to members was sold on cash payment instead of credit. However, not only its quality was ensured but the selling price was also less than that of the Punjab Seed Corporation and the Jaffar Brothers, Ltd, the other two major parties involved in the business of potato seed marketing.

Variation in price of imported seed during different years was as under:

**Table 5.7 Price of Imported Potato Seed**

Year	Society's rate for members	Market rate (average)	Rs. per crate of 50Kg.
			Variation
1981	350	350	Nil
1982	330	350	20
1983	358	390	32
1984	450	495	45
1985	340	427	87
1986	450	540	90
1987	740	850	110

c) **Technical Assistance:** To improve the farm management practices for better crop and to encourage seed production locally and better plant protection coverage the society was able to arrange expert services, free of cost, for its members, in particular under the following technical assistance programmes:

- Pak-Swiss Potato Development Project, Islamabad.
- Pak-German Potato Programme, Abbottabad.
- Ayub Research Centre, Faisalabad.

Besides visiting members' field for on the spot advice, these experts are assisting the society for developing seed production system through which the entire potato seed requirements of the country will be met from inland production. For the purpose, potato seed imported from Holland has been given to selected growers in Hunza Valley for reproduction in large quantities. Potato seed produced in Hunza is to be taken to Sahiwal and Okara and other areas of the Punjab and Sind for raising commercial crop. From this crop, seed will be sorted out for sowing in Swat and Quetta Valley. Crop so raised will provide seed for multiplication in Hunza Valley.

Completion of this cycle will enable the society to arrange locally produced potato seed not only for its members but also for the other potato growers.

d) **Other Services:** The society's management has so far not been able to restart its main activity of potato marketing on cooperative basis for reasons explained earlier. However, it did help the farmers of the area in securing better prices for their major produce like: potato and sugarcane by initiating negotiations with the buyers.

#### 5.2.6 **Society's Capital**

As mentioned earlier, the society's management thought it

worthwhile not to increase its membership but they did realize the importance of own resources. For the purpose, not only members were asked to purchase additional shares but it was also recently decided not to distribute annual dividend; instead, the profit was appropriated towards members' share money, Building Fund, Reserves and General Public Fund. The policy has resulted in accumulation of considerable own funds over the years as is evident from the following table:

**Table 5.8 Society's Resources**

Year	Rs. in 000			
	Share Capital	Reserves	Other Funds	Borrowings
1979-80	99	-	-	-
1980-81	101	-	-	-
1981-82	101	-	-	-
1982-83	161	-	-	-
1983-84	385	-	-	400
1984-85	385	87.5	122	-
1985-86	385	87.5	120	-
1986-87	507.5	361.4	433	-
1987-88	510	361.4	432	-

From the above it is evident that society's efforts to become self-sufficient with regard to financing has so far been quite successful. Not only was sufficient amount now available under reserves to off-set any eventuality in business transactions but considerable funds have also been earmarked for construction of own office and other buildings. The interesting feature is that society's financial achievements are through own efforts without any outside support. Borrowings of Rs.400 thousand during 1983-84 were only for short period of one month and the entire loan was repaid in time. Besides, the society has not availed any credit facility from its Bankers.

To meet its financial commitments relating to import of seed, members interested in the imported seed were asked to pay

about 50% of the expected price in advance and the remaining part was met out of the society's resources. It is learnt that a number of non-member potato growers of the area have offered double the price of the share to become member but the society's management is reluctant to increase the membership as stated earlier.

### 5.2.7 Financial Position

The society has not been able to undertake all the activities for which it was established due to its technical, managerial and financial constraints. However, even with the existing level of activities over the years it has earned considerable profit thereby strengthening its financial position. Its income and expenditure account is as under:

**Table 5.9 Society's Income and Expenditure**

Year (30th June)	Income	Expenditure	Net-Profit
1980	29.87	24.67	5.20
1981	40.79	38.39	2.40
1982	310.85	49.01	261.84
1983	217.43	143.13	74.30
1984	372.17	167.43	204.74
1985	435.48	185.55	249.93
1986	865.19	220.29	644.90
1987	310.53	196.80	113.73

Reduction in net profit during 1986-87 was attributed to the fact that on one hand society imported less quantity of potato seed and part of members' requirements were met out of locally produced seed and on the other hand, for popularizing the indigenous seed, it was sold at no profit no loss basis thereby decreasing the society's net income.

### 5.2.8 Farmers' Perception

From the information collected, almost all the respondents

(members and non-members) consider the society's performance in the selected areas of activity reasonably good. Most of them were however of the view that it could perform far better if it had the desired technical/managerial and financial resources. The members have attributed the success to the sincere efforts of the society's management while the non-members to the higher socio-economic status of majority of the members facilitating approach to concerned quarters.

Member respondent found the society's activities relating to supply of quality seed and that too at cheaper rates, and free of cost technical assistance quite beneficial in raising their potato production. They, however, showed concern over delay in undertaking the much desired activity of produce marketing. The non-members, however, were critical of the society's decision not to increase the membership.

#### **5.2.9 Future Programme**

To improve its business operations, the society has planned to establish a potato grading and packing plant and construct special type of godowns, a small cold storage and office building. For the purpose, a proper feasibility study was arranged which envisages an investment of about Rs.13 million. The feasibility has been submitted to the Provincial Cooperative Bank for the requisite credit facility.

The Society's management is also looking for some foreign investor for joint venture. On completion of its complex, it intends not only to start exporting potato but also at later stages install a processing unit to take care of the left over quantity. And the annual business of the society in future is estimated as under:

	<u>Volume (tons)</u>	<u>Value (Rs.in 000)</u>
- Potato top be sold in local market	19,000	28,050
- Sale in the export market	10,000	20,160
- Seed stock	1,000	3,000
	<hr/> 30,000	<hr/> 51,210

The procurement target seems to be well within the society's reach as the desired volume is only 1/3rd of the production of district Okara excluding the production of adjoining districts. Similarly the estimate of exports by the society will only be about 14 percent of the annual estimated export potential of 70 thousand tons.

#### 5.2.10 Problems Encountered

Though it is difficult to develop farmers organizations on self-reliant basis, the society has succeeded in streamlining its in-house arrangements to undertake atleast some of the activities in a slow but steady way. However, the following problems and difficulties are worth mentioning in this connection:

- What to speak of the society's area of operation, there is no potato grading and packing facility in the country as a whole. It is done through manual labour which besides being costly leaves much to be desired particularly in the export trade. Without such a facility it is difficult to compete in the international market. This deficiency was one of the main reasons of the society's abandoning the export business after two years operations.
- Potato being perishable commodity needed
  - (a) special transport arrangements; speedy and adequate within the country and
  - (b) readily available air-conditioned shipping space for export purposes.

In the country neither is sufficient nor efficient besides being costly. It was also because of this that the society could not continue its export business.

- Terms of trade for the producers were usually unfair during harvesting time, particularly in years of bumper crop. The society has not been able to find the solution for want of desired financial resources to purchase the excess production and store the same for release at a later stage.
- Because of limited managerial capability of the society, it could not undertake all the envisaged activities. Neither the Cooperative Department the Provincial Cooperative Union nor the Provincial Cooperative Bank mounted any training programme for enhanced managerial capability.
- For implementing its action programme, besides working capital, the society requires finances on long term basis for infrastructural development which the management of the Provincial Bank is reluctant to make available against hypothecation of goods, machinery and buildings whereas the society is not in a position to provide security of landed property.

#### 5.2.11 Overall Assessment

From the review it is evident that although the society's management has not been able to continue or restart its main activity of potato marketing for specific reasons, it has successfully undertaken steps to increase crop production. In selected areas of activity its success is attributed to the following:

- A genuine society organized on initiative of like minded people in the same business and keen on self help has led to development of confidence among the members.
- Growing community feelings for mutual has helped mobilize own resources upto necessary level.
- Collective decision making process has helped better implementation of action programme.
- Last but not the least, dedication and efficiency of the society's management has enabled the society to continue undertaking at least some of the manual activities successfully.

### **5.3 KANDI HAYAT MALLAGO FRUIT GROWERS AND MARKETING SOCIETY, PESHAWAR**

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#### **5.3.1 Introduction**

This society was organized in 1962 under a development scheme of the Cooperative Department for improving fruit production and marketing system. To start with 5 primary societies and their federation were organized. Membership in federation was open to progressive fruit growers also. The initial membership of this society was ten as required under Law. Membership, however, increased to seventeen during the same year. It provided credit from 1962 to 1964 to its members to enable them to look after their fruit orchards till harvest. Thereafter the society could not arrange the desired funds from the Fruit Marketing Federation and was thus unable to extend the facility to its members. The Society's management then decided to provide atleast fruit packing material on credit to the member growers. For the purpose, in 1966-67, funds were raised internally and invested on installation of saw machine, flour grinding machine, construction of godown and purchase of wood. The business proved costly and the society had to abandon the activity after three years.

Because of disappointment, most of the members refused to cooperate with the management for raising more funds internally and the society's management was not able to avail outside borrowings therefore its activities remained suspended till 1984 when the society's bye-laws were amended to provide for borrowing from the Provincial Cooperative Bank for onward lending to its members.

#### **5.3.2 Membership and Production Pattern**

Out of 33 members in mid-1988, majority (31) were the owners of fruit orchards. Of these, 58 percent were the small farmers

having land less than 12.5 acres while the rest were cultivating area between 12.5 to 50 acres.

Of the cultivated farm land, area put under different crops was as under:

**Table 5.10 Land Utilization**

Average per Respondent	Member	Non-member	Area in acres
			Over-all
total farm area	13.5	14	13.7
cultivated area	13.2	13.6	13.4
<u>Area under:</u>			
Wheat	4.6	4.4	4.5
Sugarcane	3.2	3.2	3.2
Sugarbeet	2.5	3.1	2.8
Vegetable	0.9	1.2	1.1
Fruit Garden	2.8	1.9	2.3
Fooders, etc.	1.5	2.2	1.8

From the table it appears that maximum area was put under wheat followed by sugarcane and sugarbeet (both cash crops) and fruit orchards respectively. On an average, area under fruit was 16 percent of the cultivated land showing considerable activity in fruit production. However, area under fruit orchards on members' farm was 21% of the cultivated land. As all the respondents reported for selling their fruit orchards as standing crop well before harvest, it was therefore, not possible to estimate the production in terms of quantity for judging the volume of business available to the society.

**Productivity:** As the society continued arranging credit in kind it did help not only in increasing the total production but also farm productivity as is evident from below:

Table 5.11 Farm Productivity

Item	Area (acres)	Production (Mds)		Marketable Surplus
		Yield	Total	
<u>MEMBERS</u>				
Wheat	23.0	13.26	305	90
Sugarbeet	12.5	532	6605	6650
Sugarcane	10.5	495	5200	5200
<u>NON-MEMBERS</u>				
Wheat	22	14.36	316	194
Sugarbeet	14.0	485	6790	6790
Sugarcane	10.5	446	5683	5683

The above table shows that, on an average, yield of members' farm was 9.69 percent higher in case of sugarbeet and 10.99 percent in case of sugarcane as compared to non-member farmers of the same village but it was less by 7.66 percent in case of wheat apparently because the members gave more attention to commercial crops. Similarly, members were able to obtain higher incomes from other crops which were sold in the field as is evident from the table given below:

Table 5.12 Income from Vegetables and Fruit Orchards

Crop	Area (acres)	Amount in Rs.	
		Total Sale Proceeds	Income Per Acres
<u>MEMBERS</u>			
Vegetable	10.0	77,575	7757.50
Fruit Garden	13.0	133,750	10288.46
<u>NON-MEMBERS</u>			
Vegetable	11.5	89,200	7756.52
Fruit Garden	9.5	93,500	9842.11

Input Use: Higher level of productivity at members' farm can be attributed partly to better management and partly to the use of higher doses of farm inputs like fertilizers and pesticides as observed from the following table:

**Table-5.13 Input use Level**

Respondent	Farm Input (average per acre)				Pesticides in litres
	Fertilizer (Urea)		Fertilizer (DAP)		Fertilizer in bags.
	Qty.	Amount	Qty.	Amount	Pesticides amount per acre.
Members	1.39	140.48	0.61	82.81	445.81
Non-Members	1.13	150.73	0.57	83.51	367.69

It is evident that members' cost per unit of fertilizer was considerably less as compared to non-members which could be attributed to the efforts of cooperative society to arrange the same on collective basis. Higher doses of fertilizer at members' farm were possible primarily due to availability of cheap production credit from the provincial cooperative bank through the cooperative society as is evident from below:

**Table 5.14 Availability of Credit**

Respondent	Cropped area (acres)	Investment out of credit (Rs)
Members	77.5	57,500
Non-Members	80.0	29,000

Against a sum of Rs.362.5 per cropped acre credit to non-members, the member farmers were able to receive Rs.741.94 i.e., more than double of the credit available to non-members.

**Produce Marketing:** As a result of higher farm productivity due to increased use of farm inputs, on an average, marketable surplus with a member family was of the value of Rs.76,992 (comprising of: wheat Rs.1547, sugarbeet Rs.18620, Sugarcane Rs.14560, Vegetables Rs.15515 and Fruits Rs.26750). Calculating on this basis, the society has the opportunity to do marketing business annually, on collective basis, for about Rs.2.23 million. Be-

sides, the society can also handle the marketable surplus of more than 421 non-member farmers of the village. Since both type of farmers sold their produce individually in the local market, there was hardly any difference in the prices received by members and non-members.

### 5.3.3 Organizational Structure

The General Body of the Society under Law is the supreme authority which takes major policy decisions and lays down the broad guidelines for its working. From the Society's record it was found that meeting of the General Body were held regularly except during period of inactivity i.e. 1970-84. And the participation level was maintained during the period of activity.

Subject to such resolution as the general body may adopt from time to time, the executive authority under the society's bye-laws vests in the Managing Committee consisting of five members. Particulars in respect of elected members of the Managing Committee are as under:

**Table 5.15 Particulars of Committee Members**

Member's Name	Age	Education	Owned farm area(acres)	Member Since
1. Fida Hussain	58	Matric	20	1962
2. Abdul Sattar	90	-	20	1962
3. Mohammd Shafi	31	Matric	15	1969
4. Mohammad Ali	26	Matric	3	1978
5. Mohammad Yusuf	36	Matric	15	1968

Obviously there have been changes in the management. However, the society's record indicated that the changes were just replacements by heirs on members' death. Although elections were held according to the requirements of Law yet group commanding majority continued to hold office and the other group did not find it possible to bring about any change.

However, with the revival of activities after 1984 there was a change in the attitude of the Managing Committee. The Committee started keeping the general body fully informed and the proceedings of meetings attracted almost full attendance. For day to day work, the Society depended on one of its members who is working as honorary Secretary. During 1967-69 some staff was appointed temporarily for operating saw machine and flour grinding machine.

As regards maintenance of accounts, during early years the Sub-Inspector concerned of the Cooperative Department used to look after that work but later on the society's secretary assumed this responsibility. However, regrettably the record has not been maintained in accordance with the accepted principles of accounting. The Balance Sheets and Profit and Loss Accounts prepared from time to time did not reflect the real financial position of the society. No effort was made to prepare even the Trading Account of the Society as a whole what to speak of separate account for each activity.

#### **5.3.4      Activities Undertaken**

The Society's activities can be grouped into three categories, a brief review of which follows:

**a) Efforts towards Fruit Marketing:** After registration, the Society was got affiliated with the Fruit Marketing Federation. Funds were borrowed from the Federation and disbursed to members on the premise that they would not dispose of their standing fruit gardens as usual. Instead, they would be looked after and harvested by themselves and packed fruit would be taken to the Fruit Marketing Federation, Peshawar which was to take care of the rest. Under this system, on receipt of sale proceeds from the traders, the Federation used to deduct its dues (i.e. outstanding loan, if any and the commission) before making payment to the

fruit suppliers. To take care of the primary society's management expenses, the Federation agreed in 1964, after a great deal of negotiations to share the commission but it proved to be of little use because in the meantime resources of the Federation were depleted and no credit could be extended to societies for onward lending to members. Consequently, growers had to revert to their previous practice of selling standing fruit orchards.

Magnitude of activities was as under:

**Table 5.16 Fruit Marketing through Society**

<u>Year</u>	<u>Quantity offered for sale (crates)</u>	<u>Commission earned (Rs.)</u>
1962-63	2915	-
1963-64	6237	436.30
1964-65	4597	318.50

The table shows that the magnitude of members' business through the society was not significant when compared to the average area under fruit orchards. From the discussion with fruit growers of the village, it was observed that most of the credit was taken away by the society's management belonging to one group. Because of the credit facility the orchards were not sold in advance as was the practice; instead members harvested the crop themselves and sold their fruit directly to the traders of other markets to save on commission and avoid deduction of loans. After 1965 season the activity came to an end because of non-availability of funds from the Federation.

**b) Investment Activity:** The cost incurred on packing material i.e. crates during 1964 season was extra-ordinarily high. Therefore, the society's management opted for having own arrangements to prepare the wooden crates. Since no funds were available from the Federation, the members were asked to contribute. Under this scheme, the society raised a sum of

Rs.13,649/- during 1965 and 1966 for investment. Simultaneously, the Government was also requested to provide Rs.5000/- as grant-in-aid for construction of godown to store the wood and crates.

On receipt of Rs.5000/- from the Government (as interest free long term loan), the society constructed the godown and installed a small saw machine on a piece of land owned by its cashier who had promised to donate it to the society which was never done. After one year's operations it was, however, found that the project was not viable financially, therefore, a flour grinding machine was also installed. Magnitude of investment was as under:-

<u>Year of Establishment</u>	<u>Type of Investment</u>	<u>Investment Costs</u>
1966	Construction of godown	8789
1966	Installation of Saw Machine	6543
1967	Flour Grinding Machine	2685

Although officials of the Cooperative Department had been visiting this society off and on and were quite aware of the steps being taken but they failed to advise the society for the need to have prior assessment of the project's viability. Even after investment in flour grinding machine, the project did not prove profitable as is evident from the following table constructed on the basis of the society's record.

**Table 5.17 Investment Activities**

<u>Particular</u>	<u>1967-68</u>	<u>1968-69</u>	<u>1969-70</u>
No. of crates prepared.	9,100	12,875	7,412
Cost of Wood	12,709	17,233	10,442
Other expenses	5,479	6,822	4,644
Total Expenditure:	18,188	24,055	15,086
Income from:			
- Sale of crates	16,809	22,078	12,440
- Flour Grinding Machine	-	2,077	2,040
Total Income	16,809	24,155	14,480
Profit/Loss from investment activities	(1,379)	100	(606)

As is evident from the above, the venture proved to be of some benefit in 1968 but it could not be repeated the following year which was attributed to the decrease in volume of business due to non-availability of enough funds for purchase of wood. The result was higher per unit cost which affected the demand for crates prepared by the society. Being continuously in loss, society's management decided to abandon the activity and the two units i.e., saw machine and flour grinding machine were rented out for Rs.600 per year from 1.7.1971 to 30.6.1976 when both were disposed of on the advice of the Assistant Registrar Cooperative Societies at book value to the owner of the land where these units were installed. Funds so earned were utilized for settling the accumulated losses and making partial payment to depositors. The godown (regardless of its value) was sold for Rs.5000/- again to the owner of the land where it was constructed. The amount so received was repaid to the government after 10 years.

c) Credit Facility: According to the original bye-laws credit disbursement was not to be an activity of this society although from the very first year it borrowed funds from the Federation for extending the facility to its members. The activity remained there even when marketing through the Federation came to an end in 1965. From 1967 to 1969 the society provided wooden crates to its members on credit. In 1984, the bye-laws were amended and a clause added to enable the society to borrow from the Provincial Cooperative Bank for onward lending to members. The society (since 1985) has in-fact been working only as a credit disbursing agency. Magnitude of credit activity was as under:

**Table 5.18 Society's Borrowings**

<u>Year</u>	<u>Society's MCL</u> <u>(Rs.)</u>	<u>Borrowings</u> <u>(Rs.)</u>	<u>Members served</u>
1985-86	100,000	40,500	14
1986-87	100,000	86,000	19
1987-88	200,000	99,360(one crop)	19

All the borrowers have been reported to be small farmers for availing the interest (mark-up) subsidy facility. However, a number of them were not only operating but also owning area more than subsistence holding of 12.5 acres as under:

**Table 5.19 Main Beneficiaries of Credit Operations**

<u>Year</u>	<u>No. of</u> <u>borrowers</u>	<u>Owners</u>		<u>Cultivators</u>	
		<u>Small</u>	<u>Medium</u>	<u>Small</u>	<u>Medium</u>
1985-86	14	9	5	6	8
1986-87	14	9	5	7	7
1987-88	14	11	8	11	8

From the above it appears that over 42 percent borrowing members of the society did not qualify for mark-up subsidy whereas they were availing it by reporting less area owned/being cultivated. Another aspect which came to light during discussion relates to the mode of financing. Although the Bank's record shows that finances have been provided in kind, i.e. seed, fertilizer and pesticide the Society's record and members' statements indicate that the entire credit was received in cash. Further investigation revealed that the pay orders issued by the Provincial Cooperative Bank were encashed because by the time the loan was made available, farmers had already purchased these inputs.

Society's income (calculated @ 3%) from these credit operations works out to be as under:-

<u>Year</u>	<u>Amount</u>	<u>Society's Share in Mark-up</u>
1985-86	40,500	1215
1986-87	86,000	2580
1987-88	99,360	2981

### 5.3.5 Society's Capital

As the society's scheme to assist the members in marketing their fruit through the Federation did not succeed due to lack of funds with the Federation, therefore, efforts were made to mobilize own resources. Besides increase in share money, deposits were also collected as is evident from the following table:

**Table 5.20 Society's Resources**

<u>Year</u> <u>(30th June)</u>	<u>Share</u> <u>Money</u>	<u>Reserves &amp;</u> <u>Deposits</u>	<u>Borrowings</u>
1963	740	-	15,536
1964	740	-	31,982
1965	4760	1746	4,700
1970	5220	13649	-
1975	5440	13649	-
1980	5540	8394	-
1985	5800	8094	40,500
1986	8720	6094	86,000
1987	15240	-	99,360

From the above it is evident that share money has increased considerably. Increase during 1965-66 has been attributed to the resource mobilization efforts for investment whereas increase during 1987 is meant to get more credit from the Provincial Cooperative Bank. Nevertheless the debt-equity ratio remained unattractive from financial viability point of view.

As regards deposits, a sum of Rs.13,649/- was collected for investment, out of which Rs.5355/- were paid by disposing of as-

sets in 1977. The balance was paid out of share-money. The Society's management however plans to recoup the same from the income to be received on account of its credit operations.

**Table 5.21 Society's Income and Expenditure**

<u>Year</u>	<u>Income</u>	<u>Expenditure</u>	<u>Profit/ Loss</u>	<u>Accumulated Position.</u>
1962-63	-	9.50	9.50*	9.50*
1963-64	436.30	437.80	1.50*	11.00*
1964-65	318.50	521.74	203.24*	214.24*
1965-66	-	54.24	54.24*	268.48*
1966-67	-	1378.99	1378.99*	1647.47*
1967-68	16,809.00	18,933.95	2124.95*	3772.42*
1968-69	24,154.74	25,208.17	1053.43*	4825.85*
1969-70	14,479.57	15,980.03	1500.46*	6326.31*

\* Figures indicate the losses.

The amount of losses continued to increase till 1973-74 and reached the figure of Rs.7276.96. This amount was reduced by Rs.1800 in 1984-85 as a result of income received by renting out the saw machine and flour grinding machine @ Rs.600/- per year w.e.f. 1.7.1971. The remaining amount of loss was appropriated by disposing of the assets in 1977.

### **5.3.6 Farmers' Perception**

Apparantly due to the society's poor past performance not only the non-members but most of the members also were of the view that the society was of little benefit to its members and that its future would not be different from its past as it is being controlled by an incapable management belonging to a specific group. Nevertheless they were very much in favour of cooperative approach to help develop and solve various problems with which the farming community is confronted.

### 5.3.7 Problems Encountered

During the course of its operations, the society suffered loss which was attributed to the following shortcomings/difficulties:

- a) The Society's management comprised relatively less educated people who could not assess in advance the feasibility of activities undertaken from time to time.
- b) Despite repeated visits to the Society government officials concerned failed to provide requisite guidance to the management.
- c) The Society's marketing operations were solely dependent on availability of funds from the Fruit Marketing Federation which was in fact controlled by the individual members. After three years' operations, most of its funds were withheld against defaulting members thereby limiting its ability to extend credit to fruit growers' societies for onward lending to members.
- d) While drafting bye-laws, due attention was not paid to the society's investment needs, the result was that it could not borrow from the Provincial Cooperative Bank till 1985 when the enabling provision was made in its bye-laws.

### 5.3.8 Overall Assessment

From the review, it is clear that the society has not been able to undertake any of the envisaged activities profitably. Its failure has been attributed to the following internal and external factors:-

- The Society was organized on government initiative with little enthusiasm on the part of the members.
- Instead of own resources, the society's operations were made dependent on outside borrowings, non-availability of which hampered its operations.
- Own funds mobilized lately were invested on projects viability of which was not assessed in advance.

- Not only that society's management had little technical know-how to plan and manage development activities, the government officials visiting the society off and on also could not guide. The situation resulted in continuous loss and disappointment of members at large.
- Because of small size of its membership, and its limited business, the society could not bargain properly and avail the benefits of economies of scale.

## **6. WORKING OF LIVESTOCK & DAIRY COOPERATIVES**

### **6.1 Introduction**

The role of cooperatives, in livestock sub-sector, so far has been negligible despite the fact that efforts in the field started as early as in 1925-26 when a number of cattle breeding societies were organized in the province of the Punjab. Additional efforts were made to organize the Veterinary First Aid Centres under cooperatives in 1940-41. As both these activities were initiated by the government, the big land-lords showed interest only in grabbing the public money. Societies so organized remained more or less a family affair. After the Partition further efforts were made to develop livestock and dairy cooperatives. For the purpose, government made available subsidised credit besides technical assistance. A number of cooperatives in the districts of Hyderabad (Sind), Sahiwal, Lahore, Sheikhpura and Rawalpindi were organized. Barring a few exceptions, almost all of these have become defunct. To look into the weak and strong points of their working, the managements of following cooperative societies were approached for detailed information:

- Al-Mehran Livestock & Dairy Development Society, Hyderabad.
- Chowk Pindori Dairy Cooperative Society, chowk Pindori, R.Pindi.

### **6.2 AL-MEHRAN LIVESTOCK & DAIRY DEVELOPMENT SOCIETY, HYDERABAD**

#### **6.2.1 Background**

To ensure cleanliness and at the same time help develop the city 'gawalas' the Government of Sind had planned 'gawala' colonies' in Karachi and Hyderabad on government land wherein each 'gawala' was allotted a piece of land for erecting sheds, etc. In all, there were 140 sheds in the 'gawala' colony of

Hyderabad. The cattle owners, however, faced a lot of difficulties in marketing their milk as well as in procuring cattle feed of desired quality at reasonable cost. To solve their problems through mutual help in 1983 thirty cattle owners belonging to a particular community, on their own initiative, decided to organize a cooperative society. During the same year, the membership rose to 140 thereby covering all the allottees. Membership now stands at 150. The 10 additional members are those who have managed to establish their livestock farms on leased land in the adjoining areas of 'gawala' colony. Total animals with the members of the society are about seven thousand, out of these about sixty percent are supposed to be in lactation during the year.

#### **6.2.2 Organizational Set-up**

The General Body of the society under Law is the supreme authority which takes major policy decisions and lays down broad guidelines for its working. From the society's record it was observed that with the passage of time the members interest had decreased perhaps due to limited activity of the society and that too at a loss. However, since they were getting a better price for their milk, none has so far chosen to leave the society.

Subject to such resolutions as the general body may pass from time to time, the executive authority of the society vests in its Board of Directors consisting of 11 members. Except for two members, the entire Board was reconstituted in 1987 after the failure of previous management to arrange desired funds and made the society profitable.

Unlike the general body, with the passage of time, the attendance of committee members remained almost constant although no. of meetings decreased. For routine operations, the society



Purchase price was fixed by the Board of Directors of the Society whereas selling price depended on supply and demand at Karachi. From the society's record it was observed that purchase price was usually fixed higher than prevailing local market price as is evident from the following table.

**Table 6.2 Milk Prices**

Year	Purchase Price	Selling price in Karachi	Rs. per litre
			Price in Local Market
1983-84	5.49	5.65	5.00
1984-85	4.80	5.45	4.65
1986-87	4.66	5.18	4.50
1987-88	5.50	6.00	5.00

Note: Prices shown above are the average for whole of the year.

As the society, atleast for the time being, was not extending any other facility therefore, it opted to purchase milk at prices higher than the market price of Hyderabad.

**Volume of Business:** The society's present capacity to chill and market milk in Karachi is 22 thousand litres per day. It has developed this capacity slowly and steadily over the years. As such, volume of business varied according to the capacity and was as under:

**Table 6.2 Milk Prices**

Year	Milk Purchased	Milk Sold	Qty. in 000 litres	
			Estimated Qty.	Wastage Value (Rs.000)
1983-84	3856	3825	31	140
1984-85	8688	8605	83	435
1985-86	9107	9060	47	302
1986-87	7809	7735	74	940

The table shows that wastage level of about one percent persisted except for the year 1985-86. The wastage has been attributed to factors like: breakdown/failure of the automobile and disturbances in Karachi which hindered the society in disposal of its milk in time resulting in total loss due to spoilage. The problem of automobile failure/breakdown was solved by arranging third truck as stand-by to meet the eventuality, if any. Reduction in wastage during 1985-86 has been attributed to this effort. Increase in wastage again in 1986-87 was solely because of higher incidence of disturbances in Karachi a factor which was beyond the society's control.

Reduced volume of business during 1986-87 has been attributed to the managerial inefficiency as some of the managing committee members had established their own business. The General Body took a serious note of this situation and changed almost the entire Managing Committee in 1987.

#### **6.2.4 Society's Capital**

To accomplish the envisaged objectives, besides share-money, the society has also collected funds from its members in the form of long term deposits for investment in installation of chilling plant, purchase of machinery and equipment, etc. Almost the entire investment made so far represented Society's own funds. Only small amounts were borrowed in the past to take care of the working capital requirements. Funds borrowed from outside (Silver Jubilee M/P Cooperative Society, Karachi) were repaid as per terms of agreement. Year-wise position of the society's capital was as under:

**Table 6.4 Society Resources**

Year	Amount in Rs.			
	Share Capital	Reserves	Other internal funds	Borrowings
1983-84	67,000	-	13,70,100	-
1984-85	705,000	-	14,99,300	200,000
1985-86	750,000	900	15,49,300	1000,000
1986-87	750,000	900	15,49,300	200,000

As per provisions of the Cooperative Law, the Society is required to develop its reserves out of business profit. Unfortunately the society has not yet earned profit except in 1985-86 and thus the amounts under reserves are small. As a result of mobilization of internal resources no doubt its debt-equity ratio remained attractive from the stand point of financial viability but it failed to extend any return on this amount which may lead to dis-appointment among the members at large.

#### 6.2.5 Financial Position

Except for the year 1985-86 when the society earned profit, so far it has operated at loss as is evident from the following:

**Table 6.5 Society's Income & Expenditure**

Year	Income	Expenditure	Rs. in 000	
			Loss/Net - Income	Accumulated Position
1983-84	1057	1102	45*	45*
1984-85	3180	3658	478*	523*
1985-86	5139	4992	477	46*
1986-87	4321	4451	130*	176*

\* Figures indicate the losses.

From the table it appears that the Society had incurred extra-ordinary losses during 1984-85 followed by profit of an equal amount during 1985-86. It has been attributed to the following two factors:

- The Society's per litre margin in the milk price in 1985-86 was Rs.0.65 while the same was only Rs.0.25 in 1984-85.
- Society's losses due to market price and milk wastage as percentage of business volume (cost of the milk purchased) were also higher in 1984-85 as is evident from the following table.

Table 6.6 Society's Operational Losses

Year	Milk Cost	Losses on account of			Rs. in 000
		Milk Wastage	mandi losses	Total	Losses as percentage of cost of Milk
1983-84	21169	140	298	438	2.07
1984-85	40834	435	947	1382	3.38
1985-86	43714	302	1136	1438	3.29
1986-87	42949	940	326	1266	2.95

#### 6.2.6 Farmer's Perception

Although the Society's management has so far not been able to run the business profitably and has infact suffered losses, yet the member as well as non-member 'gawalas' were generally appreciative of the society's efforts as they raised the milk price to its present level in Hyderabad and helped transport about 22,000 litres milk daily to Karachi which is obviously over and above the local needs. It was however, widely felt that the current milk losses due to wastage and lower market prices in Karachi during winter season should be reduced. Almost all the members expressed the hope that the new management would find solutions for the problems being presently faced by the Society, particularly in its marketing operations. Its policy not to admit new members because of operational limitations has been criticized by the non-member 'gawalas' in the area.

#### 6.2.7 Future Programme

To overcome atleast some of the existing difficulties, the

Society has planned to upgrade its machinery/equipment, improve the infrastructure and services and arrange animal feed on credit. Feasibility study carried out for the purpose envisaged another investment of rupees five million. A request was accordingly made to the Sind Provincial Cooperative Bank on whose recommendation, the Federal Bank for Cooperatives, Islamabad approved a loan of Rs.4.5 million which, however, could not be disbursed for want of adequate securities.

The Society's management was also looking for some foreign investor for a joint venture. On completion of the envisaged additional work, the society's annual business was estimated as under:

	-----Qty.-----	--Value Rs.--
1. Procurement & sale of (Chilled) milk 24000 litres daily	8.76 million litre	42 million
2. Purchase & sale of cattle feed 10,000 bags per month to members on one months's credit.	120 thousand bags	6.6 million

The procurement and sale targets are well with-in the Society's reach as the desired volume of milk is less than the present production of members' farms. Demand for milk would certainly rise in future. Similarly, the feed requirements of 7000 animals (of which about 4000 would be in lactation) would be more than 10 thousand bags proposed to be handled on a monthly basis.

#### 6.2.8 Problems Encountered

Despite a number of problems with which the society's management had been, and was still, confronted, it continued its operations on self-help basis. After streamlining its in-house arrangements, it has undertaken atleast the main activity i.e. milk marketing as envisaged at the time of organization. Its main

problems and difficulties were:

- The Society continued to be in loss due to internal as well as external factors. Milk wastage because of automobile failure/ breakdown was controlled by making standby arrangements but the disturbances in Karachi could not be controlled as a result of which curfew was usually imposed blocking the sale of chilled milk.
- During winter season, milk supply from the adjoining areas of Karachi increases which affects the price at wholesale points normally covered by the society resulting in losses in the operation.
- Non-availability of desired bulk-sale facility has compelled the society to create two units of establishment, one at Hyderabad and the other at Karachi, leading to higher establishment expenses.
- Further, for want of funds, it has not been able to arrange animal feed on collective basis which could have reduced the cost, as well as ensured feed quality.
- Veterinary Aid coverage against animal diseases and technical assistance for improving animal breeds, management of dairy-farms, etc. were insufficient.
- Education and training facilities for the management of cooperative societies in the country are generally limited even in the field of accounts and book-keeping not to speak of managing investment ventures on cooperative basis.
- Last but not the least, to bring in the desired improvements in its infrastructure and operations besides working capital the society required finances on long term basis which the management of Provincial Cooperative Bank was reluctant to make available against hypothecation of goods, machinery and buildings while the society was not in a position to provide tangible security of landed property.

#### 6.2.9 Overall Assessment

From the review, it is evident that although the society's management was unable to undertake all the desired activities and that too profitably, it has succeeded in creating the desired infrastructure and continued operating despite a number of difficulties and problems caused by internal as well as external

factors. The society's limited successes have been attributed to the following:

- A genuine society organized on members' own initiative comprising like minded people engaged in the same business helped in developing the desired mutual confidence.
- Increase in community good will for each other has provided a strong basis for self-help leading to mobilization of desired resources internally.
- Collective decision making process has helped in implementation of the society's action programme.
- Last but not the least was management's decision to continue policy of ensuring fair return to its members. As a result of this, the sitting members lost their positions in the following election but members at large continued their association as they found the society beneficial.

### **6.3 CHOWK PINDORI DAIRY COOPERATIVE SOCIETY, RAWALPINDI**

#### **6.3.1 Background**

With the shifting of the Capital from Karachi to Islamabad, the population of twin cities of Rawalpindi - Islamabad increased rapidly leading to increased demand for fruit, vegetables, meat and milk. The area being barani was deficient in almost all agricultural commodities. To overcome the problem, the Government of Pakistan initiated a number of schemes aiming at increasing the production and supply of vegetables, milk and other livestock products.

To supplement these efforts, the Government of Australia offered technical and financial assistance for installing a milk plant in Islamabad. And to ensure adequate supply of milk to this plant, farmers of the area were offered the facility of interest free credit for purchase of animals, their up-keep and transportation of milk to the plant site. In this helpful atmosphere the

farmers of Chowk-Pindori area organized this cooperative society in 1976 to increase the members income by improving milk production and marketing arrangements. Its initial membership was 87. The management of milk plant provided Rs.100,000 as credit for purchase of milch animals and donated a vehicle (pick-up) of the value of Rs.60,467 for milk transportation. The amount was disbursed to 30 members of the society enabling them to purchase the additional animals. In 1980-81, a sum of Rs.600 thousand was made available to the society by the Provincial Cooperative Bank for purchase of more milch animals.

Though the society was organized by the members themselves, the process was overwhelmingly influenced by the management of Islamabad Milk Plant thorough persuasion. Thus, from the very beginning, the society's management focussed its attention on grabbing cheap credit and other facilities rather than endeavour to become self reliant.

### 6.3.2 Membership and Production Pattern

The Society's membership at the time of registration in 1976 was 87, by 1982-83 it rose to 167 as is evident from the following table:

**Table 6.7 Society's Membership**

Year	Total Members	From Size		Tenancy	
		Small	Medium	Owners	Owner-cum-tenants
1976-77	87	76	11	80	7
1977-78	87	76	11	80	7
1978-79	87	76	11	80	7
1979-80	90	78	12	80	10
1980-81	105	89	16	90	15
1981-82	105	89	16	90	15
1982-83	167	145	22	141	26
& onward					

The increase in membership during 1979-80 was attributed to the society's ability to arrange interest free credit for purchase of milch animals even though from 1978-79 the society had remained in loss for reasons explained later in the Report. Large addition to membership in 1982-83, when society's management was already facing problems of excess milk supply, was said to be due to the promise of one of the influential members (who was then also Director on the Board of the Federal Bank) to arrange interest-free credit (as was done in 1980) from the Punjab Provincial Cooperative Bank.

**Production Pattern:** Being a 'Barani' tract, the farmers of this area traditionally keep more animals because with the limited and scanty rainfall only fodder can be raised and the animals can also be fed through grazing on culturable waste land. Most important crops of the area are: wheat, maize and peanut. Average area put under different crops on members' and non-members' farms was as under:

**Table 6.8 Land Utilization**

<u>Particulars</u>	<u>Area in Acres</u>		
	<u>Member</u>	<u>Non-members</u>	<u>Overall</u>
Farm Area	7.73	26.33	17.33
Cultivated Land	4.78	11.68	8.33
<u>Area under:</u>			
Wheat	2.45	6.60	4.53
Maize	1.05	1.10	1.08
Peanut & others	0.50	2.10	1.30
Fodder	1.30	1.75	1.53
<u>Livestock:</u>			
Milch Animals	5.0	3.4	4.2
Others	2.8	3.2	3.0
Ratio between cultivated Land and milch animals.	1:1.05	1:0.29	1:0.51

The above table depicts that:

- Area put under major crop (i.e. wheat) remains almost the same on the farms of both types of respondents. While mem-

bers put more area under maize and fodder the non-members preferred peanut and other cash crops.

- Though after persistent loss, the Society has become inactive from 1984 and members have mostly sold their milch animals to repay the loans, yet number of animals kept by them on per acre (cultivated land) basis is relatively greater. The difference is more noticeable in case of milch animals. It has been attributed to the fact that during the society's operational period, members earnings from milch animals were quite significant and they did not like to abandon business.

### **6.3.3 Organizational Set-up**

The General Body of the society is the supreme authority which takes major policy decisions and lays down broad guidelines for its working. From the Society's record and observations of a number of farmers of the area, it appears that the interest of members at large decreased significantly with the passage of time may be because of management's inability to arrange marketing of the entire quantity of milk produced.

Subject to such resolution as the general body may pass from time to time, the executive authority of the society vests in its Managing Committee consisting of seven members. The record shows that except for one member who replaced his father on his death, all other members have continued to hold office since the Society's inception. Number of meetings over the period decreased, may be because during early days, management was required to make arrangements for increasing milk production, its collection and supply to milk plant. Once these arrangements were finalized, little need was felt for frequent meetings. Another reason indicated was the continuous loss to the society mainly due to failure of the milk plant which disappointed the society's management. For undertaking day to day operations, the society had full-time staff.

### **6.3.4 Activities Undertaken**

Although at the time of organization a number of functions were envisaged, however only the following two activities could be undertaken:

**Milk Marketing:** The society's marketing activity comprised:

- Negotiations with the management of milk plant with regard to price and the quantity to be supplied;
- Collection and transportation of quality milk to the milk plant;
- Collection of sale proceeds for onward payment to the producers according to the quantity of milk supplied.

Milk collection used to be made at the given points in the area of activity spread over 12 villages in the area. For maintenance of record, milk testing, transportation and up-keep of vehicles, the society was charging Rs.0.30 per litre of milk supplied to the milk plant. Quantity of milk supplied during different years was as under:

Table 6.9 Volume of Milk Handled

Year	Milk handled (Qty. in 000 litres)	Commission earned (Rs.)
1977-78	241	72,384
1978-79	294	88,269
1979-80	229	68,726
1980-81	156	46,824
1981-82	70	20,947
1982-83	89	26,708
1983-84	45	13,544

From the above it is evident that over the years the quantity of milk handled reduced considerably. This has been attributed to the failure of the milk plant i.e. decrease in operational capacity. The various reports prepared in respect of the working of this plant have attributed its failure to the following factors:

- The technology used in the milk processing was old and the staying period of the milk was not very long.
- Sale of bottled milk proved costly because of heavy expenditure on handling and spoilage in large quantities.
- Continuous loss to the project was also because of losses on its own dairy farm reported to be mainly due to mismanagement, and sale of fresh milk at concessional rate.
- Introduction of advanced technology in the country wherein staying period of the processed milk was greater and losses due to spoilage were less, besides convenience in handling tetra pack helped taking over the markets of Rawalpindi and Islamabad from bottled milk.

**Credit Facility:** In addition to a vehicle (pick-up) for transportation of milk as grant-in-aid, the society received a sum of Rs.100,000 to enable its members to purchase more milch animals. The amount was to be used as revolving fund for five years. However, in 1979-80 when the management of milk plant found itself in a financial crisis, the amount was recovered out of sale proceeds during the year.

In the meantime, Government of the Punjab initiated another scheme of dairy farming involving Rs.250,000 as grant-in-aid to each of the dairy cooperatives. The management of this society approached the then Advisor for Agri. and Cooperatives to the Punjab Government for the facility but the request was declined as the facility was meant only for new societies. The Advisor, however, helped the society in obtaining a credit of Rs.600,000 from the Provincial Cooperative Bank for purchase of milch animals. Out of this, Rs.516,000 were disbursed to 69 members (including 21 who had been previously given credit in 1976-77; for purchase of 129 milch animals. The remaining amount of Rs.84 thousand was utilized on purchase of a new vehicle (pick-up) to replace the old one. The amount advanced to members was recovered through instalments in three years.

### 6.3.5 Society's Capital

The Society's borrowing level in relation to own funds indicates the degree of its financial independence. As is evident from the following table, the society's working capital heavily tilted towards borrowed funds reflecting poor standing in terms of security for creditors.

Table 6.10 Society's Resources

Year	Share Capital	Other own Resources	Borrowings	Loans Outstanding
1976-77	10,850	-	100,000	100,000
1977-78	10,850	-	-	66,700
1978-79	10,850	-	-	33,300
1979-80	12,600	-	600,000	600,000
1980-81	18,900	-	-	446,269
1981-82	23,050	-	-	153,731
1982-83	43,900	-	-	120,275
1983-84	43,950	7,790	-	94,798

Over the years, increase in the society's capital was due to increased contribution and new membership. The society did not mobilize own funds for undertaking activities envisaged at the time of organization; instead it placed greater reliance on borrowed funds. Defunct since 1983-84, the society has yet to repay an amount of Rs.94,798 to the provincial cooperative bank leaving aside the liability in terms of share-money, etc.

### 6.3.6 Financial Position

Except for the first year of operation i.e., 1977-78 the society incurred loss continuously till the last year of operation i.e., 1983-84. Year-wise position has been worked out as under:

**Table 6.11 Society's Income & Expenditures**

Year	Income	Expenditure	Profit/ Loss	Accumulated Position
1976-77	20,978	20,978	-	-
1977-78	75,120	64,518	20,602	20,602
1978-79	96,327	106,642	10,315*	10,287
1979-80	74,640	86,914	12,274*	1987*
1980-81	63,818	82,638	18,820*	20,807*
1981-82	28,238	44,716	16,478*	37,285*
1982-83	28,226	41,875	13,649*	50,934*
1983-84	26,120	36,301	10,181*	61,115*
1984-85	11,721	6,643	2078*	56,037*

\* Figures indicate the losses.

From the above it is evident that the society has not only consumed the grant-in-aid and members share money but also contracted a debt of Rs.94,798 payable to the provincial cooperative bank. Neither the society has any disposable assets to repay the loan nor any outstanding amount in the name of any of its members which could be realized. This state of affairs can be attributed to the fact that while the society's income was dependent on the volume of business, its expenses under various heads could not be kept in proportion to the business activity.

For arranging marketing of one litre milk, the society incurred expenses as under:

**Table 6.12 Main Components of Expenditure**

Year	Expenditure (Rs) on:			Total
	P.O.L.etc.	Establishment	Depreciation & others	
1977-78	0.18	0.06	0.09	0.33
1978-79	0.23	0.06	0.12	0.41
1980-81	0.36	0.13	0.16	0.65

1981-82	0.36	0.30	0.41	1.07
1982-83	0.31	0.23	0.28	0.82
1983-84	0.68	0.25	0.56	1.49

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From the table it appears that expenses were incurred without proper monitoring and the rate of commission was fixed at low level to provide maximum benefit to the member producers. Maximum quantity of 294,230 litres milk was transported in 1978-79 by spending Rs.0.45 per litre against the available margin of only Rs.0.30. It is also apparent that the activity was undertaken without proper planning and prior assessment of income and expenditure.

#### 6.3.7 Problems Faced

The member farmers were confronted with a number of problems relating to up-keep of milch animals, their productivity/feeding and milk marketing but the society could initiate only restricted action meant to arrange credit for purchase of additional animals and assist in the sale of milk. This limited activity did not adequately address all the problems faced by the society. Consequently it had to suffer heavy losses due to incompetence and of non-cooperation of the management of milk plant. The major problems identified were:

1. The Society's management was technically not qualified to plan and implement the activities required for achieving objectives for which it was established. As such, it largely focussed on finding ways and means to obtain funds in the form of grant-in-aid or atleast credit on soft terms.
2. The society's operational costs were higher than the available margin (commission).
3. Although milk testing arrangements were made yet the desired standard was not maintained resulting in deductions by the milk plant on account of alleged adulteration which the producers did not accept. This resulted in shaking the member's confidence on management.

4. Milk production was increased by purchasing additional cattle without taking into consideration the society's ability to arrange sale of produce. A simple decision of the milk plant to stop purchases from society, brought the entire venture to an unhappy end.
5. Last but not the least, despite several visits by a number of officers of the cooperative department the Society was not guided about the need for audit and development planning. The result was that the society's management came to know the extent of losses only in 1982-83 when it was too late to initiate any remedial action.

#### 6.3.8 Overall Assessment

From the review it came to light that the society, besides arranging credit, undertook milk marketing activity to the extent of collection and transportation to milk plant on behalf of its members. The operation proved to be non-profitable. Its failure has been attributed to the following internal as well as external factors:

- The Society was established not because of realization of need but on the persuasion of milk plant management. As such, members enthusiasm was focussed only on grabbing the facility of interest free credit and grant-in-aid.
- The Society failed to explore other avenues for its operations; it became totally dependent on the decisions of the management of milk plant.
- Programme for increasing the availability of milk by purchasing additional milch animals was chalked out without assessing the demand for milk in future.
- The society's management had little technical know-how to plan and manage activities relating to milk marketing, and no guidance came forth from the government officials who visited the society off and on. The situation resulted in continuous losses and disappointment of members at large.

## 7. PERFORMANCE OF FARMING COOPERATIVES

### 7.1 Introduction

Cooperative farms are developed through pooling of means of production and the available infrastructure. Different models have been practised by different communities. While the Better Farming Societies (organized in 1930s in the Punjab) aimed at supply of farm inputs and other services on collective basis; the cooperative farms of Yugoslavia, communes in China and agricultural development societies of Egypt endeavoured to pool all the human and material resources.

Besides earlier Better Farming Cooperatives, farming cooperatives in Pakistan were organized under different schemes/programmes, the most important being Colony Cooperative Farming Scheme, Khanewal (1948). Main objectives of the scheme were to:

- rehabilitate landless refugees and local landless tenants;
- increase agricultural production through improved methods of cultivation, better farm inputs, and additional water for irrigation by installing tube-wells;
- extend marketing facilities for agricultural produce; and
- develop amenities like education, medical aid, recreation, etc., on self-help basis.

In all, about 140 thousand acres were allotted to 132 societies, of which about 130 thousand acres were leased to 10,898 members including local tenants at 12,5 acres per family for development and cultivation. The remaining land was utilized for village site, roads, public amenities, etc.

The societies, being lease holders, received 40 percent of the produce from their members towards the lease money for paying

government dues and the development and management expenses. This system was, however, discontinued in 1960 when government decided to confer proprietary rights on individual allottees against payment of the price of land in monthly instalments. For meeting the society's management expenses, Rs.200/- annually were charged from each member. On account of their inability to undertake mechanization effectively, these societies were federated into the Colony Cooperative Union in 1962. The Union assisted member societies in the installation of tube-wells (201) and purchase of farm machinery (197 tractors) as well as arranging bulk supplies of farm inputs like seeds, fertilizers, pesticides, etc. It also provided repair facilities for tractors and other agricultural machinery by setting up workshops. These efforts of the Union helped to develop agriculture on commercial lines and the individual farmers also started installing tube-wells and purchasing tractors and other farm machinery.

Affairs of the Union were managed by a Board of Directors and the General Manager (mostly from the Cooperative Department on deputation) as its Chief Executive. Each component society had its own Managing Committee and paid staff including Manager (an employee of the Union). During early years, the Manager too used to be an employee of the Cooperative Department on deputation with the concerned cooperative society. Thus, affairs of the societies as well as those of the Union were largely controlled by government officials.

Another experiment in cooperative farming was carried out in 1962 in two areas situated in the districts of Sahiwal and Sialkot along Indo-Pak border. In each case, a Border Cooperative Mechanized Farming Society of the allottees (ex-service men) was organized. The Project could not realize its objectives, mainly due to non-availability of compensation for the damage caused during wars with India in 1965 and 1971 and lack of financial

support from the financial institutions.

Still another experiment was launched in the districts of Bakhar, D.G.Khan, etc., under the "Thal Cooperative Farming Scheme". Under this scheme, proprietary rights as well as cultivation rights remained with the members, and the societies were to arrange various farm inputs including machinery and its repair. The scheme was implemented through the Cooperative Department. During early years a considerable enthusiasm was observed, but later on most of the societies failed to achieve their objectives for want of desired technical, managerial and financial support.

The latest effort, in this connection, was made in the year 1976 when the Cooperative Farming Act - 1976 was promulgated to implement a scheme envisaging the following objectives:

- joint cultivation of farm land, all members were required to pool their lands for mechanized farming;
- provision of substantial government grants;
- establishment of federations of agricultural farming societies at provincial and district levels; and
- constitution of district, provincial and national councils to be headed by the Chairman of the concerned district council, federal and provincial Ministers of Cooperatives respectively.

Only 11 such cooperative farms were set-up with Government subsidy. The scheme was shelved in its infancy due to imposition of Martial Law in July 1977.

To sum up, of the societies organized under different schemes, only the ones organized under Colony Cooperative Farming Scheme and a few organized under the Thal Cooperative Farming Scheme are presently functional doing the business of input supply (on credit), all other exist only on papers.

To evaluate the performance of these farming cooperatives, working of the following two societies has been reviewed in detail:

1. Cooperative Farming Society Chak No.18-B/7-R, Chichawatni.
2. Cooperative Farming Society Chak No.45/10-R, Khanewal.

## 7.2 COOPERATIVE FARMING SOCIETY, CHAK NO.18-B/7-R, CHICHAWATNI

### 7.2.1 General Information

On approval of a rehabilitation scheme covering agricultural land in 132 villages of the then Multan, Sahiwal and Faisalabad districts of the Punjab province, government land available in selected villages was allotted to the cooperative societies specifically organized for the purpose. The society under review was registered in 1949 to settle refugees and tenants on 1890 acres of land allotted for the purpose. Out of this land, 1750 acres were allotted to 59 refugee families and 79 to local tenant farmers. It is situated at a distance of about 13 kilometers from Chichawatni market town. Main pacca road (G.T.Road) passes by a distance of about 5 kilometers. The 'katcha' approach road is quite difficult to transport farm inputs and agricultural commodities during rainy season.

The village has 503 households, of which about 70 percent comprised the farming class whereas remaining represent various other work categories. Out of total village land, 93 percent was under cultivation or could be brought under cultivation. There was no peasant proprietor with area more than subsistence holding; however, due to division under Law of inheritance, area under cultivation has decreased in many cases.

### 7.2.2 Membership and Production Pattern

As the agricultural land was allotted to the family units whose head was the member of the society therefore practically all the new peasant proprietors became members of the village society. Accordingly, membership remained static till 1986-87 when a few more families of the village also opted to acquire membership primarily to obtain credit for purchase of farm inputs.

All the members were small owners. Some of them however, cultivated land taken on lease from other farmers for efficient use of their fixed assets like: farm power, equipment, family labour and the managerial skill.

**Land Utilization:** Of the respondents' cultivated farm land, area put under different crops and the production so received were as under:

**Table 7.1 Land Utilization**

Particulars	Area in Acres		
	Member	Per respondent Non-members	Overall
Total Farm Area	12.4	13.2	12.80
Cultivated Land	12.3	12.6	12.45
Area under:			
Wheat	7.9	6.0	6.95
Cotton	5.4	4.8	5.10
Sugarcane	4.0	2.5	3.25
Others	3.1	1.9	2.50
Cropping Intensity (%)	165	155	139

From the table it is evident that:

- Whereas almost the entire farm area owned by the members was under cultivation, in case of non-members about 5 percent of the area was reported as culturable waste, etc.
- Against cropping intensity of 165 percent at members' farms it was 115 percent on the land cultivated by non-members.

This could be attributed to the society's successful efforts for additional water by installing tube-well and at later stages credit for installation of tubewells by individual members at their own.

- While area put under wheat crop was almost of similar magnitude, area under sugarcane was higher on members' farms as non-members preferred to grow cotton. Again this was because of availability of more irrigation water on members' farm as compared to non-members.
- Area put under other crops, mostly fodder, was also higher on members farms because they were found having higher number of milch animals.

**Farming Productivity:** Not only cropping intensity but also, on an average, the productivity of members' farms was higher than that of non-members as is evident from the following:

**Table 7.2 Farm Productivity**

Crop	Area (acres)	Production (Mds)		Marketable Surplus (Mds)
		Avg. Yield	Total	
<b>Members:</b>				
Wheat	7.9	28.87	236	163
Cotton	5.4	23.52	127	127
Sugarcane	4.0	665.5	2662	2602
<b>Non-Members:</b>				
Wheat	6.0	28.33	170	99
Cotton	4.8	21.25	102	102
Sugarcane	2.5	596.8	1492	1297

The above information shows that on an average yield of members' farms was 5.44 percent higher in case of wheat, 10.68 percent in cotton and 11.51 percent in case of sugarcane than that of non-member farmers of the same evillage.

**Input Use:** Higher level of productivity of members farms could be attributed partly to better management and partly to the use of higher doses of farm inputs like fertilizers and pesticides as is observed from the following table:

**Table-7.3 Input use Level**

Respondent	Farm Input (average per acre)				Pesticides in litres
	Fertilizer (Urea)		Fertilizer (DAP)		Fertilizer in bags.
	Qty.	Amount	Qty.	Amount	Pesticides amount per acre.
Members	1.88	235.37	1.38	223.04	312.29
Non-Members	1.26	165.85	0.80	130.85	233.29

From the above it is evident that members' cost per unit of input was less as compared to that of non-members which could be attributed to the efforts of cooperative society in arranging inputs on collective basis. Similarly, higher doses of fertilizer and pesticides on members' farms were possible due to availability of production credit from the Provincial Cooperative Bank through the cooperative society as is evident from below:

<u>Respondent</u>	<u>Cropped Area(acres)</u>	<u>Investment out of credit</u>
Members	101.5	77,681
Non-Members	78.0	4,344

**Produce Marketing:** As a result of higher productivity due to increased use of farm inputs, on an average, marketable surplus with a member family was 163 Mds. of wheat, 127 Mds. of cotton and 2602 Mds. of sugarcane. Calculating on this basis, the society had the opportunity to annually sell collectively, about 25 thousand maunds of wheat, 19 thousand maunds of cotton and over 398 maunds of sugarcane involving a working capital of about Rs.11 million. Beside this, the society could also handle the marketable surplus of about 200 non-member farmers in the area.

As regards prices received by the members and non-members the difference was negligible because both category of farmers had to sell individually, mostly through village traders.

### 7.2.3 Organizational Set-up

The General Body of the society is the supreme authority which takes major policy decisions and lays down broad guidelines for its working. The record showed that with the passage of time number of meetings held in a year had increased but the members' interest in terms of participation had decreased after 1969-70 may be because the issues for discussion had been mainly of routine nature.

Subject to decisions taken by the general body from time to time, the executive authority of the society vests in the Managing Committee consisting of 11 members elected every year. From the record, however, it appeared that during the last 10 years the same committee had been in office. Obviously either members' interest had decreased or they had full confidence in the management. The former appeared to be more logical as members' participation level had generally decreased and excepting three members who had education upto primary level the Managing Committee members were illiterate.

For day to day work and maintenance of accounts the society had acquired the services of a full-time manager from the Colony Cooperative Union, Khanewal. Besides, the society had the services of a driver and a chowkidar on full time basis.

### 7.2.4 Activities Undertaken

As required under by-laws of a multipurpose agricultural development society, it undetook a number of functions of development nature. However, presently its activities were confined to credit operations. Activities undertaken in tne past were:

a) **Farm Input Supply:** Since its establishment, the Society had been arranging various farm inputs for its members on credit. Prior to 1962, inputs were arranged directly by the society from its own resources, but subsequently these were arranged through the Colony Cooperative Union, Khanewal. The quantity of farm inputs arranged by the Society during different years was as under:

**Table 7.4 Input Supply by the Society**

Year	Disbursement of credit		Supply of inputs		
	No. of farmers	Amount	Seed	Fertilizer	Pesticide
1950-51	27	10.01	-	12.05	-
1959-60	45	61.27	5.31	35.39	-
1969-70	58	89.51	9.57	56.08	-
1979-80	82	127.20	-	48.00	-
1980-81	85	132.30	-	93.30	-
1981-82	82	189.90	5.00	97.35	-
1982-83	87	263.28	5.11	78.20	-
1983-84	123	478.87	-	95.20	228.21
1984-85	135	503.37	-	98.80	262.50
1985-86	134	574.57	-	79.80	323.97
1986-87	121	437.30	-	206.40	169.60
1987-88	128	547.59	-	259.34	169.59

The above information shows that over the years, the inputs made available to members increased many times. The society, however, had confined its activities to credit-in-kind operations. Besides fertilizer and pesticides on credit, funds from own resources were also made available to members for meeting their other short term needs.

b) **Agricultural Produce Marketing:** The society started its marketing operations for the produce which used to be collected in kind at the rate of 40 percent of the total production from 1949-50 to 1960-61. For the purpose, godown was constructed which after 1962 was utilized to facilitate the intending farmers to store their produce for collective marketing on some future date. The facility has been extended free of cost. The produce so

stored remains the property of the respective farmer and the sale proceeds (on disposal) are paid to the owner farmer. Commodity-wise quantity of produce stored for collective sale and the number of beneficiaries during different years were as under:

**Table 7.5 Society's Marketing Operations**

Year	Wheat			Others		
	Qty.	Value	Beneficiaries	Qty.	Value	Beneficiaries
1959-60	4895	65.59	Society	9250	121.18	-
1969-70	3218	58.57	40	1190	19.47	31
1979-80	3750	181.88	38	782	54.74	10
1980-81	4523	248.76	40	173	12.98	5
1981-82	5616	309.44	45	338	27.04	4
1982-83	4767	295.55	30	415	37.35	3
1983-84	2230	160.56	16	377	33.93	3
1984-85	3341	267.28	16	256	35.85	3
1985-86	3313	259.17	16	-	-	-
1986-87	1248	94.21	10	-	-	-
1987-88	372	30.32	5	-	-	-

From the table it is quite clear that over the years not only quantity of produce handled has decreased but also the number of beneficiaries. During discussion it was learnt that in recent years only the members of managing committee and their kin and kith were actual beneficiaries of this facility. The Society's inability to undertake marketing business on its own was attributed to financial constraints. Neither the Society had enough liquid resources for making payment to producers nor the member farmers were in a position to wait for deferred payment.

c) **Development Work:** As an instrument of rehabilitation programme, the society undertook work relating to development of physical infrastructure such as village roads, drinking water wells both for human beings and the animals, village mosque, building for primary school, dispensary, societys' office, godown for storage of grains, etc. All this development work was undertaken by the society itself from its own resources. Besides, the

society planned the village site, allotted the residential plots, arranged construction material i.e., cement, bricks, iron bars, etc., on collective basis and thus also helped in the construction of members' houses.

d) **Farm Mechanization:** To improve the agricultural operations by introducing mechanical power particularly for seed-bed preparation, the Government launched a scheme of partial farm mechanization. For the purpose, the Colony Cooperative Union, Khanewal arranged farm machinery (tractors and implements) for each of its member societies. Accordingly, the Society under review purchased a tractor in 1962. Also the Society purchased a thresher in 1983 from own funds. This farm machinery was used for renting out to the member farmers for land development and tilling upto seed-bed preparation. The service till 1969-70 was made available on no profit no loss basis. Later on the machinery rent was revised in line with the market rate but the rent was recovered from the sale proceeds on crop harvest.

As part of land development, the society also arranged installation of a tubewell for supplementing the canal irrigation water. The requisite quantity of water was provided to each member and was charged on the basis of share in the crop raised through tubewell water. Finding it essential and profitable most of the members at later stages installed their own tubewells, of course with credit facility from the society. And after 1976 the society's tubewell went out of order and the activity was abandoned altogether because of higher maintenance cost.

#### 7.2.5 **Society's Capital**

As the membership was limited to only the new allottees under the rehabilitation scheme, the increase in share capital was made possible by increasing the share value and also by asking

the members to purchase additional shares. Consequently, the amount of share capital increased to Rs.65,802 against Rs.1380 in 1949-50 as is evident from the following table:

**Table 7.6 Society's Resources**

Year	Rs. in 000			
	Share Capital	Reserves & Other Funds	Deposits	Borrowing
1949-50	1.38	-	4.02	-
1959-60	13.80	41.35	31.32	10.01
1969-70	24.15	91.01	60.75	65.45
1979-80	34.73	114.20	269.32	48.00
1980-81	36.55	114.20	268.99	93.30
1981-82	38.55	114.20	59.93	102.35
1982-83	40.15	114.20	99.41	83.31
1983-84	44.15	129.47	126.14	323.41
1984-85	56.73	129.47	59.19	361.30
1985-86	61.10	129.47	56.93	403.77
1986-87	64.80	129.47	31.80	376.00
1987-88	65.80	129.47	202.66	428.93

From the above it is clear that while there has been increase in share capital and reserves the society has also been able to collect deposits from its members. It is also evident that over the years, the society's borrowings continued to increase for lending to members. The amount so borrowed was repaid to the Provincial Bank within due date.

#### **7.2.6 Financial Position**

The Society's financial position over the years remained satisfactory as is evident from the following table:

**Table 7.7 Society's Income & Expenditure**

Year	Income	Expenditure	Rs. in 000 Net Profit/Loss
1949-50	15.11	20.785	5.64*
1959-60	165.32	90.22	75.10
1969-70	188.22	185.32	2.97
1979-80	109.90	101.23	8.67
1980-81	121.06	113.37	7.69
1981-82	219.88	139.51	80.37
1982-83	141.16	89.94	51.22
1983-84	95.62	149.42	53.80*
1984-85	150.01	93.27	56.64
1985-86	148.13	87.18	60.95
1986-87	119.73	89.89	29.84
1987-88	103.62	97.39	6.23

\* Figures indicate the losses.

From the above it would be observed that the society earned profit almost every year but it did not distribute any dividend among members; instead, the dividend money was transferred to share capital and reserves.

Scrutiny of expenditure shows that an amount of Rs.22,050 was being charged annually to the members for payment to the Khanewal Cooperative Union on account of administrative expenses. This practice should have been stopped from 1978-79 onwards because in the loaning procedure of the Federal Bank for Cooperatives, 3 percent share of mark-up had been allowed to the Society for its management expenses. From discussion with the Managing Committee members, it transpired that neither the officials of the Khanewal Cooperative Union nor the Cooperative Department were willing to abandon the practice. As the Society was not extending any services other than credit, it did not need to employ a costly manager at members' expense. Further, as the society could meet administrative expenses from its share in mark-up, it had little justification in charging the poor farmers for the purpose. All this indicates that the Managing Committee was at the mercy of the Society's manager (an official of the Khanewal

Cooperative Union) and the field functionaries of the Cooperative Department. The Managing Committees were not left alone to decide things on merit, they were compelled to follow the official dictate.

#### 7.2.7 Members' Perception

From the information collected it appeared that almost all the respondents, members as well as non-members, considered the society's past performance reasonably good. Most of them were however of the view that it could perform better if it had the necessary financial resources. The members attributed past successes to the well thought out rehabilitation scheme while non-members considered these to be the result of continuous government support in the form of land, machinery, credit and managerial services through the Khanewal Cooperative Union.

Members found the Society's activities relating to supply of various farm inputs on credit, free of cost grain storage facility and farm machinery on rent quite beneficial for land development and improving productivity. However, 100 percent members respondent showed concern for the failure of the Society to take up marketing business and for reduced activity in renting out the farm machinery. They were also unhappy for being charged Rs.200 per annum per member on account of administrative expenses particularly when the society was continuously in profit and no dividend was being distributed.

#### 7.2.8 Overall Assessment

From the review it is clear that the Society did undertake activities relating to physical infrastructure, land development and improvement of agricultural production. Various farm inputs were made available to members not only on credit but also at

rates cheaper than those available to non-members. In their evaluation of the performance of the scheme under which this society was established, other research workers have also come to similar conclusions. Notwithstanding the Society's good performance, it can be observed that the management failed to win the confidence of the members and enlarge participation. Discussions with the member farmers revealed that farmers always regarded the Managers as representatives of the official bureaucracy imposed on them to manipulate the society's affairs. Another reason could be the society's undue insistence to charge Rs.200 annually from each member towards administrative expenses particularly when the cooperative credit system had taken care of that by allocating 3 percent share out of mark-up being applied by the Provincial Cooperative Bank. Still another reason was the policy of non-distribution of dividend inspite of profit.

Success achieved by the Society, in the past could be attributed to factors such as:

- Regular managerial staff, office and availability of other physical infrastructure facilitated in continuing activities, particularly the maintenance of accounts correctly thereby enabling the society to know its overall financial position generally and in case of specific activities in particular for undertaking corrective measures in time.
- Assured level of income helped the Society's management to plan and execute various developmental activities in an effective manner.
- Adequate forward and backward linkages facilitated the development of agricultural land and other physical infrastructure.
- Linking of the process of land development with input supply including additional irrigation water from tube-well, farm machinery on rent and required credit on soft terms did boost village agricultural economy.
- Farm unit as the membership criterion and compulsion on new allottees to become members enabled the society to avail benefits of economies of scale.

### **7.3 COOPERATIVE FARMING SOCIETY, CHAK NO.45/10-R, KHANEWAL**

#### **7.3.1 Introduction**

The Society was organized on 27th May 1950 for the rehabilitation of 54 refugee and 71 local tenants farmer families on Government land. Each of the families received 12.5 acres of land on lease from the cooperative society. The society was provided 1723 acres of government land, out of which 1641 acres were allotted to members while the remaining area was dedicated to physical infrastructure for educational institution, village site, roads, water courses, etc.

The village is situated at a distance of about 26 kilometers from Khanewal market town. Of this distance, 2 kilometer road is 'katcha' and poses transportation problem, particularly during rainy season. At the time of report the village comprised 467 households of which 310 represented farmers and 157 other work groups. Its total population was 3120, 58% being farming population. No farmer in the village owned land above subsistence holding level and due to division under Law of Inheritance area under cultivation had decreased in many cases.

#### **7.3.2 Membership and Production Pattern**

The initial membership, representing 125 families comprising 57 percent refugee and 43 percent local tenant families, remained static till 1986-87 when some other farmers of the village were also allowed to become members causing the membership to rise to 156. All the members were small land owners. However, some of them did cultivate additional land, taken on lease, for the optimum utilization of available resources like: farm power, equipment, family labour and their managerial skill.

**Land Utilization:** Of the respondents' cultivated farm land, area put under different crops and the cropping intensity were as under:

**Table 7.8 Land Utilization**

Particulars	Area in Acres		
	Member	Non-members	Overall
Total Farm Area	12.5	14.1	13.30
Cultivated Land	12.4	13.3	12.85
<b>Area under:</b>			
Wheat	5.2	5.4	5.30
Cotton	4.9	4.0	4.45
Others	2.3	2.0	2.15
Cropping Intensity (%)	100	85	93

From the above it is evident that:

- Land utilization was almost 100% on members' farms whereas in case of non-members about 6 percent culturable waste is yet to be brought under cultivation.
- Against the cropping intensity of 85 percent on non-members farms it was 100 percent on members' farms. The variation could be attributed to the society's ability to make available additional irrigation water and other farm machinery on rent.
- While area put under wheat crop was almost of similar magnitude on farms belonging to members and non-members comparatively more area was put under cotton crop by members since they had access to additional irrigation water.
- Area put under other crops (mainly fodder) was higher in case of members farms as they had larger number of milch animals.

**Farm Productivity:** Not only land-use intensity but also, on an average the level of land productivity was much higher in case of member's farms as compared to non-members as is evident from the following:

**Table 7.9 Farm Productivity**

Crop	Area (acres)	Production (Mds)		Marketable
		Avg. Yield	Total	Surplus (Mds)
<b>Members:</b>				
Wheat	5.2	29.08	152	65
Cotton	4.9	26.73	131	131
<b>Non-Members:</b>				
Wheat	5.4	27.59	150	70
Cotton	4.0	24.30	97	97

The above information indicates that, on an average, crop yield on members' farms was 5 percent higher in case of wheat and 9 percent in case of cotton as compared to non-member farmers of the same village.

**Input-Use:** Higher level of productivity of members' farms can be attributed partly to better management and partly to the use of higher doses of farm inputs like fertilizer and pesticides as is clear from the following:

**Table-7.10 Input use Level**

Respondent	Fertilizer in bags				Pesticides in litres	
	Farm Input (average per acre)					
	Fertilizer (Urea)		Fertilizer (DAP)		Pesticides	
	Qty.	Amount	Qty.	Amount	Qty.	Amount
Members	1.10	144.78	0.61	97.23	312.29	208.08
Non-Members	0.86	122.60	0.44	71.05	233.29	180.35

From the above table it appears that members' cost per unit of input was considerably less as compared to non-members which could be attributed to the efforts of the cooperative society which arranged inputs on collective basis.

Higher doses of fertilizer and pesticides at lower cost on members' farms were possible primarily due to availability of

production credit from the Punjab Provincial Cooperative Bank through the cooperative society as is evident from the following table:

**Table 7.11 Credit Availability**

<u>Respondent</u>	<u>Cropped Area (acres)</u>	<u>Investment through credit (total)</u>
Members	62	24,681
Non-Members	57	4,750

**Production Marketing:** As a result of higher farm productivity due to increased use of farm inputs, marketable surplus, on an average, with a member family was 65 Mds. of wheat and 131 Mds. of cotton. Calculating on this basis, it appears that the society had the opportunity to sell annually, on collective basis, more than 10 thousand Mds. of wheat and over 20 thousand Mds of cotton involving a working capital of about Rs.6 million. Besides, the society could handle additionally the marketable surplus of about 150 non-member farmers of the same area.

### **7.3.3 Organizational Set**

Internally the General Body of the Society is the supreme authority which takes major policy decisions and lays down broad guidelines for its working.

From the record it appears that the number of meetings held during a year increased but the members' interest in terms of participation decreased, may be because the issues for decision at later stages, were peripheral. Another reason for lesser participation could be the general impression that policy decisions were taken by the Khanewal Cooperative Union and the society's General Body just endorsed them.

Subject to the decisions taken by the General Body from time to time, the executive authority of the Society vests in the Managing Committee consisting of 9 members elected every year. From the record however, it appears that for the last couple of years the same committee had been in office. Obviously either the members' interest had decreased or they had full confidence in the management. The former appeared to be more logical as all the Managing Committee members were illiterate and they lacked enthusiasm for developmental work and marketing activity for their produce.

For the day to day work and maintenance of accounts, the society had acquired the services of a full time manager from the Colony Cooperative Union, Khanewal. Besides, society had the services of a chowkidar on full time basis.

#### **7.3.4 Activities Undertaken**

As required under its bye-laws as an agricultural development society, it undertook in early years a number of functions. However, presently its activities were confined to credit operations. Activities undertaken in the past were:

a) **Farm Input Supply:** Since its establishment, the Society continued to arrange various farm inputs for its members on credit. Prior to 1962, these were arranged directly by the society from its own resources but had since been arranged through the Colony Cooperative Union with the credit facility from the Provincial Cooperative Bank. Following is the quantity of farm inputs arranged by the society during different years:

**Table 7.13      Input Supply by the Society**

Year	<u>Disbursement of credit</u>		<u>Supply of inputs</u>		
	No. of farmers	Amount	Seed	Fertilizer	Pesticide
1950-51	52	32.15	-	15.02	-
1959-60	65	92.20	2.01	32.03	-
1969-70	52	102.45	4.45	54.01	-
1979-80	59	188.24	-	24.60	81.10
1980-81	42	133.77	-	82.85	59.27
1981-82	46	137.24	-	49.20	88.26
1982-83	39	121.07	-	49.20	81.26
1983-84	95	271.33	-	78.00	215.96
1984-85	94	278.58	11.86	175.57	119.48
1985-86	88	258.54	-	93.83	185.58
1986-87	105	490.42	-	263.22	259.82
1987-88	114	637.20	-	229.86	157.70

The above information shows that over the years, the inputs made available to members increased many times. The society however has confined its activities to credit-in-kind operations. Besides fertilizer and pesticides on credit, funds from own resources were also made available to members for meeting their other short term needs.

**b) Agricultural Produce Marketing:** The society started its marketing operations for the produce which used to be collected in kind at the rate of 40 percent of the total production from 1950-51 to 1960-61. For the purpose, godowns were constructed which were utilized to facilitate the intending farmers to store their produce for collective marketing at a later date. The facility was availed by some of the farmers free of cost upto 1969-70. Since then the godowns had been utilized for storing the fertilizer, pesticides, etc.

During discussion it was learnt that the society's inability to undertake marketing business was partly due to financial constraints and partly due to lack of interest on the part of the

management. That neither the society had enough liquid resources for making payment to producers nor the member farmers were in a position to wait for the payment of their produce.

c) Development work: As an instrument of rehabilitation programme, the society undertook work relating to development of physical infrastructure of village roads, drinking water wells for human beings and the animals, village mosque, buildings for primary schools, dispensary, society's office and two godowns for storage of grains, etc. All this development work was undertaken by the society from its own resources. Besides, the society planned the village site, allotted the residential plots, arranged construction material (i.e., cement, bricks, iron bars etc.) on collective basis and thus helped in the construction of members' houses.

d) Farm Mechanization: To transform the agricultural operations by introducing mechanical power particularly for seed-bed preparation, the Government launched a scheme of partial farm mechanization. For the purpose Colony Cooperative Union arranged the farm machinery (tractors and implements) for each of its member societies. Accordingly, the society also purchased a tractor in 1962 which later could not be replaced with a new one on account of resource constraint. The society also purchased a thresher in 1972, from own funds. This farm machinery was used for renting out to member farmers for land development and tilling upto seed-bed preparation. The service upto 1969-70 was made available on no profit no loss basis. Later on the machinery rent was revised in line with the market rate but it was recovered from the sale proceeds on crop harvest. Both the machines had been out of order since long and no effort was made to repair or replace them.

Further, as part of land development the society also ar-

ranged the installation of three tube-wells for supplementing the canal irrigation water. The desired quantity of water was provided to each member on a charge calculated on the basis of share in the crop raised through tube-well water. Subsequently most of the members installed their own tube-wells with the society's credit facility. All the three tubewells installed by the society were now out of order.

### 7.3.5 Society's Capital

As the membership was limited to only the new allottees under the rehabilitation scheme, increase in share capital was made possible by increasing the share value and also by asking the members to purchase additional shares. As a result, the amount of share capital increased to Rs.34,287 against Rs.1250/- in 1950-51 as is evident from the following table:

**Table 7.14 Society's Resources**

Year	Share Capital	Reserves & Other Funds	Rs. in 000	
			Deposits	Borrowing
1950-51	1.25	-	2.08	28.75
1959-60	11.75	29.32	21.73	31.25
1969-70	15.50	48.51	39.25	45.60
1979-80	25.29	64.82	183.57	188.24
1980-81	25.29	64.82	148.91	133.74
1981-82	25.29	84.82	162.25	137.27
1982-83	25.29	64.82	182.53	121.07
1983-84	25.29	64.82	221.53	271.33
1984-85	25.29	64.82	152.90	278.58
1985-86	25.29	64.82	173.65	258.54
1986-87	30.49	64.82	171.52	490.42
1987-88	34.29	76.54	128.83	505.70

From the above it is clear that there has been increase in share capital but little improvement in internal resource mobilization. It is also evident that over the years, the society's borrowings continued to increase because of increased demand for

purchase of fertilizer and pesticides. The amount so borrowed was repaid to the Provincial Bank within due date.

### 7.3.6 Financial Position

Although the society could not keep up all of its activities for reasons explained earlier, its financial position over the years improved as is evident from the following table:

**Table 7.15 Society's Income & Expenditure**

Year	Rs. in 000		
	Income	Expenditure	Net Profit/Loss
1949-50	6.02	8.01	1.99
1959-60	32.17	24.07	8.10
1969-70	51.25	49.45	1.80
1979-80	89.94	124.75	34.81*
1980-81	33.04	67.76	34.72*
1981-82	43.82	64.57	20.75*
1982-83	85.37	71.17	14.20
1983-84	71.45	85.64	14.19*
1984-85	121.91	60.30	61.61
1985-86	80.50	66.36	14.14
1986-87	39.77	29.40	10.37
1987-88	51.43	32.40	18.49

\* Figures indicate the losses.

The above information indicates that the society's financial position remained tight till 1984-85 inspite of the fact that the society had been earning @ 3 percent on its credit operations under the FBC credit system and also charging members @ Rs.200/- annually to pay to the Khanewal Cooperative Union on account of manager's salary. Scrutiny of expenditure shows that large sums were spent on the maintenance of old machinery (tube-wells and tractor) against negligible income. Since 1984-85 no doubt the society had been earning some profit but it failed to provide relief to the common member as neither annual charge on administrative account was abandoned/reduced nor any dividend was distributed.

In view of the fact that the society was not extending any service except credit, there was hardly any need to have such a costly manager. Further, as the society could meet its other expenses from share in mark-up, there was no justification for charging the poor members for the purpose. All this indicates that the Managing Committee was at the mercy of the society's manager, an official of the Colony Cooperative Union, and the field functionaries of the Cooperative Department who did not let them decide matters on merit and compelled them to follow the official dictate.

#### **7.3.7 Members' Perception**

From the information collected it appeared that almost all the respondents both members and non-members considered the society's performance during early years reasonably good. Most of them however, showed their concern for its deterioration over the years. The members attributed past successes to the well thought out rehabilitation scheme while non-members viewed them as outcome of continuous government support in the form of land, machinery, credit and managerial services through the Khanewal Cooperative Union.

Members found the society's activities relating to supply of various farm inputs on credit beneficial for developing the land and improving productivity. However, 100 percent member respondents showed concern over the Society's failure to undertake marketing business. They were also unhappy for being charged Rs.200/- per member per annum on account of administrative expenses particularly when the society had been in profit and no dividend had been distributed.

### 7.3.8 Overall Assessment

From the review it is observed that the society did undertake activities relating to development of physical infrastructure and agricultural improvement by arranging requisite inputs on credit resulting in better living conditions. Similar conclusions have been drawn by other research workers while evaluating the performance of the scheme as a whole. The Society however, could not keep up most of its activities. It has also been observed that the society's management was not able to win the confidence of members at large leading to reduced level of participation with the passage of time. Discussion with the member farmers revealed that the Manager was always considered a representative of official bureaucracy imposed to control the society's affairs. Another reason for lack of confidence could be the society's insistence, of course on the advice of the Manager, to charge administrative expenses separately from each member even though the credit system in vogue had already taken care of them by providing for the Society's 3 percent share in the mark-up being applied by the Provincial Cooperative Bank. Still another reason might be the policy of non-distribution of dividend despite profit.

The failure of the society to continue its activities other than credit was attributed to factors such as:

- Lack of interest on the part of the management to undertake the most needed activity of marketing produce which could have augmented the members' interest.
- Inability of Society to win the confidence of members at large because its Manager came from outside.
- Easy access to cheap and abundant credit resulting in neglect of other activities envisaged in the Society's charter.
- Illiterate and incompetent management could not plan

properly which led to higher operational expenses on renting out the farm machinery and supply of irrigation water from its tubewells.

- Excessive official interference disappointed the members and it caused poor response to resource mobilization.
- Non-distribution of dividend dampened interest of members and affected participation level adversely.

## 8. ANALYSIS OF CASE STUDIES

Overall assessment of the working of six selected cooperative societies indicates that two of these, namely: the Chowk Pindori Dairy Cooperative and the Kandi Hayat Mallago Fruit Growers Society, functioned only for a few years towards fulfilment of their envisaged objectives that too at loss. Whereas both the cooperative farming societies performed well during early years of their establishment, they failed to maintain the momentum. The other two societies namely, the Okara Potato Growers and the Al-Mehran Livestock & Dairy have kept up their operations successfully to an extent. Varying levels of performance, of these societies was attributed to the following:

1. Large membership comprising like-minded people doing the same business enabled the societies to extend services effectively at less operational costs. Examples are the Okara Potato Growers Cooperative, the Al-Mehran Livestock and Dairy Society and the two Farming Cooperatives. On the contrary small membership obstructed realization of the objective as in the case of the Kandi Hayat Mallago Fruit Growers Society during initial period.
2. Availability of the requisite physical infrastructure (office, equipment, etc) and qualified staff enabled the management to plan and implement activities effectively. Better performance of the Okara Potato Growers, the Al-Mehran Livestock & Dairy and the Cooperative Farming Societies, atleast in the beginning, can be attributed to this factor. Non availability of these facilities resulted in less satisfactory performance as in the case of the Kandi Hayat Mallago Fruit Growers and the Chowk Pindori Dairy Societies.
3. Regular assured income of the Cooperative Farming Societies enabled their management to have regular staff and office and continue some of their activities without break. On the contrary the Chowk Pindori Dairy and the Kandi Hayat Mallago Fruit Growers societies for want of regular could not maintain their record properly and came to know about the extent of losses when it was too late to take any corrective measure.

4. Collective decision-making ensured through regular meetings of the General Body and the Managing Committee helped implement action programmes effectively. The Okara Potato Growers, the Al-Mehran Livestock and Dairy and the two Cooperative Farming Societies offer illustrations of the point. On the contrary, decisions taken by individuals in the case of the Kandi Hayat Mallago Fruit Growers and the Chowk Pindori Dairy Societies resulted in the failure of their projects.
5. Linking of input supply with marketing and development activities enhanced the members' confidence and also improved the financial position of the Cooperative Farming Societies and the Okara Potato Growers Cooperative Society.
6. Establishment of the society on members' own initiative and honest and committed manufacturers like that of the Okara Potato Growers and the Al-Mehran Livestock and Dairy Societies developed confidence among the members in the spirit of self-help conducive to mobilization of desired resources internally. The societies ( the Kandi Hayat Mallago Fruit Growers and the Chowk Pindori Dairy) organized on external persuasion could not raise funds internally and were compelled to depend on borrowings, non-availability of which in time, affected their performance adversely.
7. Managements' determination to continue with some of the activities, even in difficult situations, kept alive members' interest as was the case with societies under study except the Chowk Pindori Dairy Cooperative which became defunct largely for want of determined efforts.
8. Non-existence of a well-knit organizational structure which would have helped in arranging the desired institutional support for their development affected the performance of all types of cooperatives particularly of those organized for marketing of agricultural perishables. The result was that none of the cooperative societies under study was able to achieve fully its major goals.
9. Official control on the affairs of the Cooperative Farming Societies frustrated their management affecting their developmental efforts adversely. Managements of the Okara Potato Growers and the Al-Mehran Livestock and Dairy Societies however, succeeded in protecting their societies from official interference and they were consequently able to undertake activities of their choice, to some extent, successfully.
10. Easy access to subsidized credit made the management of societies concentrate only on credit operations much to the neglect of other activities. This is particularly true of

the Kandi Hayat Mallago Fruit Growers and the Cooperative Farming Societies.

11. Dependence on borrowed staff largely for want of education and training facilities to develop own capabilities led to curtailment of activities causing distrust among members as happened in the case of the Cooperative Farming Societies. The Okara Potato Growers and the Al-Mehran Livestock and Dairy Societies were able to expand their business through the efforts of their own regular staff.

To sum up, the following represent the essentials of a viable cooperative enterprise:

- i) Existence of desired linkages through membership in federations for necessary support and services;
- ii) Sufficient volume of business to generate income needed to meet basic operating expenses;
- iii) Performance of a service or services valued by the members at a level considered beneficial;
- iv) Leader or leaders of integrity among members who devote thought, time and energy to the affairs of the Society and its essential business;
- v) A trained and experienced manager competent to run the business efficiently;
- vi) Training and education facilities not only for the members but also for the public to develop interest in promoting and adopting basic principles of cooperatives;
- vii) Affiliation with a viable and efficient financial institution from where it could obtain loans necessary for carrying out development programme; and
- viii) Sufficient institutional (government) support to set aside the political pressure over supervision and imperfect market competition.

## 9. SUMMARY CONCLUSIONS AND RECOMMENDATIONS

The purpose of this study has been to deduce the specific elements of success and failure in the working of cooperatives with particular reference to the ones organized in the field of farming and marketing of agricultural perishables. Accordingly, besides general review of the working of cooperatives and the credit system in vogue, performance of specialized cooperatives was examined in depth through case studies. Main conclusions of this exercise are reported under the following headings:

- Philosophy and Structure.
- Cooperative Credit System.
- Legal Frame-work.
- Specialized Cooperatives.

Conclusions in these areas are actually inter-related and inter-dependent. However, for convenience and clarity, it has been considered appropriate to present them separately. After pin-pointing the main difficulties and problem faced in cooperative development in the country, suggestions for improvement have been made which, if implemented, can lend financial independence to the movement and tone up the managerial capability required to convert the credit-oriented cooperatives into viable business enterprises.

### 9.1 C O N C L U S I O N S

**9.1.1 Philosophy & Structure:** The rise and expansion of modern cooperative system has its roots in the far-reaching socio-economic and political changes which took place in Europe in the 19th Century. The system was later adopted by other countries. Its principles and operational strategy have always been the subject of debates and scholars are still in search of a

'true' form of cooperative. The system in Pakistan like in many other developing countries has experienced more failure than successes and has not been as beneficial to people as it has been to the large population of the developed world.

Pakistan inherited the cooperative ideology, policy strategy and structure from the colonial regime and has since then failed to define the role of cooperative in rural/agricultural development. It thus continued to work merely as credit disbursing agency having little development perspective. There has been a significant increase in the number and membership of societies, and the size of credit operations, particularly during the last decade; though their operational independence, managerial efficiency and financial viability remained below the desired level. Not only that the primary societies are without necessary physical infrastructure and devoid of operational linkages. Successive research reports prepared by Khan(1972), Qarni (1977), Siddique (1980), FBC (1984) and NCA (1988) have reached similar conclusions.

Out of nearly 61 thousand cooperatives in the country, 82 percent with total membership of about two million are in agriculture sector. Leaving aside a few specialized commodity marketing cooperatives almost all are operating as credit disbursing agencies. The system lacks the right kind of horizontal and vertical linkages which could have provided strength to cooperative organizations in different areas and at different levels. Besides this inadequacy and many operational shortcomings, the most damaging feature of the system is the existence of a very large number of non-viable and spurious cooperatives. The current membership criteria and the policy of subsidized credit have contributed a lot to this sorry state of affairs. The findings of FBC (1984) Sarwar (1986) and NCA (1988) in this connection, it may be added, were no different.

Findings of the Credit Enquiry Commission (1959), Nisar (1966), Niaz (1968), Khan (1972), Siddique (1980) and experience of Japan, Egypt and India (dairy cooperatives) have established that cooperatives having adequate membership of like-minded people representing the activity units of similar nature and operating as business enterprises have greater chances of success than the ones organized with the sole-objective of benefits of certain official policies and programmes.

**9.1.2 Cooperative Credit System:** In the wake of re-organization of credit structure in 1977 in Pakistan there has been a rapid increase in the number of cooperative societies with little improvement in their working. More than seventy five per cent of the agricultural societies are considered bogus which have been set up by unscrupulous persons to appropriate subsidized credit to the maximum extent. Findings of FBC (1984), Sarwar, et al (1986) and NCA (1988) on the point are uniform.

The Federal Bank, established to improve the quantity and quality of credit flow in cooperative system by strengthening institutional infrastructure, has not so far been able to deliver the goods in an effective and efficient manner partly because of lack of professional management and partly due to structural deficiencies. It has acted only as a conduit between the State Bank of Pakistan and the Provincial Cooperative Banks which in turn operate as cash windows of the revenue section of the Provincial Cooperative Departments. Functionaries of the Provincial Banks have been hemmed in by the policies and procedures of the Federal Bank, operational modalities of the Cooperative Department and the requirements of General Bodies of the Banks themselves. They have thus been rendered least effective in discharging their professional obligations. FBC (1984) and NCA (1988) are unanimous in their view on the subject.

Despite manifold increase in credit flow the financial position of the re-organized structure has weakened due to large stuck-up loans. Liabilities have surpassed the assets resulting in insolvent position of almost all the Provincial Cooperative Banks. The situation has further worsened due to frustration among the employees of these financial institutions breeding indiscipline, corruption, and all sorts of inefficiencies. As the system lacks checks and balances, the mis-use of resources has become a common feature.

**9.1.3 Legal Framework:** Cooperatives in Pakistan are registered by government officials under the Cooperative Societies Act 1925 and Rules 1927 made there under. In principle, the affairs of a cooperative society should be run according to its bye-laws duly approved by the registering authority and as such the society's management should be able to look after its affairs independently. However, the affairs of most of the credit societies and specialized development societies are being controlled/managed by the official bureaucracy as is evident from the conclusions of case studies on cooperative farming societies.

Besides registration, inspection and audit, the official bureaucracy has acquired powers to approve the Maximum Credit Limit (MCL), act as a collector for recovery and supersede the managing committee. Even the operational mechanism for implementing the loaning policies and procedures prescribed by the Federal Bank is decided by it. The result is that today the working of entire cooperative system is at the whims and mercy of government officials who exercise authority without necessary checks and balances. The officials are supposed to provide administrative support, guidance and encouragement but they have completely failed in their duty, the result is that hardly two percent of the societies are functioning and managing their affairs indepen-

dently like real business enterprises. This conclusion confirms the findings of FBC (1984) and NCA (1988).

In addition to changes in policy strategy and operational modalities there is a need to specify the role of each component of the system by revising relevant provisions of various Laws and Rules. This is particularly necessary as the regulations enacted to deal with credit oriented cooperative system are still intact. A few modifications made in the meantime have in fact tightened the official hold - a strong handicap in the development of cooperatives on the lines of viable business enterprises.

**9.1.4 Specialized Cooperatives:** Besides credit societies, a number of specialized/commodity cooperatives to deal with different aspects of rural/agricultural development have been organized in the country. Most of these are, however, either non-functional or attending to one or two functions only. Of the six cooperative societies, studied for the report, in the field of farming and marketing of perishables (fruits, vegetables and livestock produce), two namely the Chowk Pindori Dairy Cooperative and the Kandi Hayat Mallago Fruit Growers' Society worked only for a few years in fulfilment of their objectives and that too at loss. Two of the Cooperative Farming Societies performed well during early years of their establishment but failed to maintain momentum later on. The other two societies namely the Okara Potato Growers and the Al-Mehran Livestock and Dairy have continued their operations, to some extent, successfully.

Main factors which contributed to the inability of societies to achieve their main objectives were: the non-existence of a well-knit organizational structure ensuring necessary linkages and institutional support; lack of physical infrastructure and qualified staff to maintain proper record and plan/implement viable development projects; dependence on loans instead of inter-

nally mobilized resources; availability of subsidized short term credit in abundance which led the managements to neglect other services; and excessive official control which proved detrimental to the efficient management and satisfactory participation level. Failure of a number of cooperative development projects in the Philippines, India and Egypt, prior to 1952 have also been attributed to similar weaknesses.

Some of the factors for poor performance of cooperatives which have not received sufficiently strong mention and treatment could be listed as follows:

1. Poor performance of the economic sector as a whole on account of the faulty macro and micro economic policies followed over the past many decades which have caused more dislocation than stability. Outside pressures on the credit flow which introduced a number of distortions in the financial system of which cooperatives formed a sub-system and which could have provided a helpful context for their development.
2. Growing distrust against the Government among people; outcome of a number of socio-political parameters since the partition and the failure of the leadership to cope with the situation, provided a very unhealthy climate for the cooperatives to strike roots.
3. The octopus of bureaucracy which has sapped and stifled the autonomous sector in Pakistan and converted it virtually into its pressure; the bureaucracy which is least equipped to come up to the exacting demands of modern management, and which is in many ways anachronistic, unwilling and unable to reform itself. Don Quixotic both in approach and vision.
4. The falling level of common people's income, particularly that of farmers, rendered cooperatives based on self-help and savings unattractive and unpractical. Statistics of massive and crippling poverty among the rural people are really staggering.

The limited success achieved by some of the societies have been considered due to, among others, large membership comprising like-minded people doing the same business which facilitated the management to serve at lesser cost; regular assured income and

availability of necessary infrastructure (office, equipment, qualified staff, etc.) enabling the society to plan and implement viable development projects; collective decision making ensured through regular meeting helping the development of confidence and mobilization of resources internally; linking of input including credit supply with marketing and development activities resulting in continuation of some of the services to keep alive the members' interest and the honest and committed leadership. Review of literature on the working of cooperatives, particularly in Japan, Egypt and India, indicates that success depends on a number of variables among them strong organizational structure, efficient credit disbursement and saving mobilization system, readily available institutional support and infrastructural facilities, well-conceived education and training programme.

## **9.2 RECOMMENDATIONS**

Conclusions of the study are indicative of the poor performance of cooperative system in the country at all levels of activity. Despite various efforts, main components of the system remained undeveloped because the basic issue was not adversed. For meaningful cooperative development and growth of viable cooperative organizations, there is a need to create favourable climate through policy frame-work and institutional infrastructure on the pattern of Japan, Egypt and India. Since cooperatives are intended to improve the bargaining position of small producers and farmers, a more helpful policy framework should be instituted in their favour vis-a-vis all other parties in the production and marketing cycle for commodities that cooperative members are producing as has been done in Egypt, Japan and India. This particularly applies to dairy, sugarcane and fertilizer cooperatives. Such an arrangement is likely to minimize the imperfect and unequal competition with established traders and dealers and plug leakages in profits that otherwise accrue to

farmers.

The recommendations of this study thus suggest that the organizational pattern should be restructured and policy framework revised for enhancing the market power and income of farmers on the lines adopted by Japan, Egypt and India. The changes are proposed under four aspects of the movement i.e., organizational and structure, cooperative credit system, institutional support and legal framework.

**9.2.1 Organization and Structure:** One of the factors responsible for the failure of cooperative development efforts in the Philippines, India (prior to 1952) and in Pakistan as identified by this study as well as by the Food & Agriculture Commission (1960), Khan (1972) Qarni (1977), Siddique (1980), FBC (1984) and NCA (1988) is the weak organizational structure providing little opportunity to different tiers to benefit from each other for the solution of managerial, technical and operational problems. Countries like Japan, Egypt and India have solved this problem by organizing secondary level federations. Drawing on the experience of these countries, introduction of "federated system of cooperatives" is suggested.

Accordingly, in each province, secondary level organizations, may be set up. However, at national level also a National Council for Cooperative Promotion be established as a statutory body to represent the movement at federal level and guide the government and the cooperative organizations/institutions established for cooperatives on policy issues. (suggested organizational structure at annexure-III).

Another problem with which cooperatives in Pakistan, as also observed by Khan (1972), Siddique (1980) and FBC (1984), are confronted with is lack of physical infrastructure (office, equipment, etc.) and qualified regular staff which could maintain record properly, plan and execute developmental activities. This is primarily due to limited income from small volume of business

because of small size of membership, unrealistic membership criteria and mono-functional character. The problem, to a large extent, has been solved by a number of countries including Japan, Egypt and India by compulsory membership for activity units only and by organizing multipurpose organizations. The system has provided opportunity to managerially weak societies to undertake any of the envisaged activities for keeping alive the members' interest. Accordingly, it is suggested that:

- i) At primary level, multipurpose cooperatives may be organized with limited liability and their area of operation be restricted to village. There should not be more than two such societies in one area. Members of these village level societies may, however, be allowed to acquire membership of specialized/commodity cooperatives.
- ii) As regards farming and village level agricultural marketing cooperatives, in the presence of active and viable multipurpose primary societies, they will become superfluous and unnecessary.
- iii) All existing societies be brought under the proposed new system through amalgamation, re-registration or dissolution as the case may be within a specified period, to be provided for modification of the existing rules and regulations.
- iv) Instead of individuals, membership be given only to activity units i.e., households or farming units and the minimum membership should be 40 instead of 10 as is the case at present.

The suggested arrangements would not only help arrest mushroom growth of one man/family non-genuine bogus societies but also ensure availability of reasonable volume of business to undertake the activity profitability.

**9.2.2 Cooperative Credit System:** A major reason for the low performance of cooperatives in many developing countries including Pakistan (prior to 1977) was lack of adequate credit facility. The position has since 1977 changed. In fact finding of this study and those of FBC (1984) and NCA (1988) pointed out

that liberal subsidized credit, with loose supervisory arrangements, has resulted in mis-use at large scale. To ensure effectiveness and efficiency of the credit system for using the 'power of purse' to further the case of cooperation, following changes in its structure and policy strategy are suggested.

- i) The large size Board of Directors of the Federal Bank may be reduced to 10 members with the Chief Executive as its Chairman. Other members could be one from State Bank of Pakistan, one each from Provincial Governments and four representatives of Cooperatives. As regards internal structure, it is too centralized in character. For almost all decisions, the cases are submitted to the Managing Director/Chief Executive of the Bank. Besides, cooperative development has continued to be neglected. There is inadequate training, programme planning and research. It is therefore, suggested that internal structure of FBC should be modified as suggested in annexure-IV.
- ii) Instead of depending on borrowed staff, the Bank's officer cadre may be developed on scientific lines. The staff should be encouraged through periodic advancement in their career. Their compensation package should be comparable with that offered by Development Finance Institutions in Pakistan.
- iii) The Board of Directors of the Provincial Banks may also be reorganized and appropriate representation be given to the three parties i.e., FBC as financier, Provincial Government as guarantor and cooperative societies as the share holders and beneficiaries of services. The proposed National Council for Cooperative Promotion may decide the level of representation.
- iv) Chief Executive of the Provincial Bank should be from amongst its regular employees. The current practice of outside appointees should cease.
- v) Financing operations of the Provincial Bank may be handled by its own cadre of field staff without any interference by the Cooperative Department.
- vi) To improve capability and efficiency of the staff of the Federal and Provincial Banks, a properly structured training programme be prepared and implemented.
- vii) To encourage resource mobilization locally, the present system of service charge by FBC and sharing of mark-up

between the cooperative society and the Provincial Bank be re-set in such a way that Provincial Bank's lending from own resources (deposits) could be made feasible.

- viii) Magnitude of financing to societies may be made a function of their own funds and similarly FBC should refinance the Provincial Banks in relation to their own funds.
- ix) To encourage cooperatives to become business-like enterprises, credit facility may be extended on the condition that borrowing societies would undertake all the major activities envisaged in their bye-laws.
- x) Instead of extending subsidized credit in cooperative sector leading to mal-practices, it may be made at par with other institutions. The Federal Bank and the Provincial Banks should help develop the operational capabilities at least of the borrowing societies by providing education and training facilities and extending managerial services.

**9.2.3 Institutional Support:** Significant achievements of cooperatives in Egypt, Japan, Thailand, India and many other countries have been attributed to the Government support i.e., institutional backing through policy measures, particularly in the field of input supply, produce marketing and education and training to develop the managerial and financial capability of cooperative organizations. Unfortunately the cooperatives in Pakistan have not received this type of support of any significance. It is, therefore, suggested that:

- i) Not only distribution of entire improved seed and imported fertilizers be arranged through cooperatives but the procurement of foodgrains on behalf of Provincial Governments should also be done through these organizations. Further, subsidies on price support for minor crops be made available only through cooperative institutions.
- ii) The Federal Bank in collaboration with the Provincial Banks should help develop physical infrastructure & managerial services at grass roots level i.e. atleast Union Council level for their affiliated Societies.
- iii) The Federal Bank should attend to trainers' training and the most neglected aspect of applied research in

the discipline. Further, it should also establish projects for testing new strategies aiming at improving the management efficiency.

- iv) To monitor smooth implementation of the decisions taken in this respect till the establishment of a National Council for Cooperatives Government may constitute a committee comprising policy makers and the provincial executives.

**9.2.4      Legal Framework:**      To implement the suggestions there will be need to modify some of the Rules and Regulations governing the working of cooperative societies and the credit structure.

The cooperative system will have to be relieved of the official control by restructuring powers of the Registrar pertaining to registration, amendments in the bye-laws, MCL fixation, profit distribution, end-use inspection by financing institution, supersession of Managing Body, etc., as discussed in Annexure-II of the Report. Further, the Provincial Cooperative Banks may be treated as having been established through the enactment of FBC Act IX of 1977. Accordingly, various sections of FBC Act concerning constitution of its Board; Chairman and establishment of Provincial Cooperative Banks should also be amended.

Besides Laws relating to cooperatives necessary changes may also be incorporated in the rules and regulations of produce marketing and farm input, including machinery, supply systems.

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## ANNEXURE - I

### OFFICIAL INTERFERENCE IN THE WORKING OF COOPERATIVES

Many experts and cooperators consider the officials of the Cooperative Departments responsible for the failure of most of the cooperative efforts in the country. Their view point seems to be correct when judged on the basis of empirical alleged irregularities being conducted in the working of cooperative credit system. A few cases of such irregularities are being reported below to highlight the gravity of the situation:

- 1) Despite objections from the Federal Bank, the Registrars Cooperative Societies in their capacity as ex-officio Chairmen of the Board of Directors were found charging the Provincial Banks for all their field visits.
- 2) The officials of cooperative department got advances from the cooperative banks against the rules prescribed for government officials. Not only that, they seldom repaid these advances resulting in large number of long outstanding entries in the suspense account of these cooperative banks.
- 3) As ex-officio chairmen (who are not operational Chief Executives of the Provincial Banks) the Registrars Cooperative Societies were maintaining vehicles (cars) on bank account. In this regard, it may be interesting to know that in one province in 1985 a new air-conditioned 1600 CC car was purchased for the Registrar Cooperative Societies but in the meantime he was transferred. His successor did not like the model and colour. The vehicle was put at the disposal of General Manager and a new 2000 CC car of choice was purchased. To justify giving an air-conditioned car to the General Manager, the Deputy General Manager and the Zonal Chiefs were provided 1300 CC cars. Likewise in another province where the provincial bank is not in a position even to pay the salaries of its staff, not only a new air conditioned 1600 CC car was purchased for the Registrar Cooperative Societies but also a house was rented for his temporary stay in the town.
- 4) There used to be a convention to help a retiring officer of the department organize a cooperative society. The situation has now changed. Not only most of the officers but also the officials including peons of the Department have now organized more than one society in the names of their kith and

kin. Most of the membership is said to be fictitious. Their MCL has been fixed at extra-ordinary high level enabling them to avail the maximum credit.

- 5) The Bank officials are not supposed to question the genuineness of the loan demand of a society. Recently, a bank manager dared question the particulars of a society organized by a peon of the department. The said peon on the advice of his boss (a Deputy Registrar) put in an application to the said Deputy Registrar with a copy to the Registrar Cooperative Societies labelling false allegations. The Registrar Cooperative Societies took a serious note and ordered enquiry against the bank manager. Instead of getting the matter enquired through an officer of the Bank the matter was assigned to the same Deputy Registrar who had been the source of investigation. The enquiry officer gave his verdict without investigation in favour of the peon concerned.
- 6) In another case, a clerk of the department in D.G.Khan district of Punjab managed to get registered a number of fictitious societies and obtain credit of over a million. The matter came to lime-light on the complaint of the old societies in the area. It took almost a year to fix the responsibility. Still a large amount is outstanding against the official but his previous bosses in the cooperative department are kind enough not to pursue the recovery.
- 7) In one province, test check to see the yearly increase in MCL of cooperative societies was undertaken and it was found that 100 percent increase in the MCL of almost 80 percent of the borrowing societies without justification was sanctioned by the officials of the Cooperative Department, whereas a society established prior to the partition having more than 130 members had not been allowed to borrow more than what it used to borrow in seventies because the management of this society was not prepared to toe the line of the officials of the department.
- 8) Non-genuine societies of one man/family and even under fictitious management are being organized overnight. In a village of the Punjab there used to be one society working quite effectively and honestly; 18 more societies have been registered. All these are dealing in credit and that too on paper.
- 9) The Provincial Bank in one province provided credit facility against the rules to hundreds of defaulting societies under the instructions of the Registrar Cooperative Societies of the Province. Not only the earlier funds but also the fresh credit was mis-utilized and has not been recovered so far.

- 10) Despite the fact that the repayment record of the West Pakistan Cooperative Consumer Society had remained quite unsatisfactory for many years, the society was provided the credit facility time and again under official pressure. The result is that outstanding amount has gone up to about 10 million, which the society can not pay even after disposing of all its assets.
- 11) Societies not otherwise operating in the field of agriculture are being sanctioned agricultural loans and that too under interest (mark-up) subsidy scheme of the government (Municipal Committee Area Cooperative Society, Abbottabad; Thrift & Credit Cooperative Society, Kohat, etc.)
- 12) Contrary to the rules, officials of cooperative department have started becoming members of managing committees of the cooperative societies. (For example in the case of a number of Cooperaive T&C Societies of Kohat district).
- 13) The efficiency of Departmental Officials of all the provinces could very well be judged from the fact that short term loans advanced to societies (during Kharif 1977) and after-wards are still un-recovered. Instead of taking action as collectors, the officials have been found providing cover to the defaulters.

## ANNEXURE-II

### PROPOSED AMENDMENTS IN COOPERATIVE SOCIETIES ACT - 1925

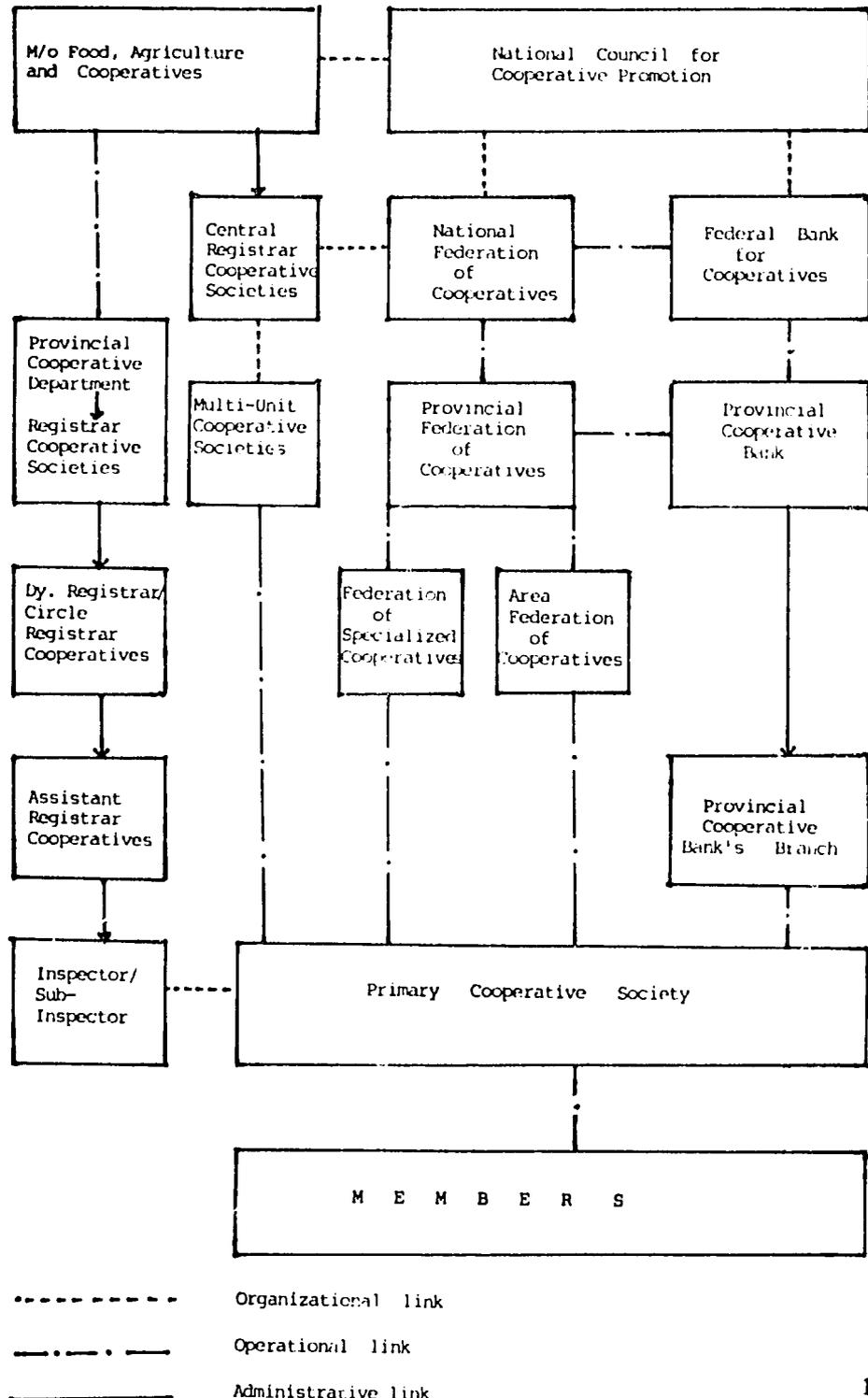
To overcome the problems arising out of excessive official influence over the working of cooperatives in the country, amendments in the Cooperative Societies Act - 1925 and Rules 1927 are proposed as under:

- 1) Under the law, powers for registration of a cooperative society have been conferred on the Registrar or a person authorised in this behalf, by general or special order. A society can be registered only at the discretion of the Registrar though he is required to communicate his refusal for non registration of the society but no time-limit has been given in this regard. The situation therefore is exploited by raising objections on the application for registration of a society and the process is made so lengthy that the applicants feel disgusted. It would therefore be advisable to amend the relevant provisions of Sec.10 and Rule.3, requiring the Registrar to register the society within a time limit of a fortnight after the receipt of the application or after the receipt of the compliance with the objections raised on the application. The objections should be raised in one instance and not in piecemeal.
- 2) The societies need to be set free to decide the terms and conditions of their business and they should not be required to seek prior permission of the Registrar in such matters. It should also be upto the societies to decide avenues for the investment of their funds. To provide for the purpose, sections 34, 35, 36, 37, and Rules 18-A, 27, 53, 54 need to be amended accordingly.
- 3) Under Rule 7, maximum borrowing limit of a society with unlimited liability is sanctioned by the Registrar and that of the society with limited liability, is also approved by him notwithstanding the provisions of Rule-8 which clearly lay down a formula for working out the maximum limit upto which a limited liability society can incur liabilities from non-members. Such powers account for undue interference in the working of societies by the staff of the Cooperative Department. Moreover it is also a big constraint in the development of banker-customer relationship between the Provincial Cooperative Banks and the borrowing cooperative societies. As a matter of principle, it should be the privilege of the financing bank to decide the limit upto which it is prepared to finance a cooperative society. The relevant

provisions therefore need to be suitably amended by conferring such powers on the financing bank as against the Departmental officials as at present.

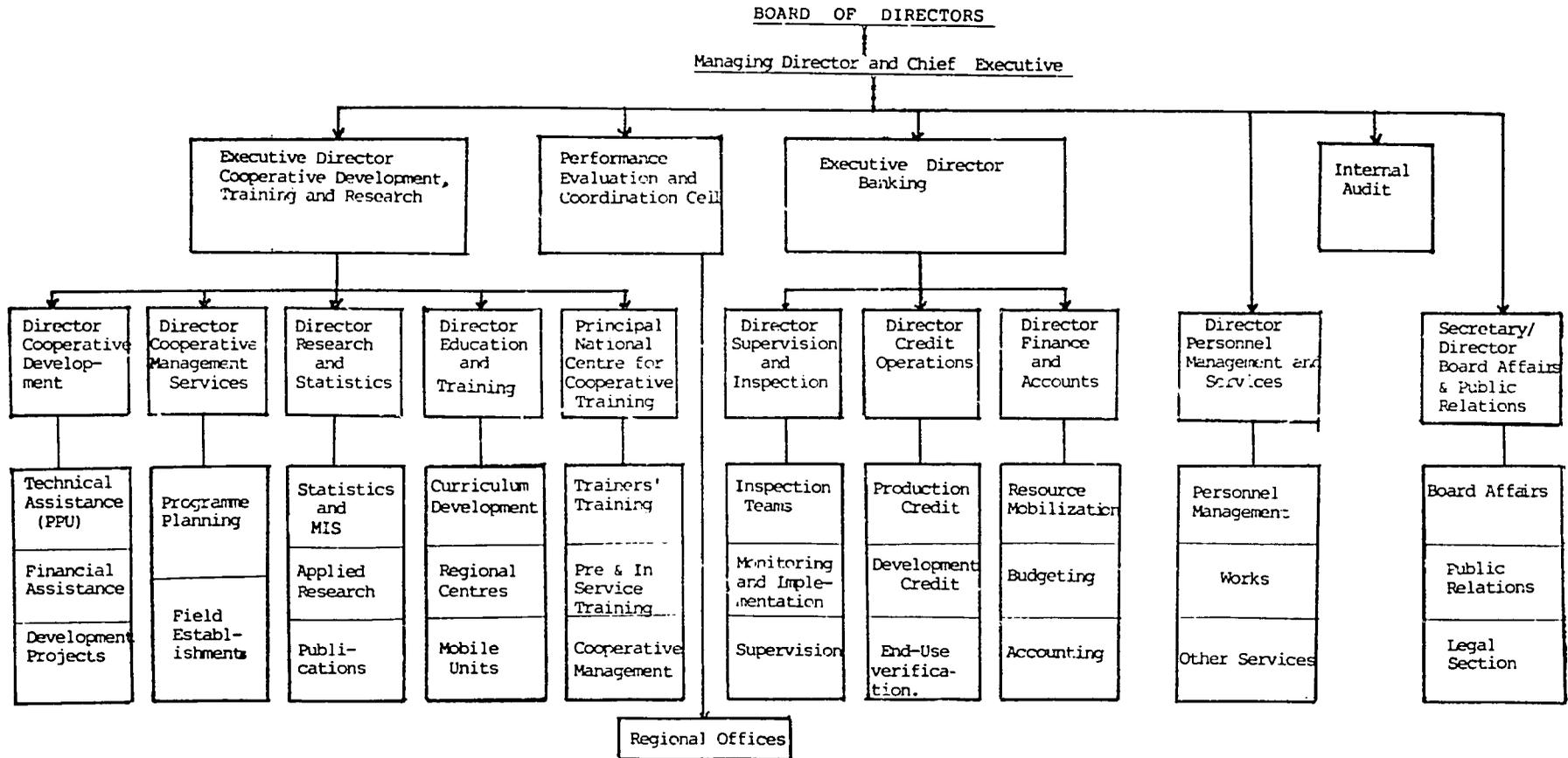
- 4) Under Sections 38, 40 and Rules 23, 24, 25, 26 present restriction on distribution of profit among members at a rate not exceeding 10% is not conducive to capital contribution by the members. The restriction should be removed in a way that the rate of distribution of dividend is decided by the societies themselves keeping in view their annual profits.
- 5) Under section 44-A, a financing Bank has the right to inspect the books of a society indebted to it, but with the prior permission of the Registrar which is against the concept of natural justice. A financing Bank which has provided financing to a society directly or indirectly, should have reasonably free access to the books, accounts, documents, securities and cash etc. of the society without the permission of any outside authority. This is essential for establishing direct relationship between the financing bank and the borrowing cooperative society. Relevant provision needs to be amended accordingly.
- 6) Under Rule 48, Registrar is authorised to supersede the managing committee of a society for an indefinite period. The power needs to be vested in the financing bank to be exercised in case of an indebted society. Moreover, supersession should be exercised with the consent of bank in the case of a borrowing society. The superseding institution should be bound to arrange fresh elections of the society for electing its new Managing Committee within prescribed period. Moreover, the administrator to be appointed during the period of supersession, should not be an official instead he should be from the general public. Such a person should not have direct or indirect interest in the working of cooperatives.
- 7) Under section 50-A, the Registrar has vast powers to assess damages against the management of a society found, in his opinion, guilty of misfeasance or breach of trust in relation to the working of the society. The powers at times have been misused to exploit the situation and thus good people are scared of coming into cooperative fold. It is suggested that in case any member of a committee is found guilty of misfeasance or breach of trust, he should be proceeded against under normal civil laws.

PROPOSED ORGANIZATIONAL STRUCTURE OF COOPERATIVES



PROPOSED INTERNAL ORGANIZATIONAL STRUCTURE OF FEDERAL BANK

ANNEXURE-IV



COOPERATIVE STRUCTURE IN PAKISTAN

