THE INSTITUTION OF COOPERATION, CREDIT AND THE PROCESS OF DEVELOPMENT IN THE INDIAN AND PAKISTAN PUNJABS

by

KHALID MUSTAFA

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ABSTRACT

The Thesis is primarily an assessment of the performance of agricultural credit cooperatives in the Punjab, before and after its partition in 1947. The intrinsic principles of cooperation are traced to their European origin and examined critically. The manner in which the institution of cooperation was transferred to the United Punjab in the early twentieth century as an instrument of government social and economic policy is documented. The evolution of government sponsorship of cooperative credit provision as an instrument of development is traced in the Indian and Pakistan Punjabs with particular reference to a representative area of the Pakistan Punjab.

The particular conclusion of the thesis is that the growth in numbers of credit cooperatives, membership and deployment of working capital are only superficial signs of success. Underlying these measures is a very indifferent performance attributable to the fact that the cooperatives failed to satisfy the criteria based on the original Raiffeisen principles necessary for the establishment of autonomous self-help organisations. The institution of cooperation was justified by ill-conceived government policies towards credit provision, and the movement, with government acquiescence, became the uncontested preserve of rural elites who used the institution for their own personal ends. The stated objectives, either distributional (focussing help in reducing the indebtedness of the small farmers) or developmental (increasing agricultural production) were not realised. The case study in a representative part of the Pakistan Punjab

establishes how widespread were the irregularities in the formation of cooperatives, involving the complicity of the authorities.

The wider conclusion is that on the one hand the experience in the Punjab hardly amounts to a test of the appropriateness of the institution of cooperation as a development agent since it did not correspond to the basic principles of cooperation; on the other hand, the uniform poverty and divided and hierarchical social structure of rural Punjab may point to the greater appropriateness of some alternative institutional device to encourage development.

CHAPTER 1

INTRODUCTION

Economic development and institutional change go hand in hand; whether one is cause and the other effect is a complex issue. Release of the potential productivity gains of specialisation and employment of capital is associated with the emergence of organised markets and the use of money. In turn the necessary contractual obligations are supported by functional political and legal structures which simultaneously underpin institutions concerned with complementary educational, scientific and technological change. All these institutions perform different specialised functions but are mutually inter-linked.

Institutional innovation can circumvent obstacles to development and the diffusion of such innovations can speed up economic growth. Thus, particular institutions may come to be regarded as instruments of economic development. However, a particular institutional instrument of great importance in a particular society cannot be guaranteed to make the same contribution to economic development when transferred to a wholly different society.

The particular institution of cooperation is frequently regarded in many countries as an important instrument for economic, social and cultural development. Cooperatives are often created to improve the lot of persons of limited resources and opportunities as well as encouraging their spirit of initiative. They are promoted to increase personal and national capital resources by the encouragement of thrift, by elimination of usury and by the sound use of credit. The establishment of cooperatives may also contribute an increased measure of democratic control of economic activity and an equitable distribution of productivity gains.

The role of cooperatives as an instrument of development is particularly emphasized in policies towards subsistence agriculture. The effectiveness of cooperatives depends upon whether or not they can provide remedies for basic deficiencies encountered by the vast majority of the rural population. In principle these deficiencies occur in two areas which do have reciprocal links. Firstly, the target population is characterized by inadequate access to certain factors of production - land, capital and services relating to the procurement of production requisites, credit, marketing, advice and training. The remedying of this may be conceived as a 'traditional' function of cooperatives. Secondly, the target population has hardly any facilities for expressing, promoting and gaining acceptance of their specific interests. This requires the formation of pressure groups which can establish an adequate amount of 'countervailing power'. The development of the cooperative enables the relatively poor segment of the rural population to come together and work together in order to improve their social and economic conditions, remedying their political weakness.

Subsistence agriculture confronts a vicious circle: the poor have no political influence at all, and because they have no political influence they remain poor or even become poorer. To succeed in specific struggles concerning the distribution of resources it is essential for the poor to have a certain amount of survival potential, though this is necessarily conditioned by their economic environment.

They are unlikely to benefit from evolutionary development processes and depend instead on the government having a strong commitment to improve the social and economic conditions of the poor through specific interventions.

The relationship between the institution of cooperation and government is an ambiguous one. Governments in many developing countries sponsor the initiation and development of cooperatives on account of the institution's supposed importance as an 'agent' of change and its close relationship with economic growth and development in a rural setting. However, government involvement in the administration of cooperatives causes a substantial degree of 'officialization' and dilutes the expected autonomous character of cooperatives. Even if cooperatives emerge spontaneously, they may need active protection from the government at certain phases of their development. Against this, the desire of governments is more often than not to transfer an increasing amount of its responsibilities to the cooperatives, both for socio-political and economic reasons.

Particular problems for the development of cooperatives may be the result of the following dichotomy: on the one hand, cooperatives are expected to develop as autonomous self-help organizations i.e. as their members' instruments for the promotion of their own economies (farms, business units/households) in accordance with the members' individual and group interests, aims and goals; on the other hand the governments use cooperatives as a vehicle to perform manifold tasks - which may or may not turn out to be in conflict with the members' interests - control their activities directly and use them as instruments for implementation of various agricultural policies and measures relating to their own conception of development. Consequently problems arise in reconciling the individual members' interests and the government's development-related goals, particularly in the cooperatives established at the primary level. There the reconciliation may not accord with the expectation of the government's cooperative development policy. Further, the government's policy generally emphasizes a strategy of 'top-down' development of cooperatives: yet there may be little response to the introduction of cooperatives at the grass-roots level. Cooperative models are imported - from capitalist or socialist countries - and in the local socio-cultural and political contexts can have the opposite effect to that originally intended: cooperatives become adulterated and more often than not the instruments of rural elites. Problems thus crop up in transferring models which have developed in materially different socio-cultural contexts, without thought for the necessary modifications to ensure the cooperatives' practical success in particular local rural contexts. An ill-considered transfer of an alien institution can therefore have problematic consequences in particular local situations.

The factors which constitute the cultural and socio-political environment are as important for the initiation and establishment of cooperatives as the purely economic environment: the framework of conditions set or influenced by the government's policies have a particular influence on the performance of cooperatives.

The present inquiry is focused on the institution of cooperatives and studies performance of this institution in the Punjab and its impact on the rural society and economy. The study provides a critical analysis of the initiation, development, achievements and set-backs of the institution of cooperation in the province of the Punjab in United India before its division in 1947 into the present Indian and Pakistan Punjabs. It seeks to present a critical appraisal of the development of cooperation and cooperative provision of credit in the Indian and Pakistan Punjabs for the period 1947 through the 1980s by examining the structures of cooperative organizations, their operational performance as autonomous organizations in addition to making an analysis of particular aspects of governmental sponsorship of cooperative organization as an instrument of agricultural development.

The selection of the Punjab as the focus of study is based on two considerations. Firstly, the province of the Punjab was one of the most developed agricultural regions in United India and had provided leadership to other Indian states in agricultural advancement. Secondly, introduction of the cooperative movement to the Punjab by the then British Raj in India proved instrumental, in that a good number of cooperatives in different spheres of economic activity developed under the sponsorship of the government. The selection of the United Punjab for the present study was interesting as it provided a base for the comparative assessment of the role, accomplishments and set-backs of cooperatives both as a 'self-help' autonomous institution and as an instrument of the government's agricultural development policy in the two post-partition Punjabs - the Indian and the Pakistan Punjabs.

A number of other considerations prompted the author to focus on the two Punjabs. Firstly, there is a certain degree of geographical uniformity in that their populations share a common heritage and the physical environments are similar. Secondly, in both the cases the respective governments had inherited the same 'cooperative model', transplanted by the British Raj into the United Punjab. The institutional ideology of cooperation in the two Punjabs in 1947 therefore 'took-off' from a common base - directed from above bureaucratically and, as it happens, lacking any indigenous ideological ferment to transform the local community or society at the grass-roots level. It was thus considered important to analyse the performance of cooperatives in the two Punjabs in order to establish the extent to which the historical antecedents of current cooperative policy bear the stamp of the British colonial administration. Secondly, the research aimed at analysing the role of the cooperative movement as a policy instrument for the promotion of agricultural expansion and as a vehicle for achieving the goals desired by their member participants in order to find out the similarities and differences, if any, in the development of cooperatives in the two Punjabs falling as they have done since 1947 in two contrasting political settings i.e. the states of India and Pakistan.

The need to examine cooperatives within a more comprehensive framework of institutional policy in the two Punjabs is the central theme of our research. A case study of the sampled cooperatives in a representative area of the Pakistan Punjab was undertaken to provide a critical examination of the actual functioning of cooperatives with a view to assessing their strengths and weaknesses. It must be emphasised that given the available financial resources, time constraints and due to political reasons there was no opportunity to draw a similar representative sample of the cooperatives from the Indian Punjab. The case study, restricted to a representative area of the Pakistan Punjab, was chosen to remedy the superficiality of earlier studies in the Punjab and to provide a detailed picture of the actual working of the cooperatives. Special care was taken in the selection of the representative area and the cases studied. They were identified with the help and advice of the staff of the Department of Cooperation and local experts. Efforts were made to select cases which were representative of the cooperatives in the Pakistan Punjab.

The research embodies more than the case study alone. It includes an analysis of studies of the available documentations - historical records on cooperatives, academic literature, government reports, investigations and policy statements, documents pertaining to national and local cooperatives and the analytical and empirical work of other social scientists who have investigated relevant aspects of cooperative development in the two Punjabs. In addition a systematic content analysis was made of the governmental data sources contained in the Annual Reports on the working of cooperatives, covering the period from 1904 to the 1980s. Given the existing constraints on research, it was not possible to propose a better methodological approach for the present work.

A general hypothesis of the research is that innovative institutions (e.g. cooperatives) intended to bring development and improve their members' socio-economic conditions are themselves conditioned by the socio-political milieu into which they are inserted and, as a consequence their achievements may not be in accord with their intentions. The field work seeks to describe the mechanisms by which this conditioning occurs and the effects it has on the functioning and objectives of the institution of cooperatives. In short this means a study of external linkages and support, the congruence or incongruence of cooperatives within the existing conditions, the diffusion of cooperatives and the role of dissent and factionalism in the cooperatives' development in the Indian and Pakistan Punjabs.

Plan of work

The reasons for undertaking the present study have been provided in the preceding paragraphs. The study itself is arranged as follows:

Chapter 2 looks into some of the conceptual issues concerning cooperatives. This chapter examines the evolution of cooperation in the form of an institutional structure. It seeks to present some analytical issues of significance relating to the structure, conduct and performance of cooperatives. An exploration in general terms of the potentials and limitations of cooperatives as a tool of development is provided and the attractions and problems of cooperatives for the state and small land-holder examined.

Chapter 3 seeks to delineate the need for working capital in subsistence agriculture and looks at the potential strengths and weaknesses of the informal and institutional capital markets in providing working capital to subsistence farmers. The advantages and disadvantages of cooperatives as a channel of credit are examined. Criteria for assessing the performance of agricultural credit societies are given.

Chapter 4 traces the course and direction of the historical development of the institution of cooperative provision of credit in the province of the Punjab in United India and in the post-partition Indian and Pakistan Punjabs. The chapter seeks to present critical analysis of cooperative development by analysing and comparing the course of institutional development of cooperation in the undivided Punjab, and in the Indian and Pakistan Punjabs for the period, 1904-80.

Chapter 5 analyses in detail the performance of cooperatives - in particular the credit cooperatives - in their contrasting roles as potentially autonomous organizations and as an instrument of the government's agricultural development policy within the Pakistan Punjab. The organizational and operational aspects of cooperatives are analysed and achievements and problems of cooperatives critically examined.

Chapter 6 looks into similar organizational and operational aspects of cooperatives in the Indian Punjab and identifies their strengths and weaknesses. The major problems, similarities and differences in the evolution of cooperation and credit together with the effectiveness of cooperatives as instruments of governments agricultural development policy in the two Punjabs are critically examined.

Chapter 7 presents an analysis of the actual functioning of sampled cooperatives in a representative area of the Pakistan Punjab. The case study aims at a more detailed and critical appraisal of the working of the sampled cooperatives as 'autonomous self-help' organization and as a governmental vehicle to promote agricultural development, based on primary data. A critical evaluation of the provision of interest-free mark-up credit by the cooperatives to the small farmers (land-holders of up to 12.5 acres) is made based on data from the official records of the sampled societies. In addition the analysis employs data generated by interviewing sampled members of the societies. The role of the selected cooperatives in promoting agricultural development is examined. The extent and nature of irregularities in the provision of government funds channelled through the cooperatives to the small farmers are identified.

Finally chapter 8 presents a summary and statement of conclusions.

CHAPTER 2

COOPERATIVES: IDEOLOGY, PRINCIPLES, AND PRACTICES

This chapter seeks to elaborate some analytical concepts in order to determine their significance for the structure, conduct and performance of cooperatives. The chapter is organized into four sections. Section I deals with the ideological aspects of cooperation. Section II is concerned with economic and social aspects of cooperatives. Section III covers issues concerning the effectiveness of cooperatives as an instrument of development. And, finally section IV concludes with a general review of the principal issues flagged in the chapter.

2.I Ideological Base

The cooperative movement of 19th century appeared as a spontaneous response to the sudden changes in living conditions in both rural areas and urban centres associated with the Industrial revolution. It originated among humble workers who saw the cooperative movement as a possible response to their harsh living conditions recognizing as they did that a) capital was not the only source of riches b) even without capital there was scope to improve their living conditions by cooperating with each other c) instead of continuing to bear oppression passively, they could become active protagonists by working together in a new way.[1]

Several different conceptions have emerged in the process of evolution of cooperative thinking. For analytical purposes, they can be broadly placed in two major categories: the pragmatic and the idealistic. In the first category may be placed the conception that the primary aim of cooperatives is to help improve the economic conditions of those who stand to lose if they individually face powerful interests and privileged competitors. Thus cooperation is not an instrument to transform capitalist system and replace it by some contrasting alternative. Instead, its distinctive institutional form is designed to mitigate inequalities and harshness of capitalistic system altering the distribution of its benefits in the process of making it more workable. The idealistic ideologists however conceived of cooperatives as an instrument to effect the transformation of the capitalist system. They held that cooperatives were fundamentally non-capitalistic and could co-exist with capitalism only at the risk of becoming capitalistic themselves.[2]

The idealistic ideologists of cooperation include amongst others, the socialists, the utopians and the marxists; the Christian socialists; the builders of a cooperative commonwealth. The pragmatic view of cooperation was generally held by the 'pace-makers' who by establishing cooperatives wanted to provide effective competition thereby making the capitalistic system work better. In addition, we may include the economists and sociologists who took a more or less detached interest in cooperatives within the prevailing economic system.[3]

The pragmatic proponents of cooperation may further be divided into two groups: first the 'idealistic pragmatists' or those who possessed a combination of idealism and practicality. They believed that if people joined together in cooperative spirit and action they could improve their economic conditions. However, their solution to prevailing economic problems also reflected their ethical judgements, hope and vision that farmers, workers, and small businessmen should achieve better lives. At the same time they believed that cooperatives must be operated in an efficient business-like way within the existing system. The 'idealistic pragmatists' included amongst others the Rochdale Pioneers and Friedrich Raiffeisen. The second group, the 'pure pragmatists' such as Herman Schulze who believed that a cooperative was an effective tool in a capitalistic world - in that as a distinctive institutional form the cooperative proved technically more efficient as compared with other capitalistic enterprises. Schultz did not believe in the relevance of ethical judgements and/or the moral regeneration of cooperative members. Economy was enough for him. But economy must be sound resting primarily upon self-help, production and thrift, he believed.[4]

Amongst the idealistic ideologists of cooperation, the utopian socialists had as an ideal the setting up of utopian communities in which a new way of life would at once make its members independent of their environment. Fourier wished to have 'phalansteres', those to be principally agricultural self-sufficient societies. Robert Owen believed in the perfectibility of human nature under conditions of good environment and wished to set up ideal communities, again self-sufficient. To this group may be added St. Simon with Buchez and Blanc who believed that once the excellence of cooperative or community life was shown, people would be led by reason to accept it universally.[5]

It was the prevailing environment that led these socialists to dream of a kind of non-capitalistic self-sufficient community based on mutual aid and equality, which would give them a direct share in building up a new society, one radically new in its motivating ideal - that of the self-supporting community - and its aims; no small scale pooling of capital for profit, but for a society to give service to its members to secure drastic improvement in living conditions.

In practice, owenite and other utopian models failed utterly, either to reshape society or find accommodation with the emerging forces of industrialism.[6]

In contrast the Marxian socialists were first opposed to cooperatives. Karl Marx, however, allowed that cooperation was a "great social experiment because it proves that there can be large scale production of an advanced type without the supervision of the capitalists".[7] Yet he would have none of the consumers' movement, because any effort to raise wages for workers was destined to fail due to the iron law of wages. Real wages would in any case tend to sink to the subsistence level, so selling goods cheaply could not improve the conditions of workers.

From the marxist point of view there is a fundamental conflict between cooperation and state communism. The essence of the cooperative is ownership and control by members of the factor of production. Owners of property have little taste for violent revolution; this is especially true of groups who control factories.

Under communism, however, many state or government enterprises were designated as 'cooperatives'. The communists often called these government enterprises 'cooperatives' in order to capitalize on the good name cooperatives earned in the free enterprise system. It may be noted that the cooperatives in the capitalistic system had earned some respect and admiration from the world before the communistic revolution in Russia in 1917. Therefore it was to the advantage of communists to try to capitalize on the reputation of cooperatives and use the term to characterize the collective efforts which were not truly cooperative but rather wholly state controlled and directed. In Russia, for instance, cooperation was used by the government from the very first year of socialist revolution, as a lever and as a driving belt for the socialist transformation of the country's economic life. And in order to serve this purpose, a radical conversion of its activity, which originally received the impetus from capitalism, was necessary in both form and content.[8]

The Christian Socialists conceived cooperation somewhat a means to create a "Christian communal life based upon economic reforms with the help of associated activity carried on in a spirit of Christian love". Huber, for instance, believed that evil in the world resulted from defects of character, which stemmed from the "degrading pressures of poverty". He looked therefore to cooperative organizations to remove poverty. Moreover, when men worked for a common good rather than for self, "their own horizons would be enlarged and their character improved".[9]

Although ethical and religious considerations motivated the Christian Socialists, they did not believe that philanthropic and charitable acts would solve the problems of society, because they did not necessarily help the unfortunate back to self-support and self-respect. The cooperative movement, on the other hand, provided a system of 'self help' which removed poverty, improved character and eliminated evil. The Christian Socialists, in particular Huber, believed that cooperative associations were primarily designed to aid the workers, but he did not preclude membership embracing the small proprietor or even the wealthy landlord. Overall, he thought that no class lines should be drawn for eligibility to membership of such associations.[10]

The Islamic faith similarly upholds the cooperative ideal. According to the 'Holy Quran', in contrast to the tenets of capitalism, wealth for the mere sake of wealth is opposed as a matter of faith. The provision of aid to economically weak persons is also part of the faith. Thus the essence of Islamic teaching lends strong support to the cooperative idea. The cooperative is looked upon a unifying institution to better the economic, social and political conditions of the whole community.[11]

Fundamentally, there is an explicit contrast between the view point of a capitalist and what the religious schools conceived as cooperation. A capitalist strives primarily for profit and the measures he adopts have nothing to do with such value judgements, though he must work within the law. As such, he may or may not be interested in improving the economic lot of people without any moral binding who tend to lose in the society without access to capital and other means of production.

Cooperatives, on the other hand may render at least four valuable services to the capitalistic system of which they may be a part: (1) enhance private property (2) preserve market competition (3) retain the profit motive for its patrons and (4) maintain and strengthen the individual consumer and entrepreneur. The cooperatives in a capitalistic system can not properly service members if they do not produce profit on behalf of their members, although in a sense cooperatives themselves make no profit[12] (this point shall be further elaborated in subsequent sections).

The idea for a cooperative commonwealth was advanced by Charles Gide who believed that the capitalistic society could be transformed into a 'Cooperative Republic' by stages and by means of cooperative organizations. Recognition of the unsuitability of the state for carrying on business or for establishing real contact with and among the people led many to suggest cooperative control of state companies. Some pointed out that state action, even in an advisory role, would do more harm than good if it took the form of direct authoritarian intervention. The state should act through the local cooperative which handled all produce, credit or even the flow of ideas through its educational activity.[13]

As noted, the criticism of the capitalistic system is that it can generate a distribution of benefits which is unequal, and, according to some value judgements, inequitable. This is rather different from the argument that it necessarily immiserizes some people, or that only the rich are its beneficiaries. There is a good deal of evidence that capitalism has increased the real standard of living of the poor, even although relative to the rich they may have achieved little progress. This is consistent in particular with the co-existence of an undercapitalized agriculture with cultivators constantly in poverty. Nevertheless from this pragmatic perspective cooperation does not aim to supplant the capitalistic system. Cooperation, in the pragmatic sense, is looked upon as an attempt by agrarians, craftsmen and other small producers to improve their relative position in a modern capitalistic society. The proponents of the pragmatic approach thus perceive cooperatives more or less as an entirely voluntary organization formulated with a view to deriving economic benefits for its members through a common enterprise on the basis of mutual cooperation and self-help. However benefits arising from undertaking a cooperative would be distributed in proportion to the contributions of individual members, without in any way aiming to bring about equality in income distribution through cooperative organisation.[14]

The cooperative, in a pragmatic framework, may thus appear as a vehicle by which farmers interact both as buyers and sellers, thereby exercising 'countervailing power'. As a distinctive institutional form a cooperative can therefore be looked upon as an association which is democratically controlled, includes any number of farmers and serves as a device for getting economies of large scale operation in the handling of farm products and also in providing and capitalizing such facilities as elevators, grain terminals, warehouses and creameries within the existing system.[15]

As noted before the pragmatic conception of cooperation has largely been based on the writings and teachings of those such as Rochdale Pioneers, Raiffeisen and Schultze. In view of their importance it is worthwhile presenting a brief account of their ideas and also an assessment of the progress made by these founders of the movement based on their objectives. In fact, the 'ideology' underpinning the modern cooperative movement has largely been derived from the views advanced by these innovators.

The Rochdale Pioneers[16] were a group of 28 individuals, ranging from flannel weavers to shoemakers. They were craftsmen or entrepreneurs who came together in 1844 in Toad Lane, Rochdale in the

UK to purchase supplies and consumer goods cooperatively. The original subscription was one English pound for one share of stock with original capital estimated at $140. The Rochdale experiment was organized under a comprehensive plan which provided for (a) the establishment of a store for the sale of provisions and clothing (b) the building of houses in which those members desiring to assist each other in improving their domestic and social conditions may reside (c) the manufacture of such articles as the society may determine upon, for the employment of such members as may be without employment, or who may be suffering in consequence of repeated reductions in earnings (d) the purchase of estates of land which shall be cultivated by the members without employment (e) to proceed to arrange the powers of production, distribution, education, government, in other words to establish a self-supporting home colony of united interests.

As 'idealistic pragmatists', the Rochdale Pioneers, therefore believed in the founding of a self-supporting community of common interests by helping to reduce the hardship faced by workers under industrial capitalism. They soon realised that they would not at once set-up a self-supporting community without wealthy donors or outside financing which was not immediately available. They were therefore constrained to confine themselves to drawing up the broad lines of their programme and getting down to work at once, relying only on themselves. This left them the only choice of exploiting their own modest purchasing power as consumers by setting up a consumer store.

A store was established as the 'Rochdale Society of Equitable Pioneers' with members pooling their labour and working capital. The members of the society subscribed to shares, payable in small amounts weekly, in order to raise capital to buy goods at less than retail costs and sell them to their members at a saving. Members were paid 5 percent interest on their shares and were entitled to a proportionate division of the society's savings or profits at the end of the year. The Rochdale principles of cooperation included amongst others open membership to all; democractic control of the society, with each member having only one vote regardless of the number of shares owned; a limited interest on share capital; and return to members of the cooperative's profit in proportion to their patronage. The example and principles of the Rochdale Pioneers have profoundly influenced the cooperative movement in many other countries of the world.

The Pioneers chose a consumer association of a sort which proved able to make the best possible uses of their assets. The growing number of consumer cooperatives and their association to form cooperative wholesale societies opened up new possibilities of rationalising distribution systems and planning their own market.

As idealistic pragmatists in regard to cooperation the Rochdale Pioneers always aspired to found a complete community. They started by founding consumer cooperatives as a matter of practical tactics, not as a denial of those aspirations; they postponed attainment of their communal idea but did not abandon it. The pressure of specialized and therefore competitive society around them made cooperators copy the policy of specialization within the existing system which was in line with pragmatic conception of cooperation. Nevertheless this did not invalidate the essentially reformist ideal of their movement.

Most cooperatives established on Rochdale principles managed to become established permanently in the economic landscape, most notably in Britain initially but in other countries later.

The development of the cooperative credit movement, however, originated in Germany.[17] The names of Hermann Schulze and Friedrich Raiffeisen are most notably associated with its evolution.

Herman Schulze[18] was born in 1808 to a well-to-do family. He graduated in law and was appointed to the position of Patrimonial Richter in 1841. Later he won a seat in the parliament. He quickly became identified with the liberal members of the National Assembly who were pressing for a constitution and reforms. This led in 1850 to his being tried in the court on the charge of high treason. Although acquitted, he lost his position as Patrimonial Richter.

In 1846 a crop failure in Germany which brought great distress to the population prompted Schulze to form a local committee which rented a grist mill and bakery and purchased grain at wholesale prices to distribute to the needy. The crop failure was followed by the severe winter of 1846-47, which produced even more suffering. Two important events occurred for Schulze during the hard times of late 1840's. After losing his post, he founded a friendly society for craftsmen to provide cooperative insurance against sickness and death. He also organized a cooperative purchasing society for master shoemakers to buy leather at wholesale prices for its members. But even then, the society had to borrow funds to make their first purchase. Out of this experience Schulze discovered the great need for credit among craftsmen and shoemakers.

Schulze founded a cooperative credit association for these craftsmen and shoemakers and its subsequent success was attributed to principles which Schulze considered essential. Each member paid an entrance fee of $2.50 and proved that he was capable of paying for one share, initially valued at $12.00, in instalments. Members deposited their savings in the society in order to provide working capital, and modest dividends were paid on these share accounts. Additional capital when needed, was borrowed from other financial institutions on the principle of 'unlimited liability'. 'All for one and each for all' was in a sense the character of the Schulze credit association.

Loans granted by the Schulze association were made for productive purposes and were secured on an assessment of the character of the person borrowing rather than on collateral or mortgage. Loans were endorsed by two members and were extended for three months. Membership in the Schulze association was open to all. He stressed democratic control. The supreme authority was the general body comprising all membership which practised one vote for each shareholder regardless of the number of shares held. A general committee was elected by the members annually and consisted of president, treasurer, secretary and nine members. This committee decided on requests for loans and also on such other matters as recovery from members.

Schulze had no scheme in mind for the moral regeneration of mankind. Nor did he imagine the creation of a workingmen's paradise. He did not have the intention of interfering in members' private life, or educating them in moral issues. Economy was enough for him. And, economy must be sound, resting upon self-help, production and thrift, Schulze believed.

As Schulze-type societies or unions spread, he worked to provide cooperation within the movement. Schulze and his associates created a 'central office' to clear the way for business connections between the unions, for the exchange of mutual experience and an understanding about the common purpose. However, despite the evolution of central organizations, Schulze insisted that each local society was autonomous in performance of its basic functions. Schulze participated in the organization of the Universal Federation of German cooperative societies, which embraced the older central organizations and the subordinate leagues. In 1857, the German Cooperative Bank was established to accept deposits of surplus bank funds and to raise money to lend to cooperatives. A majority of the stock in this central bank was owned by the credit associations, and the remainder by private individuals. Then Schulze sought legislation giving legal status to his associations and finally succeeded in 1867. Schulze also set forth his ideas on laws for a new cooperative, which was published in 1883, only a year before his death. Schulze banks continued to grow in Germany even after his death. There were over 1000 such credit associations with a membership of 641,000 in Germany by 1912.

Even before Schulze's death a rival type of cooperative credit institution appeared in Germany and this was promoted by Friedrich Raiffeisen.

Raiffeisen[19] was born in 1818. His father died when Raiffeisen was only eleven years old, leaving him in poor circumstances. However, a local minister taught Raiffeisen on an informal basis. At the age of seventeen he joined the army; after two years an eye disease forced him to retire from the army. He however took the civil service examination and rose from a clerkship to become Mayor of Weyerbusch in 1846. As a Mayor, Raiffeisen was deeply moved by the sufferings caused by the famine and hard winter of 1846-47, and he decided to concentrate on helping the farmers. Raiffeisen was much moved by the deplorable economic conditions of the farming population in Germany and visualised that the only way to help peasants solve their economic problems was to persuade them to join credit societies which Raiffeisen had started promoting after 1846-47. And this task he continued till his death in 1888. Failing eyesight and poor health plagued Raiffeisen constantly and as a result he was forced to retire on a small pension in 1863. Later, he established his own business and earned enough money to support himself until his death. Before he died, he was recognized by society and the government alike for his services to the farmers of Germany and those who benefitted from his cooperative credit schemes increasingly used the name "good father Raiffeisen".

As noted, Raiffeisen was profoundly moved by the suffering caused by the famine and hard-winter of 1846-47, but unlike Schulze, he concentrated on helping the farmer. The famine was however one factor that dramatized the bad underlying conditions among farmers with which Raiffeisen had become concerned. The reforms that freed peasants from their feudal obligations and gave them their own land had not improved their situation. Indeed farmers were "half-starved - ill-clad, ill-fed, ill-housed, ill brought-up who eked out by hard labour barely enough to keep body and soul together". Indeed, farmers were not prepared for commercial-type agriculture. They did not have money to pay for machinery, fertilizer, seed or livestock in order to increase farm productivity and thus their income. Mortgages on land provided the basis of most rural credit, but mortgages were granted only to owners of large properties.

The typical farmer in Germany was at the mercy of money-lenders. When he purchased land, he had to borrow from a high rate money lender who quickly foreclosed on the property if payments were not made on the day they were due. For money needed to buy seed and supplies the farmer had again to turn to the money-lender who often charged as much as 100 percent interest.

It was therefore not extraordinary distress caused by famine, but the steadily worsening condition of farmers that prompted Raiffeisen to help them.

As a first step, in 1846-47, Raiffeisen organized a Bread union to distribute flour to the hungry, later building a bakery to sell bread to the destitute at low prices. Another association borrowed money and purchased seed and potatoes for planting and sold them at a discount. Neither of these organizations was fundamentally cooperative, however, because money was contributed or borrowed from the more fortunate for benefit of the poor. In 1849, Raiffeisen started a 'society' for the support of poor farmers, which began its operations by purchasing cattle and reselling them to farmers on generous terms payable in instalments. Later the society began to extend credit to farmers to improve their farms.

Raiffeisen's society was composed of well-to-do citizens who pledged themselves in joint liability for the debt of the society, deciding who should be admitted to membership and who would receive loans. The members, on the other hand could borrow money, contribute to capital but had no voice in the governing of the body. Nevertheless this union freed many farmers from the grip of money-lenders and helped to put them on a better economic footing. The Raiffeisen society promoted the care and education of destitute children. Raiffeisen adopted the principle that profits were not to be distributed to investors until a reserve fund had been established. In addition, the capital was inalienable and if the society was ever dissolved, it would be distributed for the benefit of the poor.

Raiffeisen soon realised that the public-spirited or wealthy persons who had initially contributed capital to his society out of religious and benevolent enthusiasm imparted by him, began to lose interest because benefits only accrued to the poorer borrowers. He thus replaced the original charitable principle with the principle of 'self-help'.

Although Raiffeisen adopted the principle of self-help, there were still differences between these two types of loan societies. Raiffeisen insisted that brotherly love and Christian principles should motivate the credit union. While Schulze was concerned primarily with promoting the borrower's economic objective of self-sufficiency, he believed that membership should come from a large and economically varied area; Raiffeisen preferred to restrict membership to a small district, preferably a 'parish'. Moreover Schulze concentrated on urban workers, while Raiffeisen devoted himself to helping farmers.

Membership of a Raiffeisen society was conditional, in that a farmer was admitted if his neighbour judged him to be of good character, industrious and friendly. The society did not distinguish between the rich and the poor, but a person admitted to membership had nonetheless to have some tangible assets. A tenant was eligible for membership if he had his own livestock and equipment. There was no share capital, as the societies raised money by borrowing on the joint liability of their members. Therefore no dividends were paid. Interest was paid on deposits. At a later stage Raiffeisen societies adopted a token requirement of one share of $2.50 per member, in particular after the passage of the German Cooperative Law in 1889.

The Raiffeisen society was a democratic association. All members participated in general meetings, each having one vote. They elected a committee of management to approve loans and to see that the borrowers used the money specifically for the purposes set forth in the application. The council of inspection or supervisory committee was responsible for checking on the activities of managers and reporting to the general meeting. Raiffeisen stressed volunteer work in his society, providing compensation only to the full time secretary.

Raiffeisen faced the problem of creating regional and national organisations to bind his societies into a whole, to promote their common purposes by providing a forum for the exchange of useful information, to supply legal and legislative advice, and to facilitate central banking services. The societies enjoyed no strong financial backing, and all societies suffered from time to time from a lack of adequate funds, and only occasionally from surplus money. He organized a first central association (the Rhein Agricultural Union Bank) in 1872, to serve as a central banking institution and to oversee and control local credit societies. Other regional banks of this sort followed soon, and in 1874 he created a national organization called the German Agricultural Bank of Neuwied. The German law did not allow one association to combine with another nor an association without shares to engage in banking.

In response to the obstacles imposed by the legal system of the day Raiffeisen dissolved all his central banks, and in 1876 organized a new bank called the 'Central Agricultral Loan Bank', as a joint stock company with its shares held in trust by officials. The following year the 'General Federation of Rural Cooperative Societies of Germany' was organized to provide legal services, give advice, organize new societies and disseminate information. Numerous other regional and central organizations were founded in the ensuing years.

Raiffeisen societies enjoyed a much larger growth than the Schulze associations. Whereas Schulze stressed a purely business-like philosophy the Raiffeisen Societies emphasized their founder's moral and Christian principles. In later years, however, professional business leadership became more decisive in the affairs of Raiffeisen societies.

In short, Raiffeisen societies helped a great deal in providing economic relief to the peasant farmers from the usurious money-lenders who by charging high interest rates kept them permanently in their power. The system of agricultural cooperative credit was later extended to many parts of the world in its original or modified form depending upon the local conditions of different countries. Most credit societies in developing countries have been established on Raiffeisen principles and are firmly established in their agrarian economies.[20]

Cooperatives received little attention from economists until recent years.[21] Economic literature on the cooperative economy is normally associated with the writings of Jaroslav Vanek[22], Robotka[23], Phillips[24], Aresvik[25] and Bateman, Edwards and Levay[26]. They have centred on the analysis of the cooperative as a firm using conventional microeconomic analysis. A consensus appears to be emerging regarding the workings of cooperatives as economic institutions. In particular, it is realised that a number of different forms of behaviour are possible, depending on the nature of the cooperatives' chosen objectives. Furthermore, there may be conflict of interest between different types of members depending on the objectives pursued.

The task of mobilizing international and national resources to make the cooperative approach more effective has been undertaken by the International Cooperative Alliance. The analysis of the ideological pronouncements of the Alliance suggests that the Alliance has tended to vacillate somewhat between pragmatic and idealistic approaches.[27]

The institution of cooperation assumes that all members have equality of status regardless of their contribution in terms of capital. The membership of the group is voluntary and not covered overtly and/or covertly, directly or indirectly, through social or political means. The leadership in the group is elected and responsible to general membership which is supposed to be active enough to exercise control over the leaders. Where government sponsorship is accepted, it is expected to be temporary to enable the cooperatives to secure necessary resources which would otherwise be difficult to obtain, a version of the infant industry argument. Finally the cooperative should be neutral politically and religiously, in the sense that it is not intended to be an instrument of any political or religious group.[28]

Cooperatives were established primarily as self-help organizations in many western countries. Whether organized by farmers or urban residents, they were started by groups who wanted to join forces to protect their interests in the face of what they saw as adverse conditions in the surrounding private markets. While they had to run business-like operations in competition with others, cooperatives differed from the usual business firm in that: capital is contributed in equal shares by all members, who have one vote each in running the organization: Policy makers are elected and major policies decided by members voting. Profits are distributed either in proportion to purchases or as a return on membership shares. As cooperative activities spread to nearby groups, cooperative federations were formed to supply the primary cooperatives with joint services, operating with the same principles as their member units. This concept of a tightly operating group following strict democratic principles, highly effective in producing solidarity in a struggle to assert the groups interest in a hostile environment, became diffused as the scale and complexity of their operations increased with success. However the fundamental principles remained a significant influence on the activities of cooperatives in many western countries, even if attention to the spirit or letter of these principles is somewhat variable in practice.[29]

Cooperatives in many developing countries were initiated with more or less the same image - i.e. as 'self-help' organizations. However, in the process deviation from the 'principles' has become even greater. For one thing, these organizations were in many cases sponsored by westerners - outsiders to the group whose self-interest was to be asserted. In colonial times - especially in British colonies - this was a western-based government; in post war years it was usually the national governments responding to western advisors or ideas; in other cases western-based churches or foundations started cooperatives both before or after political independence. In such circumstances the independent self-help element took on a very different coloration; irrespective of the sincerity of the sponsors' desire to help, cooperative members did not but sense that something was being done for them from above rather than something they themselves did to fight back against their economic environment. The extent of external support certainly conditioned the ideology, the conduct and performance of cooperatives. Sometimes the original cooperative ideology was changed in the contemporary context of developing countries to serve the interests of ruling elites and political parties or to serve national developmental interests rather than local interests.[30]

When judged in this context cooperative ideology would have to acknowledge the interaction between economic and socio-political power and recognise the frequent need either for structural change or for political mobilization in order for cooperatives to be able to benefit their members.

In summary then, the early interest in cooperative structures stemmed from a deep disquiet among the pioneers regarding the social consequences of the industrial revolution. Critics of the new order conceived of cooperation, not simply as a framework for business organization but also as a vehicle for the realization of radical social and political goals. Efforts attempted to establish cooperative communities by Robert Owen and other socialists yielded little success. Most utopian models failed either to reshape society or find an accommodation with the emerging forces of industrialism. However, more specialized forms of cooperation, consumer's societies and credit cooperatives, in particular, managed to establish themselves permanently in the economic landscape from the mid-nineteenth century onwards, most notably in Britain and Germany initially but in other western and developing countries later. Over time, however, the more visionary aspects of cooperation declined. Thus there are cooperators, even in the late twentieth century who would regard cooperatives be they industrial, agricultural, consumer or credit societies - as indistinguishable from conventional business enterprises. But although concepts of cooperation have largely been shorn of the extravagant claims of earlier social prophets, a residual belief remains that cooperators are motivated by group interest as well as self-interest and that both non-economic as well as economic objectives may be pursued by a cooperative.

In short, two schools of thought emerged concerning the way to solve the problems of industrial revolution. One believed that the whole capitalistic system upon which the industrial revolution was based should be overthrown and replaced by non-capitalistic self-sufficient communities based on mutual aid and equality. This, according to the 'idealistic ideologists' would give its members a direct share in building up a new society, one radically new in its motivating idea - that of the self-supporting community - and its aims; no small scale pooling of capital for profit, but for a society to give service to its members to secure drastic improvement in living conditions. The other group believed in preserving the system which had produced such great accomplishments and in making any necessary changes within the structure of the system. In this group could be found the cooperative pioneers we know about today ... the Rochdale Pioneers, Friedrich Raiffeisen, Schulze, Delitzsch and many others. They were termed the 'pragmatic schools'. The ideological struggle between the two even continues to date.

We may agree with Webbs' judgement that "it seems to us to only darken counsel to use the term cooperative to designate both forms of combination".[31] Both have however the same basic rules of control by members voting equally and of profit distributed according to trade; they have walked along parallel paths, if not always shoulder to shoulder, they have contributed so much to each others' development that to understand one, we must study both. With the exception of extreme socialists and advocates of a cooperative commonwealth, most would agree that their common aim is to ensure the survival of small units of production or consumption in a world where ever-increasing concentration makes their elimination otherwise inevitable.

In point of fact, in recent years in both the western world and many developing countries cooperatives have not been true in letter and spirit to either the idealistic or pragmatic conceptions of cooperatives. The original ideologies have been radically transformed through the increasing interest in and control of the cooperative movement by central governments, particularly so in developing countries.

2.II <u>Economic and Social Aspects of Cooperatives</u>

Growth in scale of an economic activity generates pressure for institutional change. The scale of business grew markedly during the industrial revolution and various structures of enterprise developed by which business activity could be given expression. Capitalists have based organization on private property rights in the equipment of production. At a time when capital was scarce and new technology offered greater profit to those who could control it, this was a natural and efficient form of organization. The capitalist bought the other means of production such as labour or raw material, as cheaply as he could and sold the product at the best price obtainable.[32]

The increasing use of specialised physical capital however increases commercial risk (basically derived from the possibility that no market exists for the product it will produce). The incidence of this risk then depends on the institutional property rights. Under capitalism these are a private (or individualistic) matter; under socialism they are a collective matter.

Socialists have tried to avoid the unequal distribution of income and wealth under capitalism by endeavouring to make the community perform the role of entrepreneur. All citizens are 'shareholders'. Profit or loss shows ultimately in the accumulated reserves accruing to the taxpayer or the loss he must underwrite. To most socialists, the ultimate unit of organization is the state but the principle of collective liability can be applied to any other grouping of prople. The crucial point is that the enterprise belongs to the whole group whether or not they use the service provided[33].

Cooperatives developed as a means of obtaining the benefits of large scale operations but with a distinctive approach to shared liability. As noted earlier, the cooperative movement dates from the Industrial Revolution. Cooperatives were formed to counter deficiencies seemingly inherent in the existing capitalistic system.

People joined togeher, pooling their resources to gain the benefit of large scale enterprise. The benefits belonged collectively to those who set it up for their own use. Naturally control rested with those who took the risk - the trading members. Depending on the circumstances some set up consumer's cooperatives, producers cooperatives, credit cooperatives and so on. These have very different objectives. In each there is a factor of production such as labour, or an interest, such as consumer of the service, which controls the enterprise to its own advantage.[34]

In point of fact, cooperatives are a form of business organization within the capitalistic system. They are capitalistic because they (a) are based on private property, ownership and exchange, and are removed from government or societal ownership (b) contain the spirit and essence of private enterprise, namely the power to start and stop a business (c) seek to maximise profit or maximise utility of each of its member entrepreneurs although cooperatives themselves seek no profits. A cooperative is a joint plant with the plant being operated for and on behalf of its members firms or entrepreneurs, not the member entrepreneurs operating <u>for</u> the joint plant. In short, cooperatives do not eliminate profit motive; they extend it to more people, thus strengthening capitalism and broadening its base of operation.[35]

A cooperative is an organization designed for the benefit of a particular group. Under some conditions a cooperative may exploit employees, consumers or suppliers for the selfish interest of members. The very rich capitalist is often contrasted with the cooperative of small producers intimately involved in its working. But a capitalist firm may have very many small shareholders and the cooperative may be an association of the poor or the rich. In the same way, trade unions may be formed by well-off professional workers and act against the interest of the poor.

A firm needs equipment and working capital whether its structure is cooperative or private. The capitalistic entrepreneur puts in personal effort and capital. In addition, he may subscribe equity capital which accepts the risk of loss and gains the variable reward of profit. The other factors of production are paid a going rate fixed by the market, as wages, rent or interest. The basic idea is to get away from domination by capital, but the service of capital is still required. Attracting risk capital is a problem for the cooperative since its normal reward, profit, is excluded while in the event of failure the capital is lost.[36]

The capital needed by a cooperative may be divided into (a) fixed capital (b) operating or working capital. In addition, there is a need for (c) organizational funds.

Fixed or long-run capital is needed for land, buildings, equipment, vehicles needed by the cooperative. Short-term or working capital may be required for making crop advances, inventories, supplies, wages and other current expenditures. And the organizational funds may be needed for purposes such as legal and recording fees, incorporation fees and the expenses incurred in forming the cooperative.

The exact amount of capital needed by a cooperative however depends on (a) the type and size of cooperative to be organized (b) the extent of ownership or rental of fixed facilities (c) the pledges of business volume (d) the availability of borrowed funds and the ability of members to subscribe capital and (e) the type and extent of services to be provided.

Cooperatives may be divided into two main schools: those with share capital and those without. Nevertheless both types encounter specific problems. Cooperatives relying on share capital do not generally attract sufficient funds. By definition only members can subscribe for shares in the cooperative. If members have only limited means permanent share capital will in turn be limited. Moreover, Levay has argued that, given there can be no market in such shares

> "capital attraction and maintenance in a cooperative is complicated by the fact that share capital does not appreciate, so that there is little incentive for members to fund the organization in that form. Where additional capital is needed, other methods of raising it are increasingly commonly adopted"[37]

capital can be borrowed on the security of the members private assets. Some cooperative founders made this joint liability a matter of principle, to develop greater feelings of solidarity among the members who each had unlimited liability for their common debt. Raising capital for the cooperative on the joint liability of members may have the advantage in that the loyalty of members is ensured by an enforceable contract. Nevertheless the disadvantages of the system may outweigh the advantages. A joint and several guarantee given for the cooperative can be enforced in full against any selected member.

Limited liability offers definite advantages to the shareholder. However, if the liability of the members is limited to the amount of share capital subscribed by them, the cooperative can not easily borrow unless that capital, plus accumulated reserves, is adequate to cover risks.

A special method for increasing the share capital of members through supplementary voluntary payments is provided by the system of "revolving funds". These revolving funds could serve to complement equity capital. In essence, these funds remain at the disposal of the enterprise for only a fixed time, after which they are repaid according to the principle of "first in, first out", on a time schedule determined by the society. Therefore this system is highly flexible.[38] Nevertheless revolving funds

> "complicate the relations between the cooperative and its membership, already complex enough, in that the member may be in receipt of interest on share capital, interest on loan capital, the patronage rebate and now funds revolved back from the organization, each a potential source of satisfaction or discontent in addition to quoted prices and discounts for bulk purchases".[39]

In general societies do not find share capital sufficient for their purposes. Accordingly they have to look elsewhere for funds.

As the possibility of mobilizing capital from within the members group are mostly very limited, a cooperative may turn to indirect methods of accumulating reserves which are not available to the individual member if he leaves the society. The financial strength of cooperatives in many developed countries is based on financial reserves accumulated from annual surpluses which have not been paid to members as dividends on their own purchases. Nevertheless, a solid financial base in the form of reserves can not be built up in the short-run and a cooperative may be constrained to find ways of attracting limited capital from outside.

Despite all the financial possibilities contemplated above, primary cooperatives in many developing countries do not grow without considerable grants from the government or the official development banks. Even cooperatives in many developed countries have received 'grant-aids' from the government to build a sufficient capital base to run their business.[40]

It may thus seem that although the cooperatives have restricted opportunities to raise fixed capital, in other respects (eg in trading) they behave like the capitalists. Indeed, the desire to earn surpluses parallels the drive to earn profit.

Nonetheless, cooperatives are difficult institutions to administer in terms of capital management, a factor that might prejudice their efficiency, however well qualified, alert and assiduous the executive and board may be. The dilemma is that

> "management of associations with a preponderence of 'divi' hunters may be hazardous in that too much pressure may be put on reserves, a chronic problem in consumer socieities. If members are used to both large amounts and to annual increments of bonus payments, they may resent attempts to apply correctives in years when business is less buoyant, however insistent the management as to the need for retention, or a low rate of 'divi' may be determined such that capital accumulation is effected, though the members may feel that they are insufficiently rewarded for their patronage, especially if the cooperative deals with non-members. The benefits of membership are then at issue - indeed, it is possible for them to be scarcely discernible, particularly since any capital members supply to business is accorded a relatively low rate of interest and in this sense they subsidize the enterprise, whereas non-member patrons are called upon to contribute no capital at all".[41]

Cooperatives can suffer a conflict of interest. Bateman, Edwards and Levay[42] show clearly that in certain circumstances restrictive policies on membership or output can be in the interests of the existing members of the cooperative. In discussing the variety of objectives that might be pursued by an agricultural society, Bateman et al seperate out three interest groups - shareholders, directors, and management - who might have differing degrees of attachment to particular objectives. For instance, the aim of maximizing profits may well appeal to managers but it is not in the interest of the general membership. Other possible objectives with varying implications for those three groups can, from the view point of Bateman et al, are joint profit-maximization (that is allowing for profits made by the members in supplying the cooperative with raw material inputs as well as profits on the processing and marketing side), output maximization, maximization of membership, maximization of patronage refunds per unit of input supplied and so on. A similar type of analysis is applied to farmers' requisite societies, that is societies which purchase farm inputs and other goods for the farmer-members.

A more or less similar account is made of credit cooperatives by Taylor[43]. According to Taylor, a credit society can be conceptualized as a purchasing cooperative from the viewpoint of its borrowing members and as a marketing cooperative from the standpoint of its saving members. The first type of member, if motivated solely by self-interest will seek to fix the society's lending rate as low as possible; the second type will seek the highest possible interest rate on savings, deposited with, and loaned out by the society. There is a clear conflict of interest regarding the pricing policy to be pursued by the society. This point has a much wider significance in relation to other types of cooperative organizations which encompass a membership pursuing possibly conflicting objectives. A major example is the multipurpose agricultural cooperative. This may purchase farm produce from some of its members, process these materials, and then market them to a different category of members. Similarly, in the case of rural development cooperatives, where the membership tends to be rather diverse, problems may arise in relation to the kinds of outputs produced, pricing policies adopted, and the extent of cross subsidization allowed within the firm. In the case of credit unions Taylor suggests that potential conflicts are muted to the extent that members are both savers and borrowers, i.e. the members do not always belong exclusively to one group or another.

The managerial aspects of cooperatives[44] have received considerable attention as a cooperative requires superior managerial ability because of the dual roles of its customers, that of patrons and stockholders. Since most cooperatives are formed as a defensive weapon against deficiencies inherent in the capitalist system, cooperative management is often pressed for quick and decisive results requiring strong leadership and fortitude during many crises.

The committed and enlightened membership of the cooperative elects a board from within its own number which then formulates policy, directs the business and supervises the executive in the best interest of participants. The management carries out the decisions of the board capably but without usurping directoral power and without intruding into the policy-making privileges.

Although cooperative management is important, the role of the manager appointed by many societies, has become increasingly so due to their special knowledge and know-how. The top level managers in societies are generally competent, properly paid and realistic about their problems. At the lower levels, however they generally are not, due commonly to a reluctance in cooperatives to take the managerial role and corresponding training seriously. Further, many cooperatives suffer from poor management and inexpert directoral leadership. Most farmer members can not see any further than the farm gate and directors of cooperatives are in essense production, rather than market-oriented. They remain in office, because they tend to be re-elected unopposed after their original period of office and thus may serve for many years on the board. It is of course possible that farmers as an occupational group may make excellent directors as they have acquired business skills at their farms so that they will know at least something about capital and labour management before taking office in their cooperative. Long tenure may indicate apathy on the part of membership and the absence of other aspirants to the board, but it may equally reflect members' satisfaction with their directorate and a confidence in their ability to run the societies in their interest.

These management problems notwithstanding, most active members of cooperatives see the cooperative merely as a shop and have no knowledge of or commitment to the ideological side; the ordinary member is merely a customer, of whom it might be said that the question of opting out of genuine participation has never arisen. The managerial problems, therefore, are not regarded by the membership as a critical weakness.

The casual attitude of members to their cooperative is not a problem as long as the organization pursues its aims to the satisfaction of members, provided at the same time members feel that they have the right to voice their disgruntlement if necessary. Nevertheless, if membership is passive and its involvement in the affairs of cooperative is weak, the board can relax its vigilance, fail to monitor the needs of members and allow the management to dominate, possibly to the extent of permitting it to pursue ends of its own rather than servicing the needs of its membership. To the extent the membership is passive, real contenders for power will be the management and the board of directors.

The accounting system of cooperatives has received considerable attention, as success most often depends on the ability of cooperative management to maintain proper accounts. The cooperative has a distinguishing feature in this respect as it maintains an accurate record of each patron's purchases and sales; separate departmental accounts are maintained with more than one account; capital which originates from operating proceeds is allocated to member-patrons; member and non-member business is separated; Balance Sheets and operating statements are prepared; and audited financial statements are presented to cooperative membership.[45]

Again, auditing is important. The task of appointing and retaining an auditor generally belongs to the cooperative itself. In many countries however government officials are appointed to perform this function. Two kinds of audits are undertaken (a) A 'qualified' audit, which means that the auditor assumes no responsibility for the accuracy of certain information such as inventories and accounts receivable (b) An 'unqualified' audit, which means that the auditor keeps no reservations on his assessment. 'Unqualified' audit may be preferred for cooperatives, where inventories and accounts receivable form a significant part of current assets.[46]

The structural aspects[47] of cooperatives have received considerable attention from experts given the expansion of the movement into many spheres of economic activity. Earlier pioneers of cooperation assigned importance to the movement having viable organizational and financial structures. In addition, many of the pioneers were aware of the necessity to seek legal status for their societies. Schulze, the Rochdale Pioneers and Raiffeisen set rules and proposed schemes for the founding of organizational and financial structures which not only worked in their time but proved instrumental for the movement in the years to come.

The organizational structure of the movement may vary from one country to another country, but generally there is at the base or operational level of the cooperative movement a primary society. This unit epitomizes the vitality and service potential of the movement. A primary society comprises in its membership individual persons. It can be single or multipurpose society and either large or small. It might be a single unit based on a village, or a complex organization covering a large area, with many branches. The size and complexity is not necessarily related to whether the cooperative is single or multipurpose.

Primary societies in many countries may unite to form a 'Federation'. A federation of primary societies is called as a secondary cooperative. A common example of secondary cooperative to which reference will be made later is the Cooperative District union.

As the primary cooperatives federate to form secondaries, these in turn can federate at the apex level. At the top of the structure there can be an apex cooperative which may include all others in its membership. The size and shape of the pyramid-like structure established can vary from country to country and can be simple or highly complicated. The main advantage in having a federation rests on the premise that functions which cannot be done by the small-scale primary societies or cannot be undertaken sufficiently effectively on a smaller scale, may well be tackled by the Federation, given its larger scale.

Whatever other federal structures of cooperative movement may be set-up, in many countries, there is frequently a National Cooperative union, whose principal responsibility is to represent the movement in dealing with the government and society at large. The union provides a forum for exchange of experience in the field of cooperation through convening conferences and seminars and acts as an unofficial spokesman of the movement. In many countries, the union may take up certain other responsibilities such as education, training and guidance of individual members of societies. It may also take on such functions as audit and arbitration in disputes. Apex unions are usually financed by some kind of levy on the member cooperatives, based either on their own membership or on trade.

The cooperative movement is usually governed either by a country's general legislation, or a specialized cooperative Act may be enforced to regularize the working of societies and to grant them separate legal status. The need for cooperatives to seek legal status was recognised by the earliest pioneers of cooperation. Thus as the 'People's Bank' spread, Schulze successfully sought legal status for his associations. He even set forth ideas on laws for new cooperatives. Raiffeisen also took a keen interest in seeking legal status for his societies and succeeded in his efforts.

In practice, in most countries, a well prepared specialised cooperative legislation has been needed by the cooperative movement in any case. In most regions of Asia and Africa, the basic legal forms for cooperation have been retained from the days of colonial administration. In almost all countries of the world the general features of the legislation pertaining to cooperatives are more or less similar. The cooperative legislation usually covers all types of societies, and deals with some of the following matters: appointment of an administering authority; qualification of members; liability of members; voting rights; limits on shareholdings; procedures for registration; amalgamation or winding up; exemption from taxes, procedure for recovery of dues; audit and inspection; and the responsibilities and powers of the administering authority, including the powers to issue rules for the implementation of legislation.

Apart from the particulars of the general enabling legislation is the question of bylaws (statutues). The more general the legislation, the more details have to be regulated or clarified in the bylaws adopted by the individual societies.

A more important regulation in almost all countries concerns the responsibilities of the authority administering control and supervision of cooperative movement. In many countries the administering authority for the legislation covering all types of cooperatives is the Registrar (sometimes called Commissioner) of cooperatives. In most countries, the Registrar is vested with the powers to require registration, audit and inspection, cancellation of registration etc., as well as the power to require the cooperatives to submit annual statement of accounts. Changes in the bylaws have to be sent to the registering authority and become effective only after registration. Speaking generally the powers of the administering authority, both actual and potential, are considerable in many countries. These may include amongst others 1) the power to register or refuse registration 2) the power to intervene in the management 3) the power to audit accounts 4) the powers to inspect the working of societies 5) the power to decide disputes between societies 6) the power to execute the awards for recovery of dues through attachment and sale, or sale without attachment, of any property of a person or cooperative.

The extent of powers of the Registrar have been a subject of much controversy in many countries. It has been argued that, though there is a necessity for a legal framework empowering the Registrar to control and supervise the movement, nevertheless excessive powers vested in him jeopardize the autonomous character of the movement and empowers the government actually to control the cooperative movement.

In fact the governments of many countries do have considerable control over the cooperative movement, exercised through the Registrar, located in a department of cooperation. The power, role, authority and jurisdiction of the Registrar, as that of the Department, are generally spelled out in the respective laws of the country. There is a considerable body of evidence, however, that the powers granted to the Department/or Registrar has undermined the autonomy of the movement. This is particularly so when the government views the cooperatives as an integral part of governmental policy. Then its intervention in and assistance to the organization become highly significant. Assistance to cooperatives may take various forms: out-right grants or subsidised loans, preferential treatment in the allocation of controlled commodities for distribution, the provision without charge of the services of special government departments, or the use of cooperatives as monopoly outlets for the distribution of official loans or other forms of assistance to farmers.

When cooperatives enjoy substantial government support, their economic performance cannot be assessed so readily. This applies even if the amount of direct and indirect government assistance can be measured, for a most important advantage of a policy of official support is the mere knowledge that the government will not be in a position to refuse help in case of need, even if it might wish to refrain from helping. A policy of large scale government support of cooperatives in general creates for government a contingent liability to continue the support, and to come to the aid of cooperatives which run into financial difficulties. This liability is particularly onerous when government support is directed in favour of particular cooperatives which acquire large numbers of members as a result of this support. A large proportion of the inhabitants of a particular area may become largely dependent upon particular cooperatives, and the ability of the government to stand aloof from its difficulties is impaired.

Generally government control is exercised through the provision of public funds to the movement, and in turn governments demand overriding control. In particular cases, government administration and control of the cooperatives clashes with the principle of democratic control to an extent sufficient to cast doubt on the existence of a genuine and viable cooperative movement.

The necessity for the cooperative movement to be supported by viable financial organizations, cannot be ignored. Earlier pioneers, such as Schulze, took part in the organization of German Cooperative Banks which accepted deposits of 'surplus banks' funds and raised money to lend to cooperatives. A majority of stock in this central bank was owned by Schulze's 'credit societies' and the remainder by private individuals. Similarly Raiffeisen's 'credit unions' enjoyed no strong financial backings, and also suffered from time to time from lack of adequate funds, or occasionally from surplus money. He therefore organized an Agricultural Union Bank, to serve as a central banking institution and to oversee and control local credit unions. Various other regional banks were also established by Raiffeisen.

In many countries cooperative banks at both the apex and secondary levels have been established primarily to cater for the credit needs of the cooperative movement. In some countries cooperative banks have also been established at district levels.

A cooperative bank is effectively a special kind of federation for the financing of the movement. It is owned and controlled, like any other cooperative federation, by the members. Its resources are generally derived from the share capital, deposits from member cooperatives and in turn from their individual members, and frequently by borrowing from the country's central bank or the government. The policies of the cooperative banks vary greatly from country to country. Nevertheless almost all of these banks finance the short and medium term working capital needs of the cooperative, such as the holding of stocks of produce between purchase from the farmers and disposal to the market. Many cooperative banks finance productive loans to farmers, but usually, because this business is risky, only with some kind of government support. Some cooperative banks also go in for long term lending, for a land purchase, building etc. In India, for instance, this business is done by separate cooperative organizations, known as cooperative Land Development Banks.

It may be noted that the cooperative banks have received significant importance in many countries, especially in the context of their role in promoting agricultural cooperative credit movement. Agricultural credit societies in many countries receive loanable funds from the cooperative banks to build a sufficient base of their working capital, and it may be rather difficult for the credit societies to run their business without the provision of funds by the cooperative banks, especially in many developing countries of the world.

We now turn to see the definitional issued of cooperatives in the next section.

2.II.1 Some Definitional Issues

The practical and theoretical interest in cooperation shown by social scientists makes it necessary to try to establish exactly what is meant by "a cooperative". The term is used to refer to such a great variety of organizations that it is likely to cause serious misunderstanding and misconception in the mind of the reader if no definition is attempted.[48]

The conventional approach to the definition of a cooperative is to list the Rochdale Principles and to assert that any organization upholding these principles is a cooperative. This however, is not true under all circumstances as some organizations claiming to be cooperatives do not in fact subscribe to the Rochdale Principles. This poses a problem if it is anticipated that there should be a standard model to which all organizations known as cooperative must conform.[49]

In the search for an ideal definition that satisfies the social scientists, we begin with definitions dating from the evolution of institutional ideology of cooperation.

Fay,[50] one of the earlier scholars, saw a cooperative as

> "... an association for the purposes of joint trading originating among the weak and conducted always in an unselfish spirit, on such terms that all who are prepared to assume the duties of membership may share in its rewards in proportion to the degree in which they make use of their association."[51]

This definition specifies a bond of union over and above the relation of monetary ties. According to Fay the interests of the group of members has more significance than those of the individuals who established it.

Emelianoff[52] and his followers did not subscribe to the viewpoint of Fay. They judged the argument, that the whole could be fundamentally different from the sum of its parts, to be untrue. Accordingly "a cooperative has no more economic life or purpose apart from that of participating economic units than one of the individual plants of a large multiplant firm"[53]. They maintained that a cooperative was a non-acquisitive economic agent, operating at cost, and therefore earning no profit. They further explained that the normal behavioural assumptions governing the firm were not appropriate and consequently, it should not be taxed as a firm. Fay, however, was of the view that there was no possibility of serious divergence of interest in a cooperative for the reason that there was "unselfish spirit" in this organization and the principle of mutuality was so fundamental in cooperation that it was an essential property of a cooperative. The difference of opinion, if and when it arose among the members, would be discussed and overcome at a forum.

Babcock[54] did not compromise with the aforementioned views of Fay and claimed that a "cooperative is a legal practical means by which a group of self-selected, selfish capitalists seek to improve their individual economic position in a competitive society".[55]

The idea of Fay that cooperatives originate amongst the weak was supported by Helmburger,[56] who argued that cooperatives were formed only in conditions of revolt against the prevailing market environment. From this he drew the conclusion that waves of new cooperatives could be expected especially in depressed times followed by waves of cooperative failures.

The definition of Fay was further extended by Lambert[57] who expressed the view that a cooperative is "an enterprise formed and directed by an association of users applying within itself the rules of democracy and directly intended to serve both its own members and community as a whole".[58] It implied that a cooperative was concerned with its members as a whole rather than as individuals, and was intended to benefit society in addition to providing advantages to individual members. Most theorists however do not agree that cooperatives are set-up to benefit society but according to Helmberger[59] and Meade[60] efforts have been made to show that they do so at least in the short run.

Recent attempts to define the cooperative are rooted in the efficacy of the principles of cooperation - hence, according to the definition proposed by the International Labour office

> "A cooperative is an association of persons, who have voluntarily joined together to achieve a common end through the formation of a democratically controlled organization, making equitable contributions to the capital required and accepting a fair share of the risks and benefits of the undertaking in which the members actively participate".[61]

According to this definition a cooperative is established on the initiative of members themselves and not imposed from above. Membership in it is voluntary. The institution is run and controlled by the members themselves and members actively participate in the benefits and risks in the provision of capital; and members combine to seek their economic interests.

To be precise, the fair 'share of risks and benefits' is achieved by the procedures whereby the capital is raised and surplus distributed. Every member is required to contribute a minimum sum in share capital, although in many rural cooperatives, this may be a very small amount. No individual member is allowed to have more than a stated maximum number of shares. Profits or surpluses are usually dealt with as follows: Firstly there is an allocation to reserves, that is to say, the collectively owned capital of the cooperative. Secondly a fixed and limited rate of interest is paid on share capital. Thirdly a return is made to members in proportion to the amount of business they have done with the cooperative.

An analysis of the definitions suggests that the cooperative has, to a greater or lesser extent, been treated as essentially an <u>economic</u> institution by the earlier scholars, as well as by the International Labour organization. Nevertheless this view is a narrow one since one can legitimately speak of a cooperative movement in terms of its distinctive social, political and psychological objectives, outcomes and aspirations. Cooperation is known to appeal to people, not merely as a means of running a business but as an instrument of social amelioration. It is impossible to exclude from consideration its non-economic attributes. A true appreciation of a cooperative therefore may demand an understanding of the movement as a whole, its history, its philosophy, its successes and its failures.

In practice, characteristics and common features of a cooperative determine both the basic economic and social behaviours and effects of the organization wherever cooperation exists.

From the economic standpoint, cooperatives are engaged in securing for their members services of various kinds at cost, that is without seeking profits on the capital or labour or enterprise used in providing these services. Cooperatives are not themselves acquisitive economic units, but aggregates of small or large sections of individual economic units of production or consumption, each of which, in greater or lesser degree retains its separateness and individuality. The aggregates or agencies are owned and controlled by the separate units and are essentially branches or parts. Where the interests of the separate units are sufficiently similar and the benefits of the aggregages are recognised as sufficiently large, they maintain these aggregates. Otherwise disruptive forces may be too strong.[62] It is for this reason that it is necessary to choose the purposes of cooperative societies carefully, and to have members whose interests in these purposes are closely similar and who understand enough of how these purposes may in practice be achieved. These matters determine the degree of cohesion of members within their cooperative and also the effectiveness of the cooperative in serving them. They also determine relations among the membership and efficiency in business affairs.

From a social and political standpoint, the most important feature of a cooperative is that therein persons voluntarily associate themelves as human beings on the basis of equality, for the promotion of their economic interests. Thus in a cooperative 'Equality' governs the relations between members, and democracy is assured. The moral and social objects are reflected in the undertaking itself and also in the tradition of allotting part of the 'profits' to education and community schemes. Individual and personal integrity and skills are not submerged ... capital is a hired but contented servant ... and true cooperatives are part of a free movement, neither class-bound nor state-bound.[63] Emphasis is laid on the rights and obligations of each member as an individual to his cooperative and not on the size of his stake of capital in it. The concepts of mutuality and of ethical dealings are kept in mind.

The definition given by the International Labour organization is generally regarded as a starting point and in many cases, its attributes are embodied in the form of legal definitions. The legal definitions however vary from one situation to another and from one country to another. This is because the legal and institutional conditions vary considerably around the world. For instance in the United Kingdom and in all developing countries influenced by English legal concepts, cooperatives have generally been organized in accordance with the cooperative Model Law.[64] In this approach the fundamental legal basis is of a more general nature, while particular provisions, differing in detail, and often varying from country to country, are the province of by-laws. The essential ingredient is the registration of the cooperative as a "society" often referred to as the British-Indian pattern, which has been followed by new laws in some countries. For instance, Pakistan's Cooperative Societies Act[65] suggests that a cooperative is a society which has as its objects the promotion of the economic interests of the members in accordance with cooperative principles.

For the question of operational performance, the definition given in an institutional or legal form may not suffice and the term cooperative might have to be considered as a socio-economic category, rather than purely as a legal one. This may be so when the cooperative is viewed as just one of the organizational responses to the demands for the "development and widespread use of increasingly productive technologies" and where the cooperative functions as one of the new intermediary bodies through which government and farmers interact.

In view of the diversity of cooperative phenomena on the one hand and the inadequacy of a purely legal definition on the other hand, a working definition of cooperative from the socio-economic viewpoint is desirable, because the assessment of a cooperative's performance, cannot be proved unless one clearly understands what a cooperative stands for, and what it is trying to achieve.

Given the assumption that a cooperative is a means to some end, it follows that adaptation of its organizational structure to the given socio-economic conditions will be a necessary feature. It is therefore not really important to know whether a particular cooperative form corresponds to some classical conception; it is relevant, however, to know whether this form is really appropriate for pursuing the aims of the actual cooperative groups concerned, in relation to the constraints imposed by their surroundings.

In view of above it becomes rather important that a cooperative be considered as an institutional form with distinguishing characteristics and functions that must be examined in detail.

Four characteristics of a cooperative, starting with a quite general feature and proceeding to more particular ones, may be considered[66]..

1. The first characteristic of the cooperative is the grouping of individuals who are united by at least one common interest which may be common economic welfare. The cooperative group, thus considered has much in common with other social groups. However this characteristic already presumes certain pre-requisites regarding the individual background of members and their possibilities for action.

2. A second characteristic of cooperative is collective action by the member group for pursuing certain group aims and targets, which can be religious, humanitarian, idealistic or geared to social reform and so on. Such group self-help has many points in common with other organizations, but cooperatives pursue these targets, whatever they may be, through the economic betterment of their members. This second characteristic therefore sets the cooperative apart from religious sects and sport or social clubs for which engagement in economic activities is incidental.

3. The third characteristic is the attempted establishment of a permanent business organization set up and maintained by the members of the cooperative group as a functionally operational instrument, which

is allowed to conduct its affairs like other permanent economic units offering commercial and banking services, or producing agricultural handicrafts, or industrial products. This common business organization is called a cooperative enterprise (without its special relationship to the member economies).

4. The fourth characteristic is the special service relationship between the cooperative enterprise and the member economies (businesses or households). This relationship is also encapsulated in the expression that the cooperative is entrusted with the task of promoting the welfare (in a broad sense) of its members. This special relationship distinguishes a cooperative from other business institutions. Accordingly a cooperative enterprise may not act independently of its members but its activities will be determined by economic needs of the member economies. The result is a greater organizational complex consisting of member economies and the cooperative enterprise.

The principles of cooperation and their critical analysis is dealt with in the next section.

2.II.2 <u>Principles of Cooperation and their critical analysis</u>

Cooperatives have traditionally followed certain rules of organization and operation. They have come to be referred to as the Rochdale Principles, named after the Rochdale Pioneers, a group of 28 weavers who established the first cooperative in Rochdale, England in 1844. These principles[67] are

1. Open membership
2. Democratic control (one man, one vote)

3. Cash Trading
4. Membership education
5. Political and religious neutrality
6. No unusual risk assumption
7. Limited interest on stock
8. Goods sold at regular sale price
9. Limitation on number of shares owned
10. Net margins distributed according to patronage

These principles reflect the egalitarian nature of the social and economic goals of cooperation. In the earlier years of the development of the movement, efforts aimed at establishing cooperatives were generally made in the context of these fundamental rules.

The International Cooperative Alliance (ICA), an international non-governmental organization dedicated to the propagation and promotion of cooperation, has taken on the responsibility of periodically defining the substance of the principles. In 1966 a commission charged with examining the present application of principles presented a resolution to the 23rd Congress of ICA in Vienna redefining the principles that were "considered as essential to genuine and effective cooperative practice both at the present time and the future as far as that can be foreseen".[68] This commission used the findings of a similar ICA investigation reported to congress in Paris in 1937 as a starting reference.

The 23rd Congress accepted the commission's recommendations, declaring their definition of the principles of cooperatives to be:

1. Membership of a cooperative should be voluntary and available

without artificial restriction or any social or religious discrimination, to all persons who can make use of its services and are willing to accept the responsibilities of membership.

2. Cooperative societies are democratic organizations. Their affairs should be administered by persons elected or appointed in a manner agreed by the members and accountable to them. Members of primary societies should enjoy equal rights of voting (one member one vote) and participate in decisions affecting their societies. In other than primary societies the administration should be conducted on a democratic basis in suitable form.

3. Share capital should receive only strictly limited rate of interest if any.

4. Surplus or savings, if any, arising out of the operations of the society belong to the members of that society and should be distributed in such a manner as would avoid one member gaining at the expense of others. This may be done by decision of the members as follows:

a) by provision of development of the business of the cooperatives;

b) by provision of common service; or

c) by distribution among the members in proportion to their transactions with the society.

5. All cooperative societies should make provision for the education of members, officers and employees, and the general public in the principles and techniques of cooperation, both economic and democratic.

6. All cooperative organizations, in order to best service the interests of their members and their communities, should actively

cooperate in every practical way with other cooperatives at local, national and international levels.

These six principles are given no ranking. They are all assumed to be of equal priority and their application "must be equally observed to the full extent and in a manner that circumstances permit at any time and place".[69]

The first ICA principle accepts the Rochdale Pioneers' idea of open membership. The essential feature is to admit any one (male or female of any political persuasion or opinion) who would abide by this rule. There are however certain exceptions to this rule. As the Rochdale Pioneers themselves recognised, a maximum limit might have to be set on membership; for instance if a cooperative owns a plant with limited capacity it may be completely impracticable in the short run to accept more than a specified number of members. Indeed, many economic output determination models refer to the possibility of restricting membership in order to achieve some maximand. This will be inconsistent with the principle of open membership.[70]

The plausible reason for the popularity of open membership is that many retail cooperatives aim to expand business volume rapidly and have chosen not to screen their member applications closely.

The requirement for democratic control is stated in the second principle of ICA. Departures from the 'one man one vote' principle have been quite common. In fact, there is a strong plea for voting to be based on the proportion of cooperatives' business transacted for the individual member.[71]

Emelianoff[72] has made a thorough analysis of the one man, one vote principle. He argued:

> "Cooperators vote equally in their associations because they are for all practical purposes, economically equal, not because they strive for economic equality. There cannot be a more striking and persuasive illustration of this fact than the very case of the Rochdale Pioneers themselves, who were perfectly equal in their poverty".[73]

In practice the one man, one vote principle may work against large patrons. However, laws in many countries stipulate voting only on the basis of one man, one vote principle. It might require a long time before changes are made in such laws.

The Principle of paying 'limited interest on share capital' is justified on the grounds that a cooperative is organized to serve its patrons, (those who use the services) not investors; and if patrons are simultaneously investors they may not mind a limit being set on the interest paid on capital. Although the principle is open to debate, it might be legitimate to suggest that the members should receive at least the opportunity cost of their capital.[74]

Distribution of surplus arising from cooperative operations in accord with Principle 4 can be judged as a secure rule for the viability of a cooperative. However, maximizing 'Divi' in accord with principle 4-c - which may be expressed in terms of return per unit of labour or throughput depending on whether the firm is a labour cooperative or a marketing cooperative - has been proposed as a possible objective of cooperative by several economists. This can be a sensible maximand from the viewpoint of cooperative management, but for the members it is the combination of both 'Divi' and 'price' which is more relevant. The precise formulation of the principle will therefore be different for different cooperatives.[75]

Principle 5 emphasises the need for disseminating ideals and aspirations of cooperation among the public, members, officers and the employees. The importance ascribed to education is a recognition by ICA of the limited understanding and popular misconceptions still held by many persons as to the nature and operation of cooperatives. Nevertheless, despite necessary responsibility of the cooperatives to educate people in the ideas and practice of cooperation, it may be argued, that this responsibility is not being duly accepted by the movement in many cases.

The justification for concerted cooperative action at local, national and international levels expressed in the form of principle 6, is based on a belief that the cooperative movement must command an increasing scale of enterprise if it is to survive and compete with international capitalism characterised by huge transnational companies.

Some divergence may possibly be expected from the set of principles that represent an ideal form of cooperative organization. It is believed that the causes of this shortfall from some ideal of conduct of a cooperative is primarily the result of the individual cooperative's officials' and members' interests in safeguarding their economic and other benefits from the organization. The restriction of membership, for example, can confer both economic and psychic advantages on the existing members within a closed cooperative. Similarly cooperatives can have considerable reservations as to the commercial advantage to the membership of undertaking intercooperative cooperation. The existence of popular democratic participation by the members can also threaten the position of cooperative management used to seeing their position as a long term tenure. The principles of cooperation are utopian to the extent that they presume a level of selfless action by the participants in the movement, a presumption that is frequently confounded by the different parties in the organization anxious to secure private advantages.

It may be noted that as cooperatives deviate from their ideal form and aspirations they become more like capitalist organizations. The longevity of the composition of management; the limited application of democracy; the selection of more desirable members are some of the characteristics that can make a cooperative indistinguishable from any capitalist firm in the operational sense. However a full transition to capitalist practice is impeded by the continued observance of two fundamental cooperative requirements. Firstly the cooperatives may not pay interest on their share capital above a limit set by the Registrar or appropriate authority. Secondly the profit (or surplus) of the cooperative may only be distributed to members in direct proportion to their patronage of the cooperative. The fulfilment of both these stipulations prevents a cooperative acting as a capitalist firm, irrespective of the similarity of their character in other respects.

The limited observance[76] of the principles in practice prompts an important question. If an organization does not conform to the tenets of cooperation, can it continue to be regarded as a cooperative? The ICA report suggests that all of the principles have equal priority. But how many principles does a cooperative need to uphold to retain its status as a cooperative? In that virtually all cooperatives diverge from one or more principles, are they all non-cooperatives? Lambert[77] argued that democracy and prohibition of surplus distributed in proportion to capital remain the seminal principles of cooperatives.

Yet he offers no guide as to how either of these principles, particularly democracy, may be evaluated. This question of appraisal is a crucial problem for the cooperative's participants and observers alike. It is considerably easier to say what a cooperative is not rather than what it is.

The question of what is a cooperative is not merely of theoretical interest. Many cooperatives in the developing world are the recipients of a number of peculiar grants and other advantages from the government. If the cooperative movement does not conform to the distinguishing characteristics of the organizational type, should it continue to benefit from this preferential treatment? This thus introduces the question as to why governments, particularly in developing countries, support the cooperative movement.

Despite a lack of analytical clarity, cooperation continues to be an important organizational form because of its ability to act primarily in the interests of its members as users (This does not obviate its usefulness to government as a vehicle for state policies). The dominance of users' interests over those of the owners of capital remains the most profound difference between a cooperative and a capitalist company. While a cooperative may deviate from strict adherence to some list of principles, it remains an organization ultimately in the control of its customers.

2.III <u>Effectiveness of Cooperatives as an Instrument of Development</u>

Governments in many developing countries consider cooperatives to be an effective instrument of social and economic development, and frequently use them in dealing with the political and economic situation of the rural sector. The advocacy of cooperatives is usually founded on a large element of faith in the efficacy of this device. This is not surprising: there are, as we shall see, cogent reasons for promoting cooperatives. The fundamental belief however rests on the assumption that in addition to benefitting the private interests of their individual members, cooperatives can also serve as a vehicle to reach certain purely public objectives, thereby promoting the process of overall economic development.

Nevertheless the problems faced by developing countries are quite complex in nature and may require a variety of economic tools in addition to cooperatives to achieve economic development. For instance, such problems as over-population, illiteracy, low standards of living, lower levels of productivity, rising levels of unemployment and under-employment, the need for land reforms, lack or high cost of credit, lack of transportation or communication, lack of managerial talent and government administration are some of the problems that are deep rooted and require more than cooperatives alone for their solution.

2.III.1 Government Choice of Cooperatives as a Policy instrument

Cooperatives serve as an important instrument of development policy in developing countries throughout the world.[78] This form of organization is used by the government to serve many of its social, political and economic purposes. Two particular types of public purposes may however be often noted: on the one hand, a nationalistic and highly political purpose; and on the other hand a concern with the uplift of the under-privileged sectors or areas - a purpose which is as much political as economic. The two are often intertwined. However it is a mistake to ignore political purposes, or treat them as a mere intrusion into the cooperative movement. Being an economic institution, cooperatives cannot be brought into existence and flourish without some kind of political support or facilitation.

The nationalist purpose may be described as "nation building" that is, an effort toward mobilization of national strength by government leaders, 'modernization' of a backward society and a vehicle for political leaders to reach rural inhabitants. These are important needs felt by governments. Cooperatives have been started in many places to serve such political purposes and their use as a vehicle of agricultural development is consistent with some political aims. Economic development is thought to be enhanced but it is not a central objective in many cases.

The cooperatives are, more or less promoted for purely political purposes in addition to serving certain economic aims by many governments. The political objectives of national unity and the consolidation of political power in the countryside is achieved but a more reformist kind of political motive (i.e. the uplift of backwards group) is also involved. Here the purpose of the government for cooperatives is closer to the western self-help idea, and also closer to but not identical with what the economist would hope to accomplish. Cooperatives formed for this purpose are often granted special privileges to enable their under-privileged membership to compete on favourable terms in the market: low interest loans, with rules to bring about allocation to favoured groups; monopolistic rights to supply inputs at low prices and to market members' produce; special cooperative banks and supply organizations having monopolistic rights etc.

Would the interest of the under-privileged groups be served through cooperatives? In political terms this may be possible. Through associating with cooperatives, the under-privileged groups may acquire a voice and a claim to attention, that otherwise would be lacking. But frequently the potency of cooperatives of poor farmers to assert group interests will be limited due to the strength of political-cum-landholding/commercial groups on the outside (or indeed inside the membership) and inability of cooperative officials to stand up to them when the government is indifferent to their needs.

We now turn to the use of public funds for the promotion of essentially privately run cooperatives. The problem is that cooperatives, whether in western or in developing countries, are traditionally supposed to advance the interests of their member groups. In such terms the cooperatives' purpose is to do what their members most want to do, whether or not this coincides with what governments may wish to see happen. Nevertheless public standards need to be applied in the allocation of public funds, and in the cooperatives' promotion as an instrument of development policy, there is always an equal chance of "success" or "failures".

2.III.2 Potential Benefits to the Government from Cooperation

As stated earlier in many developing countries government attitudes and policies typically overshadow autonomous motivations.

Where government chooses to encourage cooperation, its policy measures tend to become the dominant element pointing farmers towards cooperation. Elements of national political leadership may be drawn to cooperation by their attachment to the principles of cooperative ideology, usually as a part of a more broadly socialist commitment. However more practically and more demonstrably, national political leadership is drawn to cooperation as a half-way house between direct state involvement in economic activities and state intervention limited merely to the regulation of private enterprise.[79]

Cooperation is chosen when, on the one hand, the institutionalized privileges of private property set unacceptably confining limits to regulatory activity, and on the other hand, direct state operations entail too great a strain upon available resources and too great a risk of failure. Part of the burden of resource mobilization and responsibility for failure of an economic programme may be shifted from the state to the cooperatives. Nevertheless, as a distinctive institutional form, dependent upon government backing, cooperatives are both legally and practically susceptible to a far higher degree to government regulation and intervention than other purely private undertakings.

The potential benefits to the government from cooperation as a vehicle for securing certain objectives can in fact be numerous. First, in many developing countries, cooperatives, as an ideal mechanism for state intervention, can transfer agricultural operations of a multitude of individual small farmers to the framework of a formal body registered and recorded in government files and operating within the context of government laws and regulations. Thus cooperation transforms innumerable, anonymous, informal and unrecorded activities and transactions into clusters of relatively parallel and uniform behaviours and exchanges channelled through the cooperative and recorded by it. Second, in many instances the government inherits from its predecessors a large cooperative network and a government agency skilled in dealing with this cooperative network and also skilled in dealing with cooperatives. Other things being equal, this thus encourages the government to favour cooperation. This factor has been of great importance in shaping government policy in a number of Asian and African states where the colonial power had already built strong cooperative structures.[80]

The advantages of cooperation as a medium for governmental attempts to achieve improvements in farm productivity lie quite simply in the ability of group work methods to multiply the impact of restricted number of governmental field staff. Through contact with the cooperative, government efforts to promote innovation will reach a greater number of farmers than will individual farmer contact. Political leaders, in many developing countries may also use farmer resentment as a source of backing for their regimes. They find the cooperative an attractive means of transferring economic control to local hands. Through cooperative membership large numbers of citizens become directly and personally involved as beneficiaries of government localization programmes within organizational frameworks which maintain close continuing relations with supervising government agencies.[8]

The governments with socialist preferences may be drawn to the cooperative concept by its potential contribution to equality. The cooperative can serve as a means of achieving an egalitarian distribution of trade and processing profits in programmes designed to eliminate commercial middlemen and place farmers in control of such activities.[82]

And finally, given its democratic membership structure, cooperation is seen as achieving egalitarian goals through means which involve the mass of farmers in national development efforts and promote civic virtues within the state.

Although government is enabled to derive certain benefits from using cooperatives as an instrument of government policy, the question of cooperative autonomy versus government control remains tedious and unresolved in most developing countries. In this regard, it may be asserted that government policy determines certain basic parameters which constitute centrally important elements in the operational environment of cooperative organizations. However, detailed direction of the operations of local-level societies is typically beyond the means of national political leaders and the administrative bodies nominally responsible for the enforcement of cooperative policy. Intensive intervention is therefore generally limited to the local level, only to deal with crisis situations. Nevertheless, secondary and/or tertiary cooperative organizations, by virtue of their smaller number and greater economic power, attract more attention from governments. Government's inclination to restrict cooperative autonomy and to exercise more direct and detailed control wil be a function of two main factors; cooperative's ability to fulfil their government-given economic responsibilities, and the political acceptability of cooperative leadership.[83]

2.III.3 Role of Cooperatives in Development

The role performed by cooperatives in promoting economic development would vary and depend largely upon the particular socio-political and economic conditions in a given country. Nevertheless from the viewpoint of the government as well as of the reformists cooperatives may be expected to undertake functions which facilitate the processes of 1) Land reform, whereby natural resources are allocated productively to those who will use them; 2) Credit reform, whereby needed funds are made available on productive terms to users; 3) technical assistance, whereby technology and its productive application is made known and utilized; 4) economic infrastructure, whereby needed transportation, storage and marketing facilities are made available; 5) resource development, whereby reclamation, irrigation, drainage and conservation projects are achieved on a feasible basis and 6) full employment, whereby jobs are created in the development of both infrastructure and resources.

The revelance of some of the objectives as outlined above to a policy designed to achieve development through cooperatives is assessed below.[84]

a) Agriculture and Employment

In many developing countries, agriculture is frequently the largest sector of economy and it is therefore obvious that economic growth in these countries must depend on the expansion of agricultural output. At the same time because of rapid growth in population it is necessary to keep as many people on the land as possible. Agricultural development policy must therefore be connected with overall improvement in the socio-economic environment surrounding small farmers. Generally these farmers are under-capitalized. Even if they understand the importance of improved farm inputs, they do not have sufficient capital to buy them. Some institutional device is required through which capital funds and other improved farm inputs (seed, fertilizer, technical know-how, improved farm machinery etc.) are provided to facilitate the agricultural production process, thereby increasing productivity and farm incomes. The cooperative, if properly run, is arguably one of the most efficient and least expensive of the possible systems of providing agricultural credit. At the same time cooperatives can supply inputs and market farm produce. The cooperatives can serve as an organization for agricultural education and extension. It will grant loans for and carry stocks of fertilizers and other inputs which are recommended by agriculture departments. It will encourage the most advantageous crops, and ensure their proper preparation for market. Agricultural cooperatives therefore, whether they are multipurpose or single purpose potentially provide valuable machinery for agricultural development. Joint farming cooperatives and fully integrated cooperatives are likely to be sponsored by government with the objective of modernizing agriculture and expanding production, while retaining population in rural areas.

b) Land Reform

Land reform may be undertaken for economic reasons, that is, to expand production, or for social and political reasons, or a combination of the two. Cooperatives are almost always involved in one way or another. In most land reform laws, membership of a cooperative is a condition of being a beneficiary. The reason for this is that the old landlord did provide services, such as credit and marketing, which have to be carried on after he has been displaced. Or if the land reform has broken up very large estates, the small farmers who have received the land must be able to provide the services which the large estate was able to provide on its own. The gap can be filled by a multi-purpose credit, supply and marketing cooperatives. Land reform can also lead to joint or cooperative farming of the former estates. In fact, the successful examples of these are in relation to land reform, since the peasants were not, formerly, their own masters, individualism is not so strong anyway.

In Land Settlement Schemes, cooperatives have much the same role as with land reform. Again it is common to make membership of a cooperative a condition of becoming a settler.

(c) Development Projects

Comprehensive development projects are becoming more and more common. Many of them are financed by international agencies. A typical development project provides a comprehensive package including roads and communications, agricultural extension, credit, supply and marketing services. Sometimes all the services and control procedures are provided by the project. Inputs are supplied direct, on loan, from the project to the farmer. The project markets the crop and pays the balance to the farmer. Increasingly, however, it has come to be realised that this is an expensive way of doing things. Cooperatives are therefore being introduced in these projects in varying degrees and at varying times. In some cases the cooperatives emerge from farmers' committees to handle loans and to undertake the primary stages of marketing, while in others cooperatives are rooted in from the very beginning to undertake specified functions.

Finally, as a tool of development, cooperatives can be established to promote savings of peasant farmers and wage earners. They can be equally good in promoting small scale industries and handicrafts, thereby contributing to solution of the problem of employment or under-employment in rural areas. They will also promote social development, because as can be seen from their history as well as from their nature, cooperatives have a social as well as an economic purpose.

2.III.4 Some Potential Benefits and Weaknesses of Farmers Cooperatives

The argument in favour of cooperatives asserts their potential for helping the small farmers to overcome most of his economic weaknesses. The typical farmer suffers a number of disadvantages compared with large farmers. He lacks financial reserves and his income is too low to facilitate innovation. The small scale of his operation makes him a poor credit risk and raises the overhead administrative costs of providing him with credit; thus it is difficult for him to obtain loans for innovation at reasonable rates of interest. Moreover lack of land makes certain innovating investments unprofitable, even if funds could be obtained. A greater part of his energy and labour resources must be devoted to assuring the family food supply. Also, the small scale of his production means that on purely economic grounds, the typical farmer cannot expect to receive the same consideration which the larger-scale producer receives in the market, whether as buyer of production inputs (discounts for bulk purchase; priority in allocation of scarce commodities) or as as sellers of produce (advance purchase contracts at guaranteed prices; buyer participation in provision of transport).

The small farmer also lacks social or political resources to counterbalance his economic standing in relation with the field representatives of business and government. Nor does the mass of small farmers possess organized political power which could be mobilized to demand national agricultural policies aimed at removing the small farmers' disabilities.[85]

Organization offers a possible means of overcoming the difficulties faced by the small farmers through the pooling of economic, technical, social, and political resources. The claimed theoretical economic and technical advantages of cooperation are several[86] and hypothetically open the way to both improved efficiency and equality.

The prospect of building up some form of 'countervailing power' is an attractive one to farmers since they tend both to buy from, and to sell to, highly concentrated buyers. A source of inspiration may be found in Galbraith: ' American Capitalism'.

> "The necessary instrument of organization was also available to the farmer in the form of a cooperative. The membership of the cooperative could include any number of farmers and it could be democratically controlled. All in all, the cooperative seemed an ideal device for exercising countervailing power".[87]

The claimed advantages from cooperation to the farmers are often related to the sphere of marketing, credit, purchase of inputs, and production. In addition the cooperative is seen as an effective instrument of borrowing. As such, cooperative is viewed a

> "democratic organization, not too blatantly profit oriented and therefore non-exploitative, a mechanism of self-help, a means of maintaining the family farm while at the same time attaining economies of scale".[88]

The claimed advantages of a cooperative would only be realised if (a) its real costs are lower than that of alternative firms, individuals or corporate entities; (b) it can by negotiation or otherwise reduce the monopoly profits of alternative firms; (c) it can secure greater realisation of the services or (d) it can ensure most effective use of services.[89]

The appeal of cooperatives has been greatest in the potential for removal of perceived exploitation in the marketing of agricultural produce.[90] Collusive tendencies and price fixing are often rampant in traditional rural markets as there are only a few intermediaries at each level of marketing. Marketing costs are also believed to be high as there usually is a long chain of intermediaries from the producer to the consumers. Small farmers are seen to be the greatest victims of marketing inefficiencies because of their meagre marketed surpluses and poor bargaining power.

The introduction of marketing cooperatives is considered an effective way of reducing marketing margins and improving the prices received and paid by the farmers. Pooling of sales makes it possible for the farmer to achieve a number of commercial gains: for example the achievement of bulk profit in the sale of produce on the one hand, and ability to submit tenders in competition for special supply contracts on the other. A guaranteed cooperative marketing channel is also seen as an effective way of facilitating an increase in the production for market.

However, there is another side to the argument. Marketing societies have serious disadvantages as compared with private traders: lack of knowledge and experience; lack of time to maintain close contact with changing market conditions and to control management; insufficient realisation of the need for skilled staff and difficulties in securing honest initiative; shortage of capital to meet the risks of wide price fluctuations. Serious difficulties are also encountered in trying to overcome the habits of many poor producers in using credit from middle-men prior to harvesting their crops and thus expecting immediate returns for their produce.

When a marketing cooperative tries to supplant the middle-man trader, it may find that members are at first reluctant to await the distribution of surplus till all the sales are concluded. Since the basic prices at which goods are purchased from members are lower than the market price, members who are more concerned with immediate profit are apt to feel that they are not being benefitted. In consequence, they may succumb to the blandishments of the trader who offers a slightly higher price for their produce and is prepared to take both the good and bad quality stock, whereas a society must endeavour to maintain the standards of its produce.

On the other hand, if cooperatives are encouraged to operate side by side with traditional traders, they can play an important role in increasing competition, provided (a) the size of the market is sufficiently large (b) cooperatives are operated efficiently and they at least offer a service comparable with what is offered by the trader.

The Farmers' requisite societies[91] may offer substantial reduction in the prices charged to farmers for the goods and services such as chemical fertilizers, pesticides, improved tools etc. by overcoming the causes of these higher prices. These societies can achieve a commercial gain: for example the achievement of bulk buying discounts in the purchase of supplies. Thus in an attempt to overcome various causes of higher prices, these societies have substantial economic advantages over private traders or other statutory monopolies. By centralizing the demands of their members, societies can avoid some of the costs due to the scatter of individual farms and irregularity and small size of purchases by individual members. This concentration can be achieved at comparatively low cost: some at least of the administrative overhead costs of private traders can be avoided by the voluntary labour of cooperative members, and by their interest in and loyalty to their organization. The societies may also secure for their members goods and services of appropriate quality and of course, correctly weighed and measured. And in many circumstances, concentration of demands can counter the monopoly powers of private traders, or serve to keep statutory monopolies more efficient. Another advantage which cooperatives have as against private traders arises from the attitude of the governments during periods of scarcity. Indeed governments in many developing countries frequently rely on cooperatives to ensure a fair distribution of scarce goods and services.

The private merchant, on the other hand, may have substantial comparative economic advantages over cooperatives. He may be better trained in business management, particularly in the timing of his purchases and the changes in his stock of goods. He can more readily alter the area of his operations and the types and qualities of goods in which he deals. His opportunities to be flexible in the control of credit and outstanding debts may be greater. Given a better capital base for a period he can operate at a loss and thereby out-compete a new society during its most critical initial operations. These economic advantages are not however always sufficient. Even allowing for his greater skill in business management and greater flexibility, the private merchant's real costs in distribution may sometimes be considerably higher than those of cooperatives, able more readily to concentrate the demands of individual farms. Where there is not full competition between merchants, it is not in the general economic and social interest to counter or eliminate their monopoly power.

The potential advantages of cooperative credit associations[92] include amongst others the provision of low-cost consumer or agricultural loans or relatively high rates of return on small savings. These societies can protect the weak and save them from the usurers. The principal advantage of credit societies is that they help farmers to overcome the financial barrier to innovation, through the pooling of funds for mutual lending, and by serving as an intermediary between the small farmer and government agencies or banks. The cooperative makes lending to small farmers possible by taking upon itself the effort and expense of administering many small loans and through its commitment of institutional income and assets to the repayment of the sum borrowed.

The weaknesses of credit societies, on the other hand, are that they generally cannot raise sufficient funds in the form of members saving deposits and/or members loans to dispense credit sufficient for the needs of its poorer members. Since small investments of its members do not provide enough capital to meet all the demands for loans, credit societies most often borrow money on the basis of "unlimited liability", which (as already pointed out) means that all members are equally responsible for the entire debts of the association. The principal problem with 'joint liability' is that a few members, may secure short term gains in the expectation that in the long run they will exit, leaving those who stay to carry the remaining debt. Further, since credit societies generally borrow from the banks and other external sources, banks and other lenders view the society as their agent and may expect it to protect their interest (e.g. by limiting credit to failing members; but the associations are guided by their own interests which are not always identical to those of the lenders). Similarly officers in societies may be tempted to expand operations and to assume risks which prudent members would avoid.

Farmers in many countries often sell their output or buy inputs in markets in which both the price and non-price terms of sale are virtually dictated to them. Nonetheless most growers are not fully aware of an imbalance of market power due to a complex of factors. The recourse to cooperatives can provide a means to these farmers to counter-balance the power of their opponents.

Farmers Bargaining Associations[93] have the potential advantage in improving terms of trade for growers, preventing buyers from adopting procurement practices which are against farmers interests, improving efficiency in production, negotiating contracts etc. Nevertheless the role of bargaining association in counter-balancing the power of its opponents is not as dramatic and strong as often advocated. Effective collective bargaining would depend on there being a close homogeneity of interest among farmer-growers, sharing common production and marketing problems. Further, such bargaining power is greater where the marketing channel is relatively simple and contractual relationships exist, and where buyers are all engaged in performing similar functions so that they, too, share common interests. In short, for effective bargaining to occur the institutional environment must be appropriate.

Many advantages are claimed for groups of various kinds that directly engage in farming. From an economic standpoint, they reduce essentially to those of large scale economies in farming operation. These advantages may be secured on communal farms. They may be considered in relation to collective farms. And the advantages may also be realised on group farms.[94]

Production cooperatives, on the other hand, are frequently associated with allocation of land to landless through reclamation or settlement schemes or involving appropriations from large land-owners in the course of a land reform, frequently to maximize the use of existing physical infrastructure that is geared to large scale farming.

Although most of the advantages that are frequently ascribed to the production cooperatives are, from an economic standpoint, essentially those of large scale operation, ideological concerns for equity and grassroot participation have also led to the promotion of production cooperatives. Levay has argued that

> "They are often envisaged as a method of obtaining scale economies, as an alternative, perhaps, to farm amalgamation, or of permitting more leisure for the

> farmer and his wife, or as a means of introducing innovations. They sometimes seem a convenient way of capitalizing agriculture since by cooperating farmers have access to certain special channels of grant aid. Sometimes more is hoped of the production cooperative. It may be viewed as a mechanism by which rural social ties can be created or improved, and the drift from the land can be stemmed, so keeping local communities in being, with their traditional customs, mores and, often, language"[95].

A number of pragmatic considerations that explain the attraction of production cooperatives to policy makers in many developing countries include savings arising from the delivery of services to groups rather than to individual farm families, more rapid dissemination of new agricultural technologies through group interaction, exploitation of economies in the use of "lumpy" or indivisible technology such as irrigation facilities or farm mechanization, more effective use of under-employed labour, increased production and greater social control over marketed output.

Nevertheless various advantages may or may not outweigh the disadvantages which large scale operation may have in comparison with activities on a small scale. A loss of close personal attention, particularly to intensive crops, and a loss of incentives to individuals and families to work diligently and save carefully are recognized as liable to result from group farming. Further many small farm families may fear a loss of freedom of economic activity and of security if they in any way pool their individual rights. Even some of the objectives of policy makers to promote the case for production cooperatives may not be satisfactorily achieved. For instance, mechanization frequently leads to increased labour use on private holdings, but on group farms it can often be labour-displacing because of poorer management and less intensive resource use. Participation in decision-making may also not be always consistent with the use of lumpy technology as mechanised or irrigated farming may often be centralized in management. Further differential ownership of assets of individuals can create management problems and problems relating to broadening participation in decision-making as the members who own most of the capital usually attempt to acquire political control, whereas those who mainly contribute labour can be reduced to the role of no more than paid labourers. Even the degree of government assistance can affect efficiency of resource use, choice of technology and effectiveness of management. Group farms may often tend to over-capitalize both in comparison with similar privately owned farms and from the view point of efficient resources.

In the light of the above discussion it may be pertinent to seek some inference in respect of cooperative performance from Galbraith who asserts that

> "As a device for getting economies of larger-scale operations in the handling of farm products or for providing and capitalizing such facilities as elevators, grain terminals, warehouses and creameries, cooperatives have enjoyed a considerable measure of success. For exercising market power they have fatal structural weaknesses. The cooperative is a loose association of individuals. It rarely includes all producers of a product. It cannot control the production of its members and, in practice, it has less than absolute control over their decision to sell. All these powers over its own production are possessed, as a matter of course, by the corporation. A strong bargaining position requires ability to wait-to hold some or all of the product. The cooperative cannot make the non-members wait; they are at liberty to sell when they please and unlike the members, they have the advantage of selling all they please. In practice, the cooperative cannot fully control even its own members. They are under the constant temptation to

> break away and sell their full production. This they do, in effect, at the expense of those who stand by the cooperative."[96]

The cooperatives, be they marketing cooperatives, requisite societies or production cooperatives, will only succeed when they offer considerable benefits to their members in terms of improved farm incomes. This role, according to Levay, has not been successfully undertaken by many types of cooperatives.

> "Cooperatives have so often been advocated as a means of raising farm incomes, and yet it is hard to come by any evidence as to the extent to which they perform this role. Such data as are available seem to indicate that neither very large nor very small farmers tend to join cooperatives, except in the case of requisite societies in which the membership may be extremely heterogeneous. If this is true, then policies aiming to improve the income generated from small (though just viable) farms by grant aiding cooperatives are not likely to benefit farmers in that particular category. Price differentials on farm inputs and outputs between cooperatives and other businesses would be extremely hard to assess, as adjustments to any quoted prices must include cooperative 'divis', bonuses on trade granted by private firms, discounts for prompt payment or bulk buying and a whole range of other considerations that make comparison virtually unworkable, so that the precise financial gains enjoyed by cooperating farmers are almost impossible to ascertain".[97]

The cooperatives, however, do offer many social benefits to individuals and to society as a whole.[98] The formal cooperative can be a source of "solidarity" incentives as well ... a means of improving the small farmers' image and raising their status, in their own eyes and in the eyes of the rest of society. Moreover, successful economic operations may also be valued for their "purposive" aspect, enabling common agriculturists to feel that they are contributing selflessly to the achievement of the goals of any of several reference groups with which they may identify.

The effort of a cooperative in improving the acumen of its members regarding the political and economic institutions comprising their environment may well result in increased and improved farm leadership. Cooperatives can introduce farmers to the use of modern business techniques. This applies both to the operation of their cooperative and the operation of their farms at more efficient levels. Furthermore, since a successful and strong cooperative depends upon strong leadership from farmers, this process in turn makes more well-informed, better leaders of farmers and thus assists them in more effectively defending or representing their political, economic and social interests.

In addition to the benefits that could accrue to cooperative members, benefits can be passed on to other residents of the community who are not members of the cooperative. Studies show that lower prices in a market may be associated with the presence of a cooperative. Thus all members of the community may benefit.

Cooperatives may benefit their local economies because of the additional money spent locally. An argument regarding the favourable role of cooperatives in their local economies rests with the implications that the earnings of cooperatives declared and eventually paid as patronage refunds are generally spent locally, generating a local "multiplier" effect. One may not expect such a conclusion regarding the operating profit earned by a profit-seeking enterprise that is not locally owned.

Finally the egalitarian, democratic membership principle of cooperative organization can redner the cooperative's structure symbolic of the shared identity and interest of farmer-members as they face the culturally distinct and economically hostile outside world.

2.III.5 Impact of Cooperatives on Economic and Social Development

As stated earlier, cooperatives in many developing countries are generally introduced on the initiative and with the sponsorship of the government and their activities have often had little effect on the existing patterns and trends of economic activity in a country. Moreover, despite the potential advantages set out in the preceding sections, their performance has usually had little relevance for the wider issues of social and economic change and general strategy of development. Thus the design and functioning of a cooperative has left untouched such major socio-economic problems in rural areas as marginalization of small farmers and unemployment among landless agricultural labourers. Even smaller proportions of farming population are signficantly affected by cooperatives in many countries.[99]

In assessing the impact of cooperatives, there is a problem of identifying when the cooperatives are responsible for certain changes and when quite often different factors are the cause of such changes. In fact, cooperatives may appear effective or ineffective, successful or unsuccessful, for reasons quite unrelated to the policies of cooperatives themselves.

As well as an identification problem there is also a problem of the relation of idealised objectives to actual performance. A considerable gap may exist between the propounded aims and the actual performance; their impact may have little relation to their stated goals. It is arguable whether it is more appropriate to compare cooperative performance with what prevailed before the cooperatives were introduced, or to assess performance in terms of (perhaps limited) benefits realised since their inception. Often there appears to be a gap between what the sponsoring agency considers the aims and purposes of cooperatives to be and what the local farmers want or expect. The latter, in many countries, look upon cooperatives as a source of benefits from authorities without recognising the efforts and obligations inherent in cooperative enterprise.

For these and other reasons, assessment of the role and impact of cooperatives is a complex undertaking. However impact of cooperatives in relation to the objectives of a) self-reliance; b) agricultural innovation and productivity, and c) structural change may be of some legitimate significance in many developing countries throughout the world.

1. Self-reliance and Development

Two somewhat contradictory strands are intertwined in cooperative policies. An older liberal tradition emphasizes self-reliance of local communities, voluntary organization and a healthy independence from government. In this approach goverment involvement is viewed with scepticism, and the primary objective of cooperatives is seen to extend organized mutual aid among farmers and artisans, to reduce the role of commercial middlemen and money-lenders, and to reap some of the benefits of economies of scale by consolidating resources and sharing equipment and storage facilities, especially those requiring heavier investments. The other "Liberal approach" (generally adopted by many LDC's) looks upon government involvement and assistance as a necessary condition for the promotion of cooperatives. There has, however not been an effective reconciliation of these two perspectives on the role of cooperatives.

In some countries self-reliance is prominent as an objective of national policy and cooperative self-reliance is seen as a part of national self-reliance effort.

One of the arguments for introducing cooperatives is that in order for development to occur, traditional dependency systems (e.g. a paternal system) need to be replaced by self-reliance and community initiative, achieved through cooperative action. What often happens in practice, however, when cooperatives are introduced into rural areas characterized by dependency relations is not replacement of dependency by self-reliance but perpetuation of dependency in another form, under the cooperative, or the substitution of a new dependency system in which the state becomes the new patron. A condition of dependency may also be created where none existed before.

Where local initiative and self-reliance are significantly stimulated by cooperatives, the result may be an increase in the capacity for political action in defence of local interest. In this connection, cooperatives with the least political or social content (being mainly concerned with straightforward economic benefits) may, in the end, have a greater impact than those explicitly but ineffectively seeking to transform society.

2. Agricultural Innovation and Productivity

In the diffusion of agricultural innovation and promotion of higher productivity, cooperatives may have a mixed and not particularly significant success. There can be instances of clear failure and instances of evident success, but little basis on which to conclude that cooperatives per se are superior or inferior, to other institutional means of promoting innovation and increase of productivity. What seems particularly important is the general quality of management of the cooperative, regular training of members and effective links with agricultural departments and institutes.

Where these conditions are met and where cooperatives can supply the necessary inputs including credit, and where the methods of extension and demonstration are such that they have meaning to the individual farmer in the context of his own farm, the net result may be the successful propagation of a new practice, with resulting higher productivity. However, the prevailing circumstances such as prices of inputs and produce, transportation, etc. must be suitable. This emphasises the need for such healthy circumstances which cannot always be guaranteed.

It is important to comment specifically on credit since credit intended for agricultural use is one of the services most commonly offered through cooperatives. Where cooperative credit provides farmers with an effective alternative to money-lenders or to commercial banks, cooperatives can fulfil an important function in promoting agricultural production. Interest rates in the informal credit market may be lowered and factor prices corrected. Evidence on the other hand show that, in many countries, much of the credit advanced by cooperatives is not used for productive purposes. Also the record of repayment is remarkably bad, and those who most need credit are often disqualified.[100]

Productivity considerations in cooperatives may pose a further dilemma. Where some cooperative members, especially those better off, take advantage of cooperative credit and of new methods and techniques of production, compared with those who do not, there may be an increase of economic inequalities in the community, contrary to cooperative ideals. In this situation some farmers may even suffer absolute decline of living standards. On the other hand, preoccupation with maintaining or realizing equality in the cooperative or in the community at large, can mean low overall productivity and low income levels more or less equally shared. Cooperatives may be unable to resolve this dilemma of productivity and equality within their framework and questions have to be raised as to whether the same institution can be expected to pursue both goals effectively at the same time.

3. Social Impact and Structural Change

It is generally assumed that social benefits of cooperatives are slower to emerge and less apparent than economic benefits, although the latter are by no means a common feature. Actual achievements in regard to greater socio-economic equalization, structural change and relief of mass poverty fall far short of the announced goals in many cases.[101] Where credit is extended through cooperatives, the poorest among the rural inhabitants frequently receive the least benefit.

As such, the introduction of cooperatives into local social systems that are structured along hierarchical lines or dominated by particular entrenched interests does not bring much reform and democratization. Rural communities, in many of the LDC's are very often not characterized by communal solidarity, although such solidarity tends frequently to be assumed by outside policy makers.

In short, cooperatives may seem to play a variable role in increasing economic productivity in agricultural areas, with a typical economic impact that is not very significant, and a marginal role in implementing social and structural change, inspite of the ambitious goals often claimed for them.

2. IV Conclusions

This chapter has examined some analytical issues with the purpose of establishing their implications for cooperative behaviour and performance. It has been noted that the ideological and pragmatic conceptions of cooperatives are quite distinct; they assign different roles to cooperatives. These different roles each present problems when it comes to defining a cooperative. The cooperative as a business organization can both serve economic interests of its members and be a vehicle of governmental development policy, undertaking functions which other forms of institution cannot generally perform. Nevertheless as an instrument of development, the merits of cooperation have by no means been conclusively established.

The foregoing discussion has established that the principles of cooperation themselves do not provide essential rules of conduct to which all types of cooperatives in the world conform. The need to define cooperative as a heterogeneous socio-economic category of institution has been identified, together with the need to view the cooperative as an organizational form through which the member participants and government may interact to achieve certain economic and socio-political goals. The need for and justification of base level and apex cooperatives have been examined. The potential benefits and weaknesses of farmers' cooperatives both as autonomous organizations and as a vehicle of government policy have also been summarized in general terms.

It is now appropriate to examine credit issues in greater depth.

Notes to chapter 2

1. See Webb, Sidney and Beatrice (1921); also see Lambert, P. (1963); Bonner, A. (1961)

2. See Munker (1976); also see Lambert, P. (1963) for a detailed account on the different approaches to cooperation

3. See Lambert, P. (1963)

4. See Harrison, J.F.C. (1968) pp323-37; Wolff, H.W. (1919)

5. See Harrison, J.F.C. (1968) pp323-337; also see Lambert, P. (1963); Tucker, D.C. (1922)

6. See Smith, L.P.F. (1961)

7. This is quoted from Smith, L.P.F. (1961) pp134

8. See Gruchy, A.G. (1966)

9. See for instance Tucker (1922) pp20-28

10. Ibid

11. See for instance Watt, W.M. (1961)

12. See Gruchy, A.G. (1966)

13. See for instance Smith, L.P.F. (1961)

14. See Munker (1976)

15. See Galbraith, J.K. (1957) pp160-161

16. The discussion of Rochdale Pioneers, unless otherwise noted is based upon Lambert, P. (1963); Harrison, J.F.C. (1968), and Holyoake, G.J. (1906)

17. For the discussion on the evolution of the cooperative credit movement in Germany see for instance Wolff, H.W. (1919); Tucker, D.C. (1922); Encyclopaedia Britanica (1970) vol VI pp454-458

18. The discussion of Schulze, unless otherwise noted, is based on Tucker, D.C. (1922); and Wolf, H.W. (1919), pp69-110; also see Holyoake, G.J. (1906); Herrick, M.T. (1914)

19. For the ideas and work undertaken by Raiffeisen see for instance Wolff (1919) pp111-127; Herrick (1914); pp281-320; also see Encyclopaedia Britanica (1970) pp454-458; Encyclopaedia Britanica (1910) vol VII pp82-90; Roy, E.P. (1981), pp66-67

20. See Roy, E.P. (1981) p67

21. This is because the subject with partly social and partly economic aims attracts little attention of economists who are accustomed to the organization as an economic institution susceptible to micro economic analysis

22. See Vanek, J. (1970)

23. See Robotka, F. (1947)

24. See Phillips, I. (1953)

25. See Aresvik, O. (1957)

26. See Bateman, D., Edward, J. and Levay, C. (1979)

27. See Report of the ICA Commission (1967) pp10-11.

28. See Twenty third Congress Report of the International Cooperative Alliance (1966); pp159-182.

29. See Roy, E.P. (1981) chapters 3 and 21

30. See for instance Munker (1976) for an analysis of the European concepts of cooperation and its implications towards cooperatives in developing countries; also see Apthorpe, R. (1970); Munker (1979)

31. See Webbs (1921) pviii

32. See for instance Gruchy, A.G. (1966)

33. Ibid; also see Wellisz, S. (1966)

34. See for instance Lambert, P. (1963); Roy, E.P. (1981)

35. Ibid, Roy, E.P. (1981) chapter 2

36. See for instance Roy, E.P. (1981) pp3-37

37. See Levay (1983) p21

38. See for instance Dulfer (1974) pp148-152

39. See Levay (1983) p21

40. See Levay (1983); Dulfer (1974) pp148-152

41. See Levay (1983) pp20-21

42. See Bateman, Edward & Levay (1979) pp63-81

43. See Taylor, R.A. (1971) pp207-217

44. See for instance Dulfer (1974) pp127-135; Roy, E.P. (1981), pp425-544

45. See Dulfer (1974) pp130-143; Roy, E.P. (1981) pp480-481

46. Ibid; Roy, E.P. (1981) pp483

47. For the structural, organizational and financial aspects of the cooperative movement see for instance Dulfer, E. (1974); Munker (1976); Lambert, P. (1963); Roy, E.P. (1981), Gill, M.S. (1983)

48. See for instance Levay, C. (1983); Bateman, D.I., Edwards, J.R. & Levay, C. (1979) pp53-62

49. See Levay (1983) pp3-6. He argues that many organizations claiming themselves cooperatives do not subscribe to the Rochdale Principles of Cooperation

50. See Fay, C.R. (1908)

51. Ibid, p5

52. See Emelianoff, I.V.(1942)

53. Ibid, p55

54. See Babcock, H.E. (1935)

55. Ibid, p153

56. Helmburger, P.G. (1966) p1430

57. Lambert, P. (1963)

58. Ibid, p231

59. Helmburger, (1964) p6

60. Meade, J.E. (1972)

61. See International Labour Organisation (1966); ILO conference Recommendation No. 127

62. See Emelianoff, I.V. (1942); also see Calvert, H. (1936)

63. See Fauquet, H. (1948); also see International Cooperative Alliance (1952)

64. See Surridge, B.J. & Digby, M. (1967)

65. See Muslim, M. (1965)

66. See for instance Dulfer, E. (1971) pp8-9

67. See Roy, E.P. (1981) pp48-51

68. See International Cooperative Alliance (1967) p10

69. Ibid

70. See Roy, E.P. (1981) pp150-51

71. Ibid, pp251-253

72. Emelianoff, I.V. (1942)

73. Ibid, pp195-96

74. See Roy, E.P. (1981) pp255-56

75. Ibid, pp257-258

76. See for instance Levay (1983); Bateman, D.I. et al (1979)

77. See Lambert, P. (1963)

78. See for instance Anschel, K.R. et al (1969); Myrdal, G. (1968); Watkins, W.P. (1970); Worsley, P. (1971).

79. See for instance Carrol, T.G.E., Flores, X. & Muralt, J.V. (1969); Anschel, K.R. et al eds (1969)

80. See for instance Killick, T. (1978) pp21-26

81. Ibid; also see Inayatullah (1970); Apthorpe (1972)

82. See Hanell, A. in Johannes Worz eds. (1984), pp62-93

83. See for instance Munker (1976)

84. For the role of cooperatives in the process of development in the developing countries of the world see Roy, E.P. (1981) Chapter 21

85. See for instance Killick, T. (1978)

86. See for instance Munker, H.A. (1976); also see Levay, C. (1983)

87. See Galbraith, J.K. (1957) p160

88. See Levay, C. (1983) p31

89. See for instance United Nations Department of Economic Affairs, Rural Progress through Cooperatives (1954) p14

90. For the merits and weaknesses of agricultural marketing cooperatives see for instance Rural Progress through Cooperatives (1954); Gasson, R. (1977) pp27-37; Lele, U. (1981)

91. See for instance United Nations Department of Economic Affairs, Rural Progress through Cooperatives (1954) pp52-54; also see Lele, U. (1981)

92. For the potential advantages and/or disadvantages of credit cooperatives see for instance Taylor (1971) pp207-217; Croteau, J.T. (1963); Dublin, J. (1966); Reserve Bank of India (1954);Reserve Bank of India CRAFICARD, Report (1981)

93. See for instance Clodius, R.L. (1957) pp1271-1284; Ladd, G.W. (1964).

94. For the potential advantages and/or disadvantages of Production Cooperatives see for instance United Nations Department of Economic Affairs (1954) pp78-85; Dulfer, E. (1974) pp76-93, Lele, U. (1981)

95. See Levay, C. (1983) p35

96. See Galbraith (1957) p161

97. See Levay (1983) p38

98. See Anschel, K.R. Brenon, R.H. and Smith, E.D. eds. (1969); Lambert, P. (1963)

99. See for instance Apthorpe, R. (1970); Apthorpe (1972); Borda (1969); Carrol, T.G. et al (1969), Inayatullah (1970)

100. See for instance Inayatullah (1970); Lele, U. (1974)

101. See Borda (1969); Apthorpe (1970). The economic, socio-political and ideological pressures on cooperatives may influence their performance as also their working in many developing countries of the world.

CHAPTER 3

SUBSISTENCE AGRICULTURE, WORKING CAPITAL AND AGRICULTURAL CREDIT COOPERATIVES

This chapter seeks to delineate the need for working capital in a subsistence economy and looks at the potential strengths and weaknesses of informal and institutional capital markets in providing working capital to subsistence farmers. The advantages and disadvantages of cooperatives as a channel of credit are examined in particular. The chapter is organized in four sections. Section 1 is concerned with the need for and available sources of working capital in a subsistence setting. Section II covers the social and economic aspects of agricultural credit cooperatives, and provides a brief summary of the historical evolution of credit cooperatives, together with general experiences of the operation of credit societies in developing countries. Section III assembles information on criteria for assessing the performance of agricultural credit cooperatives. And finally section IV presents a brief review of the issues raised in the chapter.

3.I The Need for and Nature of Working Capital in Subsistence Agriculture

It is well known that certain distinctive features of agricultural production place it in a disadvantageous position as against manufacturing industry. First, the scale of production in agriculture is typically small. While other industries dependent to a greater extent on capital equipment tend to become concentrated in units of ever-increasing size, agriculture, dependent in land, remains dispersed, individualistic, small scale and disorganized. The problem is further complicated by the simultaneous presence of production for both domestic consumption and the market. Second, the risks and uncertainities involved in agricultural production are of a different nature and order compared with manufacturing industry, as success in agriculture depends crucially on natural factors outside the control of the cultivators. Agricultural production is affected by the monsoon and natural calamities like flood, drought, diseases, insect pest attack etc. A third distinctive feature is that agricultural products are often perishable or of such nature that they cannot be stored cheaply without significant risk of loss. Lastly, agricultural production involves a longer time scale than does the bulk of industrial production - the essential biological processes cannot be hurried, so that in the case of field crops, for example, the cultivator has to wait a year for his harvest. Moreover, he cannot switch over to alternative crops in response to a shift in prices once the land has been sown with a particular crop.[1]

Subsistence agriculture, in particular, has its own peculiar characteristics.[2] It is generally confined to regions with little access to good physical infrastructure and markets. The cultivable land is limited, as there is typically a higher density of population which in turn exerts pressure on available land. There is intensive application of labour to the land, but the absence of complementary inputs keeps the yields low, as also the quality of cultivable land is generally poor. The techniques of agricultural production are primitive, and socio-economic factors are not conducive to improving farm technology. And, as a result, growth of output of subsistence agriculture is low and erratic. Agricultural production is not able to keep pace with the increasing demand from the market, and this is presumably due to the subsistence mode of production as against commercial specialization.

The vast majority of cultivators in subsistence agriculture have a very small land base, and their farm holdings are often fragmented into dispersed parcels. The subsistence farmers lack the capacity to earn a reasonably decent living from the land either due to the poor quality of land cultivated by them or because of inefficient management of their farm enterprise. This arises because it is generally necessary for them to look for additional sources of employment to meet their overall consumption requirements leading to neglect of the land from time to time. Most subsistence farmers have a low capacity to acquire new technology and their ability to get access to markets and public services is constrained by their scale of operation or their tenurial status.

The subsistence agricultural sector cannot be properly understood if no attention is paid to the social and psychological attitudes of subsistence farmers. The agricultural activities are materially influenced by social constraints and taboos; decisions of subsistence farmers to grow particular crops are not determined primarily by demand in the market. With a deep sense of family obligation, they produce mainly to satisfy their family's immediate needs. The extended family provides a form of social insurance for its members and its obligations may minimize the inducement towards economic improvements. Moreover, primitive technology is frequently an integral part of the social framework.

Notwithstanding many economic weaknesses, the subsistence farmer has to solve a major problem of cash flow and risk management without large reserves of cash.[3] The cash flow problem arises from seasonal deficits and surpluses inherent in the biological characteristics of farming. In addition to these predictable deficits, he has to consider unpredictable failures due to fluctuations in growing conditions, diseases, markets, health and other risks. Despite low levels of cash flow he nonetheless has to find some reserves with which to bridge both the predictable and unpredictable deficits.

For the subsistence farmer the drawing down of crop inventories to meet the food requirements of his household is the equivalent of cash outgoings to meet the operating expenses of the commercial farm. The subsistence character of his activities does not permit him to draw a distinction between farming for production and farming for consumption; working capital and consumption requirements are to all intents and purposes the same thing.

This point may be elaborated in relation to a more precise definition of working capital. In manufacturing, of continuous (machine-based) type, working capital would be funds perpetually tied up in stocks (raw materials, semi-finished goods, or work-in-progress, and finished but unfinished goods). In addition, it would include funds used to pay labour only to the extent that the production (and sale) period was longer than the agreed payment interval - which in this type of manufacturing is rarely.[4] In marked contrast, in agriculture, with its typical annual cycle, working capital is <u>all</u> the outgoings from seed-time to harvest (or in commercial agriculture to sale of output). Payment for labour is a very substantial component of these outgoings in a commercial setting. But in a subsistence setting it largely comprises the consumption requirements of the farm households themselves. In short, once harvested a particular crop is the reserve of working capital for the next.

Problems often arise in identifying the adequacy of available working capital - i.e. the adequacy of the annual harvest in a subsistence setting. As noted before, there are considerable fluctuations inherent in the biological nature of farming. In addition, unpredictable failures attributable to growing conditions, diseases, markets, health and other risks are more evident in subsistence setting. Even good crop harvests leave the farmers with little marketable surplus after judging what the family's food consumption and production requirements will be. The problem is further complicated by the fact that agricultural products are often perishable and cannot be cheaply and easily stored; any farmer lacking storage is forced to sell his produce at harvest time just when there are large seasonal declines in product prices. But for the subsistence farmer in particular it is part of his household's consumption stock of grain he may be obliged to sell at this time at low prices. Then, towards the end of the agricultural year the subsistence farmer, due to faulty judgement or unexpected losses, has to buy back grains and other items in the market at much higher prices due to now-pressing consumption needs. The basic input requirements of the household are vital but it would be unrealistic to assume that these consumption requirements are the same as basic physiologically-determined needs and that they are known in advance with certainty. The subsistence farmer is a member of a social structure and the need to maintain self-respect influences consumption requirements in addition to the need merely to survive. Social obligations have to be considered and there are many unpredictable social events requiring expenditure: weddings, funerals and other ceremonies. These entail very real consumption requirements from the point of view of the farmer.

Given the biological nature and the scale of his productive activities and the social nature of his consumption requirements, it is to be expected that a subsistence farmer who has come to the conclusion that his working capital is inadequate may, once given access to funds, use them not for the purchase of material agricultural inputs or investment in agricultural capital, but instead for consumption purposes.

In a subsistence setting, the scope for extension of cultivation into new areas is frequently limited due to the non-availability of more cultivable land and also because of increased pressure on land due to population growth. In such a situation what is needed, particularly once cultivation has extended as far as possible, is the improvement in the productivity of land already under cultivation, i.e. increased intensity of cultivation. Up to a point this can perhaps be done by increasing the use of traditional inputs of labour, animal power and implements for tillage and the improvement of methods of irrigation or the pattern of crop rotation. But sooner or later a stage is reached when the gains from the increased application of these traditional inputs, as also from local seeds and farm yard manure, with which the subsistence farmer has long been acquainted, become extremely limited. At such a stage to obtain additional output will require the use of improved farm technology to yield the necessary upward shift of aggregate production.[5] Additional working capital would be required here primarily for purchasing improved farm technology (improved seed, chemical fertilizers, pesticides etc.) and also for making minor capital improvements at his farm. In short, the cash requirements for the purchase of these inputs from the market would constitute a need for additional working capital to fund intensification of production. The key issue then, is whether improved availability of working capital will be used by the farmer to improve consumption directly, or to improve agricultural productivity, income and consumption indirectly.

3.I.1 Sources of Working Capital in Subsistence Agriculture

As noted in the preceding section subsistence farmers frequently lack internally generated working capital and must turn to external sources to meet their requirements. There are two major sources (a) formal institutional credit sources and (b) informaal credit sources[6]. An account of the nature, working, merits and demerits of these sources is given in the following pages.

The institutional credit market in many developing countries forms only a small part of the rural capital market; commercial banks, specialized agricultural banks, cooperatives and other institutions cover a very small percentage of the total rural population in the developing regions of the world. Credit is more generally provided informally to farmers by their relatives and friends; and a large proportion originates with informal commercial lenders such as local merchants, large farmers - including landlords lending to tenants -

and full-time money-lenders.

No comprehensive data are available for the amount of credit advanced by the non-institutional sector. It is generally believed that most of the loans borrowed by the farmers in the subsistence setting come from the non-institutional sources. For example a study undertaken by the World Bank in 1979[7] revealed that some 70 to 90 percent of loans in South Asia came from non-institutional sources. According to this study, subsistence farmers in particular relied even more heavily on non-institutional and non-commercial sources (among whom the majority were money-lenders, traders, commission agents, friends and relatives). For instance in India and Bangladesh nearly 50 percent of all credit came from rural money-lenders, while in Pakistan the 'friends and relatives' category dominated all the sources. Findings from other countries[8] establish the dominance of non-institutional credit sources in the total supply of farm credit. Evidence shows that loans obtained by subsistence farmers from non-institutional sources[9] are frequently incurred to meet consumption expenditure related to social obligations: to pay for litigation, weddings, illness or house repairs. Only a small share of the loans acquired by the subsistence sector from non-institutional sources is put to what could readily be identified as 'productive use', that is directly linked to augmenting future income.

In contrast, institutional credit providers generally focus on large farmers and exclude most subsistence farmers from their lending schemes. Since larger farmers produce for the market, institutional lenders work on the basis that their credit will be applied primarily to increase marketable surplus. Accordingly institutional sources do not provide for 'non-productive' credit. In turn, this compels the subsistence farmers to rely further on the non-institutional sources to meet their credit requirements.

Many factors contribute to the reluctance of the institutional lenders to lend in the subsistence setting even for purposes which might merit the term 'productive'. First is the very small size of the typical agricultural enterprise. Millions of cultivators operate tiny farms and the loan agency would have to deal with great numbers of dispersed clients for extremely small loans. This in turn involves a high transaction cost of a loan which deters the institutional lender from lending to subsistence farmers. There may be potentially a large number of loan applicants in the subsistence setting but it is extremely difficult for the institutional lenders to lend since the cost of administering loans is out of proportion to the loan size. Second is the formal procedures employed the institutional lenders. They often require their loan recipients to sign a promissory note that demands a co-signer; they may require a mortgage or other collateral; collateral values may have to exceed the amount loaned. However, the subsistence farmers do not have good collateral to offer. Apart from personal surety acceptable to friends, relatives or sometimes a cooperative, there are only three types of collateral available to the subsistence farmers: land, crops and ornaments. As to the land, most subsistence farmers own very small holdings: many cultivators work as tenants and do not own any land at all. In addition, the security offered by land depends on the land tenure situation. Even a land-owner cultivator may be unable to borrow because of various restrictions on the transfer of land. Given these conditions, it is generally difficult for the institutional lenders to accept land as security for a loan. The security offered by growing crops is meaningless in the face of unpredictable events. The subsistence farmer has virtually no other assets: any way personal ornaments are rarely accepted by the institutional lenders as security for a loan. Thirdly the institution has to confront the difficulty of establishing and maintaining an effective relationship between credit and income generation, presumed to be the basis for repayment. The level of near poverty at which the majority subsists creates an almost irresistible temptation to divert credit nominally obtained for 'productive' investments to what the farmer regards as unavoidable consumption. The loan therefore mortgages future income rather than augments it. Moreover, when funds are actually employed to increase production, there is a tendency to divert the fruits of increasing productivity to raising consumption rather than to repaying the loan. The institution has difficulty in enforcing its claim as creditor. Fourthly, the subsistence farmer has a highly insecure income base: he has barely adequate means to maintain his and his family's consumption from the produce of land. He may seek occasional employment outwith the sphere of the farming business in order to try to earn an adequate livelihood. Not only is dependence on non-agricultural sources of income unreliable; more often than not it results in the inability of the farmer to concentrate adequately on his farming business. This affects crop productivity and in turn the total incomes may fall even further. The insecurity and the unpredictable fluctuations in the income base in the subsistence setting helps the farmer to remain in perpetual need of funds from external sources. But lacking dependable means of repayment of loans institutional sources provide no support.

Given the general inappropriateness of the institutional lenders for the subsistence farmers, the institutional lenders focus on the large farmers. They supply capital to agriculture from urban sources, (in contrast to informal lenders which provide capital, either their own or borrowed from others, which is often rural in origin) through a network of branches located in the rural sector. Generally all of them are present in rural areas as branches of large, urban based institutions.

The contrasts with informal credit provision are marked. First, most loans in the informal market carry no collateral; the guarantee for repayment is merely the verbal promise of the borrower backed up by sanctions operating through social pressures. In some cases there may be an informal mortgage on land or defacto arrangement that the farmer's crop will be sold to the lender. Almost all loans are for short-term purposes (one year or less). Second, access to the informal sector is straightforward. The zone of operation for the informal credit market varies with type of lender. For instance money-lenders tend to operate in rather a small area (a village for example) and loans granted by neighbours, friends and relatives usually originate in the same neighbourhood. The informal credit market may be found anywhere; around small villages and in dispersed settlements through the entire countryside. Informal lenders zones may be remote from or overlap with the zones of operation of the institutional credit market.

Third, lending procedures are very simple. Among institutional lenders some version of commercial bank procedure predominates. The borrower must present a series of forms (statements of financial condition, tax records, land titles, etc.). In many cases, the borrower is asked to come back in a few days, a few weeks, or even a month or more to learn the preliminary decision on the loan application. Some times the farm is inspected by bank employees to evaluate the property and potential production. The requirements for such procedures are quite inappropriate for the bulk of subsistence farmers. In contrast, the lending procedures for credit from the informal lenders are quite simple. The borrower talks directly to the lender about his financial needs. There are usually no forms to fill out. Since the borrowers and lenders know each other, the borrower asks for credit directly and the lender accepts or rejects the request more or less immediately.

Fourth, the borrower from informal sources does not have to justify his credit requirement. The informal lenders do not usually have any interest in the likelihood of the loan generating the economic improvement of their clients. In contrast the institutional lender seeks assurance that the loan could provide a net economic benefit to the borrower - or at least enable the debt to be serviced and repaid. The informal lender could even wish to promote the economic decline of their clients, so that they could acquire real assets, or accumulate labour obligations and other personal benefits (loyalty, voting support etc.). In short, the informal lenders, often in conjunction with their marketing activities, are generally regarded as taking advantage of the farmer.

The outcome of their contrasting structure, conduct and performance is a significant interest-rate differential. The institutional credit sources generally acquire most of their funds from government, or from funds supplied by external aid donors, at concessional rates. They in turn charge "low" interest rates from their customers, who generally are the larger farmers. The existence of low interest credit, it is logical to suppose, further discourages other credit institutions from entering the rural market in competition with credit agencies that obtain their funds cheaply. But it also discourages the tapping of indigenous savings that might have been forthcoming to augment rural loan funds. And the low interest rates hold down the net income of the publicly supported credit institutions, restrict their loan capabilities to the limited supply of concessional funds they can get, and involve many of them in operating losses that necessitate a flow of subsidy to keep the institution in business. The result is therefore a perpetuation of dualism in the rural capital market. The public credit agencies are locked into their artificial and often precarious sphere, with other institutional lenders holding back, but without any contact with or stimulus to improve in the informal sphere. There is not the kind of healthy competition between the two market segments, which would otherwise invigorate the service to the farmers, nor are there new institutional outlets for rural savings to enter. Instead a limited number of farmers receive cheap loans, allocated by administrative decision that does not ensure allocation to the most profitable investments. Moreover the informal credit market also remains for the most part fragmented with little internal competition. Most farmers simply save or borrow as before within the confines of the prevailing fragmented market. The service to farmers is spotty and inadequate and less than it would have been. Public capital tied up in these operations and subject to depletion from operational losses bears a high opportunity cost in a development context since the greatest beneficiaries are the richer farmers, and rural income disparities are probably accentuated rather than moderated. Under these conditions some farmers undoubtedly receive more capital than could be justified on any social criteria while others receive none.

The non-institutional lenders charge a 'higher' interest rate from their borrowers as compared with the rate charged by the institutional lenders from their customers. In addition, effective rates charged by the informal lenders may be found to be even higher if it were possible to account for hidden charges. These could include: demanding repayment in kind for a loan made in cash and undervaluing the commodity received; demanding labour services for the favour of giving the loan; or giving no receipt, so the borrower can be required to pay more than the original amount.

As stated earlier, the subsistence farmers require additional working capital to finance their consumption, production and to carry them over many other adversities (e.g. crop failures, disease, health, payment for funerals, and other social ceremonies): in view of their restricted access to consumption loans from the institutional credit market they are left with no option except to borrow from the non-institutional sources. Nonetheless this demand for credit is real and most farmers are constrained to borrow from the informal lenders at rates higher than charged by the institutional sources (more detail on interest rates is provided in subsequent discussion).

We have noted earlier some of the important sources of non-institutional credit. A brief note on them is in order.

Friends and relatives are an important and traditional source of credit in most agricultural communities, developed and undeveloped. In Pakistan, for instance, they emerged as the major source of credit after independence. A large number of refugees were in the process of settling down, and in a period of rapidly shifting population, personal security could hardly be offered by the new settlers or accepted by the lenders. Thus they could only fall back upon those whom they knew and who could afford to spare some money. In other instances, however 'friends and relatives' together with other 'well-to-do' people may demand conditional sale of land or other legal subterfuges to evade restrictions on transfers of land from peasants.

The village shop-keeper most often provides credit to the peasants in the subsistence setting. The shop-keeper feeds and clothes the farmers and meets their cash and other requirements until the harvest. These supplies are often provided at higher than prevailing market prices, thus including a hidden interest charge. If the shop-keeper also markets the farmers produce, he either obtains repayment in kind or specifies that the grower should not sell his crop through any other party.

In addition the landlord provides credit in the subsistence setting, either to his tenants or to poor peasants. While advancing loans, no contract for the loan is made and no interest ordinarily charged, though it is a common practice for the landlord to collect the loan from the sale of the loanee's marketable surplus which the latter is often compelled to sell through the landlord. Sometimes the price paid by the landlord bears no close relationship to the market value of the produce and thereby involves an element of interest. As the peasants lack any alternative source of credit, they are generally left with no better option except to borrow from the landlord on these unfavourable terms. The system works given the proximity, flexibility and intimate association of debtor and creditor; it is neither the most economically sound, nor does it aid the development of the moral fibre of the agrarian setting. Sometimes landlords provide loans in kind (generally in the form of cereal grains) for small sums negotiated on a short-term basis (one year or less). These loans may be used by the peasants either for seed or subsistence purposes. Grain-lending may turn to be a political as well as an economic activity. During times of famines, general food scarcities or other unpredictable adversities landlords may dispense grain to their clients as an obligation and a favour to be repaid at the lender's bidding. Consequently grain lending may place a considerable amount of economic and political power in the hands of the rich farmers (landlords).

Money-lending on a commercial basis is done in most developing countries of the world. The money-lender (in his multiple roles as a village trader, shop-keeper, landlord, commission agents etc.) lends money on personal surety and does not press for repayment of credit so long as interest is paid. There is no publicity attached to his loan which is eminently necessary for protecting the 'self-respect' of the borrower. In return he charges exorbitant rates of interest (some times as high as 50 percent or even more) per annum. The money-lenders influence is demoralizing: since loans are easily available, that they are readily spent. The oppression of money-lenders has been felt in many countries. Laws have been passed by governments, particularly to check the activities of the money-lenders and to enable the peasants to escape from the money-lenders system. Nonetheless these laws have proved to be effective instruments in regions only where alternative sources of credit were made available to the indigent peasants. In many cases, however the superior bargaining power of the money-lender, the illiteracy of the debtor, the absence of satisfactory enforcement machinery, insufficient provision of credit by the institutional sources, and the lack of deterrent penalties to the money-lenders all contribute to the infringement of these laws.

We have already noted in the preceding section that in the subsistence sector, it is most often than not an urgency for cash flows and the perishable nature of agricultural produce together with large seasonal variations in the product prices that leave little chance for the subsistence farmer to hold his crop and gain from seasonal price appreciation. The subsistence farmers cash requirements in terms of cash flow include a repayment commitment to the money-lender. The money-lender typically requires the subsistence farmer to repay in kind. Thus the money-lender may acquire a crop inventory (at a lower price) with which to gain further in seasonal price appreciation, in addition to the high rate of interest extracted from the subsistence farmer.

The money-lender also frequently acts as a village trader. He generally enters into an informal contract with the producer requiring from him the supply of the farm produce in return for a loan at a predetermined price or with price unfixed until the delivery of the produce. The former alternative is however more general and the grower receives a percentage of the price in advance as a loan. Loans are sometimes provided by the processors (e.g. the cotton ginners) to the producers. No interest may be charged but the price fixed is generally unfavourable to the producer. Alternatively the price may be reduced when the final payment is made. It was reported that a discount known as 'ghati' is generally charged against loans made by cotton-ginners to the cultivators in the province of Sind in Pakistan[10].

The traders (for instance enterprising farmers or even the small agriculturists) may also find in trading a more lucrative source of income. They may operate with personal funds or obtain credit from processors of crops who in turn draw on institutional sources of credit. The growers may sometimes also obtain credit directly from the commission-men or dealers.

In short the money-lenders (e.g. shop-keepers, traders, landlords, commission agents, dealers etc.) who more often than not are also traders are supported by a network of urban money-lenders, indigenous traders and urban wholesalers who are ultimately supported by the commercial banks. The village trader-cum money-lender also has links with the traders in the urban areas, who in turn are financed by the commercial banks. Then the money-lending activity is an essential adjunct of an entire trading system which acts in an effective manner as a mechanism for transporting the agricultural produce from the rural to the urban sectors either for further processing or consumption in the terminal centre. It may be noted that since commercial banks open their branches in more commercialised areas, the non-monetized regions (the subsistence setting) continue to be short of banking facilities. Even so, in the non-monetized regions credit is provided by the money-lenders cum traders, and to some extent they are supported by the urban money-lenders and thus the commercial banks.

The loans advanced by a money-lender-cum-trader generally trap the subsistence farmer in deteriorating circumstances. The dependence on high-cost lenders has a severe and direct effect on their production choices. The subsistence farmer might have to pay the money-lenders an interest rate that may amount to 50 percent or higher a year. From the point of view of borrowing to invest (and so increase production) such rates impose minimum requirements on rates of return that simply exclude many alternatives that otherwise could be economically useful to him. Even important improvements in technology and marketing may fail to generate pay offs that reach a 50 percent level. It is frequently the case that the other conditions attached to loans from the money-lenders may constrain the subsistence farmers from making certain types of capital investments such as land improvement, bullocks, tillage equipments etc. The money-lender is ill equipped and uninterested in making a loan for a period that allows for sufficient increase in farmers income to serve as a basis for repaying the loan. Credit access that is limited to the money-lender on a short-term basis and at high rates of interest severely restricts the subsistence farmers' response to production alternatives that otherwise might be rewarding to him.

A question arises: if the subsistence farmers cannot obtain a reasonable level of net output with the loanable funds received from the money-lenders, how ultimately do they manage to fulfil the money-lenders' obligations? This may partly be explained in terms of the money-lender-borrower relationships in the subsistence setting. The money-lender has generally complete information about his clients. Having been born and raised in the rural areas he has accumulated this knowledge over a long period of time. As such the money-lender knows the true financial condition of the borrower, where he can be found and who his relatives are, for example. He can apply indirect pressure through his acquaintance with local personalities. In addition the terms of loans, as stated earlier, may include a commitment of the borrower to market the produce through the money-lender. This practice enables the money-lender to recover at least part of his principal sum together with interest charges. Second, it is possible and was evident in India and Germany in the last century that most of the peasants were not capable in paying back to the money-lenders the exorbitant interest charges out from their farm produce. Many more findings from India[11] have established that most of the indebted peasants, due to non-payment of loans, became virtually the slaves of the money-lenders in the 19th century. Under these conditions indebtedness was not only widespread but its implications more worsening. The money-lenders were able to foreclose on lands of their borrowers who were unable to fulfil their commitments, when loans were due. Many peasants were transferred to the status of tenants, who produced for the money-lenders and lived at the mercy of the money-lenders. Thus it may be argued that the establishment of regular financial institutions could to a greater or lesser extent, save the peasants from the money-lenders system by providing effective competition to the non-institutional lenders.

The foregoing discussion suggests that in the subsistence setting the money-lender generally enjoys strong bargaining power vis-a-vis the peasant farmers and generally a lower price paid to a farmer of his produce is an indirect form of charging interest. In addition, the money-lender charges interest openly (or not so openly), and the rates are high. Are these hidden charges/high interest rates signs of monopoly? Some analysts argue that the money-lender extracts unjustifiably large profits from poor farmers by his monopolistic position. As noted earlier the money-lender does frequently operate in a market where there is no effective competition between the lenders due to the general scarcity of capital, and the borrowers are all reasonably homogeneous in terms of poverty. It is thus unlikely that there would be any potential threat to the business of the money-lender. Further, there is little movement of potential lenders or borrowers in and out of the small market area. The number of lenders is thus restricted by the small number of those living in a limited market area and who have sufficient capital to engage in commercial lending with the entry of additional lenders restricted by low mobility and who already occupy key positions in the various trading links which in turn generate their capital. How much monopoly power is implied by this situation? The structure of the market for the informal commercial lenders may possibly range from pure monopoly (the one lender village) down to some point well short of workable competition. Oligopoly may seem to be a general descriptive term for these markets, given their diversity. Nonetheless, there may be frequently a free exercise of lenders' monopoly power. It may be possible for the lender to charge a relatively higher rate of interest in such a situation, as the borrowers are the poor farmers under some form of time-bounded economic pressure, and a less elastic demand with respect to interest rates seems likely. It may thus seem that monopolistic tendencies are more prevalent in a subsistence setting but at the same time there is a likelihood that the lenders are also aware that borrowers do have some alternatives. The greater weight is however on the monopolistic side of the overall spectrum, but there may be considerable variations in the degree of monopoly.

The money-lender does not have a need for specialised buildings and staff and is therefore able to operate at much lower administrative cost than that of the institutional lenders. He generally carries on his business from his home or farm or village store. He employs himself and when he needs information, he goes to the borrower's farm for inspection. It may thus be argued that the money-lender has a strong cost advantage albeit at low volume, and while increases in loan volume achieved by formal credit institutions serving much wider areas can reduce their unit cost quite considerably, it is likely that a quite high volume of institutional lending may be needed to overcome this cost advantage. Further, the supply of lending capital for institutional sources is arguably fixed by administrative decisions, unrelated to demand, whereas more sensitive market-based relations may be found within the informal markets. The supply response to shifts in demand in informal markets depends on the mobility of funds, on the lenders' capabilities or desire to expand his clientele, and on the ability of new lenders to enter the market. As such, a wide range of interest rates charged by money-lenders can be explained in a large part by a prevalence of locally low supply elasticities both in the short and long run.

As noted interest charged by the money-lenders may vary within the same market and even for the same borrower. It might be that the money-lender is able to adjust the terms on his loan to reflect the costs and risks peculiar to the loan situation. Often there are no legal barriers to freely adjusted rates; but even with usury laws, the money-lender usually finds ways to build an added return for risk into his loan charge. The borrower, as already stated, may lack alternative sources of credit. Thus the segmented informal lenders' market (imperfect competition on the supply side) and lack of information (on the demand side) create and maintain differential rates of interest among informal lenders and discriminatory rates for the same lender.

Whether high interest rates mean considerable monopoly profits earned by the money-lenders still remains to be considered. It is certainly difficult to see how interest rates ranging from 50 to 100 percent or above can correspond to differences in cost. And from what we have said earlier clear cost advantages are enjoyed by the money-lenders. It may be hard to imagine that the money-lenders' cost of lending would approach 40 percent or higher for interest charged even where the volume of loan is small. However the impact of defaulters and the need for appropriate risk premia have to be taken into consideration. The default rate on the loans advanced by the money-lenders is not generally known. Institutional lenders charging lower interest rates themselves experience default levels which are regarded as high. It could be argued that money-lenders by being more selective could do better. But the higher rates charged by money-lenders could still be explained by risk of default rather than monopoly profits, since there are many hazards of weather and price variability confronting agricultural producers in the subsistence setting. The resulting risk faced by the money-lenders whose incomes are closely tied to those of their small farmer clients would remain substantial. Bottomley[12] acknowledges the existence of many imperfections of competition in informal capital markets, though he questions whether these are important determinants of interest rates.

Aside from the need to cover defaults, the money-lender has few if any firmly fixed costs to meet, and his main concern is to obtain an acceptable income level for his family from his activities. The minimum acceptable income level which will keep him in the market as a lender may be regarded as the equivalent of a competitive level of return on his capital and time: any income beyond that level can be defined as monopoly profit. When the lender is geographically immobile and lives in a low-income farming community, his minimum acceptable income level may be quite low - at least by comparison with urban income standards, though perhaps higher than those of his neighbours who have no lending capital. He might have alternative local use for his time and capital, but these may be circumscribed by his economic environment - i.e. his opportunity costs are low. Thus it may be that monopoly profits exist while at the same time his income may not appear to be excessive by the standards of urban sector.

The determination of interest rates is one of the most complex theoretical issues. But evidently this has an important bearing on the problem under consideration. The following brief note is an oversimplification of a complicated problem.

Economists distinguish between net ('Pure') and gross rates of interest. The former is the rate which would emerge if there was perfect competition among the borrowers. Gross interest is what is meant by interest in ordinary use, the amount actually paid by the borrowers. Thus while net interest is that portion of gross interest which is simply paid for the use of capital in competitive conditions, gross interest includes, apart from net interest, the cost of management, a premium for risk and monopoly profit.[13]

According to some approaches to monetary theory, rates of interest are related on the demand side to the marginal productivity of capital. In the subsistence agriculture, where the supply of capital is scarce in relation to other factors of production, investment in inputs like fertilizer, pesticides and improved varieties of seed can be highly productive. But as noted earlier, the major part of borrowings is spent for consumption purposes.[14] And while it is true that some part of the capital is directly used for productive purposes, investment in traditional factors is hardly sufficient to borrowers to increase the existing low level of productivity. It would therefore seem to be fairly clear that the high rate of interest in a subsistence setting is not determined by marginal productivity or efficiency of capital.

According to monetary interest theory, interest is not the price paid for saving, but the charge made for parting with liquidity. In subsistence agriculture, liquidity preference is very strong and it is believed that the 'liquidity complex' is one of the reasons for the high level of interest rates. The findings from India that the rates of interest are higher in areas where a subsistence economy prevails strengthen this opinion.[15] But again this does not explain why even in the more monetised and commercialised areas the price of borrowed funds is so high.

From these considerations it is fairly clear that the price of capital in the rural areas generally represents gross interest[16]. It is not possible to estimate the extent to which each of the three components of gross interest (monopoly profits, premium for risk and administrative costs) is responsible for the high price.[17] However, there is some evidence to show that the first two factors are at work. Firstly, it has been noted that the rates of interest in India were generally lower in areas where cooperative credit societies were formed.[18] This would seem to indicate clearly that the failure of the regular financial establishments to fulfil certain essential functions leave money-lenders in a strong position to take advantage of the monopoly control they enjoy of a scarce factor (capital) in a poor agriculture.

Secondly, in a subsistence setting, the rate of interest on secured loans is generally much lower than in the case of unsecured loans. Such a pattern would indicate that a part of the high rate of interest represents a premium for risk. This clearly conforms to what can be expected in poor agriculture. In essence, the nature of security depends on two factors (a) the capacity of the borrowers to earn an income beyond the basic needs of subsistence which will determine their ability to meet interest charges and eventually to repay the loan and (b) the market value of the asset pledged as security should it be necessary to acquire them because the borrower cannot meet his obligations.[19] In both these respects the specific conditions in the subsistence setting are generally unfavourable to borrowers. As the larger section of the rural population lives at the margin of subsistence, their repaying capacity is generally poor. And as to land, which presumably is the only asset to be offered as security, there are many landless peasants. Further, it is possible that the sale price of land is depressed, as the land yields low return and there are few buyers of land due to the general scarcity of capital. As such the money-lender enjoys a monopoly in the subsistence setting, and can charge a price that is otherwise not possible.[20] Nevertheless, considerable risk is involved in lending to borrowers with inadequate credit and this leads the money-lender to charge a premium. The preceding discussion would thus suggest that it is not only monopoly profits as such, but low level of per capita production of borrowers and the uncertainty they confront, which account for the high rates of interest in subsistence agriculture.

In short, high interest rates charged by the money-lenders imply a scarcity of capital. While this scarcity may often reflect a shortage of loan funds relative demand for consumption credit in the subsistence setting, as opposed to a demand based on production possibilities, nevertheless the demand is genuine, and cannot be overlooked.

In summary then the institutional credit sources focus on large farmers and exclude most subsistence farmers from their lending schemes. While this tendency has decreased over time in particular countries, its persistence remains an important fact of life in many developing countries. Consequently subsistence farmers still generally acquire loans from informal sources, primarily to meet short-term consumption and production needs. In fact the informal market is poorly adapted for financing substantial medium-term investments. Most subsistence farmers obtain funds for medium term investments on their farms either from their own savings, or from the sale of their assets, rather than from either the institutional sources or informal commercial lenders.

The informal sources are an important source of credit in the subsistence settings. These sources do not have standardised interest rates and regulations, and the conditions attached to the loans are subject to bargaining. Naturally as outlined earlier, the borrowers are the weaker side. The farmers have often to pay usurious interest rates. Moreover, a credit market dominated by informal lenders tends to operate outside, and often at cross purposes with, the overall framework of economic policy. It is difficult for the government to enforce its policy choices in such matters as the quantum of total credit supply and the terms and conditions, uses and cost of credit.

Informal lenders serve highly localized borrower clienteles; their capital sources are not only limited in area but in volume by the local savings. The usual formal institutions do bring in outside capital, but in most cases, their scope is limited as they are biased towards large farmers. Genuine credit projects for subsistence farmers are few in most developing countries and then are frequently designed in ways that can hardly be said to reflect the supply or demand for credit in any systematic way appropriate to subsistence agriculture. At the same time, rural savings institutions are under-developed. The relatively meagre savings they attract generally do little to augment the capital available for making agricultural investments. In short, in most cases specialized agricultural development projects, with few exceptions, do rather little to overcome the weaknesses of the segmented informal capital markets.

The informal credit sources are still the major source of credit. Any attempt to drive them out, or at least to compete with them, principally by lowering interest rates, may not be particularly successful. The policy makers nonetheless think in terms of rates of interest, often overlooking other credit traits essential for the subsistence farmer such as simple procedures, adequacy and timeliness. The informal sources are easily accessible and the service is available virtually at the farmers' doorsteps. These are some of the characteristics that institutional sources with their immense resources should do well to emulate. The very fact that a large number of farmers prefer to borrow from the informal sources in spite of high cost (among other factors) shows that demand for credit is highly service elastic, a factor which is often overlooked.

Let us consider what should be the functions of a well-organized, credit institution in a developing country. On the one hand it should stimulate and mobilize savings where the potential exists; on the other it should move funds to individual producers who can make best productive use of loan; and it should provide for dynamic growth, both in eliciting increasing volumes of savings and in facilitating output increases from subsistence farmers who have been less productive than they could be.

It is against this backdrop of a dualistic structure of credit provision that the potential offered by credit cooperatives can be assessed. The major institutional problem in the subsistence setting is how one can deliver credit to a large number of small producers and at the same time do it cheaply. This capability depends on administrative skills, low-cost delivery, supervision and collection methods and access to a large supply of funds. In relation to these requirements cooperatives have considerable potential relevance. Their outstanding features include intimate knowledge of the character of their members and of local production possibilities. They can have low administrative costs because their work is done voluntarily and, as a result of social pressures, with honesty. As a means of reaching the poor, cooperatives have no rival except the money-lenders. Cooperative credit can offer the only possible proven method for reaching the bulk of subsistence farmers. It is potentially the best practical alternative to usury. Well-organized cooperatives can instil in members strong feelings of responsibility for prompt payment of interest and repayment of loans and can also provide strong incentives to thrift and savings. As compared with other rural institutions, seeking to tap small savings, well-organized cooperatives have distinctive advantages. The procedures of deposit and withdrawal are far less complicated, since identification and similar problems do not exist; the officials to be approached belong to the same village as members and work in the same trades; and the fact that the money accumulated through savings is generally to be spent within the village creates that additional sense of confidence needed to practise the habit of banking.

In the following sections, the evolution, and the potential of cooperatives as a channel for credit are reviewed, and the set-backs they have experienced are examined.

3.II Cooperation as a Channel for Farm Credit

Agricultural credit cooperatives have come to be regarded as one of the important institutions catering for the credit needs of their member participants in many countries. The basic reason is that as compared with alternative institutions, these societies have some special advantages in their work, and that in many countries the withdrawal of agricultural cooperative credit would leave farmers at the mercy of local monopolies or partial monopolies of money-lenders.

A credit cooperative is a unique institution in that it acts as a financial intermediary, gathers savings from its members by selling deposit-type savings accounts called shares and lends these funds to its members in the form of consumer loans. It is essentially a cooperative owned by the membership and operated by them on a volunteer basis without pay. Most cooperatives represent organizations of producers, such as farmers who market or purchase their agricultural products through them, or they represent organizations of consumers who use the cooperative to collectively purchase goods. A credit cooperative can be thought of as a combination of both types: a 'producer' cooperative from the standpoint of borrower's access to inputs and a 'consumer' cooperative from the standpoint of lenders' access to financial services[21].

Many economic incentives stem from belonging to a credit cooperative: These frequently include low cost production or consumption loans or relatively high rates of return on small savings. A credit cooperative also captures the altruistic motives of people. This dimension of cooperative credit activity has been summarized by John T. Croteau as

> "credit unions seek to protect the weak, to save them from the exactions of usurers. They emphasize voluntary action, the democratic dream, the development of latent abilities found in the common man. These explicit values are not amenable to economic analysis, but they cannot be ignored by any one who would understand the credit union"[22]

An economic analysis of a cooperative must take into account several important relationships. There is the economic relationship between the cooperative and its members on the one hand, and the relationship between the cooperative and the market on the other. In most instances members of a cooperative interact on a single side of the market. In a credit cooperative, however, members are both suppliers and users of loanable funds. A credit cooperative has been called the purest form of all cooperatives since it deals exclusively with its members.

Typical of agricultural credit cooperatives in many countries are the non-profit organizations relying on voluntary management elected by members using one man - one vote principle. By law with the exception of Treasurer, most credit cooperative officials do not receive payment for their services.

3.II.1 A Summary of the Historical Evolution of credit cooperatives

The concept of mutual help in obtaining credit may be traced in primitive forms far back into history. Credit associations first came into prominence in China during the Han Dynasty 200 years before the Christian era, when Pong Koong, a rich and influential Chinese instituted the first money-lending society bearing cooperative features.[23].

As discussed in detail in Chapter Two the beginning of the organized cooperative credit movement may however be traced to the mid nineteenth century in Germany[24]. Raiffeisen's original cooperative model,[25] derived during the 1850's, was really a multipurpose society. At that time the farmer was not able to compare different market sources of supply because of his full dependence on the local trader, who was simultaneously the money-lender. The cooperative society therefore had to organize the supply system and obtain credit grants for the farmer on the basis of common liability. In view of the farmers' lack of experience in disposal of cash, the cooperative society took over all monetary transactions in connection with the supply of goods and credit repayments through the proceeds from the produce marketed.

The concept was based on the premise that the subsistence farmer was neither accustomed to nor qualified for participation in a market economy with a monetary system. Thus, the cooperative's assistance to the farmer was given and repaid in kind. Although in Germany the Raiffeisen type was known as a loan coooperative society with commercial business, in early days its activity was oriented to the supply needs of the farmer. Credit and later marketing were only complementary functions.

The different combined functions were later separated in specialized single-purpose cooperatives, which worked however in close collaboration within the enlarged Raiffeisen organizational system. In this context the pure Raiffeisen loan bank was born as a specialized (single purpose) credit cooperative society.

The Raiffeisen 'Loan Bank'[26] was essentially an association of neighbours. Besides borrowings it received savings deposits which often produced a large part of the capital it needed. Usually a few of the members of the association were comparatively well-to-do people, who joined to help their neighbours by increasing the society's credit. This Raiffeisen considered essential. They had no actual privilege but by common consent they took a leading part. The liability of each member was unlimited, but limited liability was also introduced in some of the modifications of the Loan Banks. The 'Loan Bank' restricted its operations to a small area, usually a village, where every one knew every one else. Each borrower specified the purpose for which he wanted a loan and this was rigorously inquired into. Only members could borrow, and only for a profitable approved purpose. Practically all members watched that the money was applied as agreed, and while the loan was provided for a long period, a year or two - even ten or more - so as to repay itself out of the profit, power was reserved to call it in at short notice if misapplied. Loans were repayable by periodical instalments, but repayment was mandatory with absolute punctuality. No bills, mortgages or other securities were taken, except a note of hand either along with one or two sureties. There were two committees, one to lend and do work for the society and the other to supervise the work of the first one, and on both of these the richer members were in majority. No committee members or officers received any remuneration for their services, except that the Accountant got a salary. Originally there were no shares, but when the legislature ordained, the Raiffeisen union made theirs as small as possible. Nothing was paid on the shares in the way of interest or dividend. All profit earned was voted once for all to the ordinary reserve and the indivisible reserve, the latter the backbone of the system. In every large district the Raiffeisen banks were federated into unions, and these unions culminated in a general agency. As an intermediary among themselves and between them and the money-market, the Raiffeisen Banks had a central bank.

Raiffeisen banks claimed that neither members nor creditors lost a penny by them. Their credit was so good that they obtained money at very low rates, and re-lent to their members at rates but a little higher. The members were allowed to join because of their personal character (credit worthiness) and not their property. This besides spreading prosperity, promoted sobriety and good conduct. The Raiffeisen banks fulfilled credit needs of peasants especially the very poor, and for this purpose they proved well.

A second and entirely independent origin of the credit cooperative movement was attributed to Schulze-Delitzsch who established his credit society[27] in a distant part of Germany almost at the same time when Raiffeisen advocated his 'Loan Banks'. However, contrary to Raiffeisen, Schulze established a form of credit union for townsmen, especially craftsmen working on their own account, the joiners, the shoemakers and so on. The idea behind establishing the credit union was primarily to promote their thrift.

In the Schulze union, a number of such members combined together to raise a capital of guarantee. To do this, every member took up only one share, which was of a large value, but could be paid up by small instalments. Thus every member was committed to a long course of saving. On the strength of capital formation and the unlimited liability of the members, the bank was able to borrow, or to receive as savings and deposits from members and others a much larger capital. The funds so constituted were lent out at the highest rates it could command, varying of course, with the market. It lent to members only but to any amount, for any purpose and on any good or sufficient security. The loans were granted for a short period, usually three months renewable for another three months, and sometimes more than that. The committee of management was elected by general meetings. They decided on all loans and received a salary plus a commission on business done. The council of supervision was paid. The great object which the Schulze bank kept in view was security and good return on capital. The bank was not confined to a small area but worked for as large and as varied a constituency as possible. The Schulze banks grew and accumulated a large capital of their own. All the profits were disbursed as dividends on capital or put to reserve, except small sums which were retained for charitable or educational purposes.

In short, these two types of credit systems were both founded on the principle of unlimited liability, but broadly speaking they contrasted in that the Schulze banks worked primarily among townsmen, were based on share capital, worked for profit which they distributed as divided on shares, were conducted by paid Directors and conferred their benefits not on the very poor, but rather to the middle class.

On the other hand, Raiffeisen banks were designed for peasants, especially the very poor, were not based on share capital, neither paid dividends nor worked for profit, were conducted by unpaid Directors and conferred their benefits on the very poor.

With the passage of time the two types of the credit systems came to rely on the state financial system . While the government showed little concern during the earlier period, it became interested in the growth of both the systems in subsequent years, either for political or economic reasons. The German government, in response to popular demand vigorously supported by cooperators interests, founded a central cooperative bank and placed a good amount of funds at the banks' disposal. The Raiffeisen banks, which were federated into the "Raiffeisen Verband" had considerable access to the funds of the German Cooperative Bank.

In short Germany saw the first development of a cooperative credit system in the form of small local credit associations and village banks. This development was soon extended to other parts of the world. In general agricultural credit cooperatives were derived from the original concept of Raiffeisen and the supplementary influence of the concept of Schulze - Delitzsch and adapted to their local conditions. In most European countries credit cooperatives developed largely following Raiffeisen principles. In Russia, where usury on a most serious scale followed the emancipation of the 1860's and the greater commercialization of agriculture, the first savings and loan association was formed in 1866 and despite indifference and suspicions of the government flourished well. Raiffeisen cooperatives were introduced in Czechoslovakia around 1870 and developed well because of rising nationalist enthusiasm. Surveying in 1950 the position in Europe as a whole, the International Labour Office found that in Luxembourg, the Netherlands and Switzerland, cooperative societies were quite independent of the government, providing a major part of the entire credit needs of the farmers. In most other countries cooperatives were major sources and administrators of credit, they were linked with government corporations or government departments in various ways. They were specifically well adapted to administer short term and medium term credit and to bring together for productive use the savings of small farmers.[28]

In many countries of North America, People's Banks were established on the German Raiffeisen system but with liability limited and all capital withdrawable. At first they developed to serve non-agricultural workers, but later they were formed by farmers and grew to provide a large part of rural credit. They also influenced formation of credit unions in the United States, although these unions concentrated more in urban areas.[29]

In Asia local societies organized for purposes somewhat similar to those of Raiffeisen cooperatives existed in Japan and Korea in primitive periods. However in Japan these societies were partly reorganized on Raiffeisen lines after the passing of a cooperative law. Such societies, with unlimited liability, were the basis of the post World War II short-term credit system of Japan.[30] In Korea many old small village associations for economic betterment through cooperative efforts were reported to have functioned with success.

Raiffeisen principles were introduced to India at the end of the 19th century and promoted more rapidly after the passage of a

Cooperative Credit Societies Act in 1904. Government officials were established as Cooperative Registrars in each province but at first little government financial assistance was provided. The formation of unions of primary credit societies and of co-ordinating associations was authorized in 1912. A considerable measure of success was achieved. The debts of many small farmers were consolidated and sometimes completely repaid. Prevailing rates of interest were reduced, not only for individual members who benefitted from the average cooperative charge of about 12 percent per annum, but also for whole districts where cooperation was strong. Some permanent improvements in the land and better methods of cultivation were fostered. A new spirit of independence was reported to be evident among the small farmers who became the cooperative members, and the societies were considered to have greater educational value and to be a means of preparing the way for further education, agricultural advice and training.[31]

Primary cooperative credit societies were also promoted in China. Despite disturbances due to world wars, these societies, together with other multipurpose societies proved successful in granting loans to the peasants[32].

In the Middle East, Egypt developed an agricultural credit institution, combining the advantages of commercial banks and government credit corporations, but farmers' own credit cooperatives successfully developed on a wider scale[33].

In Turkey agricultural credit societies succeeded in enrolling large numbers of farming population and did reasonably well in providing credit for raising production.

In Cyprus the cooperative credit societies established on a sound basis and almost every village in the island was served in one way or the other by the cooperative credit movement.

Cooperative credit societies established in Algeria and carried out savings and credit functions on behalf of both the Muslim and French members.

Raiffeisen principles were introduced among European settlements in Latin America and the societies following these principles developed on a considerable scale. The promotion of credit cooperatives among indigenous groups was also witnessed with the passage of basic legislation. Such promotion also proceeded in the West Indies and in tropical Africa with considerable success.[34]

3.II.2 Agricultural credit cooperatives Experience: Causes of Failure and Success

Despite the promise of these early developments and their world-wide application, the general experience with the working of cooperatives in many countries of the world has been a matter of much disappointment to members of societies, government and other promotional agencies. Generalization is very difficult over many countries, each with its own history and peculiar socio-economic conditions. Nevertheless, evidence derived from numerous case studies[35] reveals a common pattern of poor performance as assessed by reference to the cooperatives' own proclaimed goals.

It may be noted that a great majority of cooperatives in Asia, Africa, Latin America and elsewhere in the world have been initiated generally by governments, adapted either on the Rochdalean model or Raiffeisen principles and principally concerned with the provision of consumers goods and services, marketing farm produce and allocating credit. Very often this policy has been disappointing with a larger proportion of cooperatives becoming inactive.[36]

The most consistently recorded criticism of cooperatives has been their falling into control by the wealthier and more politically powerful members of rural areas. Most studies[37] reporting domination of cooperatives by a wealthy elite judge it to be undesirable. Usually this conclusion depends on the attribution of failure to achieve cooperation to the alienation of the majority of cooperators. Few studies have investigated the economic effect of such domination of members. It seems likely that while in some cases such domination leads to exploitation, in others cooperative leaders in purusing their own economic interests, make available management skills which benefit the remaining members.

Nevertheless, there has been general tendency of cooperatives to benefit the poorer groups least . This phenomenon can in fact be traced back to the origins of the modern cooperative movements. In his centenary history of British Cooperation G.D.H. Cole pointed out

> "The cooperators never succeeded in reaching down to the lower levels of working-class income, and their success would have been much more limited than it actually was had there not been a substantial rise in wages for the main body of the industrial workers after the middle of the nineteenth century"[38]

In other words, the early cooperatives in Britain did not benefit the lower levels of working class until general development first took place and brought about improvement in the conditions of income and employment of the poor. There is a parallel situation regarding cooperatives in many developing countries where the masses of the very poor, who have yet to participate significantly in development, fail to benefit from the cooperatives.

Myrdal has posed the dilemma of cooperation in Asia

> "unfortunately, the notion that cooperation will have an equalizing effect is bound to turn out to be an illusion. While land reform and tenancy legislation are, at least in their intent, devices for producing fundamental alterations in property rights and economic obligations, the "cooperative" approach fails to incorporate a frontal attack on the existing inegalitarian power structure. Indeed, it aims at improving conditions without disturbing that structure and represents, in fact, an evasion of the equality issue. If, as is ordinarily the case, only the higher strata in the village can avail themselves of the advantages offered by cooperative institutions - and profit from the government subsidies given for their development - the net effect is to create more, not less, inequality. This will hold true even when the announced purpose is to aid the disadvantaged strata"[39]

Examples of disproportionate benefits from cooperatives going to the better-off people have been reported in many countries. A study undertaken in Iran[40] established that only the better-off farmers had obtained loans and fertilizer from their cooperatives. It was reported from Pakistan[41] that the cooperatives had reinforced the position of patriarchal village authorities who dominated them and controlled the allocation of government provided funds. In Latin America the impact of rural cooperatives appeared to have been weakest at the point of greatest need: the lower income small farmer.[42] Similarly local influentials dominated rural cooperatives in most of the African cooperatives. In Uganda, for example control of cooperative communities by village elites was frequently reported, and the ability to take advantage of services offered by rural cooperatives depended on the extent of existing control of land, equipment and other resources.4[3943]

Cooperatives undertake many activities, but of all, credit is one which has come to be regarded as an essential function. In most of the developing countries, credit is usually necessary for farmers, especially low income farmers, to attempt innovations that can lead to increased productivity. Many studies report that insufficient credit is generally available to farmers when channelled through the cooperatives. On the other hand, the officials in charge of credit programmes claimed that loan repayments were inadequate to justify credit provision. The entire issue of agricultural credit as a means of agricultural production is nevertheless a thorny problem, obviously far from solution, when judged from the findings of many studies.[44]

Despite the provision of substantial amounts of credit through cooperatives by governments in many countries this has nevertheless been insufficient to serve the credit needs of farmers for both agricultural production and development. Various studies on the other hand criticised provision for allowing available credit to be diverted to non-productive consumption[45].

Where governments are liberal in providing low-interest agricultural credit, the primary cooperatives, nevertheless often have at their disposal only limited supplies of credit, because of their failure to follow prescribed conditions, their inability to generate enough capital of their own or to recover loans or because of their reluctance to borrow from governments.[46] According to findings of a study undertaken in Ceylon[47] about one third of the cooperatives in the country became ineligible for government loans because of defaults on previous repayments. About half of the total membership of cooperatives became share-capital defaulters and therefore lost the rights of membership including the right to get loans.

Conspicuous examples of the unproductive use of cooperative credit have often been reported by studies undertaken in many parts of the world. It was reported that the impact of the loans advanced by credit societies on agricultural productivity was almost neglible in Pakistan as nearly two thirds of the funds were used for marriage ceremonies, building new houses etc.[48] In Iran substantial loans advanced by societies went into consumption channels and dependence on the money-lenders did not significantly decrease.[49] In Western Africa the levels of loan repayment were generally low, primarily due to diversion of loans to consumption purposes, and even the pressures for collection of loan caused negative reactions to government-sponsored agricultural development programmes in general.[50] A study of four cooperatives in Uganda[51] found that none of the cooperative credit schemes produced any demonstrable impact on crop yields or on agricultural incomes. Another study[52] found that credit extended by a cooperative union in the eastern region of Uganda to enable local societies to make cash purchases of members' early deliveries were frequently used by committee members for personal purposes such as buying cattle or 'purchasing' non-existent crops from relatives. In the case of Latin American cooperatives, a study[53] found that the credit made available by two Colombian cooperatives was seldom used for more than private consumption or to deal with personal 'calamities'.

Examples of productive use of credit have nevertheless been reported. In Ceylon and Comilla (Bangladesh) credit provided by cooperatives was used primarily for adopting innovations or for other productive purposes[54].

The Comilla credit programme was particularly effective. Individual members of local societies deposited savings and bought shares in the central association. With this as security the central association then provided credit to the local cooperatives. Each member's request for a loan was scrutinized by the cooperative management committee and then approved by the central association. The local cooperative exerted group pressures on individual members for repayment, without which the cooperative would have lost the right to further loans.[55]

Evidence of the effectiveness of this system is the fact that, in contrast to most other areas, the loans were nearly all used for productive purposes. This was a result of close supervision by the local cooperatives and by the central association.[56] In addition, the recovery rates of loans advanced to members was extremely high, sometimes even 100 percent. There were two pragmatic reasons for that: commission on loans recovered was offered to managers as inducements, and defaulting members were expelled.[57]

Whereas members' savings deposits have been an essential pre-requisite for the receipt of loans by them from their societies in Bangladesh, this important source of the working capital of societies has virtually been ignored by cooperatives in most developing countries.[58] In fact, a fundamental defect with cooperatives in many countries is that the element of thrift plays too small a part and the measure of dependence on external sources of finance is disproportionately large.

In strong and significant contrast to this situation is the fact that most consumers' cooperatives in the United Kingdom and other developed countries have been almost entirely financed by means of capital formed with the societies and their central organizations.[59]

It may thus seem that the fundamental difficulty of many cooperatives in most developing countries is lack of funds both due to (a) inadequate rates of savings in the form of deposits by members of the societies and/or to (b) the inability to secure adequate funds from government and other sources.

Indeed, in subsistence agriculture, where farms are very small and incomes low, most individual families often find it difficult to save. Savings will be inadequate so long as there is chronic insufficiency of farmers income, and the consequent tendency of consumption to outrun production. Although some studies[60] presume that peasant farmers in many developing countries have both the desire and the ability to save, absence of suitable institutional arrangements and/or inability of cooperatives to handle farmers savings have resulted in excessive reliance of societies on government funds to meet their working capital requirements.

The assistance granted by the governments to the societies in the form of finance has nevertheless badly effected the performance of many credit societies. Cases have occurred where in the first flush of enthusiasm to help the cooperatives, public funds have been made too easily available at cheap rates. The history of cooperatives in several countries bears witness to the disastrous effect of such a policy.[61]

The inability of the management of cooperatives to understand the purposes of credit and its administration has often led to the failure of societies in many countries. In the rural settlement in Barbecho (Venezuela) agricultural credit was provided, but when managerial errors in technical matters led to falls in production many settlers acquired large debts to the credit service and departed from the premises, leaving the debts behind.[62] Management errors in the handling of supervised credit led to serious problems in a Colombian cattle ranching cooperative. The management attempted to use credit to diversify agricultural production. The result was a fiasco and the peasants were left deeply in debt, unable to repay even a fraction of their large loans. There was a return to cattle ranching, but the farmers had lost confidence in the cooperative.[63]

Limitations on the willingness of governments to secure adequate staff for the promotion of credit cooperatives have often been cited as one main obstacle to progress. True understanding of cooperative methods and of credit cannot be fostered on an adequate scale unless enough staff of the right skills is secured. Attempts by small staffs to obtain quick growth of credit cooperatives have often led to failures, particularly where there are not enough educated, public spirited rural residents to act voluntarily as leading foundation members of societies. Moreover, the characters as well as the special training of staff are highly important. The staff should have a strong and sympathetic interest in the problems of the families with whom it deals. It must therefore usually have the same social background, adaptability and sense of service. Evidence proves that contrary to these required characteristics, most staff members in societies have been illiterate, came from urban backgrounds and lacked in general a sense of sympathy for the problems of rural folk.[64]

Some studies in developing countries have concluded that the records and accounts of societies have generally not been kept in a proper and orderly fashion. If a society was able to afford the employment of a paid secretary and if it agreed to do so, then its records were usually kept in something resembling intelligible form. In most other societies, the committees shirked their duties so frequently that the future of these societies was regarded with misgivings.[65]

A most important difficulty which credit cooperatives confronted in many developing countries is opposition to them from landlords, traders and money-lenders. However, correction of this difficulty frequently depends on the introduction of changes in basic land tenure arrangements and on the development of better marketing, including in suitable circumstances, the promotion of purchasing and marketing cooperatives.[66] These cooperatives are difficult to establish unless supported by cooperative wholesale societies, for otherwise private traders are averse to dealing with them.

The limited success of credit cooperatives has often been attributed to the fact that the need to consider the overall indebtedness of their members was overlooked. A high level of borrowings from informal sources frequently continued at high rates of interests and these informal lenders were able to secure priority for the prompt repayment of their loans at harvest time to the detriment of the societies. Although small local societies generally restricted themselves to short term loans, they had often made large loans for the repayment of old debt. The need to think carefully in terms of repayment plans for individual members was not adequately realised by the management. Most committee members abused their positions by securing large amounts of cooperative loans, which they did not repay later and not only became loan defaulters themselves, but became unable to control other defaulters.[67]

Cooperatives as a vehicle for reforming social structure have had an insignificant impact in most rural communities of developing countries. Evidence shows that instead of reforming, cooperatives reinforced the existing social structure.[68] A study undertaken in Asia recorded

> "In societies where commitment to traditional social structure is strong, where inequalities of wealth, power and status are great, where positive individualism has not developed, etc. efforts to create workable cooperatives are likely to prove futile".[69]

Research studies undertaken in Latin America and Africa also reached more or less similar conclusions.[70] It was found that cooperatives established in highly structured communities of Latin America produced little significant changes in the community system. Similarly, cooperatives studied in Africa have also been found to be ineffective in bringing about structural change.[71]

The argument that cooperatives reinforce the social structure rather than reform it has led Fals Borda and others[72] to suggest that by reinforcing the social structure, cooperative policy has in general had the undesirable effect of delaying alternative institutional changes.

Such a result is however contrary to the general aim of cooperation. The objective usually reflects a local wish to change the social structure by enabling active participation by the majority of people in an institution suited to modern economic activities. The way in which mass participation has been replaced by elite domination has led many[73] to suggest that cooperatives are only appropriate when combined with other socialist policies designed to reduce the power of rural elites.

In the past the traditional wisdom has been that cooperatives are particularly useful tools for the achievement of institutional change in rural societies because they reflect traditional cooperation between villagers. The frequent failure of cooperatives to encourage active participation by members has cast doubts on this piece of conventional wisdom. It has been argued that the type of cooperation traditionally existing has had a quite different economic purpose and is based on different types of relationship to those required in the formal cooperative. The conclusion of this argument is that a tradition of cooperation is not a useful precursor to the establishment of successful cooperatives[74].

The cooperative form has often shown itself to be insufficiently sensitive to the abilities and norms of behaviour found in particular cultures. It was recorded that kinship relationships in Ghana[75] made it impossible for the coooperatives' financial procedures to be followed. Cooperatives' failure due to regulations being too complex for membership have also been reported.[76] Such an experience has led to the conclusion that the formal cooperatives should no longer be the basis of institutional policy. It has been argued that instead of looking for possible applications of the cooperative form, policy should be concerned with finding appropriate institutional forms for particular socio-economic situations.[77]

So far the account has focussed on the failures of cooperatives, in particular the credit societies, and the underlying reasons. The case of a few Singalese and Comilla cooperatives has been an exception. Although the extent of failure has been reflected in the weight of recent literature, successes have also been recorded.

In general terms the successes of cooperatives reported in some countries were that they instilled a new spirit of hope, thrift and mutual help into the minds of their members. The members of cooperative credit societies were saved from the burden of interest charges and in some cases entirely freed from debt. Owing to the reduction of the rates charged by money-lenders in localities served by cooperative credit societies, non-members were enabled to obtain loans at reduced rates. Other good results have included promotion of savings in areas where no other institutions, apart from cooperatives have existed.[78]

The prerequisite for success migh be anticipated to be the correction of factors which ordinarily are expected to result in cooperative failures. However in individual cases, success has been reported to be due to the willingness to relax the formal rules of cooperatives. In Niger,[79] for instance, cooperative procedures were simplified to allow full participation by illiterates. Government actively encouraged participation and discouraged domination by elites, by establishing direct contact with ordinary villagers through a policy of 'animation'. Other cooperatives proved successful after the introduction of intensive supervision and provision of comprehensive development services.[80]

The stage of development has also been shown to be crucial to the success of cooperatives. In Taiwan, for instance, successful adoption of cooperatives followed commercialization of the rural economy. It has been argued that at less commercialized stages of development simple forms less remote from traditional institutions are more likely to achieve economic benefits through cooperation.[81] Nevertheless, there has been little systematic experimentation with alternative forms.

The above account has shown that the performance of agricultural credit societies in many developing countries has remained generally less than satisfactory. Nevertheless, this cannot be taken to imply that the credit cooperative movement has entirely failed to achieve its objectives. Wherever credit societies were established and actually succeeded, they were generally managed by competent and honest management. Target groups were carefully identified and provision of goods (credit) was ensured to the group under close supervision. It is evident that wherever disparities in terms of farm sizes and ownership of wealth were small, and where membership in societies was more homogeneous, success was possible. Further, the success of societies depended on the groups being small enough for them to be cohesive and to work actively in exercising mutual pressure to make the organization viable. On the other hand, they had to be large enough to take advantage of the cost reduction that occurred from scale. Credit societies also succeeded where paternalism was combined with an understanding of various factors that were essential to achieve effective local participation, and where institutions were protected from local political influences. The successful examples are the Commilla cooperatives where viable grass root institutions have been developed over time to benefit the poorer members.

Finally, in coming to an understanding of the record of performance of credit societies it is important to remember the direct ways cooperatives have been introduced to developing countries. In Europe and America cooperatives grew gradually and spontaneously, succeeding here, failing there; in contrast, in many third world countries, cooperatives have largely been introduced from above, not from below; and into local communities dominated by deeply ingrained non-market relationships of dependence, caste, kin and clan.

3.III Criteria for the Assessment of Agricultural Credit Cooperatives: The relevance of Raiffeisen Principles

In an attempt to devise criteria for assessing performance of agricultural credit cooperatives, we shall appraise the principles which Raiffeisen considered essential and employed for the success of his cooperative.[82]

In the context of Raiffeisen principles a credit society will prove to be a success when it is located at a village or small area, composed of villagers who are allowed to join because of their personal character (credit worthiness) and not their property, funded primarily by the savings and share capital of local members. External assistance in the form of financial aid is avoided; and if at all it becomes inevitable for the society to seek funds to meet its working capital requirements, capital loans should be obtained from the cooperative central banks and/or the government at relatively cheaper rates. Loans should be disbursed to those most needy, but only for profitable approved purposes so as to enable the members to raise their incomes and in turn ensure effective repayment. The rate of interest on loan and repayment schedule should be fixed by members themselves. Mutual trust in members' ability to repay should be considered an essential security for loan and this should be reinforced by the principle of unlimited liability and every member would be financially obliged to the full extent of his property to make good the debt of his societies. In short, mutual security, limited scope (village and its environs) and unlimited liability are essential principles which, Raiffeisen believed, will create a viable agricultural cooperative credit system based on thrift and prudence of associated members.

It is difficult to argue that success of Raiffeisen type societies was entirely due to their strict adherence to these self-same Raiffeisen principles. Nevertheless we shall critically analyse the Raiffeisen principles in order to see if these rules can provide some basis for formulating criteria for the assessment of agricultural credit cooperatives in an agricultural development context.

1. Restricted area of operation

According to Raiffeisen, the scope of a society should be restricted to a village or a small area. This will determine the size of the society, generally making it small, composed of members who live within the same village and/or its environs. A small sized group can be more cohesive and work actively in exercising the necessary mutual pressure to make the organization viable.

2. Joint and Unlimited liability of members

Mutual trust in members' ability to pay, together with the principle of unlimited liability has been considered essential as this reassures the creditor and enforces mutual control and vigilance. According to Raiffeisen, the intimate mutual knowledge of members makes unlimited liability both possible and desirable in rural areas. In a village the reputation of a member of society depends on personal factors rather than on impersonal realizable assets, so that it is possible to grant loans on personal credit standing alone. Moreover the existence of unlimited liability is valuable in maintaining cooperative discipline, as it stimulates the members to keep each other up the mark. Public opinion forces each member to keep his contract and repay his loan more or less within the appointed time.

3. Provision of loans for profitable approved purposes

Raiffeisen advocated that loans granted by the society should be for profitable approved purposes, in order to enable the members to make an effective use of credit so that productivity at the farm level is increased. This, according to Raiffeisen, would not only improve economic conditions of members, but also enable them to repay loans to the society.

4. Equality of status of members and democratic control

In the earlier years of the promotion of the credit movement, Raiffeisen judged that well-to-do members of the community should join and manage the affairs of societies on a voluntary basis. He hoped that well-to-do members would also bring capital to the society. Nevertheless Raiffeisen soon realized that the well-to-do members showed less interest as they received no separate reward for their services. Raiffeisen replaced the principle of 'control by well-to-do' by the principle of 'self-help', wherein equality of status was granted to every member, and the affairs of society were run on a democratic basis by adhering to 'one man, one vote' principle.

5. <u>Honorary services for managing cooperative affairs</u>

This was an essential principle. Raiffeisen judged that unnecessary administrative expenditures should be avoided and services should be provided by members to run the affairs of the society on an honorary basis. Consequently, no member of the management committee of Raiffeisen society received remuneration for the services performed for the society.

6. <u>Need for viable organizational and financial cooperative structures</u>

Raiffeisen judged that the operation of village-level units in isolation was essentially limited as the individual societies often faced difficulties due to shortages of funds (as well as from surplus). He proposed the organization of a overarching financial structure, viz central banks at the secondary level of the credit movement to overcome this problem, which in the ultimate were federated at the apex level. In addition, he realised that there were many activities which required a minimum scale for efficiency. These activities and other aspects of cooperation of village societies would require a level of management expertise which was not found in every village. These considerations pointed to the need for the establishment of a larger unit or the federation of societies in the form of a union. Raiffeisen responded to this need and village societies based at the village level were federated in the form of a union at every district, and these unions were then amalgamated into a general agency.

7. Mobilization of Members' Resources

One major objective of Raiffeisen societies was to generate funds from their own sources in order to serve the credit needs of their poorer members. And for this purpose they mainly relied on members' saving deposits and/or shares. Nevertheless this was not possible in the long run. As the amount of loans and number of loanees both increased demand for loans no longer matched the availability of funds. Raiffeisen turned to external sources such as the government, the central societies and banks for loanable funds. This practice did not imply that Raiffeisen assigned lesser importance to the societies' ability to generate enough working capital from within their own sources. In fact success of Raiffeisen societies was determined by their greater reliance on owned funds rather than borrowings from external sources.

8. Distribution of Cooperative Profit into Reserves

Raiffeisen ensured that all profit earned by society, if any, should be allocated to the 'Reserve Fund'. This in his opinion would act as a main bulwark for the unlimited liability of members and inspire confidence amongst members of the society due to its financial stability and strength.

9. Rate of interest on loans

Raiffeisen ensured that the society obtained money from outside at very low rates and in turn lent to members at rates which were but a little higher. The main object behind this practice was not to earn profit for the society but to enable the members to obtain relatively cheaper loans, to make its use productive. Another object of charging relatively lower interest rates on cooperative credit was to help members escape from the grip of money-lenders who charged too high rates on their loans.

10. Repayment Schedule for loans

The loan by Raiffeisen societies was granted for a long period, a year or two - even ten or more - so as to repay itself out of the profit earned by members. Nevertheless power was reserved to call it in at short notice if misapplied. Loans were repayable in periodical instalments, but repayment was mandatory with absolute punctuality. Insistence on this practice brought success to his society.

11. Good conduct and discipline of Members

Raiffeisen societies succeeded as members were carefully selected on the basis of their character and reputation in the village. In addition Raiffeisen placed a greater reliance on personal rather than material security. This in turn brought success as a result of good conduct and discipline shown both by members and the management. The commitment of members to the socieity was shown in their desire to help each other by mutual cooperation, and this was shown in their strict adherence to Raiffeisen principles. The committee members ensured that the society worked to the satisfaction of all members and earned profit to justify its existence and performance.

In short, the essential principles which brought success to his societies were

(1) Restricted area of operation

(2) Joint and unlimited liability of members

(3) Provision of loan for profitable approved purposes

(4) Equality of status of members and democratic control

(5) Honorary services for managing cooperative affairs

(6) Establishing of organizational and financial structures at secondary and apex levels

(7) Mobilization of members resources

(8) Distribution of cooperative profits into a Reserve fund

(9) Rate of interest on loans

(10) Repayment of loan out of the profit earned by members

(11) Good conduct and displine of members

So far we have briefly assessed the relevance of Raiffeisen principles as the basis for devising criteria for the assessment of agricultural credit cooperatives. There are however other factors which must be taken into account in evaluating the performance of agricultural credit societies. The first in this regard is the degree of autonomy and the nature and extent of government control of the cooperative credit system. Past experience suggests that the fullest advantages of societies cannot be secured if the formation and development of cooperatives are left entirely to spontaneous voluntary effort on the part of farm families themselves. Only in a few developed countries have cooperatives developed without any substantial assistance from government or non-governmental organizations. Elsewhere help in one form or the other has been required.

In many countries, governments have provided assistance to societies in the form of general education and through special promotion work. This assistance sometimes has strengthened social cohesion and the desire for technical and economic imporvements in groups of farm families. The governments have further influenced policies on special training and advice on cooperative methods, regulations determining legal constitution of societies and supervision of these regulations. They have provided help by grants of capital loans at low or no interest.

Related to the above, functions of inspection and audit have also been carried out in many countries by a special government department. Such a department generally undertakes duties of auditing which are of greatest important where cooperatives do not and cannot carry them through with thoroughness.

One criterion for evaluating the performance of credit societies should therefore be to see if the sponsorship of the movement by the state is intended only to assist, guide and train the members and management or if it is to establish permanent control over the movement.

The second additional factor to be looked into is the linkage of credit societies with other instruments for national social and economic development.

Third, there is a need to judge the effectiveness of societies in terms of their ability to procure loans from cooperative banks for short, medium and long-term purposes. The structural and organizational aspects of cooperative banks and working relationship of these banks with individual credit societies can influence the success of credit societies. Criteria for evaluation must cover this aspect.

The fourth is the nature and sources of external supportive services. The role of the government has already been noted. At the same time cooperative banks have their own particular significance. As stated earlier in Chapter Two, in many cases cooperative unions have been established to overcome the weaknesses of primary societies arising from their local character. These unions have not only facilitated cooperative activity over wide geographical areas, but have also helped to secure more and longer term capital, fuller technical knowledge and abler management. The role and assistance granted by the unions to credit societies therefore needs due consideration and must have a role in the criterion for assessing performance of societies.

Finally the issues concerning provision of technical inputs, financial incentives, through selective subsidies geared directly to costs of lending to small farmers, composition of the membership of the cooperatives, importance of cooperative credit in relation to other sources, welfare effect of cooperative credit distribution are nonetheless quite important in addition to Raiffeisen principles and so must be included in the criteria for assessing performance of credit societies.

To sum up, we conclude that in addition to Raiffeisen principles, the above aspects must also be carefully taken into account in analysing the performance of cooperatives. Nonetheless the first question to be posed, therefore, when assessing the performance of agricultural credit cooperatives is to what extent do they reflect Raiffeisen principles? These principles are our primary criteria. But in the light of later discussion we can in addition derive a checklist of supplementary issues for assessment of the cooperatives, all concerned with their relation with government and wider development matters.

The essential checklist for the assessment of cooperatives may be assembled as follows:

1. The extent of autonomy and control of the cooperative movement by the government.
2. The role and impact of the Department of Cooperation (or its equivalent) on the promotion of cooperatives.
3. The general education and training of members and cooperative management by non-governmental organs such as cooperative unions.
4. The audit and inspection of cooperatives by the government.
5. The nature of relationship between primary, secondary and apex level cooperative institutions.
6. The linkage of societies with other instruments of national social and economic development.

3.IV Conclusions

This chapter has highlighted issues concerning the need for working capital and the available sources of working capital in subsistence agriculture. It has been argued that most subsistence farmers cannot meet their production and consumption requirements from their own sources, primarily due to their low level of production, and thus have to borrow from elsewhere to meet both ends.

The characteristics, advantages and weaknesses of informal and institutional capital markets have been identified and it has been argued that most subsistence farmers have to borrow from the informal capital market at high rates of interest together with many other restrictive conditions, which in the ultimate have disastrous effects on their socio-economic status. They get a lesser share of institutional credit, because (amongst other reasons) of large-farmer bias in the lending policy of government credit programmes and especially the commercial banks. The problems of institutional capital market have also been summarized.

The effectiveness, and problems of agricultural credit cooperatives as a channel of credit have been adjudged. And it has been argued that certain structural and organizational deficiencies are inherent in cooperatives, which have in turn influenced performance of many agricultural credit societies in developing countries of the world.

Criteria for the assessment of agricultural credit societies have been identified, primarily based on Raiffeisen principles, but also keeping in view the role of the government in the promotion of the cooperative movement.

Notes on Chapter 3

1. For the general characteristics of agriculture see Barry and Cline (1979); Government of India Report of the Royal Commission on Agriculture in India (1928); Government of India Indian Central Banking Enquiry Committee Report (1931), p45; For the production process in agriculture and industry see Roegen, G. (1970); pp. 2-9

2. See Mellor, J.W. (1966); also see Schultz, T.W. (1964).

3. See Donald, G. (1976) pp44-45.

4. See for instance Adams, D.W., Graham, D.H. & Von Pischke, J.D. eds. (1984), pp169-70.

5. See Schultz, T.W. (1964).

6. For the nature and working of the institutional and informal credit markets see for instance Lipton, M. (1976) pp543-553; Adams, D.W. et al eds. (1984) pp36-48; Belshaw, H. (1959); Dantwala, M.L. (1966) pp52-61; John, H. (1980)

7. See Singh, I (1979) pp93-95

8. See for instance Ghatak, S. (1972); Donald, G. (1976); AID, Spring Review of Small Farmers Credit (1973), Rahman, A. (1992) pp147-168

9. For the characteristic and working of the informal credit markets in developing countries see for instance Belshaw, H. (1959); Lipton, M. (1976); Shahjahan, M. (1968); Reserve Bank of India (1954); Reserve Bank of India (1969)

10. See for instance USAID (1967) pp51-53.

11. See for instance Darling, M.L. (1925) Chapter X & IX; Government of India Report of the Royal Commission on Agriculture (1928).

12. See for instance Bottomely, A. (1963) pp637-647; Bottomely, A. (1964) pp431-437; Bottomely, A. (1975) pp179-291.

13. See for instance Adams, D.W. et al eds. (1984) pp61-77; Donald, G. (1976) pp97-117.

14. According to the findings of the Reserve Bank of India Rural Credit Survey (vol.1 Part 1, pp160-321) 37 percent of the borrowings were for expenditure on the farm and 50.2 percent for family expenditure. However, it is found that in most cases it was capital expenditure which was most significant variable (explaining 69 percent of the variations) affecting the demand for credit; also see Ghatak (1972) pp75-80.

15. See for instance Reserve Bank of India Rural credit survey (1954) pp190-196.

16. It was estimated that net rate did not account for more than a quarter of the gross rate prevailing in the rural areas in India. See Naidu, V.T. (1968) p145.

17. See for example Adams, D.W. et al eds. (1984) pp61-146; Bottomely (1975). Bottomely has argued consistently that rural rates of interest have several component parts: the pure itnerest rates; the administrative premium; and the monopoly profit. He has argued that from the point of view of borrower pure interest rates differe little between the institutional and non-institutional sources. On the other hand, the administrative premium and risk premium in credit to small (subsistence) farmers is much higher. Although some amount of monopoly profit remains, this monopoly profit is far less than had normally been argued; also see Bottomely, A. (1963; 1964; 1971)

18. See for instance Government of India Banking Enquiry Committee (1931) p136; also see Government of India credit survey (1954) Vol II, pp190-196.

19. See for instance Bottomely A., (1971); Food and Agriculture organization (1959) pp30-32.

20. See for example Government of India Report of the Agricultural Finance sub-committee (1945) p59.

21. See for instance Taylor (1971) pp207-217.

22. See Croteau (1963), p3.

23. See for instance Roy, E.P. (1981) pp43; also see Encyclopaedia Britanica (1970) pp451-458; Encyclopaedia Britanica (1910) pp82-90.

24. See Encyclopaedia Britanica Vol VIII (1910) pp82-90; also see Encyclopaedia Americana (1981) pp746-49.

25. For the summarized account of the historical evolution of credit movement in Germany we have mainly relied on the material reported in the Encyclopaedia Britanica Vol VII (1910) pp82-90 Encycyclopaedia Britanica vol.6 (1970) pp451-458; Encyclopaedia Americana (1981) pp746-49; also see Dulfer, E. (1974) pp94-101; Anschel, K.R., Brenon, R.H. and Smith, eds (1969).

26. Ibid.

27. Ibid.

28. See for instance Digby (1948); also see International Labour office (1950).

29. See Roy, E.P. (1981); Encyclopeadia Britanica (1970) pp451-58.

30. See Weaver, O.T. (1952).

31. Government of India Report of the Royal Commission on Agriculture in India (1928).

32. See International Labour Office (1949).

33. Digby, M. (1948).

34. Ibid.

35. Many studies have been undertaken in different parts of the world to judge effectiveness of rural cooperatives. UNRISD in particular, undertook an exhaustive study on Rural cooperatives and Planned change in many countries of Asia, Africa and Latin America. The findings of UNRISD study have been reported in eight volumes. Evidence regarding failure or success as reported in this section has largely been derived from the findings of UNRISD reports.

36. See for instance Carroll, T. et al (1969); Borda (1969); Apthorpe (1970); Apthorpe (1972); Inayatullah (1970); Inayatullah (1972).

37. See for instance Carroll, T. (1969); Ahmed (1974); Dorner, P. (1977); Lele (1974), Lipton M. (1976)

38. See Cole (1944) p71.

39. See Myrdal, G. (1968) p1335.

40. See Inayatullah (1972) p120.

41. Ibid p245.

42. See for instance Borda (1969).

43. See Apthorpe, R.J. (1970) pp100-153.

44. See Note 36 above; also see Apthorpe (1972) p108.

45. See for instance Inayaullah (1972) pp76; 98.

46. Ibid, p215.

47. See Government of Ceylon (1967) p128; also see Inayatullah (1972) p264.

48. Inayatullah (1970) p129.

49. Inayatullah (1972) p125.

50. Apthorpe, R.J. (1972) p79.

51. Ibid, pp79-80.

52. Apthorpe (1970) pp121-122.

53. See Borda (1969) pp36-41.

54. See Inayatullah (1972) p216.

55. Ibid, p96.

56. Ibid, p97.

57. Ibid, p174.

58. See Donald, G. (1976) pp159-180; also see Borda (1969); Apthorpe (1972); Inayatullah (1970); Inayatullah (1972).

59. See Webb, Sidney and Beatrice (1921); Digby, M. (1960).

60. See Adams et al (1984) pp229-265.

61. See for instance Khan, M.A. (1971); also see Inayatullah (1970); Inaytullah (1972) Apthorpe (1970), Apthorpe (1972); Borda (1969) Lele (1975); Lele (1981).

62. See Borda (1969) pp55-56.

63. Ibid, pp30-34.

64. See Digby, M. (1960); Davidovic, G. (1967); also see Khan, M.A. (1971); FAO (1959); Hough, E.M. (1950).

65. See Khan, M.A. (1971); Khan, M.A., Khan, D.A., and Bhatti, M.H. (1973); Kuldarni, K.R. (1962).

66. International Labour Office (1952); Lele, U. (1981); Lowdermilk, M. (1964).

67. See Nicholson, N.K. (1973); Rao, M.K. (1976) Reserve Bank of India (1954), Government of India CRAFICARD Report (1981).

68. See for instance Borda (1969); Inayatullah (1970) Apthorpe (1970), Apthorpe (1972).

69. Inayatullah (1972) p271.

70. See Borda, F. (1969), Apthorpe (1970); Apthorpe (1972).

71. Ibid.

72. See Borda (1969), Texier, J.M. (1974).

73. See Saul, J.S. (1971); Cliffe, L. (1970).

74. See Texier (1974); Borda, F. (1969).

75. See Miracle, M.P. (1969).

76. See Osuntogun, A. (1972) pp339-359.

77. See Joy, J.L. (1971).

78. See Government of India Report of the Royal Commission on Agriculture in India (1928); Reserve Bank of India (1969), Chaudhry and Dasgupta (1985)

79. See for example Gentil, D. (1974)

80. See Hussain, A.M.M. (1964); Raper, A.F. et al (1970).

81. See Shea, T.H. (1974).

82. It may not be that all societies adhering to Raiffeisen principles witness success. Nevertheless from the viewpoint of Raiffeisen they will achieve success.

CHAPTER 4

HISTORICAL EVOLUTION OF THE COOPERATIVE MOVEMENT IN PUNJAB, PRE-PARTITION AND POST-PARTITION

The purpose of this chapter is to trace the course and direction of the historical development of the cooperative movement in the Punjab for the period 1904 through 1947 when India was ruled by the British colonial regime. In addition, the chapter compares the expansion and direction of the movement that followed in two Punjabs (the Indian Punjab and Pakistan's Punjab) after the partition of India in 1947, particularly up to the year 1980. The chapter is divided into four sections. Section I is concerned with the problem of rural indebtedness and its general effects in India. Section II deals with the origin and development of the cooperative movement in India with particular reference to the province of Punjab. Section III presents a brief account of the course and direction of the cooperative movement in the two Punjabs for the years 1947 through 1980. And finally section IV concludes with a summary on the expansion and direction of the movement in the undivided Punjab, Indian Punjab and Pakistan's Punjab.

4.I The Problem of Rural Indebtedness and its effects

Money-lenders (known variously as Mahajans, Sahukars, Banias) had been part of the socio-economic structure in rural India since long before the inception of British rule. Agriculture was a highly uncertain occupation because Indian peasants were dependent on variable monsoons. Also due to primitive methods of cultivation, agriculture did not yield enough returns to enable agriculturalists to meet their normal day-to-day needs, not to speak of leaving a surplus for investment. Famine conditions arising out of failure of rains left the village money-lender as the only recourse for the poor villager. The money-lender enabled the peasants to meet their immediate contingencies and was considered by village folk a useful man who often gave credit when it was most needed.[1]

The need for credit in the Indian agriculture arose primarily due to unpredictable seasonal deficits (or surpluses) which were inherent in the biological characteristics of subsistence farming. In addition to failures in growing conditions, diseases, uncertain markets and illhealth were an essential character of Indian agriculture. Subsistence farmers had generally a low volume of working capital with which to meet both the predictable deficits and unpredictable adversities. Despite a low volume of capital they had to meet the food requirements of the household and also to cover the operating expenses of the farm. The subsistence character of farming frequently did not leave them with enough working capital to finance their consumption and production requirements.

As noted earlier in chapter 3, the drawing down of crop inventories to meet for the food requirements of the subsistence farm household is the equivalent of the cash outgoings to meet the operating expenses of the commercial farm. The subsistence character of farming in Indian conditions does not permit the farmer to draw a distinction between farming for production and farming for consumption; working capital and consumption requirements were to all intents and purposes the same thing.

The characteristic inherent in the biological nature of farming, together with unpredictable failures attributable to diseases, markets, health and other risks were more prevalent in the Indian setting. Even good crop harvests, if any, left the farmers with little marketable surplus after allowing for the family's food consumption and production requirements. The problem was further complicated by the fact that while the basic input requirements for the household were important, under the given socio-economic conditions consumption requirements were not just those relating to basic physiologically-determined needs and some were not known with certainty. The subsistence farmer was a member of a social structure and the need to maintain self-respect influenced consumption requirements in addition to the need merely to survive. Social obligations were as important and in this respect, there were many unpredictable social events requiring expenditure: weddings, funerals, and other ceremonies. These entailed very real and inescapable consumption requirements from the point of view of the farmer.

Given the biological nature and scale of his productive activities and the social nature of his consumption requirements, it was frequently evident that the available working capital was inadequate. As a result the subsistence farmer was left with no option except to borrow from relatives or friends; but in this respect the latter were in no better economic circumstances than the subsistence farmer was himself placed. The subsistence farmer turned to the local merchant or the money-lenders to finance his consumption and production requirements. However, once given access to funds, he did not use the working capital for the purchase of agricultural inputs or investment in agricultural capital but instead employed it for consumption purposes.[2]

It may however be noted that despite the necessity for credit, the general socio-economic conditions in rural India were not favourable to either the borrowers or the lenders. This was attributable (among other reasons) to the fact that (a) there was little marketable accumulation of capital to lend (b) there was little surplus from which the peasant could pay back the loan (c) there was practically no security to offer to the lender, because the rights in ownership of land were neither valuable (because cultivable land produced not much surplus over cost of production), nor definitely recognised and enforced and (d) there was no sure means of enforcing recovery against the recalcitrant borrower, as there were no regular courts to enforce the contracts between the debtor and creditor.[3]

Prior to British rule, however, money (or the cash economy) assumed lesser importance in the subsistence setting in India, and its use did not assume great prominence in areas or among sections of population who largely remained unaffected by commercialized urban regions. Nicholson, in his study of the rural credit structure in Madras (India) found that, despite necessity for credit by the peasants the preponderance of loans was made in kind between ryots (peasant farmers) for small sums negotiated on short-term (one-two years) basis. These loans were called 'Nagu' or grain loans. They were used by farmers either for seed or subsistence purposes. Money-lending, on the other hand, played a minor role in the over-all credit structure of Madras. Grain lending was, however, frequently a political as well as an economic activity. During times of famines rich farmers dispensed grain to their clients as an obligation and a favour to be repaid at the lender's bidding. Money was often of secondary importance in a region of persisting scarcity and famines. Substantial money-lending activities were confined to the irrigated or stable agricultural zones of the presidency. Consequently, grain-lending and to a lesser extent, money-lending placed a considerable amount of economic and political power in the hands of a minority of rich peasants.[4]

In addition, activities of informal lenders in the Indian villages took many other forms. There were the village shopkeepers cum traders/merchants interested in the purchase of agriucltural produce. The shopkeeper (in his various multiple roles) fed and clothed the peasants and also met their credit requirements until the crop harvest. The supplies were often provided by him at higher than prevailing market rates, thus including a hidden interest charge. As the shopkeeper marketed the farmer's produce, he either obtained repayment in kind or specified that the grower would not sell his crop through another party. Alternatively credit was provided by a trader interested in the purchase of the grower's produce. The grower entered into an informal contract with the dealer stipulating supply of produce at predetermined prices or with price unfixed until delivery or later. The former alternative was more general and the grower received a percentage of the price in advance. No interest was charged but the price fixed was frequently unfavourable to the producer. Alternatively the price was reduced when the final payment was made[5].

The money-lenders (Mahajans, Saukars, Banias, village shopkeepers, traders etc.) performed an indispensable economic function, but the price they charged for their services was very high.

And this had an adverse effect on the overall socio-economic conditions of farmers. The farmer's dependence on high cost informal lending had a severe direct effect on his production choices. The farmers paid the money-lenders an interest rate that amounted sometimes to over 100 percent or more per year. Such rates imposed minimum requirements in rates of return on investment that simply excluded many alternatives that otherwise were economically useful for him as well as the subsistence economy. Even important improvements in technology or marketing failed to generate payoffs that reached 100 percent level. In addition, the money-lender required the farmers to repay in kind. He acquired a major part of the crop-inventory and reduced the risk of default by controlling the farmer's marketing in many cases. Further, product prices were often depressed in the market as usually the money-lender was the sole buyer, and in the absence of sufficient storage facilities the farmer could not hold even his meagre marketable surplus. The farmer was therefore not able to take advantage of seasonal price appreciation, if any.

As such the money-lender was the only literate person in the village but he was ill-equipped and uninterested in making loans over a period of time that allowed for much of the increase in farmer's income to serve as the basis for repaying the loan. As noted earlier in chapter 3, in the subsistence setting credit access that is limited to the money-lender on short term and with high rates of interest severely restricts the farmer's response to production alternatives if any, that otherwise can be rewarding to him and also to the subsistence sector. Under the given conditions, the farmers in India had no option except to borrow from money-lenders to meet their consumption and production requirements, but the provision of credit by the money-lender to the peasants often left them in worsening economic conditions; the farmers were unable to pay back to the money-lender due to lower levels of production.

The money-lender in India became so powerful that he was commonly described as the capitalist of the concern who practically met all expenditure, paid the rent and took all the profit from the borrower. The effect of money-lending was acute in all parts of India. In Bengal for instance 'Zamindar' was literally a mere rent charger whereas the peasant was reduced to the status of field labourer barely earning his livelihood.[6]

The establishment of British rule in India tended to increase the demand and facilities for borrowing so that increasing indebtedness was accompanied with improvements in agricultural methods and organization. British rule generally brought with it a degree of peace, order and security in India. This, together with the removal of a number of positive checks to population growth resulted in a rapid increase in the population and increased pressure on the land. With the increase in population, new land, often less fertile, was brought into use. At the same time it became necessary to cultivate the "old" land more intensively. These changes necessitated more expenditure on land, especially in areas dependent upon irrigation. The gradual infiltration of European methods of cultivation increased the demand for capital. Hence the peasants needed to borrow both in order to make capital investments and more often, to carry on ordinary cultivation.[7]

Prior to British rule, the power to borrow was generally limited by the political, economic and legal lack of security; land would hardly be considered acceptable security for a loan. Under British rule, the price of land rose considerably owing to increased political security, increased security of tenure, increased demand for holdings and the extension of valuable commercial crops. Moreover, whereas it was previously not customary for a creditor to seize the land of his debtor, under the new laws and the systematic execution of the decrees of the court land could now be mortgaged, and if not redeemed at the appointed time became the property of the creditor. The money-lender eagerly accepted land as security, and if his loan was not repaid, he either became the absolute owner of the mortgaged land or defacto owner of the labour and produce of his debtor, who under British rule could not escape from his bargain. Thus increased security meant more loans and greater indebtedness. The growth of law and order led to competition for land instead of tenants while the institution of civil government tended to act as a vehicle to deprive the cultivator of his holding and of the profits of cultivation. Thus the verbal contracts of the past and the easy relations with a hardly more literate money-lender gave way to a formal, though one-sided account-keeping which tended to reduce the more important party to slavery or indigence.[8]

It may further be noted that, prior to British rule, the land taxes in many regions in India were levied at too high a rate and collected in too rigid a manner, which provided another reason for resort to the money-lenders.

In point of fact, there was generally a worsening effect of the money-lender's system, as it became apparent in terms of increased farm indebtedness. The magnitude of indebtedness was severe in many provinces. The Deccan Riots commission found in 1857 that one-third of the occupants in twelve villages in the Ahmed Nagar district of Boombay were involved in debt, to the extent of about eighteen times of their revenue assessment. The Famine Commission (1880) expressed the view that one-third of the land-holders in India were deeply in debt and an equal proportion was in debt but not beyond the power of recovering themselves. Darling found that rural debt in Punjab was at least nineteen times the land revenue demand of the government. In the case of proprietors the debt was equal to three years' net income.[9]

As noted earlier loans borrowed by the peasants from the money-lenders were used by them often to meet consumption requirements, which included in many instances expenses on social ceremonies. As such, indebtedness in the Indian setting was as much a problem of character as of credit. Indebtedness was therefore a problem of national and personal characteristics coupled with laws, social customs, modes of inheritance, seasonal difficulties and the like. They were the key contributing factors resulting in the peasants borrowing beyond his needs for "unnecessary" or "unproductive" purposes. And this led to serious economic, social and moral consequences in the subsistence setting.[10]

Insofar as economic consequences were concerned indebtedness led to agricultural inefficiency. When the cultivator found that all his additional efforts went merely to enrich his creditors he lost interest in improving his position by greater effort and improved methods of production. Productivity of land thus declined further. When the debt involved mortgaging and finally sale of landed property, the result was an increase in tenant cultivation and increased number of landless labourers. Both these developments were not conducive to agricultural progress and prosperity. In the marketing of his produce also, the peasant had to suffer as he was debtor to the middleman-trader. As stated before the peasant sold his produce to the creditor on the latter's terms. This meant not only lower monetary return to the debtor, but also it acted as a barrier to the improvement of his marketing methods. Thus no agricultural progress was possible for the indebted peasants.

As to the social consequences, class friction arose between the creditors and debtors. The increase in landless labourers with no avenue of employment created further social discontent and political instability.

The moral consequences of indebtedness were not less debilitating; the cultivator lost his ancestral property and in many cases with it his economic freedom. In many regions in India, the tenants were practically slaves of money-lenders (as also of the landlords) who thoroughly mistreated them. In short, once in debt, it was virtually impossible for the cultivators to get out of it.

An important cause of increasing indebtedness was increasing poverty of the peasant farmers. Though important, it was not solely or invariably due to increasing poverty, rather the deplorable by-product of a number of changes, that in themselves were the signs of increased prosperity such as the increased security and the rise in the price of land already mentioned. In fact, indebtedness was not so much the result of poverty as a cause of poverty, as the most poor in India, at least in the villages, could not and did not borrow.

The problem of indebtedness in India did not assume exceptional importance because indebtedness was exceptionally great, nor because it was due to increasing poverty, but because it was accompanied by exceptionally disastrous effects. The Indian farmers had to pay exorbitant rates. It has been documented that loans to agriculturalists given on the security of land generally varied from a little over 18 percent to about 37.5 percent per annum. Interest on loans given without security generally varied within the range of 200 and 300 percent per year.[11]

A question arises as to how the money-lender was able to charge such high rates of interest on his loan. Some reasons in this regard have already been advanced in chapter 3. It may be noted however, that the market for the money-lender in the Indian setting was small - restricted to a village. In addition, there was one money-lender in one village, and entry of additional lenders was retricted by low mobility. As such, the money-lender enjoyed a monopoly in his business. Further, when there was a general scarcity of capital and the borrowers were the poor farmers under some time-bounded economic pressure, a less elastic demand with respect to interest rates was evident. It may further be noted that the absence of any regular financial establishment to fulfil an essential function in the Indian villages left the money-lender in a strong position to take advantage of the monopoly control he enjoyed of scarce factor (capital) in the rural areas. As has been noted earlier, the money-lender charged a lower rate on secured loans as against a higher rate on the loans advanced without any tangible security. This pattern suggests that a part of the high rate of interest represented a premium for risk. And this conformed to what can be expected in a poor agriculture.[12]

We have already outlined in chapter 3 that the nature of security in a subsistence setting depends on two factors (a) the capacity of the borrower to earn an income beyond the basic needs of subsistence which will determine their ability to meet interest charges and eventually to repay the loan, and (b) the market value of the asset pledged as security should it be necessary to acquire them because the borrowers cannot meet their obligations. In both these respects the specific conditions in India were unfavourable to the borrowers. As the larger section of rural population lived at the margin of the subsistence, their repaying capacity was poor. As to the land which was the best asset to be offered as security, there were many peasants who were landless. On the other hand, the sale price of land which the owner-occupier could obtain was depressed as the landlords were entitled to a transfer fee. It may be argued that since the money-lender had a monopoly in rural areas he charged a higher price than was otherwise possible, but it cannot be denied that considerable risk was involved in lending to borrowers with inadequate credit and this led to money-lenders charging a premium. It may thus seem that it was not only monopoly profit as such, but low level of per capita production of borrowers which accounted for the high rates of interest in the agriculture sector.

In short, the peasant borrowers in India stood little chance of ever extricating themselves from debt once they borrowed from the money-lenders. They had no alternative occupation and as the money-lender was often both the local shop-keeper and the purchaser of the produce of his debtor, the latter had no chance of earning or saving anything to begin to repay his debt. The social and educational superiority of the money-lender also strengthened his position. As already stated, the money-lenders alone kept the accounts, and manipulated the repayment to perpetuate debt. As such indebtedness in India became a permanent feature. And, a larger part of the capital of the country became concentrated in the hands of the money-lenders.[13]

For a long time the policy of the British government in India remained one of non-intervention with the forces which perpetuated the problem of rural indebtedness even further. However, the famous Deccan Riots led the British government to pass the Deccan Agriculturists Relief Act of 1879; to inquire into and adjust disputes which arose between the cultivators and the money-lenders. This was not a useful attempt as it tended to multiply litigation and stimulated ill-feeling between the classes. Although this act empowered the courts to alter the terms of the contract and reduce the interest if it was feared that excessive rates were charged and to arrange for the repayment of capital debt by instalments, the results were generally disappointing.[14]

The Famine Commission (1880) was appointed to examine the whole problem of rural finance and to suggest measures to promote revival of Indian agriculture. The Commission made many recommendations. It was however underlined by the commission that

> "violent interference with the legitimate business of the rural banker would be disastrous, as it would result in the calling in of all agricultural loans and transfer of his capital to some other fields of investment."[15]

This was why, in spite of political considerations, no extreme measures were taken to wipe out the money-lenders altogether.

The Famine Commission (1880) proposed extension of Deccan Agriculturist's Relief Act, 1879 to the other provinces. Further, the commission stressed upon the government the need to make provision of public funds to the agriculturalists, particularly the indebted peasants.

The Land Improvement Act of 1883 was passed as a result of the recommendation of the Famine Commission. The Act provided facilities for loans to be used for capital expenditure upon Land Improvement. Simultaneously the Agriculturists Loan Act was passed and this provided loans for the purchase of seed and cattle and other miscellaneous agricultural purposes. Loans were provided to the farmers under the administration of the government, especially by the Department of Revenue Collection. These Acts did not succeed in their purpose as those most in need could not obtain loans. The peasants had no security to offer while the state did not enter into sufficiently intimate contact with individual cultivators to enable it to gauge personal credit. Additional drawbacks of these loans were that (a) they were generally available to landowners and not to the landless tenants who constituted the majority of the farmers (b) administrative bottlenecks did not make loans available to the borrowers as and when desired (c) they were recovered as arrears of land revenue, and there was a practice of coercive recovery by the Revenue Department at a time when the peasant was worst off for money and (d) the amount loaned was generally inadequate to serve the required purposes.[16]

The general failure of the state system (commonly termed as Taccavi advances) and increasing urgency for the provision of credit to the agriculturists, in particular the indebted peasants led to the preparation of a scheme for the establishment of agricultural banks by Sir William Wedderburn and Mr. Justice Ranade in the early 1880s. This scheme proposed (a) that farmers' debts should be liquidated with the help of government funds; (b) the agricultural bank should perform two functions (i) to take over the claims of the government under the liquidation plan and (ii) to advance money to farmers; (c) the bank should be able to recover its dues as arrears of land revenue. This scheme was accepted by the government but rejected by the Secretary of State on the grounds that public funds would be locked in 'hazardous' and 'speculative' business.[17]

The measures taken by the government to check the problem of rural indebtedness generally failed, as the supremacy of money-lenders remained undisturbed and the transfer of land continued. By the end of the 19th century, the problem became rather severe, for instance in the province of Punjab. As a result, the Punjab Land Alienation Act (1901) was passed. The Act aimed at preventing money-lenders from obtaining possession of their debtor's land, by prohibiting land from passing into the hands of the non-agricultural classes. This again was unsatisfactory insofar as it reduced the security which cultivators could offer and so made it more difficult for them to obtain command of working capital.[18]

Indeed, the problem of rural indebtedness in the Punjab as in other provinces in India, together with the attendant question of land alienation, arose out of the fundamental necessity for credit on the part of the village cultivator. The attempts made by the government generally failed in providing a reasonable amount of credit to the peasants, and helping them in overcoming the problem of rural indebtedness. In addition, little success was achieved in imposing legal restrictions on the alienation of land. It was as late as in 1928 that the Royal Commission on Agriculture in India remarked that

> "no usufructuary mortgage of agricultural land should be permitted by law unless provision is made for automatic redemption within a fixed period of years, of which twenty should be maximum".[19]

In addition, voluntary attempts were made in various provinces in India to provide loans on reasonable terms for productive purposes. For example, loans banks and companies were formed in Bengal, while 'Nidhis' of Madras and similar associations in the United provinces aimed at providing credit to their members on reasonable terms. These voluntary associations, in particular the 'Nidhis', enrolled in their membership persons from a more highly educated and advanced class than the poor agricultural population. 'Nidhis' were merely the financing bodies and had no interest in the object of loan and/or with their members' thrift and indebtedness. As such they proved less important in resolving the problem of rural indebtedness.[20]

As discussed earlier in the preceding chapters many German farmers faced a problem of rural indebtedness in the 19th century. They had to borrow from high rate money-lender to buy seed and supplies. The money-lender charged as much as 100 percent interest on his loan, and many German farmers were unable to repay the loan to the money-lenders due to their low levels of production. The money-lender foreclosed on the property if payments were not made by the cultivators on the day they were due. As such, problems of Indian peasants were not very different from those of the German farmers. A viable solution for checking the problem of rural indebtedness in Germany was proposed by Raiffeisen, who by founding successful rural credit unions had succeeded in helping the peasants. It was argued by many pioneers of cooperation in India that the principles on which credit unions were founded in Germany were applicable to the subsistence setting. The experiments of Raiffeisen in launching successful agricultural credit unions prompted the British government to find a solution to the problem of indebtedness in rural India on more or less similar lines. During the latter half of the 19th century the government of Madras, in particular, took initiative and deputed Sir F. Nicholson to study the possibility of introducing a system of viable agricultural land banks in the presidency. Attempts in other provinces followed and an opinion and consensus on the efficacy of the cooperative device in resolving the problem of rural indebtedness started gaining roots. As such the British government became serious in the inception of the cooperative movement in India around the turn of the 19th century.[21]

4.II The origin and Development of the Cooperative Movement in India with reference to Punjab

The idea for using cooperation as a means of combating the problem of indebtedness in India was thus conceived by Sir F. Nicholson. Other pioneers such as Dupernex, Maclagan and Crothwaite were also involved around the turn of the 19th century. Nicholson, in particular, made a detailed study of the German and other European cooperative movements in 1895-97. He suggested the establishment of cooperative credit societies on the pattern envisaged by Raiffeisen in Germany. Nicholson emphasized that it was not only credit that was needed, but also the inculcation of habits of thrift and 'self-help'. The best way to do this, Nicholson urged was to "Find Raiffeisen".

About the same time Mr. Dupernex was deputed by the government of the United Provinces to suggest a form of societies suitable for the prevailing conditions of the United Provinces. Dupernex too advocated the establishment of cooperative credit societies with the financial aid under the aegis of the government. As a result of these two enquiries, a few cooperative societies were started in Punjab, the United Provinces and Bengal, on the personal initiative of district officials.[22]

The driving force for the provision of a legislative basis to the cooperative movement in India was provided by Lord Curzon. He appointed a committee under the chairmanship of Sir Edward Law, which investigated the whole matter during 1901-3. The report of the committee made definite recommendations and served as the basis of the cooperative credit societies Act of 1904.[23]

The theory underlying this Act, and indeed the whole cooperative movement was that

> "an isolated and powerless individual can, by association with others, and by moral development and mutual support, obtain in his own degree the material advances available to wealthy or powerful persons, and thereby develop himself to the fullest extent of his natural abilities".[24]

Hence, the cooperative credit societies Act, 1904 provided for the founding of cooperative credit societies on the basis of personal knowledge and credit of those who lived in intimate contact with each other. Each society was to consist solely of persons living in one particular village or locality and to be limited to quite small numbers, in order that members really should know each others' position and character. In rural areas the liability of members was to be unlimited, while in urban areas liability might be either limited or unlimited. The expenses of administration were to be minimized and the ideal of "self-help" maintained by appointing the officials from amongst the members, on a voluntary and gratuitous basis. Any idea of exclusiveness or profit sharing was to be prevented by allocating any surplus made by a society to reserve, on an indivisible basis. In fact, the whole scheme was based on the principles, and the societies were to be formed on the model of the credit societies of Germany.[25]

A special government official, called the Registrar of cooperative credit societies, was appointed in each province to organize and control the development of the movement, but the principle was adopted that as soon as possible, the societies should be placed on an entirely independent footing. In short, the objects of the Act were to provide facilities for the provision of reasonably cheap credit for productive purposes, on personal credit, in order to encourage the investment of capital in the land and at the same time to inculcate thrift and foresight by means of mutual cooperation, without undermining the independence of cooperators.

Registrars were consequently appointed in each of the provinces and the formation of a few model societies was immediately undertaken.

As the movement developed, it faced serious opposition from money-lenders, who feared that success of credit societies would mean their displacement. Besides, the persons who administered civil law mainly came from a non-agriculturist class and they became biased against the movement. In the Punjab province, the then Registrar of the cooperative societies remarked in his annual report of 1912 that

> "the Munsifs as a body are recruited largely from the money-lending or small shop-owner classes so that many of them have a class prejudice against the village banks. This is shown in way of vexatious and even illegal action, towards parties who happen to be members of cooperative societies and by insulting treatment of them in court. It is not an uncommon practice for a money-lender to put members of a newly started bank into court with the object of frightening the other members who are also on his books from joining a society. Once a client is in the court, many and various are the ways in which a hostile Munsif can persecute him".[26]

As a result, the pace of the formation of credit societies in India in general and in Punjab in particular remained slow.[27]

The cooperative credit societies Act 1904, provided only for the registration of credit societies. Soon, however certain defects were discovered in this Act. In the first place this act did not provide legal protection to societies formed for purposes other than credit. Second, the growth in the number of societies and the difficulty experienced in raising capital locally gave rise to the question of establishing some form of central organization to provide capital to local societies and also to supervise them. Third, classification into rural and urban societies was inconvenient and unscientific. These issues led to the passing of the cooperative societies Act 1912. This act authorized the formation of District Unions of primary societies and of central banks (on an unlimited liability basis). The act also replaced the classification into urban and rural societies by a classification according to whether liability was limited or unlimited irrespective of the location of the society.[28]

As a result, primary societies (such as consolidation of land-holding societies, better living societies, sales societies and commission shops besides agricultural credit societies) started establishing in Punjab. In addition, district unions of primary agricultural societies and central banks were established. Nevertheless, the pace of progress in the immediately following years both with regard to the formation of primary societies and central banks remained slow.[29]

Prior to the passage of the cooperative societies Act 1912, the primary agricultural credit societies were established at the base level of the movement. The Act of 1912 allowed central cooperative banks to occupy a position above the primary societies. The central cooperative banks were very important for the growth of the credit movement in that they collected deposits from townspeople and from the primary societies which had surplus funds. These banks, in turn, channelled funds to the affiliated societies in need of capital. Later the central cooperative banks in the Pubjab were affiliated to form the Punjab Provinicial Cooperative Bank. The Punjab Coooperative Bank mobilized funds in a similar manner from the cities, channelling them back to the movement at the lower levels. A federal credit structure was thus built up in the province. Cooperative Land Mortgage Banks for meeting medium/or long-term credit needs of agriculturalists were also established, but they stood somewhat apart both in regard to nature of credit and security against which it was provided.[30]

The government of India passed a resolution in 1914 remarking on the progress made and recommending a change in policy as regards the purposes for which loans might be granted to members. Up to this time loans were restricted to "productive purposes" and could not be given to enable members to pay off old debts, but it was now considered to be more satisfactory if members dealt solely with cooperative societies for credit purposes, whether the loans were needed for agricultural purposes or "domestic reasons". From this time onward a policy was adopted of enabling members to pay off all other creditors and consolidate their debts.

With the earlier shortcomings thus removed, the movement made considerable progress, although qualitatively progress left much to be desired. The government appointed a committee under the chairmanship of Sir Edward Maclagan in 1914. The committee reporting in 1915, listed a large number of defects such as the misappropriation of the bulk of loans by means of 'Benami loans'; nepotism in advancing loans to relations and friends; exclusion of deserving persons from the movement on the grounds of their being of inferior castes; delay in the grant of credit; lack of proper auditing and inspection etc. The report of the committee resulted in the overhauling and reorganization of the whole administration of cooperation. Attempts were made to eliminate all societies which did not live up to the ideals of cooperation and in particular to insist upon the punctual repayment of loans by members. Amongst many of its recommendations, the committee proposed "one society to one village and one village to one society".[31]

The movement received a set-back due to world war 1, but recovery soon supervened. A severe set-back followed the scarcity of 1918-19 but again proved only temporary. The government of India passed a Reform Act 1919, which transferred the subject of cooperation to the provincial governments. Some governments (including the Government in Punjab) retained the 1912 Act, while others passed their own Acts. Thereafter the progress was further stimulated, particularly because of economic prosperity which prevailed during 1920-1929. The expansion as before was largely quantitative. The most distressing qualitative weakness of the movement was a steady increase in the overdues.[32]

The period of general agricultural prosperity was cut short by the 'Depression' of the 1930s. Agricultural prices fell disastrously. Between 1929 and 1933, the value of agricultural produce in the Punjab fell by some 50 percent.[33] Similar developments took place in other parts of India. As the incomes of the farmer fell, the burden of his debt increased further. His capacity to pay back his obligations decreased. In most cases, he had to resort to the money-lender to help him out.[34]

The condition of the cooperative credit movement was bound to deteriorate under these circumstances. Overdues accumulated. Societies assets were almost frozen. Recovery of loans became a near impossibility. As such, recovery by societies in the Punjab fell from 32.9 percent in 1927-28 to some 16.1 percent in 1930-31. Between 1931-32 and 1933-34 it ranged between 13 and 13.9 percent.[35] The weaknesses of the movement such as lack of education, inadequate supervision and guidance, earlier pointed out by the Royal Commission on Agriculture (1928)[36] seemed to have aggravated the problem even further.

In addition, oppression by money-lenders was felt acutely in the depression years after 1929. Several laws were passed by the government for controlling money-lenders' activities, but were not entirely effective as the alternative source of credit (e.g. cooperative credit) was not available to many indigent peasants. The superior bargaining power of the money-lender, the illiteracy of the ordinary debtor, the absence of satisfactory inspecting machinery and lack of sufficiently deterrent penalties contributed to infringement of these laws. To the extent these laws were effective, they produced new sets of money-lenders, such as landlords, and they led to contraction of credit facilities where cooperative societies were weak and/or did not emerge.[37]

The outbreak of the second world war in 1939 found the movement struggling to find a new equilibrium and a basis for further advance. With the rise in agricultural prices, the general economic conditions of the peasants improved. The members were thus in a position to repay their debt to the societies. This improved their financial position. Further the deposits of central cooperative banks increased and the demand from affiliated societies for loans decreased. Even central cooperative banks were faced with the problem of surplus funds. A spirit of planning was also abroad in the country. The war years produced an upward trend in the growth of the movement. Nevertheless, expansion of the movement was largely accounted for by non-credit societies. As such, war imparted a stimulus to supply societies, consumer stores and to marketing societies in the Punjab.[38]

Even before the war ended, various proposals for post-war economic reconstruction were put forward. And in all these schemes an important place was assigned to the cooperative movement by the government. As such, the cooperative movement was conceived by the government as a vehicle for furthering the cause of economic reconstruction in the country.

A committee, commonly known as the Saraiya Committee was appointed by the government of India in 1945 with the object to draw up a comprehensive plan for the development of the movement. The committee submitted its report in 1946. The recommendations of the committee covered almost every aspect of cooperative activity. The committee made a large number of recommendations for the reorganization of the movement. It especially stressed the importance of cooperation in any plan of economic development of the country. The committee attributed limited success of the movement in the past to the "laissez faire" policy of the state, the illiteracy of the people and above all the failure of the movement to tackle the life of the individual as a whole. The other shortcomings of the movement, viewed by the committee, were the small size of the primary unit and undue reliance on honorary services with resultant inefficiency in management.[39]

No notable developments took place between 1945 and the partitition of India in August 1947.

In short, the cooperative movement in India was not an outcome of any popular demand. It was introduced by the British government as a public policy with the object to improve the socio-economic conditions of the peasants. Public enthusiasm and a spirit for voluntary cooperation had yet to be developed. The movement was therefore introduced under a statutory framework, and cooperative societies Acts were subsequently promulgated to regularize the working of societies. A government department (department of cooperation) was established to take charge of the movement until unofficial workers came forward to promote the object of the movement. This was however in significant contrast of what had appeared in Germany and Britain, where the movement developed spontaneously. The state stepped in only at a later stage when the cooperatives were already functioning and the purpose of intervention was merely to establish business and contract regulations. The rules governing membership, operation, finance, profit sharing etc.

were largely developed by members themselves.

In point of fact, the movement in India did not emerge from any popular demand primarily due to intertia, illiteracy and ignorance among the rural masses. The government had therefore to come forward and play an active role in the promotion of cooperatives, their supervision, audit, and inspection. Furthermore, the task of cooperative education, training and provision of technical advice and guidance was undertaken by the government. It was thus under the prevailing conditions that a statutory framework was required to regularize the introduction of the movement. As has been noted, a Registrar was appointed to supervise the movement, and vast powers were granted to him to intervene in the 'cooperatives' affairs. Nevertheless, it was intended that as soon as the movement developed and established firmly in the local setting, the Registrar (as also the Department of Cooperation) would withdraw gradually from his extensive control of the movement. However, the crux of the matter is that at no time in the subsequent period were serious or conscious efforts made to make the movement a People's movement. The movement thus did not grow from the grassroots and the societies did not manage their own affairs for their own good without any form of external interference or government support.

Nonetheless, it can be argued that in the absence of public enthusiasm the movement in India would not have been introduced at all without government support, and a statutory framework was necessarily required to promote the cause of the movement. Indeed, in Germany the necessity for the legal and statutory provisions was underlined by both Raiffeisen and Schulz, but this was made mandatory at a time when the movement had gained roots by voluntary and spontaneous efforts and the state stepped in only when it was considered essential by the pioneers themselves to seek a legal status for the movement.

4.II.1 Development of the movement in Punjab (1904-47)

The various types of societies which started taking root in the Punjab after the passage of the Cooperative Societies Act, 1912, included (a) Primary credit societies based sometimes on unlimited, sometimes limited, liability (b) Primary non-credit societies (agricultural and non-agricultural), (c) Central organizations, for both general and credit purposes and (d) the apex cooperative institutions viz, the Punjab Cooperative Bank, and the Punjab Cooperative Union.

The whole object of the movement in Punjab, as in any other part in India, was to encourage humble and unimportant individuals to join together on an egalitarian basis in order to assist each other morally and materially. Hence the strength of the movement depended on the soundness and energy of each of the primary units. Of the latter, however, primary agricultural credit societies in Punjab formed the mainstay.[40]

A primary agricultural society, in particular credit society, could be started by not less than ten members, and was typically located at the village level. The society comprised villagers who were allowed to join because of their personal character (credit worthiness) and not the extent of their existing property. In theory, the societies were to be founded primarily by the deposits and share capital of local members. Loans were to be disbursed to those most needy, with interest rates and repayment schedules fixed by the members themselves. Mutual trust in members' ability to repay was the only security for a loan. This was reinforced by the principle of unlimited liability i.e. every member was to be financially obliged to the full extent of his property to make good the debt of the society.[41] The Committee on Cooperation (1915) remarked that

> "it is clear that the creditors' real security consists not in the material assets of the members, but in the ability and desire of the members to put the borrowed money to productive uses and to repay the loan out of the profits made thereby ... The security, in fact, lies in the use of each loan for genuine productive purposes, the honesty and thrift of members, the watchfulness they exercise over each other, the moral influence which they bring to bear upon dishonest or unthrifty co-members, and the feeling of solidarity which is usually awakened by association for a common purpose".[42]

In short, mutual security, limited scope (village and its environs) and unlimited liability were the basic principles of rural credit societies established in Punjab, as well as in other parts of India.

The primary society elected a managing committee from amongst its members, and then one of them, usually a literate member of the committee, was chosen to be the secretary. It was considered essential that the members of the managing committee in general and the secretary in particular should have a knowledge of, and belief, in cooperative principles and methods. Theoretically, the managing committee undertook the tasks of financing, admitting new members, advancing loans and ensuring effective recovery of credit from members.[43]

The membership of primary societies was extremely varied, although in many cases, members of any one society were often predominantly drawn from the same caste or group of castes. Also it was generally customary that a society comprised solely of Muslim or non-Muslim members. Nevertheless members of the under-privileged sections of society were also enrolled by the cooperatives.

A vigilant watch had to be kept by the society to ensure that money was actually spent for the purpose for which it was borrowed, and efforts were aimed at building up strong reserves for the society and to encourage members to save and invest in the society.

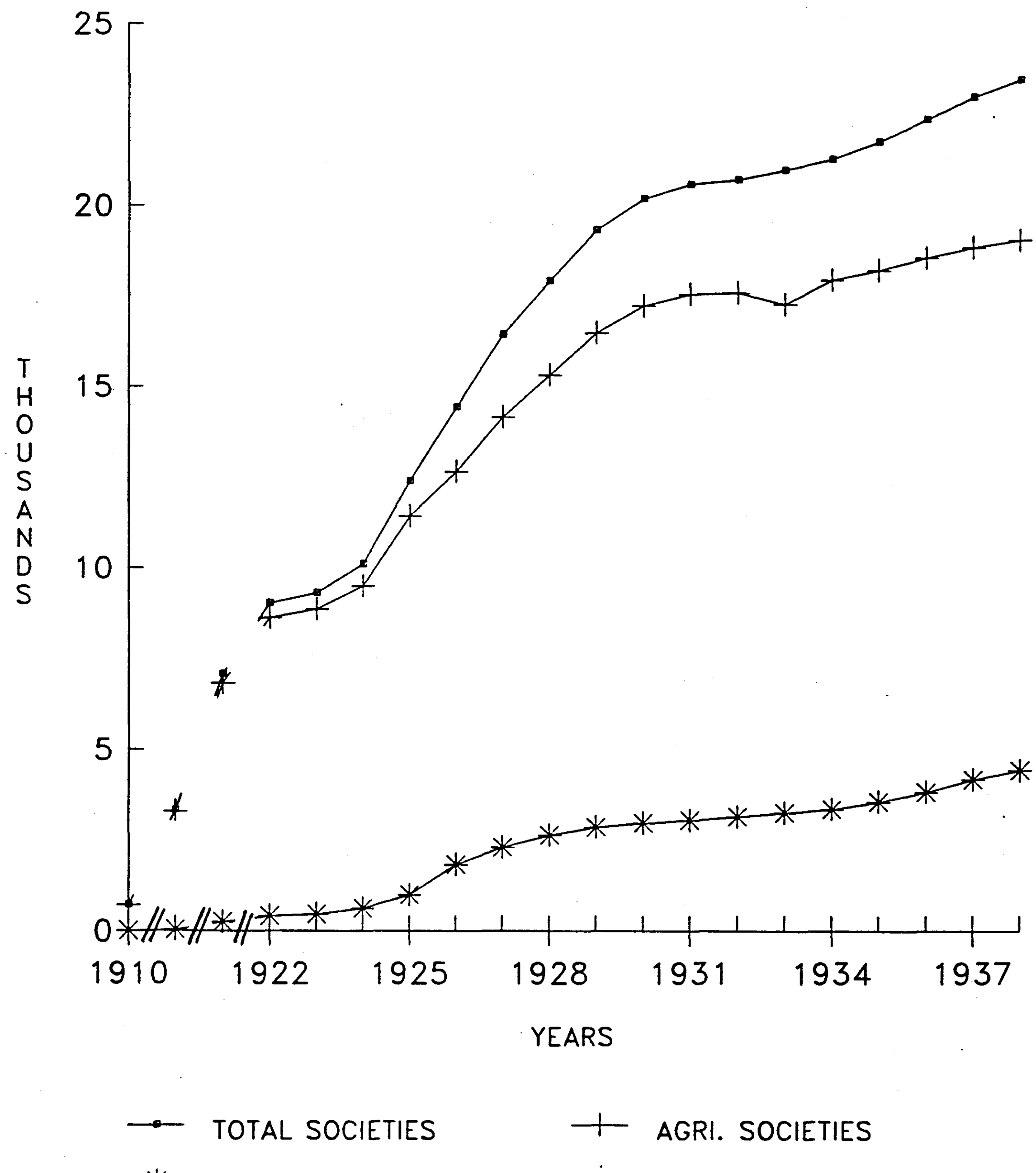
The relevant statistics on the progress of the cooperative movement in Punjab from 1910 through 1946 are presented in Figures 4.1 through 4.5 (also see Tables 4.1 through 4.4). It may be noted that by and large the Cooperative Societies Act, 1912, and the general increase in agricultural prices on account of the First World War, helped the rapid expansion of the movement. In the five year period 1915-20, the number of societies more than doubled, with an equally impressive rise in the membership and total working capital. The expansion continued through the post-war years and by 1926, the number of societies more than doubled with further impressive increases in the membership and working capital. In addition, the base of the movement was widened with the opening of societies in fields besides credit. The steady expansion continued from 1927 through 1928. Nevertheless with the onset of world-wide depression in 1929, there was a stagnation of the cooperative movement, as is evident from the statistics presented in Figs. 4.1 through 4.4.

The progress of the movement in Punjab is revealed further by the analysis of the performance of societies in terms of their growth, membership, coverage granted to rural population, their asset position and the expansion of cooperatives into fields other than credit.

The growth of primary societies, both agricultural and non-agricultural for the years, 1910 through 1945 is given in Figs. 4.1 through 4.5. It can be seen from the data presented in Fig.4.1 (also see Table 4.1) that the total number of primary societies in Punjab rose from 699 (with 693 as agricultural and only 3 as non-agricultural societies) in 1910 to 23476 in 1938 (with 19057 as agricultural and 4419 as non-agricultural societies). Thus, about 81 percent of primary societies in Punjab in 1938 were agricultural and only 19 percent were urban societies, indicating that the cooperative movement in the Punjab remained primarily agriculturally oriented up to the end of the third decade of the present century. This position, however slightly changed in subsequent years. Thus out of a total of 27054 primary societies in 1945, some 77 percent were classified as agricultural and 23 percent as non-agricultural societies. There was a sharp expansion in the number of primary non-agricultural societies after the first quarter in the 1930s. This may be attributed to the severe strain imposed on the agriculture sector by the 'Depression' and consequent liquidation of considerable numbers of agricultural societies. The growth of non-agricultural societies e.g. cooperative marketing societies, sale societies, commission shops etc. after the 1940s was probably the result of war conditions, as old trade channels were not performing well, and the movement was entrusted a role to restore general economic conditions by entering into non-agricultural spheres.[44]

Nevertheless amongst the primary agricultural societies, the movement generally remained confined to the sphere of credit. Thus out of 26873 primary agricultural societies in 1945 as many as 17603 (about 66percent) were agricultural credit societies (see Table 4.3).

FIG 4.1 NUMBER OF PRIMARY SOCIETIES IN UNITED PUNJAB



Note: The first four observations relate to 1910, 1915, and 1922

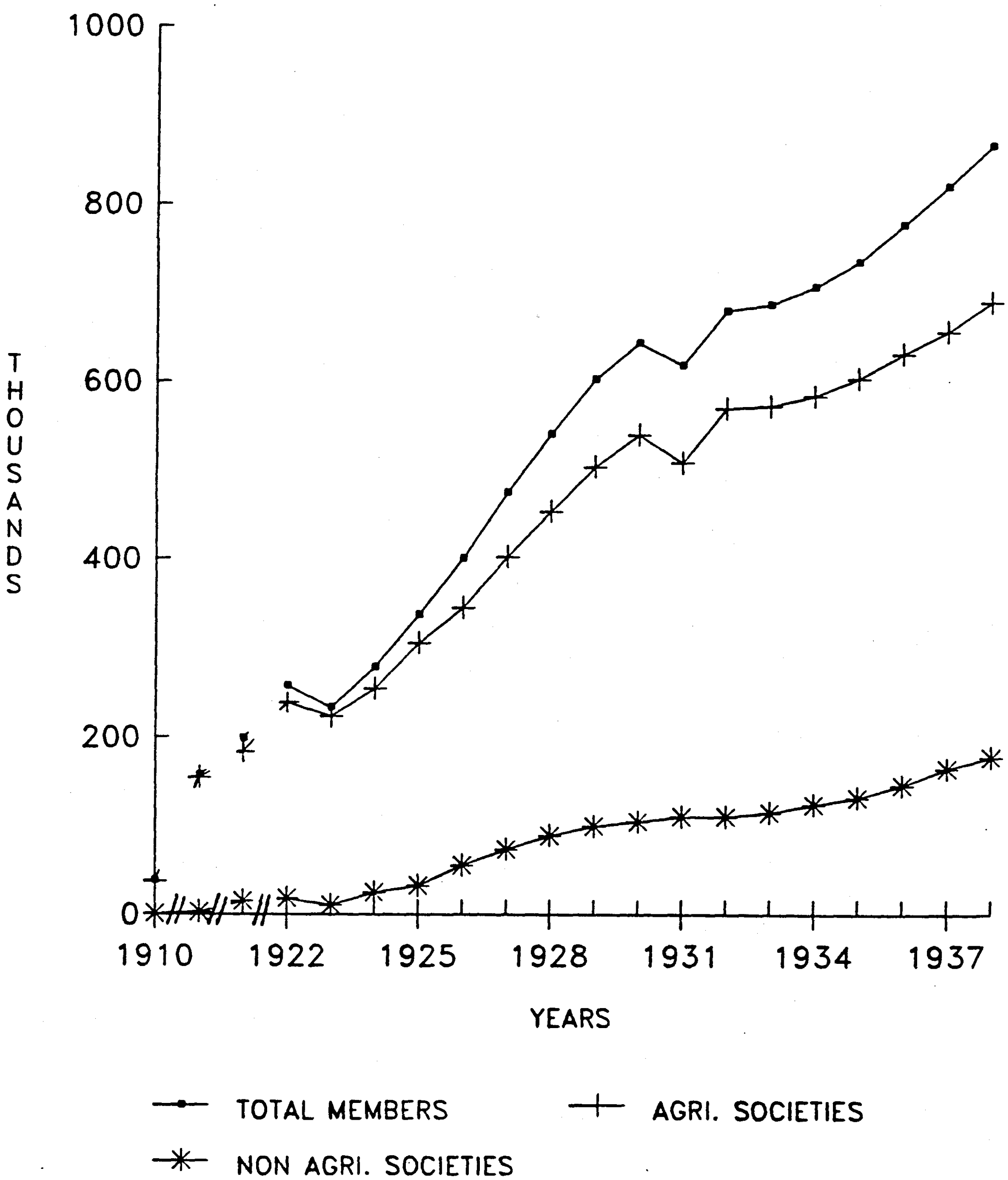
Evidently this high proportion of agricultural credit societies underlines the importance which was assigned to the problem of agricultural credit.[45]

The data on the growth of membership in societies presented in Fig. 4.2 show that the two groups (agricultural and non-agricultural) had some 37,000 and 600 members respectively in 1910, whereas by 1945 the two groups (agricultural and non-agricultural) had some 0.86 million and 0.26 million members, respectively representing 76 percent and 24 percent of the total membership, which indicates that the rural population in Punjab had greater attraction towards the movement. Nevertheless, as against the recommendation of the Committee on Cooperation (1915) the average size of membership in a society remained small and indeed declined from 53 in 1910 to 43 in 1945.

On the other hand, the cooperative movement in Punjab covered only 15 percent of the rural population in 1936-37. Even in subsequent years this position did not change considerably. Thus in 1945, a little under 19 percent of the rural population came under the fold of movement in Punjab. As against the all-India level, this was not too bad, since only 12.7 percent of the rural population in India was embraced by the movement by 1945. Further, in Punjab nearly 50 percent of the total villages had a cooperative society of one kind or another in 1936. It was estimated that in 1945, one society in Punjab served around 1.3 villages.[46]

The primary societies in Punjab obtained their capital from the following sources: (a) share capital paid up by the members, (b) a Reserve Fund created out of profits, (c) deposits from the members and loans from (d) central banks, (e) non-members, (f) government and (g)

FIG 4.2 MEMBERS OF PRIMARY SOCIETIES IN UNITED PUNJAB

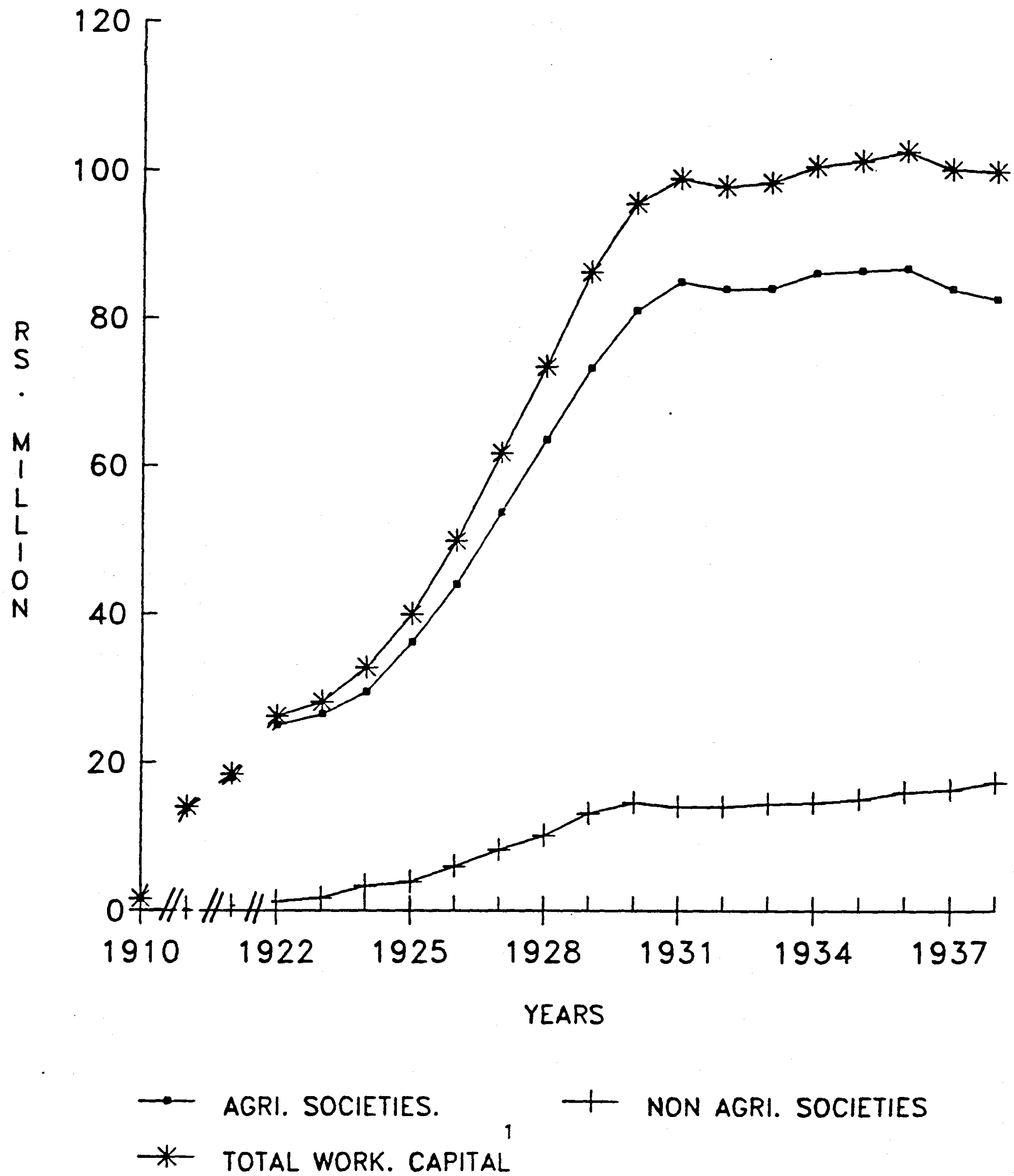


NOTE: The first four observations relate to 1910, 1915, 1920 and 1922 other societies. Funds from the first three sources formed the owned and those from the last four formed the borrowed capital of societies.

The relevant statistics on the working capital of societies are presented in Figs. 4.3 and 4.5. It can be seen that the working capital in societies kept pace with an expansion in membership. Nevertheless the data presented do not reveal if capital in societies was generated from within the internal (owned) sources or by borrowings from external sources. It has been estimated that owned funds constituted about 36 percent of the working capital of societies in 1926 and about 41 percent in 1934. Thus some 64 percent of working capital in societies in 1926 and some 59 percent in 1934 were from borrowings from banks or other sources. This implies that the movement relied principally on external funds and had failed to secure adequate capital from its own members. Indeed, only 3 percent of the working capital in societies was generated in the form of members deposits in 1947.

As already noted, primary agricultural credit societies had outnumbered all other types of societies in Punjab during the period under reference. The primary agricultural credit societies provided credit to their members for "production purposes" and to meet other "domestic occasions". The complete statistics on the loans advanced and recovered by societies in Punjab are not available for the whole period (1904-47); nevertheless the position may be judged from the loans advanced by societies from the data presented in Fig.4.4 (also see Table 4.2) These loans amounted to Rs.17.7 million in 1925, and out of these only some 34 percent were recovered by societies. The recovery of loans for the period 1924-38 generally ranged between 13

FIG 4.3 WORKING CAPITAL OF PRIMARY SOCIETIES IN UNITED PUNJAB



1 TOTAL WORKING CAPITAL

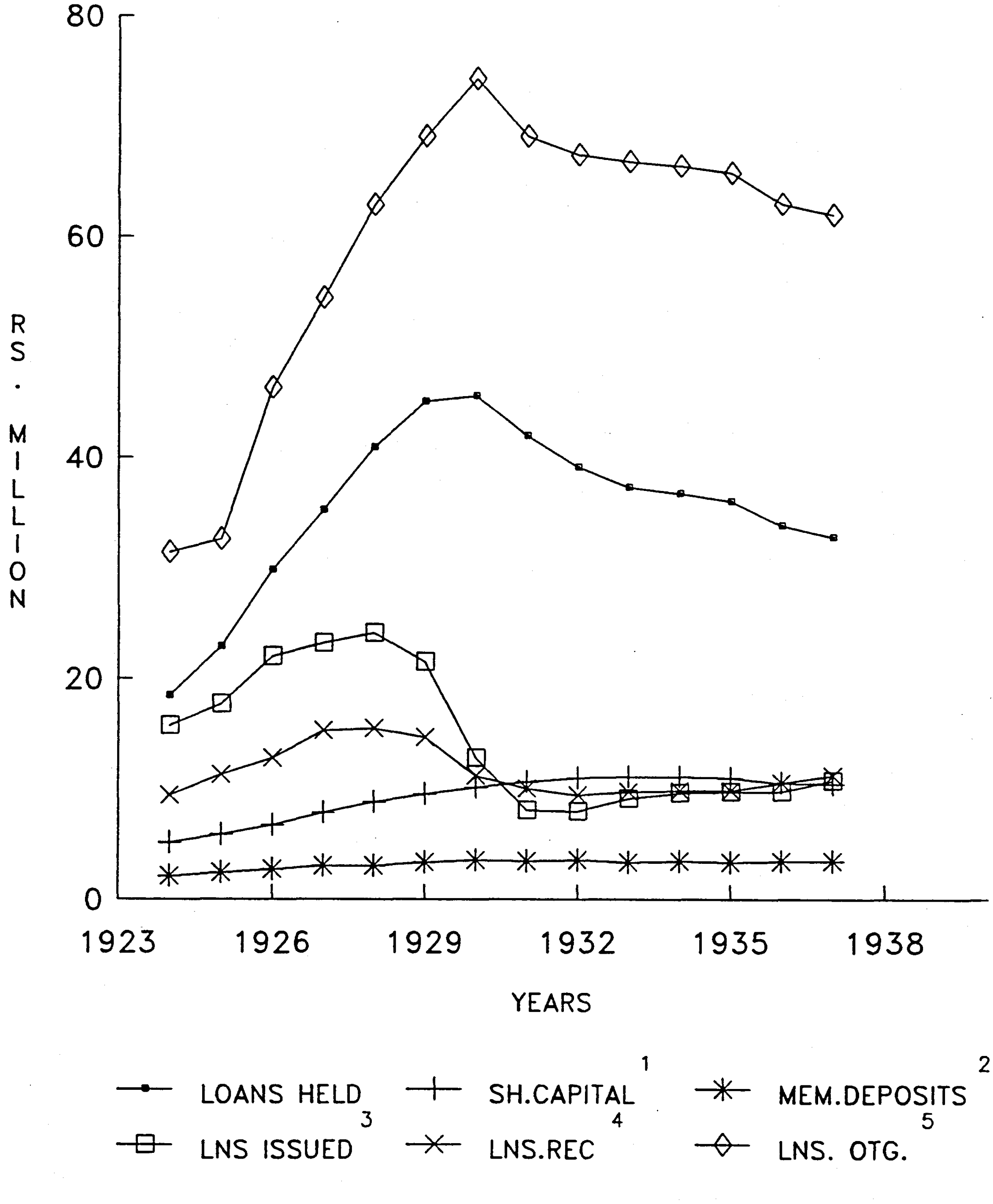
NOTE: The first four observations relate to 1910, 1915, 1920 and 1922.

and 38 percent, with a considerable degree of fluctuation. The data presented in Fig. 4.4 reveal that while total advances to members increased between 1924 through 1928, thereafter a decline set in. In fact, loans issued to members touched a peak in 1928 and so did recovery, but the loans outstanding against members fell slowly after touching a peak in 1930. It may further be seen from Fig. 4.4 that there was a tendency for recoveries to fall after the on-set of the depression (i.e. 1928). The causes of low recovery shall be discussed later, but it can safely be argued that the problems in recovery of loans advanced by societies to their members undermined the whole cooperative movement in Punjab during the period under reference.

Another indicator of performance of societies was their audit classification. The Registrars' meeting at Bombay in 1926 placed cooperative societies into 'A','B', C', and 'D', categories. An 'A' class society, required and received no help from the government. 'B' class societies carried out their own clerical and executive business, but a sub-inspector kept an eye on their affairs. In other words, they could stand on their own feet. 'C' class contained all in-betweens, which were carrying on useful work, but needed help from the inspector and were often in danger of stepping into 'D' class. 'D' class was under threat of cancellation.[48]

Out of 9506 credit societies in 1926, only 4 percent were classed as 'A', 26 percent as 'B', 62 percent as 'C', and 8 percent as 'D', class societies. Some 2546 societies were unclassed, which means that those were not performing at all. In 1938, the shares of 'A' and 'B class societies were equal at 17 percent. Though the figures for 'A' and 'B class societies slightly improved in 1938, compared with that in

FIG. 4.4 DATA ON PRIMARY AGRICULTURAL CREDIT SOCIETIES IN UNITED PUNJAB



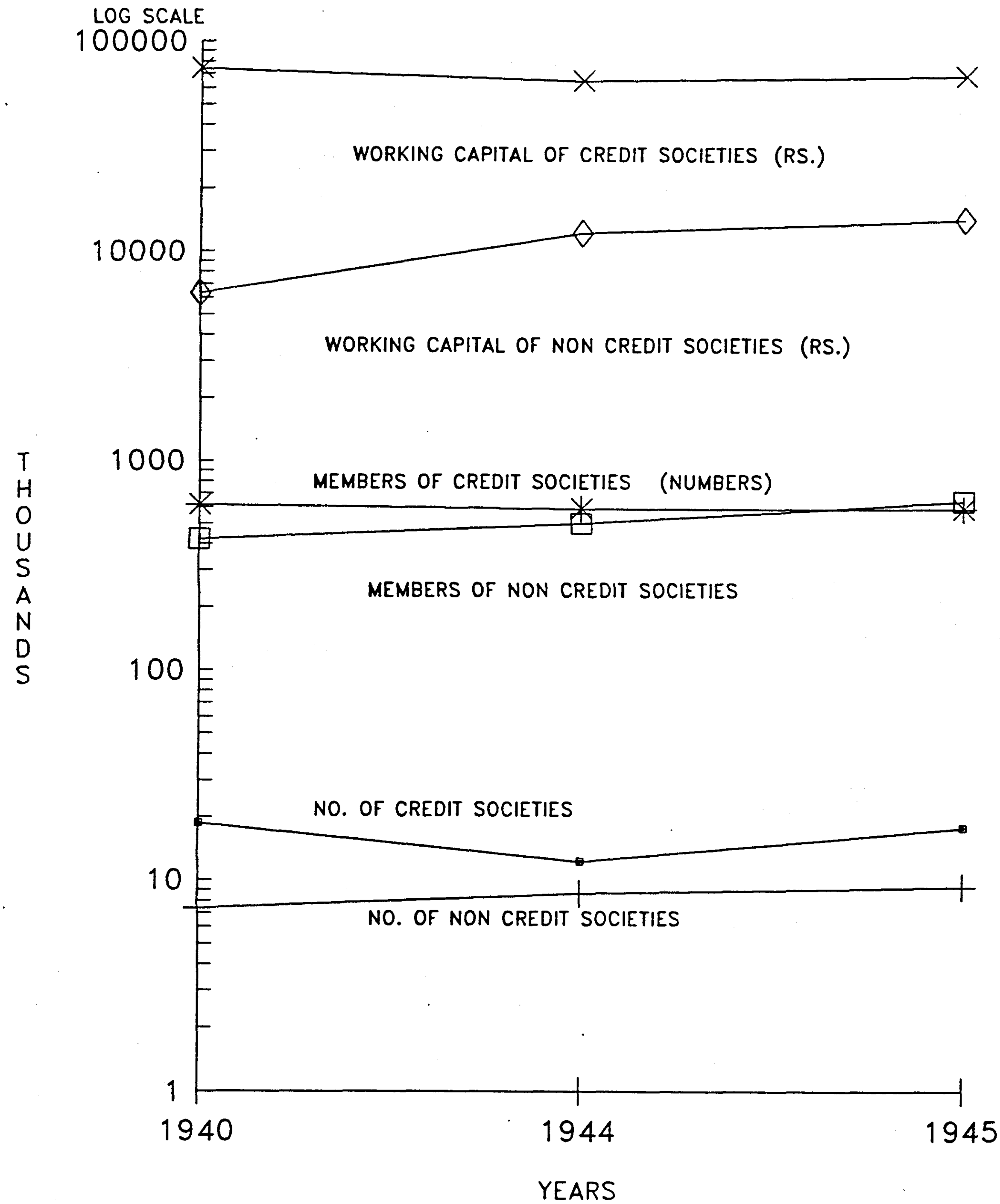
1 SHARE CAPITAL 2 MEMBERS DEPOSITS 3 LOANS ISSUED.
4 LOANS RECOVERED 5 LOANS OUTSTANDING

1926, on the whole the figures for 'D' class societies were increasing after 1926[49].

The criteria for classification of societies were inadequate in certain respects. In the absence of information on parameters such as size of society, its repayment rate, involvement of large vs. small farmers, the number of years a society had been established, it would be difficult to argue that a society could be placed in the 'A' class, merely because it does not receive any assistance from the government. It is probable that data on the above variables were generally unavailable to the department, and this would possibly have been the major reason for adoption of such an inadequate classification. Many members of management committees of societies in Punjab were generally illiterate and did not maintain proper records. It would therefore have been rather difficult for the departmental officials to devise relatively better criteria for the classificiation of societies than those which were employed.

Let us now examine the working of some of the primary non-credit societies, which developed in rural areas in Punjab after the passage of the Cooperative Societies Act, 1912. The first amongst various kinds were cooperatives for consolidation of holdings, which came next to agricultural credit societies both in regard to number as well as functions. The Punjab had always been a land of peasant proprietors with small and scattered holdings. Improvements in agricultural practices were not possible until the tiny holdings of peasant farmers were grouped into large blocks. The settlement officers in the Punjab had made repeated attempts to consolidate land holdings in the past, but their efforts yielded little success for one reason or another.

FIG 4.5 PROGRESS OF THE COOPERATIVE MOVEMENT IN UNITED PUNJAB



NOTE: The diagram serves an illustrative purpose only: the time intervals are not equal.

The idea of cooperatives having a responsibility for consolidating land was first devised by an official of the Indian civil service Mr.Calvert, who believed that given patience and understanding, the peasants could be persuaded to accept voluntarily the groupings of little patches of holdings into farmable blocks. The first society for the consolidation of landholdings was started in 1920 in Punjab, and by July 1930, some 0.26 million acres of patchy holdings were consolidated out of a total cultivable area of 34 million acres. At the time of partitition of India in 1947, some 1.5 million acres had been consolidated in Punjab by voluntary action. (also see Table 4.4)

The key issue was the acceptance of the idea by the farmers, although the scheme met with criticism and opposition from vested interests. In order to give a boost to the task the government passed the Punjab Consolidation of Holdings Act, 1936. The Act granted more powers to the settlement officers. Nevertheless, cooperatives declined to use them. They relied on their ability to persuade peasants for voluntary consolidation. It was not an easy task as every peasant to be affected by the scheme had to be satisfied and every conflicting interest reconciled. In a way the poor, the weak and the inarticulate were to be regarded as just as important as the more influential. Technical difficulties, together wih peasants' passionate love for the land, aggravated the task, but on the whole the work for consolidation was successfully undertaken by the cooperative movement in Punjab.[50]

The other types of primary agricultural non-credit societies which started gaining roots in Punjab after the passage of the Cooperative Societies Act 1912, included the Better Farming Societies, Cattle Breeding Societies, sales societies, and commission shops. All these societies were established for some specific purposes arising from the doctrine of necessity. Nevertheless they were generally small in number and in size. Thrift, education and better- living societies were also established and they generally showed more interest and effort in educating illiterate peasants, in the broader sense of the word. The better living societies were concerned with the general well-being of their members in that they sought to restrict expenditure on ceremonies, penalised cattle trespassing and forbade the sale of daughters. The initial enthusiasm was tremendous, but adherence to strict rules and norms set by societies subsided with the passage of time and so did their operations.

The commission shops and sales societies were important in that they were established as a consequence of wartime conditions. The commission shops did not achieve success largely due to absence of a coherent and interested directorate, competent and honest management and adequate supervision and goodwill on the part of the departmental officials. The sales societies encountered problems such as members' disloyalty, indifference and friction amongst members, confused accounts and dishonest management. In addition, given the absence of appropriate marketing arrangements such as apex and secondary level marketing institutions, they faced considerable competition from the middlemen cum money-lenders, who generally provided credit to their clients and also catered for growers' other needs.[51]

In addition, central organizations were established in Punjab. For instance the Punjab Cooperative Union was established in 1920, primarily to impart education in cooperation to the members and the management of primary societies. All societies in the province were affiliated to the union. The Punjab Cooperative Union also undertook publications on cooperation and organized conferences for cooperators at various levels. The union thus served as a vehicle for organizing training classes and conducting examinations for the members of the managing committees of cooperative societies. In addition, the union aimed at the promotion and extension of the movement, the audit of societies and developing and strengthening various cooperative organizations.

As has been noted earlier the central cooperative banks and other central banking agencies were established in Punjab after 1912. The central cooperative banks were registered on the basis of limited liability and were generally located at the district level. The central cooperative banks were important in that they collected deposits from townspeople and from primary societies which had surplus funds and channelled these funds to other primary societies in need of funds. The central cooperative banks in Punjab were later affiliated to form the Punjab Cooperative Bank, established in 1924. The Punjab Cooperative Bank mobilized funds in a similar manner from the cities, and channelled them back to the movement at lower levels. In short, a three-tier structure was established, where the primary societies were located at the village level, central Cooperative Banks were established at the district level and the Punjab cooperative bank was organized at the apex level of the movement.

The three tier cooperative structure served to cater for the short-term and medium term credit needs of cooperators. Nevertheless the need for long term credit to enable the peasants to repay mortgaged debts and to make investments in land was soon realized. As a result, the Land Mortgage banks were established in Punjab to provide credit for the repayment of mortgage debts and for financing long term schemes of agricultural expansion and investment. The first Land Mortgage Bank was thus opened in Punjab in 1920, and by 1926 nine mortgage banks had been established in Punjab with a membership of 2477 individuals (as well as societies). The major part of the working capital of these banks was subscribed by the government and a very nominal amount was generated by these banks from their 'own sources'. These banks started work by redeeming land and by advancing loans to their members for land improvement, and also for clearing old debts. During the elementary stages of their development, cases against loan defaulters were recorded by these banks. These banks generally held security in the form of land, in addition to the sureties, and loans granted by them were not more than 15 times the annual profit of the pledged land. There was, however, a mania for the purchase of land and this led to misutilization of loans by the loan recipients. The general working of these banks deteriorated with the passage of time. After the 'Great Depression' and indeed during its on-set land security was not of much use to these banks. It thus became administratively impossible for these banks to take over and manage the land of defaulters. In many cases, attempts were not made to take possession of defaulters' land to avoid any further loss to these banks. Amongst the difficulties encountered by these banks were the absence/shortage of competent managerial staff, lack of interest in execution of work, avoidance of mortgage by creditors and risks in taking possession of land on lease, in the face of opposition from a borrower and his friends. The irresponsible and even selfish behaviour of some of the directors and the failure of banks to carry out their duties also contributed to the overall poor performance of land mortgage banks in Punjab. There were a total of 12 such banks in operation when Punjab was bifurcated into Pakistan Punjab and Indian Punjab in 1947.[52]

The foregoing discussion indicates that the cooperative movement in Punjab witnessed a varying degree of success during the years 1904-47. The achievements were generally accounted for by the cooperative credit movement, though some success was achieved by non-credit societies, such as those concerned with consolidation of landholdings. Nevertheless, the weaknesses of the movement, in particular those of the cooperative credit movement, far outweighed the limited success of cooperatives in Punjab. An attempt is now made to isolate the main problems facing the movement during the period under reference.

The optimum development of the cooperative movement in Punjab was inhibited due to complex extrinsic factors. The more complex extrinsic factors included poverty and malnutrition, widespread inebtedness, a high percentage of illiteracy, lack of business experience, inadequate transportation and storage facilities, exploitation by money-lenders.

The movement sought to improve the socio-economic status of peasant farmers by providing them with credit at reasonable rates of interest, but in the absence of essential complementary farming inputs viz consolidated holdings, better supply of irrigation water, improved farm inputs and technical knowledge, the peasants could not and did not make productive use of credit. Thus despite the provision of reasonable amounts of cooperative credit, agricultural productivity remained low and the economic conditions of many peasants were alarming.[53]

The widespread illiteracy and lack of business experience contributed to the poor performance of the movement. It was generally difficult for the cooperative and the cooperators to find a literate villager to serve as secretary of the management committee of a society. There were reported villages which were even without a single literate man, but even if a suitable secretary for managing the cooperative's affairs could be found, the illiteracy of the ordinary members in societies made it difficult to educate them in cooperative practices.[54]

The weakened morale of cooperators also hindered proper development of the movement. Members' disloyalty was, for instance, identified as a cause of failure of many commission shops and sales societies. Further, where the cooperative spirit was lacking and self-interest led to buying and selling outside the society, it was the result of a failure to understand the objects of cooperation.

Administrative difficulties such as shortage of competent staff in the cooperative department was another obstacle in the way of the movement. The department did not undertake one or other type of desirable activity and even neglected many of its statutory functions. Nevertheless, the scales of remuneration were quite low and made it difficult for the department to recruit the needed staff. It even became difficult for the cooperatives to command the proper type of services from the department for the vitally important work of supervision of the movement.[55]

The essence of the cooperative movement was to improve the economic status of its members through the 'self-help' approach. The recognition of their needs by the prospective beneficiaries should have come first, then the realization that cooperation offered a way to meet them and finally the taking of the steps necessary first to function. The lack of spontaneity in the cooperative movement was its greatest inherent weakness, and this was unavoidable in the given circumstances. The movement, with the exception of few genuinely cooperatives cases, was not seen strictly as a cooperative movement, rather it was a government policy. The greatest obstacle on the way towards the goal of 'self-reliance' was the habit of looking towards the government to do the things which could and ought to have been done by the peasants themselves.

The Royal Commission on Agriculture in India in its report, (1928) stressed the need for strengthening official control of the movement, but recognised genuine cooperative control to be the ultimate objective. Nevertheless, the powers granted to the Registrar by the government were quite large: none could be organized without his sanction, and while appeals against his decisions were possible, in practice few dared to do so. In many cases illiterate members did not know that they enjoyed the right of appeal and a strong tendency was reported to take his suggestions as orders, which obviously did not lead to the development of 'self-reliance' and a sense of responsibility amongst cooperators.[56]

In addition, many internal problems either inherent in the organization and/or in the operation of societies affected adversely the performance of the cooperative movement. Some of the several problems in this respect are summarized below.

The first was associated with the size of a primary society. The Committee of Cooperation (1915) had recommended 'one society to one village and one village to one society'. Nevertheless this principle was seldom adopted by the organisers of the cooperative movement. It was argued that organisers at the village level had insufficient knowledge of banking and supervision and, as a result, it was not possible to manage larger societies more efficiently. As such, the experience of the depression years was quite relevant, when many societies with larger membership had to be liquidated.[57]

Second, the village level primary agricultural societies were generally organised under the principle of unlimited liability, which implied that every member would be financially obliged to the full extent of his property to make good the debts of the society. It was claimed that intimate mutual knowledge would make unlimited liability both possible and desirable in rural areas. The proponents of the principle of unlimited liability contended that in a village the reputation of a member of a cooperative society depends upon personal factors rather than on impersonal realizable assets, so that it is possible to grant loans on personal credit alone. Moreover, the existence of unlimited liability was regaded as very valuable in maintaining true cooperative principles, as it was expected to stimulate the members to keep each other up to the mark. Public opinion forces each member to keep his contract and repay his loan, more or less within the appointed time.[58] It seems, however, that in requiring unlimited liability too much emphasis was laid on the moral aspect of the movement, as against its business side. Had the principle of unlimited liability operated better it would have placed a moral obligation on members to repay the laon to their societies. The low recovery of loans from members itself implies that the principle of unlimited liability did not prove conducive to stimulating members to keep a watch on each other. Further no one was able and prepared to make good the debt of the society in the event of default on loan. It may thus be argued that the principle of limited liability would have also not made any difference on the recovery of loans, which has emerged in this study.

Third, particular credit societies made poor progress in terms of extending coverage of the movement to large numbers of farm families. The Banking Enquiry Committee (1931) argued that the people in general had a preference for the loans available from money-lenders.[59] There is a considerable element of truth in this opinion as loans advanced by societies were generally granted for 'specified purposes', and the amounts loaned were frequently insufficient. Moreover, loans received from cooperatives had to be repaid by members on some specified time. On the other hand, loans received from money-lenders were generally flexible in their use and more readily available than those from the credit societies. Moreover reliance on money-lenders was strengthened by the fact that often they combined in themselves the role of landlords, merchants and village headmen. It is conceivable that this factor in itself would have placed an obstacle in the way of curtailing the power of money-lenders even if outside finances had been available at the required level and required time.

Nevertheless, the Banking Enquiry Committee (1931) did not see any difficulty from the supply side, ie. in terms of the opposition or at least the non-cooperation of the money-lenders. Since money-lenders had a monopoly in the rural areas, it was futile to expect that they would make their business less attractive by associating themselves with the cooperative movement and much less to take the initiative in the formation of primary societies. The money-lenders were in a better position to safeguard their business when they were the only literate men in the villages.

The fourth factor which probably set limits on the effective coverage of the movement was the level of per capita income in the agriculture sector. The ideal of 'self-help' is the basis of the cooperative movement and it presupposes that at least some of the prospective members have a surplus over their annual requirements. But given the low level of per capita income, and the underlying trend, the major section of the rural population of the villages had no such a surplus; the peasants were 'homogeneous' in terms of poverty. This would imply that poverty itself was a basic cause of why the coverage of credit movement was inadequate.[60] This argument rests on the premise that cases were often reported wherein the share capital 'paid-up' by the members of primary societies and paid up by the latter to the central cooperative banks was actually an amount deducted from the loans advanced.

The money-lenders, and a few other members of the local society had sufficient loanable funds. But they (especially the money-lenders) did not join the movement, in order to keep their existing business attractive. The general cultivators were simply insufficiently enthusiastic because they did not have enough resources.

If the above analysis of socio-economic life of rural areas is accepted then it would explain why the owned capital of primary societies constituted much the smaller part of their working capital. For it follows that in areas where credit societies were formed they mostly attracted prospective borrowers. The obvious result of this inadequacy of the internal resources of primary societies was the dependence on borrowed funds, mainly from the central banks. But, since the capital available from the latter was not sufficient to meet all credit needs of members, they must have at the same time depended on the money-lenders. It is likely that such a situation would have added to the reluctance of the money-lenders to join the credit societies.

Let us now turn to see the problems faced by the cooperative movement in the recovery of loans. As already noted, the recovery of loans by societies in Punjab generally remained low during the period under discussion. The problem in recovering loans from members was mainly due to the type of uses to which loans were paid. The Cooperative Credit Societies Act, 1904 was silent as regards the purpose for which loans could be advanced by the societies. At the time of the passage of the Act, it was however proposed by some experts that loans should be granted only for 'productive' purposes. Nevertheless, such a proposal was rejected by the government on the premise that it would be difficult to restrict provision of loans for productive purposes, since the poor peasants in India required loans not only for productive uses, but also for 'domestic occasions'. The cooperative societies took advantage of such a latitude, and loans were granted for as many purposes as ordinary expenses of cultivation, capital expenditure on land, purchase of cattle, redemption of mortgage, payment of old debts, payment of land revenue, the purchase of farm implements; ceremonial expenses, litigation and education of children.[61]

Admittedly it was a sound idea to grant loans for a wide variety of purposes, especially for such long term purposes as the repayment of old debts and the capital expenditure on land. In particular it was advisable under the prevailing circumstances to enable members to get rid of their accumulated obligations to the money-lenders, but the difficulty was that though most of these finances were raised by the central banks on a short-term basis the period within which the loan was to be repaid was not fixed. On the contrary it was hoped that the societies would strictly enforce repayment within some "reasonable" period.[62] It is not known whether loans so obtained were really used for repayment of old debts or other uses or whether these became an additional burden on members: but in practice, societies generally failed in adhering to enforce strict repayment and the greatest weakness of the whole movement lay in the heavy outstanding overdues. The situation was even more complex in the eyes of the Committee on Cooperation (1915), which remarked that systematic "fictitious repayments" were adopted by many societies; Thus when repayment was due the loan was cancelled, but an equivalent loan was immediately issued without further inquiry to the borrower.[63]

Obviously, it should not be concluded that mere procedural changes would have materially improved the repayment capacity of the borrowers. As pointed out by the Reserve Bank of India, where debt is a chronic feature of the cultivator's life, such debt signifies a perpetual disequilibrium between his income and expenditure. The disease is thus the deficit budget and if the symptom of debt is to be removed, the causes of the deficit budget must be treated first.[64] But since the cooperative movement, in particular the credit societies, were not conceived as part of a coordinated programme for increasing the per capita income of the cultivators, the granting of loans for the repayment of old debts essentially meant the transfer of the obligation of the borrowers from the traditional money-lenders to a kind of 'institutional money-lenders'. Stagnation of the economy against a background of a fast rate of population growth suggests that even short-term loans would accumulate over time. This was indicated by the considerable volume of rural indebtedness in India. It is true that the slump in agricultural prices during the Depression imposed such a severe strain that it virtually paralysed the cooperative movement. But considered in the light of the inadequate realization of the limited effectiveness of institutional credit in a backward economy it would seem that essentially the main contribution of the Depression was greatly to accelerate a process which had already been started earlier.

Another reason for poor repayment of loans, and consequently the limited effectiveness of the whole movement, was that the major part of the funds were taken by those who were in charge of the management of primary societies and these particular members were reluctant to repay their loans. In the light of available evidence it is difficult to question the validity of the first part. Nor is it difficult to appreciate the phenomenon of the unequal distribution of loans if we keep in mind the fact that the available funds were far too inadequate to meet all the credit requirements of their members, and that the rural life was already characterized by marked differences in the socio-economic circumstances of the different classes of household. The fact that this latter aspect of the problem was not adequately recognized underlines the unrealism of some basic assumptions behind the cooperative movement. As to the second part, some of the influential members did deliberately withheld the repayment of their overdues, and this could be anticipated under the given conditions. Poverty was a common feature, and this was associated with mass illiteracy. In this context it was convenient for influential members of the societies to withhold the repayment of loans, since they invariably controlled cooperative affairs.[65]

It can thus be seen that the problems of obtaining prompt recovery of loans were the result of a mix of several factors viz economic, legal, moral, educational, social and even political. The economic ones lay in depression in agriculture; the legal in the agrarian legislation; the moral in the decay of the peasants' strong sense of obligation to pay; the educational in the borrower's failure to differentiate between the nature of cooperative credit and the money-lenders loans; the social in the erosion of the sense of disgrace in attachment and insolvency proceedings; while the political factor was the realization by the peasant that representative institutions, particularly the power of the ballot box, could be used to deflate official pressure for the repayment of cooperative dues. In fact, all these factors individually and in combination influenced the extent of recovery of loans advanced by societies to their members.

From the perspective of coverage of the farm population and fulfilment of their credit needs the problem of the movement was essentially either to (a) incorporate the money-lenders in the primary societies and to ensure that they could not abuse their powers or (b) to eliminate them by effective competition. With regard to the first point efforts were far too insignificant - in one respect even contradictory - to be effective in inducing the traditional sources to surrender their profitable business. The alternative solution involved procuring a flow of finance from outside sources, given the homogeneity of borrowers in terms of low income and inadequacy of working capital. The establishment of central cooperative banks under the Cooperative Societies Act, 1912 was a sound decision in this respect, but as a federation of the primary societies lower down, these in turn showed precisely the same financial weaknesses. The Reserve Bank of India also insisted that until the problem of rural indebtedness was solved and cultivators were made credit worthy it could not provide any financial accommodation. Nor could the cooperatives look to the government for much more than supervision, administration and advice. Thus, in the absence of sufficient funds and lack of advice, the movement could not develop.

The problem confronting the cooperative movement was not only to provide cheap loans, but also to emphasize their productive use. The evils of finance drawn from traditional sources were due partly to higher interest rates and partly to the fact that it was not generally used directly to augment the per capita income of the borrowers, but to balance their deficit budgets. If the problem of rural indebtedness was to be solved what was needed was to ensure effective and efficient use of capital to promote growth in per capita income. But in the absence of a suitable socio-economic climate for economic development and other essential prerequisites for agricultural development, this was not possible. Had such circumstances prevailed, the problem of rural indebtedness in India would have been solved and the rate of interest reduced by increasing the availability of loanable funds and helping the cultivators to build up their security.

So far the above account has been concerned with the problems and weaknesses of the cooperative movement in general and the cooperative credit societies in particular. Nevertheless, the cooperative movement was able to achieve success in certain respects. The achievements of the movement are briefly summarized below.

The greatest achievement often ascribed to the cooperative movement has been that it helped to break the money-lenders' monopoly and thereby reduce interest rates. The principle underlying the fixing of the rate of interest charged on a loan was set by the Committee on Cooperation (1915) which observed

> "it is a sound policy for a society to start by lending to members at rates which are still substantial, though very much lower than those at which, with their precarious credit, they would borrow from the local money-lender".[66]

The local money-lender was in the habit of charging anything from 30 to 60 percent per annum from the peasant cultivators of the class of which cooperative societies were usually composed, although in some localities he charged much less (say 8 to 9 percent) to customers whose credit was good. Hence cooperative societies charged as a rule between 6 and 25 percent for their loans and one of the more beneficial results of this practice was a reduction in the rates charged by the money-lenders.[67]

The practice of charging relatively lower rates on cooperative loans instilled a new spirit of hope, thrift and mutual help into the minds of the cooperators. Not only were the members of credit societies saved from a very heavy burden of exhorbitant interest charges and in some cases entirely freed from debt but non-members were also able to obtain loans at greatly reduced rates owing to the reduction in rates charged by the money-lenders in the areas served by cooperative credit societies.

The cooperative movement generated funds in the form of shares and savings of members and deposits from non-members. These sums were made available to those in need of credit at rates at least well below the money-lenders. Moreover, through the land mortgage banks, the movement facilitated the gradual redemption of agriculturists from debt. The movement, by cooperative consolidation of holdings and otherwise, helped to promote agricultural development and subsidiary industries, and impressed a part of rural population with the value of combined effort and will; aided members in the purchase of their produce and in isolated instances gave a convincing demonstration of the possibilities of a concerted cooperative attack on many aspects of the small man's problems. The movement also offered a large number of non-officials with a very useful outlet for philanthropic energy.

Mere numbers of societies and growth of their membership is not a comprehensive measure of success of the movement; quality is a further criterion, in terms of the improvement in the general outlook of members. In this regard increased openness of the cooperators to suggestions for improved methods of production may be regarded as an achievement, which was essentially a by-product of the movement.

And finally, the cooperative movement helped in transforming villages and their people by rendering all manner of contributions to the well-being of the community. The movement brought together on equal footing people of different castes and creeds in an enterprise which aimed at the mutual benefits of its members and encouraged a feeling of community of interest in the villages.

In short, the discussion in the preceding pages suggest that the cooperative movement in the Punjab, as in any other part of India, was initiated by the government primarily as a defensive weapon against the problem of rural indebtedness. The movement was considered as an instrument of government policy and not, as the original ideology would suggest, voluntary and spontaneous groupings of farmers.

From its very inception in 1904 and up to 1947 the cooperative movement remained largely centred in the field of credit. The limited attempts made to diversify the movement into fields other than credit witnessed a varying degree of success, but on the whole the movement was essentially labelled, and rightly so, as a 'credit movement'. Even in this sphere, the bulk of the finance available to the movement came from the government, and this made many primary agricultural credit societies in Punjab an extension of the government's welfare and expenditure policy rather worthwhile self-sustaining institutions in themselves. Nevertheless, many more problems of the movement, classified as organizational, financial and functional far outweighed the limited achievements made by the credit societies in the Punjab up to 1947.

In the next section, development of the cooperative movement in two Punjabs is viewed from the years 1947 through 1980.

4.III Development of the Cooperative Movement in Two Punjabs - 1947-1980

The creation of Pakistan in 1947 resulted in the bifurcation of Punjab. Out of 29 districts of erstwhile Punjab, thirteen districts became the Indian Punjab and sixteen the Pakistan Punjab. The creation of Pakistan in general and the division of Punjab in particular resulted in a large scale transfer of population from India and Pakistan. It was estimated that some four milion refugees (Hindus and Sikhs) moved from the Pakistan Punjab to the Indian Punjab abandoning some 5.7 million acres of land. At the same time some 4.4 million Muslims abandoned some 4.5 million acres of land to move from the Indian Punjab to the Pakistan Punjab. This was one of the larger human migrations in history in so short a time. An estimated one million persons lost their lives in the intercommunal savagery.[68]

The partition of the Indian subcontinent in 1947 effected the entire economic life of both India and Pakistan. Inevitably, it also affected the cooperative movement. The number, membership and working capital of the movement was suddenly cut short, and the movement in two Punjabs was worst hit at all its levels.

The partition of Punjab resulted in a large scale withdrawal of cooperators and deposits from the movement in the two Punjabs. In addition, the managers, accountants, auditors and inspectors who had largely staffed cooperative institutions and the department migrated to either India or Pakistan. The social upheaval caused by the massaive exchange of population created a serious vacuum of leadership. The incoming refugees and the local occupation were preoccupied by the imperatives of personal adjustment to the new environment. Many who were previously active in the movement were drawn to profit-making opportunities in trade and transport vacated by the departing population. And in this effort they were assisted by the prevailing chaos.[69]

The cooperative movement in the Pakistan Punjab was virtually compelled by the government to undertake the financing of commercial activities by relaxing by-laws which restricted lending to members only. The cooperative banks provided minimum banking facilities, acted as treasury and operated as agencies for the procurement of food grains, paddy, cotton and other field crops on behalf of the government. They undertook the distribution of controlled items such as sugar, kerosene and cloth in the rural areas. Many small evacuee concerns - wheat, flour mills, rice mills and cotton ginning and processing factories - were allotted to them for management. As private enterprise revived, the cooperative banks did withdraw from their purely trading and industrial activities. They showed no disposition to withdraw from commercial lending even after commercial banks were re-established. The effect of the partition in the Pakistan Punjab was thus

> "to turn the upper tier of the cooperative movement into ordinary banking, financing the very merchants against whom it was designed to protect the small man and neglecting the primary societies"[70]

As noted, the effects of partition of Punjab were adverse for the cooperative movements in both Punjabs. The movement in the Indian Punjab however faced many more problems after 1947. In the United Punjab, the Punjab Cooperative Bank and the Punjab Cooperation Union had been established at the apex level. As a result of division of the Punjab, these two vital institutions were left in Pakistan. The Punjab Cooperative Bank was important in that it played a key role in financing, coordinating and controlling the working of central cooperative banks and the bank also served as a clearing house for the excesses and deficiencies of central cooperative banks. The Punjab Cooperative Bank also served as a link between the general money-market and the primary societies in the villages. In the absence of an apex bank, the movement in the Indian Punjab was badly affected at the secondary and primary levels.[71]

In addition, large funds belonging to cooperative institutions in the Indian Punjab got blocked up in the Punjab cooperative bank. Large amounts due from Muslim members in societies became irrecoverable. There were many societies in the Indian Punjab with membership consisting almost wholly of Muslims. Loans advanced to these societies by central cooperative banks became bad debts. The movement had to build itself up almost from scratch without any apex level financing institutions, in particular, a cooperative bank. The Punjab (state) Cooperative Bank in the Indian Punjab was established in 1949. Later, the Punjab Cooperative Union was also established in 1952. At least up to 1948, the cooperative movement in the Indian Punjab had to pass through hard times in the absence of any apex level financing institution.[72]

The central cooperative banks and the primary societies, in particular agricultural credit societies, had a common share of suffering in the two Punjabs. The central cooperative banks had to pay interest on members' deposits and honour cooperators' claims. In the process they were virtually in danger of collapse. The respective governments in the two Punjabs came to the rescue of central cooperative banks and provided them with financial assistance to tide them over the financial crisis.

The position of land mortgage banks was in no way better than the central cooperative banks. Out of 12 such banks in the undivided Punjab, 3 were left in India, while 9 came to the share of Pakistan. As already noted in the preceding section, land mortgage banks in united Punjab were not doing well. The problems inherent in the structure and organization of these banks became an obstacle to developing a viable long-term cooperative credit structure in the Pakistan Punjab. The land mortgage banks in the Pakistan Punjab were abandoned by the government in 1954. The decision was so instrumental, that the movement in the Pakistan Punjab has not been capable of developing a long term cooperative credit structure even to date.[73]

Nonetheless the government in the Indian Punjab took a keen interest in the organization of land mortgage banks. A viable organizational setup was erected at both the apex and secondary levels during the mid 1950s and the land mortgage banks went ahead in the provision of long-term credit for making investment on land. Randhawa[74] points out that from its inception in 1958, the Punjab State Cooperative Land Mortgage Bank has made an increasingly significant contribution to the financing of tubewell installation. In 1965-66 the level of lending for tubewells was only Rs 5,400,000. By 1970-71, total annual lending was Rs 95,184.000.

As noted earlier in the united Punjab, a non-governmental organization i.e. the Punjab Cooperative Union was established with the task of imparting education and training to the ordinary members and also to the members of management committees of societies. In addition, the union organized seminars, arranged conferences and published material on cooperation. The primary societies and all other cooperative institutions in the Punjab were members of the union. The union met its expenditure from the grants provided by the government and also from the contributions made by the societies as well as other cooperative institutions. At the time of partition of the Punjab in 1947, the existing union was left in Pakistan. A new Punjab state cooperative union was established in the Indian Punjab in 1952.

The Punjab cooperative unions in two Punjabs have generally undertaken the taks of arranging seminars and conferences, in addition to publishing leaflets and books on cooperation. The role of the unions in imparting training and education to the members of societies has however largely remained far from satisfactory. This is primarily due to shortage of competent staff with the unions. In both the Punjabs, short courses were arranged and the unions have often invited members of the management committees of societies to attend these courses on a voluntary basis. Nonetheless attendance in these courses has generally remained low. The unions in both the Punjabs have however made good attempts to represent the non-governmental character of the cooperative movements at the National and International Cooperative forums.

At the time of partition, the cooperative movement in an undivided Punjab was largely centred in the sphere of credit. As a result of partition therefore, a large number of agricultural credit societies were shared between the Indian Punjab and the Pakistan Punjab. In the united Punjab, it had been generally customary for a primary society to be comprised either purely of Muslim members or non-Muslim cooperators. The division of the Punjab resulted in the migration of Muslim and non-Muslim members of societies to Pakistan and

India respectively. And, in the process, they took away or destroyed the cooperative records. Loans received by members remained unpaid and many societies became defunct for all practical purposes. It seemed as if there was a complete collapse of the movement at its base level in both the Indian Punjab and Pakistan Punjab.[75]

Nevertheless, the deadlock was broken through the sheer pressure of necessity, the grim determination of the people and above all under the leadership of the departments of cooperation in the respective regions in India and Pakistan. The existing societies were revitalized and new societies formed as the need arose. The credit societies began to function and advance loans again. The outlook was however changed very soon as the governments in both the Indian Punjab and Pakistan Punjab started thinking of extending the scope of the movement into other fields besides credit. In the Pakistan Punjab, in particular, the movement was forced to shift from purely credit provision into multipurpose activities. Many commission shops and purchase-sale societies were organized in the 'mandi-towns' to save the marketing organizations from complete collapse. But this welcome change proved to be short-lived. After 1951-52, there was a continous decline in the value of purchases made by multipurpose societies. As private traders re-entered the field, growers seemed to prefer to deal with them because of the poor management of the societies. In several cases, where the management was initially efficient, the office bearers deserted the cooperative societies and established themselves in business, illustrating the basic poverty of leadership in the movement after partition.[76]

The attempts aimed at consolidating the movement in the Indian Punjab by reorganizing societies at the base level were rewarded with a reasonable measure of success. In a short time the movement stood on a sound basis, and made some rapid strides. It was estimated that a little under 45 percent of the rural population was embraced by the movement, and out of a total 15283 inhabited villages in the Indian Punjab as many as 10766 had a society of some kind functioning in their midst by 1956.[77] In comparison, only 8 percent of the rural population in the Pakistan Punjab was covered by the movement. And more than half of the total villages in the province were without a cooperative society of any kind in 1954.[78]

Two reasons might explain the relatively better performance of the movement in the Indian Punjab. First, the central Punjab (area comprising the present Indian Punjab) was an area of smallholdings and small self-cultivating peasant proprietors. The partition of Punjab in 1947 enhanced this egalitarian factor, because a policy of graded cuts, heavily weighed in favour of the small man, was adopted by the government for alloting land to the incoming refugees. Second, the process was given a push by the land reform legislation of 1953 which placed a ceiling of 30 acres on a family holding. This was subsequently cut to 18 standard acres. The net effect of these measures was positive. The big landlords who in the past spent most of their time in idleness and luxury totally disappeared as a result of land reform. The situation thus represented a model of agriculture based largely on small peasants, providing an ideal base for the growth of the movement.[79] Another contributory factor, as pointed out by Randhawa,[80] was the influx of most progressive Sikh peasantry from

Pakistan's Punjab to the Indian Punjab; while almost one-third of the Muslims they replaced were not even agriculturists. In fact, it has been argued that after its inception, the movement was weak in the south-west and the south east of the united Punjab, while it consistently had done well in the central districts (Indian Punjab) at least up to 1947.

The organized and more planned attempts for restructuring and rehabilitating the movement in the two Punjabs were made by the respective governments in the mid 1950s. In the Indian Punjab concerted efforts were made by the government to implement recommendations made in the All India Rural Credit Survey (1981). An attempt was made to establish large-sized viable primary societies in parallel with agricultural credit societies. It was envisaged that ultimately all primary credit societies would be converted into large-sized viable units. The state became a partner of the movement by contributing to the share capital of societies. The large-sized societies were entrusted with the role of providing improved seed and chemical fertilizer, besides credit. In addition, marketing of members' produce was assigned to societies as an additional task. The large sized societies were expected to enrol in their membership persons from all classes of society. In short, the proposed society was a model 'multi-purpose' primary unit.

In Pakistan's Punjab, on the other hand, the Cooperative Enquiry Committee Report (1955)[82] had also underlined the need for reorganizing existing primary credit societies into 'multipurpose societies', capable of providing credit for production purposes to its members. Besides, the multipurpose units were entrusted with the role of taking up supply business by providing improved farm inputs to their members.

The planned and voluntary attempts were made and as a result, large sized societies in the Indian Punjab and multipurpose societies in the Pakistan Punjab were started in the latter half of the 1950s. These units succeeded here and there, but on the whole, societies in the two Punjabs failed to establish firm roots in the villages. In very many cases these societies did not supply improved seed and chemical fertilizers. Neither did they undertake marketing of produce with success. In the provision of credit, they did no better than the existing credit societies. Many qualifying members did not receive loans. The large sized societies in the Indian Punjab further failed to achieve effective coverage of weaker sections of society. Many factors contributed to the limited success - indeed failure - of these societies. Absence of well trained and experienced managerial staff, lack of education of members, divisions in village life based on social groupings, members disloyalty, dependence on unpaid honorary staff to run affiars of societies, inadequate provision of credit by the cooperative banks, and absence of viable marketing structures were some of the major factors which determined limited success of these societies in both the Punjabs.

In view of the malfunctioning of a large number of large sized societies in the Indian Punjab and wider criticism at the hands of the late Prime Minister Nehru, organization of agricultural service societies in India was proposed following a decision taken at the Indian National Congress Session held at Nagrup in 1959. However, this made little difference in terms of the structure and organization of service societies from the earlier large-sized societies. The service societies were instead assigned a role to take up the total responsibility for the socio-economic development of its members by providing them with credit and 'other services' in a 'package deal'. In the Punjab (India) service societies came into existence from scratch as well as by reorganization of existing societies. The conversion of large sized societies into service societies resulted in a substantial reduction in the total number of large sized societies at the base level of the movement. There were 417 large sized societies in 1958-59; this number was brought down to 25 by 1961-62. The organization of agricultural service societies was not preceded by any well planned efforts. The organization was completed as a rush job to attain the target by the simple device of converting existing societies into service societies.[83]

The service societies did not fulfil the hopes expected of them as the names of many existing units were changed into service societies without bringing any change in their day-to-day functions. Further, weak or defunct societies were not eliminated from the scene. In many instances service societies did nothing apart from appointing secretaries to justify receipt of subsidies from the government for administrative expenses.[84]

It seems that at least during the 1950s and in the first half of the 1960s, the governmental attempts to diversify the movement into fields besides credit invariably failed in both Punjabs. The major thrust was once again on agricultural credit societies, which through time had increased both in number and also in membership. However, the progress shown by the credit movement was largely accounted for in numerical terms; the weaknesses became even more evident in qualitative terms. The inadequacies of the operational aspects of the credit societies were associated with shortcomings in their management, disbursement of loans and their recovery. In many instances, managing committees in these societies were manned by inefficient persons with inadequate training and little awareness of cooperative principles. The ordinary members had little control over the operation of these societies. The members were selected and admitted without care and this resulted in the control of the credit movement falling into the hands of a few powerful persons. The weaknesses of these societies were often seen in respect of poor coverage of the farm population, neglect of the most needy and also in terms of inadequate generation of 'owned funds'.[85]

At the secondary level, the cooperative credit structure in Pakistan's Punjab however showed many more weaknesses. The Credit Enquiry Commission (1959) came to the conclusion that the central banks constituted a very weak link in the cooperative credit structure. The commission attributed these weaknesses of the banks to their poor administration and involvement in commercial lending for which they had little experience and which led to corrupt practices.[86]

However, against the odds, expansion of the credit movement was helped by the improvements in the agricultural situation in the Punjabs, particularly in respect of increases in production since the mid 1960s, when the new bio-chemical technology began to make an impact. As such, governmental efforts contributed a lot to the furtherance of the cause of the movement. In the face of technological developments taking place in the agricultural sector, the movement in the two Punjabs was assigned the role by the government of distributor of subsidized credit together with improved farm inputs. The cooperative movement acted as a government vehicle which linked the supply of subsidized fertilizer, on credit, with an approved package of farm practices and seed. Especially in the Punjab (Pakistan) large-sized agricultural development societies were organized, following the publication of the Wazir Ali Committee Report (1964),[87] primarily to disburse credit and supply improved seed and chemical fertilizer in the farm sector. These societies made some progress, but irregular and untimely supply of farm inputs together with a defective marketing network proved a stumbling block to the success of these societies in Pakistan's Punjab.

The movement was however employed by the agriculture departments in the two Punjabs as an integral part of the extension effort and also as an instrument of the governments' agricultural policy in the 1960s. And cooperatives played a significant role in the programme for disseminating new bio-chemical technology.[88]

By the end of the 1960s, the All India Rural Credit Review Committee in India had made exhaustive recommendations for the revitalization and reorganization of the whole administration of the movement in the country. The Review Committee placed the emphasis on large-sized viable primary units. The committee underlined the need for provision of credit both in cash and kind under a well-defined 'crop loan scheme'. Emphasis was once again given to integrate supply of credit with that of marketing members' farm produce. A vital recommendation of the commission concerned the injection of all commercial banks into rural lending.[89]

The recommendations made by the Review Committee Report (1969) had important bearings on the cooperative movement in the Indian Punjab. Nevertheless significant changes in the organization and functions of the movement took place after 1976, following publication of the Report of the National Commission on Agriculture (1976)[90] in India. The commission while upholding many recommendations of the Review Committee, proposed instead the organization of farmers' service societies at the base level of the movement. The main recommendations made by the All India Rural credit review committee and the National Commission on agriculture were made a part of government's cooperative policy in the Indian Punjab. Farmers' service societies were established in the Indian Punjab in the 1970s to provide their members with credit together with other requisite services in a package deal. The pace of formation of farmers' service societies however remained slow largely due to lack of competent managerial staff. Nevertheless many agricultural credit societies in the Indian Punjab provided credit both in cash and kind under crop loan schemes. In addition commercial banks were inducted into the business of rural lending.

The reconstruction of credit and marketing societies was undertaken in Pakistan's Punjab during the second half of the 1960s. Many more agricultural credit societies together with a limited number of agricultural marketing societies were established. The scope of the cooperative movement was further extended to cover mechanised cooperative farming. The general performance of credit societies was not much better than that of the existing primary units. The mechanized cooperative farms, though sponsored and administered in specified areas by the government, worked well for some time, but over the years they outlived their utility due to shortage of competent managerial staff, the indifferent attitude of cooperators, inadequate operational funds and the absence of any services centre for the repair of machinery.[91]

The limited number of marketing societies in the two Punjabs did not make significant contributions as most of these societies depended more on government patronage. It was not uncommon for the governments to try to meet their failings by providing them a monopoly business in consumer goods, fertilizer and improved seed. These measures however also failed to set up their business on competitive lines with the private sector. In Pakistan's Punjab marketing societies were used as a vehicle to funnel food grain and consumer goods to the rural population during the period of post-independence stringency. Later, however these societies took up their traditional role. Nevertheless they generally failed in undertaking to dispose of members' produce. And this was in part due to the absence of viable apex and secondary level cooperative marketing structures. The primary marketing societies in the two Punjabs faced strong competition from the private traders and the middlemen. The other limitations related to their trading practices. These societies did not undertake processes such as grading, pooling, bulking of produce, and processing where necessary. Many marketing societies did not even arrange sale in the most favourable markets. They were manned also by persons who had little knowledge and training in marketing techniques or familiarity with cooperative methods of work.[92] The performance of marketing societies in the Indian Punjab, however, considerably improved following the establishment of the State Cooperative Marketing Federation in 1967.

The state cooperative marketing federation (commonly called Markfed) was established at the apex level. District cooperative marketing federations were established soon thereafter, and these in turn had a link with the primary agricultural marketing societies located at the base level. The three tier marketing structure was thus developed in the Indian Punjab after 1967. The 'Markfed' undertook the task of dispensing improved seed, chemical fertilizers, pesticides to the farmers through a well developed system of 'village depots' in the 1970s. The state 'markfed' together with district based organizations and the primary societies served as a sole buying agent of food grains for the government. Randhawa[93] points out that, at least in the trade in food grains, the Markfed achieved considerable success by eliminating the role of middlemen and grain dealers in the Indian Punjab.

Many administrative changes which were introduced by the national governments in India and Pakistan affected both the course and direction of the movement in the two Punjabs, especially in the 1960s and 1970s. As already noted, the Indian sub-continent was partitioned in 1947, and as a result Punjab was divided. In May 1948, the eight native states of Patiala, Kapurthala, Jind, Nabha, Farid Kot, Malerkotla, Nalagarh and Kalsia were amalgamated into the state of Patiala and the Indian Punjab States Union (PEPSU). Similarly, 17 of the Punjab hill states were combined to form the state of Himachal Pradesh. In 1956 under the States Reorganization Act PEPSU was integrated into the Indian Punjab with some internal changes in the districts. A further reorganization in 1966 brought about by the government of India on linguistic grounds led to yet another division of the Indian Punjab. The two present-day states of the Indian Punjab and Haryana were formed. The area comprising the present Indian Punjab was inhabited by the progressive Sikh peasantry, and, as stated earlier, had a good number of successful cooperatives in united Punjab. The administrative changes introduced in 1966, however, resulted once again in the transfer of staff from the Department of Cooperation in the Indian Pubjab to Haryana. As such, the pace and performance of the movement in the present Indian Punjab was badly affected in the late 1960s.

On the other hand, at the time of the creation of Pakistan in 1947 the federal unit of the country had five provinces viz Punjab, Sindh, NWFP, Baluchistan and East Pakistan (present Bangladesh). This federal unit lasted till 1959, when the government removed the provincial autonomy of the Punjab, Sind, NWFP and Baluchistan by federating them into 'one unit' called 'West Pakistan'. At that time (1959), the cooperative movement in each of the four provinces had a different structure and the movement was administered by different sets of cooperative Acts. In addition, separate Registrars, one for every province, served as administering authorities of the respective departments of cooperative societies. Following the creation of 'one unit', the performance of the cooperative movement in all the former four provinces was influenced since there was a merger of respective departments of cooperative societies into one department of cooperative societies, West Pakistan, headed by a single man (i.e. the Registrar). A separate Cooperative Societies Act, was promulgated in West Pakistan, which granted the Registrar many more powers to intervene in cooperative affairs. It has been argued that it was the powers granted to the Registrar which instead allowed the government to use the movement as a vehicle to serve some of its political objectives.

The federal unit "West Pakistan" remained operational until 1969, when once again the old administrative set up allowing provincial autonomy to the former four provinces was revived. The course of development of the cooperative movement was once again affected with the revival of the old set up of the cooperative institutions in Punjab.

Another significant change in Pakistan which accompanied 'one unit', was the creation of the West Pakistan Cooperative Development Board in 1962 with the purpose of creating the required capacity for development planning, project preparation and for promoting self-management within the movement. The Board achieved some reasonable measure of success in its task. But it had hardly taken roots when the government in West Pakistan decided in 1966 to abolish the Board. While justifying dissolution, the government held that the tasks undertaken by the Board and the department of cooperative societies were almost of the same nature and this in turn caused confusion in the minds of the cooperators and created administrative problems in the successful implementation of cooperative policies. When judged from the viewpoint of the government, this justification seems plausible. But this also revealed the weakness of the government in failing to adhere to its committed policy towards the movement at least for a reasonably long period, to find out the real outcome. The dissolution of the Board caused a severe blow to the movement at the apex level. A large number of employees of the Board were made redundant. Many more staff members were transferred to other departments. Above all, many development schemes, prepared by the Board for the overhauling of the movement in the province, were overlooked.[94]

The decade of the 1970s influenced once again the growth and performance of the movement in the two Punjabs. The government of Pakistan, for instance, passed a series of cooperative laws in 1972, and these laws in turn affected the cooperative movement in Pakistan's Punjab at all its levels. The Cooperative Reforms Order 1972 was passed. It was important in that it provided that (a) no individual would be a member of the managing committee of a cooperative bank for more than two consecutive terms (b) no individual would be a member of a central cooperative bank (c) no trader would be a member of an agricultural credit or marketing society. This order caused a great upheaval in the cooperative movement. A good number of individuals ceased to be the members of central cooperatives in the province. Administrators were appointed for 28 out of a total 30 central banks in the Pakistan Punjab. The unseating of directors of cooperative banks was justifiable on account of their misconduct of cooperative banking operations. Nevertheless the appointment of new administrators was an imposition of the government from above and also a violation of cooperative principles. The new administrators were generally incompetent and did not take up their responsibility satisfactorily due to a lack of requisite experience and knowledge in banking practices.[95]

Another important step taken by the government of Pakistan was the creation of the Federal Bank for cooperatives in 1976, with the power to extend credit facilities to the provincial cooperative banks and to regulate their operations. This step was accompanied with the dissolution of all central cooperative banks and the banking unions in

Pakistan's Punjab. This decision was taken on the ground of malfunctioning and mismanagement of a large number of central cooperative banks in the province. However dissolution of central cooperative banks and their unions was not preceded by the development of any well-planned alternatives. The dissolution of the banks and their unions was a major setback to the movement, as the secondary level cooperative institutions were comprehensively eliminated at the district level at once, thereby creating a gulf between the apex cooperative institutions and the base level primary societies.[96]

It may be important to recall that at the time of partition there was a three-tier cooperative structure of the movement in united Punjab. And the same pattern was retained in the two Punjabs. However, after 1976, the government in the Pakistan Punjab dissolved all the central cooperative banks and their unions, which resulted in the elimination of all secondary level cooperative institutions. The structure of the movement was naturally reduced to two tiers. The primary societies were located at the base level, and the Punjab Cooperative Bank was organized at the apex level. In contrast, the three-tier structure of the movement in the Indian Punjab remained operational. The important point is that the change from the old three tier structure to a two tier structure in the Pakistan Punjab restricted the smooth flow of credit from the Punjab Cooperative Bank to the primary credit societies, given the absence of any secondary-level cooperative institutions. In addition, critics[97] suggest that cumbersome precedural formalities were required before a primary society was able to seek funds from the apex cooperative bank in Pakistan's Punjab. These measures adversely effected the development of the movement.

The reorganization of the cooperative movement at the base level in the two Punjabs provided a further boost and instilled new spirit and hope in the working of primary agricultural credit societies in the 1970s. There was a complete overhaul and reorganization of the credit movement in the Indian Punjab. The non-viable primary societies were eliminated from the scene. Small sized units were amalgamated to form large-sized primary societies. The scope of the movement was extended from purely credit to other fields of economic activity. The reorganizational measures resulted in a considerable reduction in the number of primary credit societies in the Indian Punjab. And the average size of membership in a society more than doubled. The large-sized units provided credit, improved seed and chemical fertilizers. Although these measures provided a boost to the movement, the weaknesses became even more evident. Members did not repay their loans and, as a result mounting outstanding loans stood against members in the societies[98].

In the Pakistan Punjab, the Federal Bank for Cooperatives provided an increasing amount of credit to the Punjab (Provincial) Cooperative Bank in the late 1970s, and in turn the Punjab Cooperative Bank extended loanable funds to the primary societies. A crash programme was also introduced to achieve faster growth in the provision of credit to members in societies. This resulted in mushroom growth of primary societies in the province. Later on in 1978 the Government of the Pakistan Punjab decided to provide mark-up interest free loans to small farmers (owning land up to 12½ acres), through the cooperative movement. Initially the maximum limit of the mark-up interest-free loan per member was fixed at Rs 6000.00 and this was a sufficient amount at least for the purchase of seed, an appropriate quantity of chemical fertilizers and pesticides. The period of repayment for such loans was stretched up to 10 to 12 months to enable cultivator members to ensure prompt payment from the sale proceeds of their current harvest. The limit was further raised up to Rs 10,000 as a result of increased prices of farm inputs. The loaning scheme was simplified by the federal cooperative bank still further by introducing certain changes in the provision of loans by the movement. Loans 'in kind' were provided and its recovery made in cash. The societies instead of providing cash, have instead dispensed improved seed, chemical fertilizers and pesticides in the Pakistan Punjab to their members, since the simplification of a new loaning scheme by the federal cooperative bank in 1978.

The general impact of mark-up interest free loaning scheme in Pakistan's Pubjab was commendable in one respect in that it ensured almost 100 percent recovery of loans from members. This was a significant achievement of the movement. Critics[99] on the other hand questioned the reliability of such claims. It was alleged that funds meant for the disbursement of loans in the form of improved farm inputs were diverted by the members of societies towards various short-term interest bearing investments. And, through illegal practices, new loans created in fictitious names were adjusted against the 'old' loans. Further, through this practice, the members besides making big illegal earnings, are able to show high recovery rates.

In short, the cooperative movement received a set back at the time of partition and this was demonstrated both in terms of a reduction in size of the movement and the inefficient working of many cooperative institutions in the two Punjabs after 1947. The movement was forced by the respective governments to shift from credit to multipurpose activities. The governmental attempts in general failed as in very many cases new societies established with the object to provide improved seed, chemical fertilizers and market members farm produce, besides dispensing credit, failed as a result of mismanagement, insufficient owned funds and absence of viable secondary and apex level supporting cooperative institutions. The credit movements nevertheless witnessed some success in the two Punjabs especially during the 1960s, when many societies were employed as a governmental vehicle to funnel credit and other improved farm inputs in the farm sector. Later, however, it became clear that reorganizational measures were not generally successful especially during the 1970s, when a large number of societies in two Punjabs showed more or less similar but many more qualitative weaknesses. Performance of the movement in the two Punjabs, though impressive in quantitative terms, was not so sound in a qualitative sense.

4.IV Conclusions

Debt-peonage and chronic credit shortage were among the chief causes of low agricultural incomes and productivity in India in the latter half of the last century. The British administration in India set up various commissions of enquiry. Among recommendations of these commissions was the proposal that the government enter the business of credit supply through the introduction of cooperative credit societies. As a result, a Cooperative Credit Societies Act was passed in 1904 and was supplemented by another Act in 1912. These two acts remained a model for cooperative legislation not only in pre-partition India, but also in post-independence India and Pakistan.

The cooperative movement in the Punjab, as in any other part of India was sponsored and nurtured under state patronage. The movement expanded during and after World War 1, but largely remained centred in the sphere of credit. The outbreak of the Second World War provided a basis for further advance and many supply societies, consumer stores and marketing societies were established. In practice, however, performance of the movement, in particular that of the credit societies, remained poor due largely to low level of local participation, low recovery, insufficient owned capital, dependence on borrowed funds, and inefficient management. Weaknesses of the movement were evident and these in turn outweighed the limited achievements made by the movement during the pre-partition period in the Punjab.

The partition of the Punjab resulted in considerable reduction in numbers, membership and working capital of the movement in the two Punjabs. The initial set back was overcome soon, but the movement was forced to shift from purely 'credit' to multipurpose activities. The governmental attempts, nevertheless failed in changing the direction of the movement, except in that the movement served as a vehicle to funnel credit, improved seed and chemical fertilizers to the farm sector. In that respect, the movement acted as an instrument of the governments' agricultural policy in the two Punjabs.

The movement showed some progress in the field of marketing in the Indian Punjab, after the mid 1960s; however the Pakistan Punjab lagged much behind in this respect.

The reorganization of the movement in the 1970s provided a boost to many credit societies in two Punjabs. Nevertheless performance was largely shown in quantitative terms. The bulk of finance to the movement came from the government and the major function remained to develop a means to provide credit and only credit. The qualitative weaknesses of the movement in addition, became more evident in two Punjabs.

In the following chapters we shall analyse the performance of the cooperative movement, particularly agricultural credit societies in the two Punjabs from a more detailed empirical perspective. Data shall be presented to show that the actual performance of the movement in the two Punjabs has been consistent with the arguments flagged in this chapter.

Notes to Chapter 4

1. For an elaborate account on the nature and extent of rural indebtedness, as also the character of agriculture in India during the 19th century see for instance Darling (1925); chaps X and XI; Calvert, H. (1936) Chapter 2; Government of India Report of the Indian Famine Commission (1880); Hough, E.M. (1950) pp30-50; Government of India Report of the Royal Commission on Agriculture in India (1928).

2. See Government of India Report of the Royal Commission on Agriculture in India (1928); Darling (1925); Chapter X.

3. See for instance Thorburn, S.S. (1886); Wolf, H. (1927); Government of India Famine Commission Report (1901).

4. See Nicholson Report, 1895-97 (1960) edition p492

5. See Nicholson Report (1960) edition; also see Darling (1925) Chapters X & XI.

6. For a detailed account of money-lenders and their system in India, with special reference to Punjab see Darling, M. (1925); Chapters X and XI; also see Calvert, H. (1936); Government of India Report of the Royal Commission on Agriculture (1928); Metcalf, T.R. (1962) pp390-97

7. See Darling, M. (1925) pp146-164.

8. See Thorburn, S.S. (1886) Chapters VIII and IX.

9. See Darling, M. (1925) pp208-221; also see Calvert, H. (1936).

10. See for instance Nicholson Report (1960) ed. pp4-42.

11. See Government of India Report on the Indian Central Banking Enquiry Committee (1931) p198.

12. Ibid, p136.

13. See Darling (1925); Mr. Darling calculated that in Punjab, no less than one-fourth of the income tax paying class were money-lenders (op. cit. p212).

14. Vij, B.D. (1959), p37.

15. See Government of India Report of the Famine Commission (1880) Part II Section IV, Chapter III, p130.

16. See Hough, E.M. (1932) pp46-47; Wolf, H. (1927) pp16-17.

17. See Hough, E.M. (1932), p46.

18. The deprivation of security on which the peasants can borrow money is a circumstance which should seriously be taken into account before the peasants right of sale of his land is restricted in any manner, as was lately done by the land alienation act; See for instance Attaullah (1937)

19. See Government of India Report of the Royal Commission on Agriculture (1928); Abridged Report, p47.

20. See Hough, E.M. (1950) p44.

21. A good account of the German and European Cooperative movements has been portrayed by Nicholson in his 'Report regarding the possibility of introducing Land Banks into the Madras Presidency' see Nicholson Report 1895-97 (1960) edition.

22. See E.M. Hough (1950) pp43-51.

23. See Government of India Report of the Indian Famine Commission (1901) p67; also see Government of India Report of the committee on the establishment of cooperative credit societies in India (1903), p6.

24. See Government of India Report on Cooperation in India (1915), p1.

25. See E.M. Hough (1950), pp47-48.

26. Quoted in the Government of Pakistan Cooperative Inquiry Committee Report (1955), p8.

27. See Government of Pakistan Cooperative Inquiry Committee Report (1955), p9; By 1912 number of societies in Punjab was only 1769, with a membership of 93 thousand and a working capital of Rs 7.3 million. About 24 districts were embraced by the movement, but in 9 of them number of societies was even less than ten.

28. See Hough (1950) pp47-51.

29. See Government of Pakistan Cooperative Inquiry Committee Report (1955) p10.

30. See Gill, M.S. (1983) pp28-43.

31. See Government of India Report of the Committee on Cooperation (1915).

32. See Hough (1950) pp50-51; Government of Pakistan Cooperative Inquiry Committee Report (1955) pp25-38.

33. Ibid.

34. See Madan (1958) pp55-78.

35. See Gill, M.S. (1983) pp38-39.

36. See Government of India Report of the Royal Commission on Agriculture in India (1928).

37. For an excellent description of the money-lenders system see Darling (1925) Chapters X & XI.

38. See Gill, M.S. (1983) Chapterss 3 & 4.

39. See Government of India Cooperative Planning Committee Report (1946), p12.

40. It was estimated that out of some 23476 primary agricultural societies in Punjab in 1938 as many as 17017 (72 percent) were agricultural credit societies; see Gill, M.S. (1983) pp70-72.

41. See Nicholsons Report, 1895-97 (1960) edition, p17.

42. See Government of India Report of the Committee on Cooperation in India (1915), pp9,10.

43. See E.M. Hough (1950) pp47-48.

44. See Government of Pakistan Cooperative Inquiry Committee Report (1955) pp11-12.

45. The cooperative movement in Punjab, as in any other part in India remained centred in the sphere of credit. And this was mainly because it was started as a defensive weapon against the rising problem of rural indebtedness. See for example Hough (1950); Qureshi, A.I. (1947)

46. See F.W. Wace (1939) pp8-9; also see Hough (1950), p278.

47. See Gill, M.S. (1983) pp59-60.

48. For a classification of Cooperatives into different categories see Hough (1950) p107.

49. See Government of Pakistan Cooperative Inquiry Committee Report (1955), p11.

50. Ibid, p10.

51. Ibid, pp10-11.

52. See Gill, M.S. (1983) Chapter 4.

53. For an elaborate account on it see Hough (1950); Qureshi (1947); Government of India Report of the Royal Commission on Agriculture in India (1928); Darling (1925); Calvert (1936).

54. This confirms that many more members in societies were illiterate. They did not even know what cooperation is actually meant. For discussion on this point see Government of India Report of the Royal Commission on Agriculture (1928), pp469-470.

55. See Hough (1950) pp293-294.

56. See Government of India Report of the Royal Commission on Agriculture (1928) pp448-50.

57. See Reserve Bank of India All India Rural credit survey (1954) Vol II p247.

58. See for instance Hough (1950) pp48-49, 61; also see Qureshi (1947); Government of India Report of the Committee on Cooperation (1915)

59. See Government of India Report on the Indian Central Banking Enquiry Committee (1931), pp150-151.

60. See E.M. Hough (1959), p70.

61. See Gill, M.S. (1983) Chapter 3

62. The principle was that agricultural finance should be based on an agricultural cycle, which may under certain circumstances be a matter not of one, but of from two to five years; see Government of India Report on Cooperation (1915) p12.

63. Ibid, pp10-12; 38,47.

64. Reserve Bank of India, Agricultural credit Department Bulletin No. 1, p12, cited by Hough, (1950) p38.

65. See Reserve Bank of India All India Rural Credit Survey (1954); Gill, M.S. (1983) Chapters 4,5

66. Government of India Report on Cooperation in India (1915), p13.

67. For an account on the rates charged in the Punjab see Darling (1947) pp180-82.

68. For the general affect of partitition of Punjab in the Indian Punjab and the Pakistan Punjab see Richard H. Day and Inderjit Singh (1977) Chapter 3

69. See for instance M.S. Randhawa (1984); Government of Pakistan Credit Enquiry Commission Report (1959); Government of India All India Rural Credit Survey (1954); M.S. Gill (1983); Government of Pakistan Agricultural Enquiry Committee Report (1975).

70. See Government of Pakistan Food and Agriculture Commission Report (1960), p179.

71. See M.S. Gill (1983) chapter 3; Nanavati, M.B. (1952) pp33-38

72. Ibid.

73. See Government of Pakistan Agricultural Enquiry Committee Report (1975) pp30-31.

74. See M.S. Randhawa (1974); p89.

75. See Government of Pakistan Cooperative Inquiry Committee Report (1955); M.S. Gill (1983) chapters 3 & 4.

76. See Government of Pakistan Credit Enquiry Commission Report (1959); para 217.

77. See. M.S. Gill (1983) p111.

78. Government of Pakistan Cooperative Enquiry Committee Report (1955), p47.

79. See for instnace M.S. Randhawa (1954) pp96-97.

80. Ibid; also see M.S. Gill (1983) chapters 1 and 2

81. See Reserve Bank of India All India Rural Credit Survey (1954).

82. See Government of Pakistan, Cooperative Enquiry Committee Report (1955). For the assessment of the Cooperative movement in two Punjabs during the 1950s see for instance Government of Pakistan Food and Agriculture Commission Report (1960); M.S. Gill (1983); State Bank of Pakistan (1962); Singh, G. (1967).

83. See for instance Singh, G. (1967) pp11-12.

84. Ibid.

85. For the detailed account of the performance of credit societies in the two Punjabs during the 1960s see for instance Reserve Bank of India Report of the All India Rural Credit Review Committee (1969); Government of Pakistan Report of the seminar on Integrated Rural Development (1973), pp15-55. Mahmood Ali Khan (1971); Mahmood Ali Khan, Dilawar Ali Khan and Mohammed Hussain Bhatti (1973); also see Government of Punjab; and Government of West Pakistan Annual Reports on the working of cooperative societies in Punjab, (various issues); M.S. Gill (1983); chapters 3,4,5.

86. See Government of Pakistan Credit Enquiry Commission Report (1959); paras. 93-99, 112-117.

87. See for instance Government of Pakistan Report of the Committee on the Working of Cooperative institutions (1964).

88. See for instance M.S. Randhawa (1984) pp16-18; M.S. Gill (1983); Government of Pakistan Agricultural Enquiry Committee Report (1975) pp12-19.

89. See Reserve Bank of India All India Rural Credit Review committee Report (1969).

90. See for example Government of India Report of the Indian National Commission on Agriculture (1976) pp571-575; also see Jagrup Singh Sidhu (1980) pp2-3.

91. See for instance Government of Pakistan Report of the seminar on Integrated Rural Development (1973) pp5-15.

92. See for instance Jagrup Singh Sidhu (1980) pp108-116; Government of Pakistan Cooperative Enquiry Committee Report (1955), pp63-69; also see Abdul Waheed (1985) Government of Pakistan Agricultural Enquiry Committee Report (1975); Government of Pakistan Report of the National Commission on Agriculture (1988) chapter 23.

93. See M.S. Randhawa (1984) pp16-17.

94. See Government of the Punjab Report on the Working of Cooperative Societies in Punjab (1968) pp2-8.

95. See Federal Bank for Cooperatives Act (1977); Reports on the Working of Cooperatives in the Punjab for the years 1970 and 1976.

96. See Abdul Waheed (1985) pp30-31; For the structural aspect of Cooperatives See Farooq Haroon (1986) pp11-12; Government of Pakistan Report of the National Commission on Agriculture (1988) Chapter 23.

97. See Government of Pakistan Report of the National Commission on Agriculture, (1988) pp401-402.

98. See for instance Government of the Punjab Sixth Five Year Plan of the Government of Punjab - Framework 1980-85 (1980) Chapter VI pp43-48.

99. See for instance Dilawar Ali Khan (1982) p125.

TABLES - CHAPTER 4

Table 4.1 Progress of the Cooperative Movement in the United Punjab

Year	Number of Societies		Total Membership (In '000')		Working Capital (Rs million)	
	Agri.Coop. Societies	Non-Agri. Coop. Societies	Agri.Coop. Societies	Non-Agri. Coop. Societies	Agri.Coop. Societies	Non-Agri. Coop Societies
1910	693	6	37	0.6	1.54	0.03
1915	3267	30	154	2.4	13.70	0.20
1920	6831	240	183	14.9	17.80	0.60
1922	8620	401	239	18	25.00	1.20
1923	8853	444	223	10	26.40	1.70
1924	9491	607	254	24	29.40	3.30
1925	11408	968	305	32	36.10	3.80
1926	12617	1797	345	55	43.90	5.90
1927	14148	2273	402	73	53.60	8.10
1928	15299	2616	453	88	63.40	10.00
1929	16473	2835	504	99	73.20	13.00
1930	17222	2952	540	104	81.00	14.50
1931	17541	3037	509	110	84.90	13.90
1932	17590	3120	570	110	83.90	13.90
1933	17726	3240	573	114	84.00	14.30
1934	17936	3340	584	123	86.00	14.50
1935	18215	3549	604	131	86.40	14.90
1936	18559	3820	632	145	86.70	15.90
1937	18846	4163	657	164	84.00	16.20
1938	19057	4419	690	177	82.60	17.20

Source: A Cooperative Hand Book (1927).

Table 4.2 Progress of Agricultural Cooperative Credit Societies in the United Punjab
(Rs. Million)

Year	Total loans held	Share capital	Members deposits	Loans issued to members	Loans recovered from members (Principal only)	Loans out-standing against members
1924	18.50	5.10	2.10	15.80	9.40	31.40
1925	22.90	5.80	2.40	17.70	11.30	32.60
1926	29.80	6.70	2.70	22.00	12.80	46.40
1927	35.20	7.80	3.00	23.20	15.30	54.50
1928	40.90	8.80	3.00	24.10	15.50	62.90
1929	45.10	9.50	3.30	21.50	14.70	69.10
1930	45.60	10.10	3.50	12.80	11.20	74.30
1931	42.00	10.60	3.40	8.00	10.00	69.10
1932	39.10	11.00	3.50	7.90	9.40	67.40
1933	37.30	11.10	3.30	9.10	9.70	66.80
1934	36.70	11.10	3.40	9.60	9.80	66.40
1935	36.00	11.00	3.30	9.70	9.80	65.80
1936	33.80	10.50	3.40	9.70	10.50	63.00
1937	32.80	10.40	3.40	10.70	11.20	62.00

Source: F.B. Wace (1939)

Table 4.3 Progress of the Cooperative Movement in the United Punjab

I. PRIMARY SOCIETIES:	1940	1944	1945
(a) Agricultural Credit Societies:			
1. Number	18592	12213	17603
2. Membership (in '000')	615	587	589
3. Working Capital (Rs million)	74.10	64.70	68.90
(b) Agricultural Non-Credit Societies:			
1. Number	7346	8609	9270
2. Membership (in '000')	420	500	640
3. Working Capital (Rs million)	6.30	12.20	14.20

Source: Annual Reports of the Department of Cooperation, Punjab (various issues)

Table 4.4 Progress made by Cooperative Consolidation of Holding Societies in the United Punjab

Year	Number of societies	Number of members (In '000')	Area consolidated (In '000' Acres)
1921	60	1698	7571
1922	107	3397	6983
1923	133	5225	5376
1924	154	7078	8120
1925	174	8412	11707
1926	237	10928	21258
1927	314	15387	38071
1928	428	20495	64699
1929	543	28305	48709
1930	654	35778	50105
1931	795	47948	72821
1932	911	55803	60348
1933	1011	67992	62062
1934	1097	78319	56148
1935	1167	89429	63534
1936	1210	103584	92689
1937	1270	119875	120295
1938	1360	141929	132313
1939	1477	160782	157211

Source: Annual Reports of the Department of Cooperation, Punjab (various issues).

CHAPTER 5

COOPERATIVES AND DEVELOPMENT IN THE PAKISTAN PUNJAB

This chapter seeks to analyse the performance of Cooperatives, particularly agricultural credit societies both as autonomous organizations and as an instrument of the Government's development policy. The chapter is organized into four sections. Section I deals with the organizational and operational aspects of Cooperatives. Section II is concerned with the role and impact of Cooperatives as an instrument of development. Section III covers the factors determining the limited success of Cooperatives and finally Section IV assembles the major conclusions about Cooperatives' performance in the Pakistan Punjab.

5.I Organizational and operational aspects of Cooperatives

The course of historical evolution of the cooperative movement, as discussed in Chapter Four, has shown that major organizational and operational features of the movement, particularly agricultural credit societies in the present day Pakistan Punjab, are derived from the ideas and value judgements that brought forth the movement in the sub-continent in 1904. It was shown there that Cooperatives - in particular the credit societies in the Pakistan Punjab - have had a relatively high rate of default, disproportionately low levels of local farmer participation and that the societies have tended to function largely as conduits for the transfer of Government subsidies (through low interest loans) to the richer and more powerful class of rural landowners. Further, it was argued that from the very day of their introduction and during the post-partition period, agricultural credit societies in the Punjab were used as an instrument of the Government's development policy and were not, as the original ideology would suggest, voluntary and spontaneous groupings of farmers. They were directed and controlled from above. They were registered with the Government, headed by a Government nominee, that is the Registrar. Further, it was held that the major decisions on membership, lending policy, finance and general operations were all made from above in accordance with Government policy. Since the bulk of finance available to the movement came from the Government, this made the societies an extension of Government welfare and expenditure policy rather than worthwhile self-sustaining institutions in themselves.

The actual subsequent experience of Cooperatives in the Pakistan Punjab will be analysed in the context of the above propositions, from an empirical perspective, and data shall be presented to show that the performance of the societies, especially the agricultural credit societies, has been less than satisfactory even in terms of attaining these development targets.

As discussed earlier in Chapter Four, the structure of the cooperative movement in the Pakistan Punjab was derived from the Cooperative Societies Act 1912 which remained in operation until 1976. The age-old three tier cooperative structure was replaced by a two-tier cooperative structure, following widespread complaints regarding the operations of secondary-level cooperative institutions. At present there is a two-tier cooperative structure in the Pakistan Punjab. At the base or operational level in the villages are established primary societies. These societies, in turn are affiliated to the Punjab

Cooperative Bank, organized at the apex level of the cooperative movement in the province.

The two-tier structure of Cooperatives has created many problems obstructing the smooth working of agricultural credit societies in the Pakistan Punjab. As has been noted in Chapter Four, the dissolution of central Cooperative Banks and the Banking unions entirely eliminated from the movement the secondary-level cooperative institutions and this has created a gulf in between the apex level and base level primary societies. In the absence of any central Cooperative Bank and other secondary level cooperative institution, the primary societies must approach directly the Punjab Cooperative Bank for their financial needs. The Punjab Cooperative Bank, being located at the apex level, with its headquarters at Lahore finds it extremely difficult to assess the true operational position of the individual societies, and thus relies on information provided by the Department of Cooperation. The Punjab Cooperative Bank has been acting just as a pay office. On the other hand, societies are required to fill in proformas and follow other cumbersome procedural formalities, which many members of cooperative management find hard to understand. The only viable connection between the societies and the Punjab Cooperative Bank is through the Department of Cooperation. The departmental staff at the base level of the movement thus form the only link between societies and the Bank.

The staff of the department (usually a cooperative inspector) enjoy discretionary power in sanctioning the loan limit of a society. As the cooperative inspector is low paid, he is often tempted to take undue advantage of the situation. The loan limits of societies have often been fixed at higher levels without any rational grounds. And this is done with the mutual understanding of the Cooperatives' management and the inspector, who in turn share the advantage of loan by employing forgery practices.[1]

The Punjab Cooperative Bank was established in 1924. The Bank has passed through many changes in structure, forms and rules. At the time of partition of the Punjab in 1947, the existing Bank became an institution of the Pakistan Punjab. The Bank now has 144 branches in different parts of the province. The executive body of the Punjab Cooperative Bank is a board of directors comprising one director elected from each of the districts of the province. The Registrar of cooperative societies is also a director and the ex officio president of the executive body. The Registrar nominates one of the elected directors as vice president of the Bank. The chief auditor of the Cooperative Department is also ex-officio a director of the Bank. The day-to-day administration of the Bank is run by the general manager, who is assisted by one deputy general manager and a number of managers, zonal managers, district managers, branch managers and other clerical and lower administrative staff.

At the end of June 1965, the working capital of the Punjab Cooperative Bank amounted to US $31.2 million. Owned funds accounted for 12 percent of the working capital, deposits over 30 percent and borrowings for over 57 percent. It should be pointed out that Government participation in the share capital of the Bank exceeded the limit of one-third of the total envisaged between 1960 and 1965. For borrowings, the Punjab Cooperative Bank mainly depends on the Federal Bank for Cooperatives. The bulk of the loans provided by the Federal

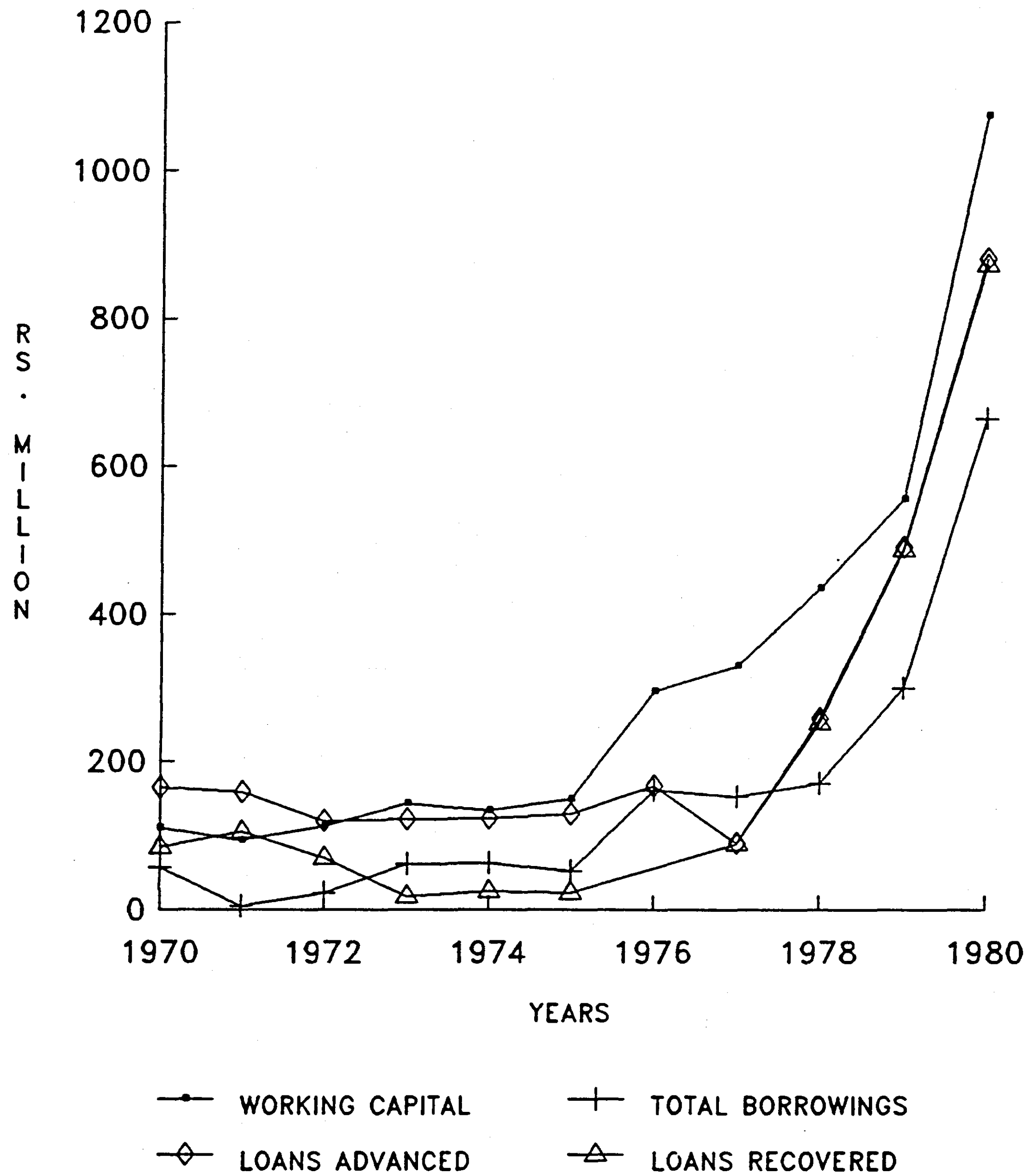
Bank for Cooperatives to the Punjab Cooperative Bank are advanced for financing seasonal agricultural operations. The total working capital of the Punjab Cooperative Bank swelled manifold over the years. Thus in 1980 total working capital of the Punjab Cooperative Bank amounted to US $60 million. However, some 62 percent of the total contributions to the working capital of the Bank in 1980 came primarily from borrowings from the Federal Bank for Cooperatives.

The advances by the Punjab Cooperative Bank to the credit societies have increased considerably following the introduction of the interest free lending policy of the Government of Punjab in 1977-78. Under the new lending policy a small farmer (owner of holdings of up to 12½ acres) could be provided by a credit society with a loan amounting up to Rs 6000 per crop season primarily for the purchase of improved seed, chemical fertilizer, pesticides etc. The total advances by the Punjab Cooperative Bank to the primary agricultural societies increased from Rs 165.13 million in 1970 to Rs 883.00 million in 1980, with some 99 percent recovery of loans from societies during the year 1980. (see Fig.5.1; also see Tables 5.1 and 5.2)

The loans to the Punjab Cooperative Bank, for onward disbursement to the primary societies are released by the Federal Bank for Cooperatives on the approval of the State Bank of Pakistan and also on the guarantee provided by the Government of the Punjab. The interest on loans provided to the Punjab Cooperative Bank by the Federal Bank for Cooperatives is, however, paid by the Government of the Punjab from the Government exchequer.

The Punjab Cooperative Bank under the law, is basically a cooperative society itself, operating under the dual control of the

FIG 5.1 DATA ON PUNJAB COOPERATIVE BANK IN THE PAKISTAN PUNJAB



Department of Cooperation and the Federal Bank for Cooperatives. The Bank is expected to operate on commercial lines and compete with other commercial Banks especially in terms of attracting deposits from the public. Nevertheless the Bank has not been particularly successful in mobilizing savings especially from the rural areas, which would have enabled the Bank to supplement its own resources. Total credit availability of the Punjab Cooperative Bank from its own resources is far short of the total credit requirements and with no line of credit available from any donor agency and no savings of its own, it is left with a very limited role as a development Bank. Furthermore, the Cooperative Banking system is responsible for the unsatisfactory operation of cooperative credit and its facilities of low cost credit open to abuse. The Punjab Cooperative Bank disburses the cost-free loans upon the advice of the Department of Cooperation. The Bank has merely been reduced to a pay office, making payments according to the recommendations and instructions of the Department of Cooperation. The borrowings of the Punjab Cooperative Bank have exceeded its own resources (although these have been built up recently as a result of an interest subsidy provided by the Government) rather than resource mobilization at a local level, one of the national objectives of the cooperative movement. The Federal Bank for Cooperatives, despite all its efforts, finds it difficult to improve the operational capacity of the Punjab Cooperative Bank when its role is restricted to that of a re-financing agency for the Punjab Cooperative Bank.[2]

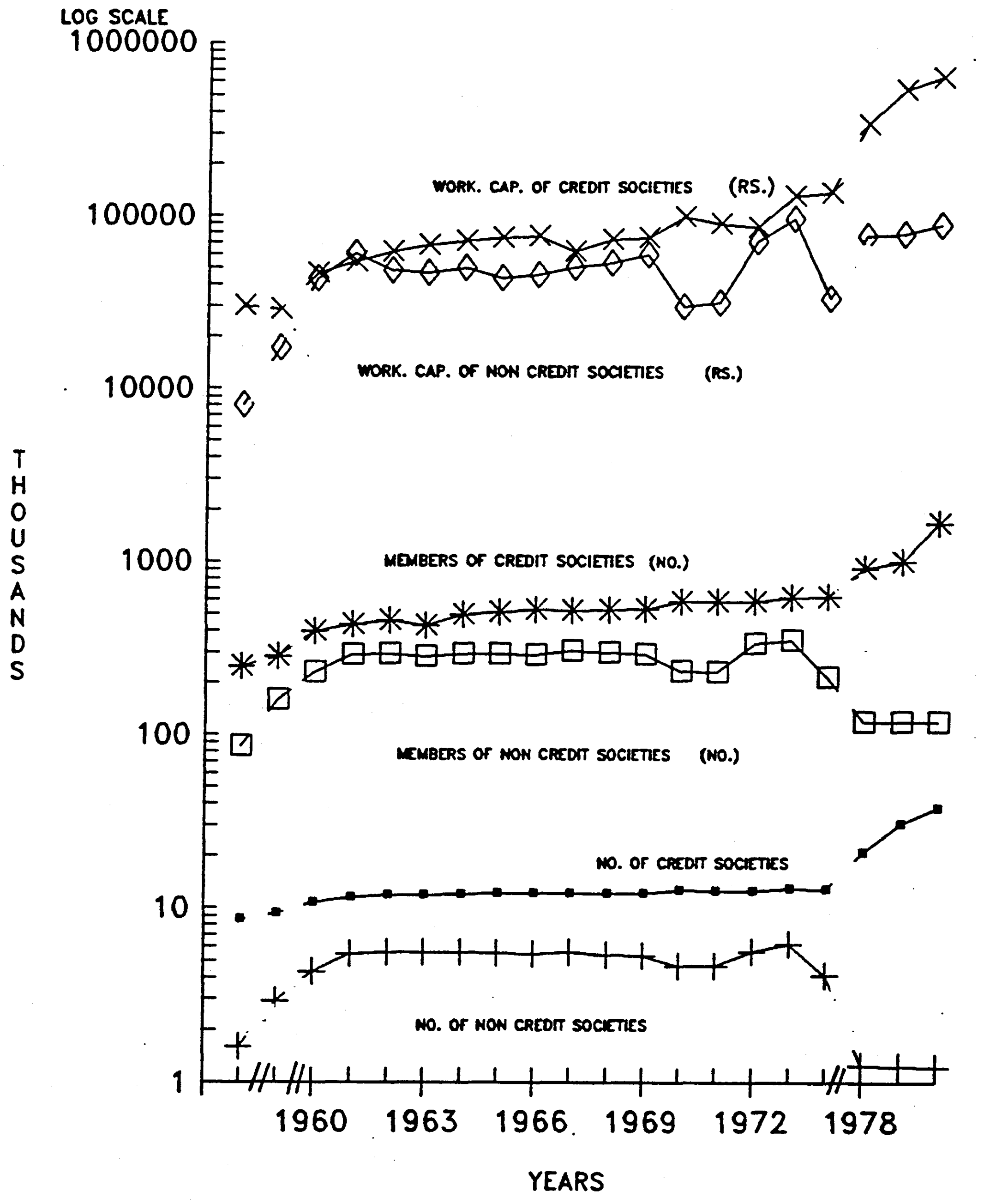
A brief note on the Federal Bank for Cooperatives is in order. The Bank was established in 1976 at the national level of the movement with the object of providing financial assistance to the provincial

Cooperative Banks in all four provinces of Pakistan. In addition, the Federal Bank for Cooperatives has assisted the federal and the provincial Governments in formulating schemes for the development and revitalization of the movement, undertaken research on problems of rural credit and other matters having a bearing on the development of the movement and assisted the provincial Cooperative Banks in preparing their seasonal development lending programmes and undertaking appraisals as well as feasibility studies of projects covered by such programmes. However, in practice, the Federal Bank has served merely as a channel of credit catering for the credit requirements of the Punjab Cooperative Bank, as also of the other provincial Cooperative Banks. The Bank has not made any worthwhile progress on research work, especially on the problems of rural finance. Neither has it been able to undertake appraisal work or conduct feasibility studies of any considerable significance. The assistance rendered by the Bank to the federal and provincial Governments in formulating schemes for the development and revitalization of the movement has also remained less than satisfactory.[3]

As discussed in Chapter Four, primary cooperative societies have been established at the base level of the cooperative movement in the Punjab. The primary cooperative societies, especially the agricultural societies may further be classified into credit and non-credit societies. Agricultural credit societies form the back bone of the movement in the Punjab, as in terms of number, total membership and working capital these societies are bigger than those of the non-credit societies. The relevant statistics on the number of agricultural credit and non-credit societies, their membership and working capital for the years from 1950 through 1980 are presented in Figs. 5.2 (also see Table 5.3). It may be noted that the total number of primary agricultural societies (credit and non-credit societies) in the Punjab in 1950 was 10186 with 8598 as agricultural credit and 1588 as agricultural non-credit societies. This number rose to 39136 in 1980 with 37920 as agricultural credit and only 1216 as agricultural non-credit societies. Thus some 97 percent of the primary agricultural societies in 1980 were agricultural credit societies and only 3 percent were agricultural non-credit societies indicating that the movement in the Punjab remained centred in the sphere of credit. Evidently a high proportion of agricultural credit societies underlines the importance which was assigned to the problem of agricultural credit in general and cooperatively provided credit in particular.

A careful perusal of the data presented in Fig. 5.2 would further show that there was a significant increase in the formation of agricultural credit societies after 1977 (between 1977 and 1980) agricultural credit societies increased roughly at the growth rate of 32 percent a year) while non-credit societies declined from 1241 in 1978 to 1216 in 1980. It may however be noted that after 1978, a vigorous campaign was started by the department to establish as many new agricultural credit societies as possible. In addition, agricultural non-credit societies which were not operational were converted to agricultural credit societies to undertake the task of providing interest free credit to the peasants. A greater emphasis assigned to the cooperative credit movement, especially after 1978, however resulted in the stagnation of the non-credit societies. Many non-credit societies in the Punjab were reported to have performed

FIG 5.2 PRIMARY AGRICULTURAL CREDIT AND NON CREDIT SOCIETIES IN THE PAKISTAN PUNJAB



Note: The first three observations relate to 1950, 1955 and 1960.

badly due to the lack of proper attention given by the Department of Cooperation to the non-credit societies.

The cooperative movement in the Punjab did not only depend on the formation of new agricultural credit societies, but also on the growth of their membership. The growth of membership in agricultural credit and non-credit societies is shown in Fig. 5.2 which reveals that the two groups (credit and non-credit) had 246,000 and 86,000 members respectively in 1950 representing some 74 percent and 26 percent of the total membership. This indicates that the rural population in the Punjab were already more attracted towards the cooperative credit movement. In subsequent years agricultural credit societies accounted for some 93 percent of the total membership in 1980. The average size of membership in a society remained small - 41 in a credit society as against 98 in a non-credit society. Indeed, throughout the period, the average size of membership in a non-credit society remained large, compared with that of the credit societies.

The data presented on the working capital of agricultural societies (credit and non-credit) in Fig.5.2 further show that the total working capital available to credit societies remained lower compared with the capital available to the non-credit societies throughout the period under reference. Indeed, a significant increase in the total working capital available to the credit movement occurred after 1977. At the same time, however, there was a significant decline in the working capital of the non-credit societies. These statistics thus confirm that the Government assigned a greater emphasis to the credit movement, especially after 1977. Nonetheless available working capital per member in non-credit societies remained more compared with that in credit societies. This reflects the different nature of the business conducted by the non-credit societies.

The data on the sources of working capital in non-credit societies were not available. But bearing in mind the source of the growth in credit societies, working capital in later years (see Fig.5.5) the falling stock of total working capital of non-credit societies at a time when their members were falling substantially implies that Government loans rather than owned funds, were crucially important for them too.

It is against this background that the experience of agricultural credit societies in the Punjab is now studied in detail through an examination of the following aspects.

a) the relative importance of credit Cooperatives among institutional sources of finance.

b) the importance of cooperative credit in relation to the total credit needs of farmers.

c) the extent of local participation in, and support for agricultural credit societies, and

d) the welfare effects of cooperative credit distribution.

The relative importance of cooperative credit among institutional sources of finance can be judged from the data presented in Table 5.4. The share of cooperative credit in total institutional credit was significant during the years 1948 through 1966. This was mainly attributed to the policy of the Government in the country which showed interest in developing and expanding the role of the cooperative credit movement. Nevertheless the provision of cooperative credit was not sufficient. The Agricultural Development Bank of Pakistan was thus established in 1961; with that the total supply of credit in the farm sector increased, from 75.12 million in 1960 by some 174 percent by 1966. Again in 1971 all commercial Banks entered the business of rural finance. These measures enhanced the supply of farm credit, and the share of cooperative credit among the institutional sources of finance declined from around 60 percent in 1966 to less than 6 percent in 1977. As against this, first the share of credit provided by the Agricultural Development Bank increased, followed by that of the commercial Banks (after 1971-72); only after 1977 did the share of cooperative credit amongst the institutional sources increase once again - that is from 7.3 percent in 1978 to some 28 percent in 1981.

Data contained in Table 5.4 show another source of institutional credit - that is Taccavi loans. As was discussed in Chapter Four, the British Government in India, had established the tradition of providing state loans (commonly termed as Taccavi loans) to the peasants through the Department of Revenue Collection in order to enable them to purchase seed, farm tools and other farm accessories. After the division of the Punjab in 1947 the Taccavi loans remained an integral part of the Government's lending policy in the Pakistan Punjab as well as in the Indian Punjab. Taccavi loans in the Pakistan Punjab have however been restricted to the provision of funds for 'unforeseen calamities' and also to areas where other institutional sources have not been able to build a well-developed network. Although a recognised part of institutional farm credit, 'Taccavi loans' receive less attention from the peasants; funds provided by the Government as 'Taccavi loans' are small in amount. Further, there is a practice of coercive recovery by the Department of Revenue Collection at a time when funds are most needed by the peasants. The share of Taccavi loans in institutional credit declined sharply after 1976, largely due to a greater reliance on the efficacy of the cooperative movement.

It is however worth mentioning the trend of loan disbursement by the sources of institutional farm credit. It may be noted from Table 5.4 that there has been an erratic supply of credit granted by Cooperatives in the Punjab.

There are two major reasons for this erratic provision of cooperative credit. First, up to the early 1960s, the Cooperatives enjoyed a monopoly as an institutional source of finance. They received many privileges from the Government both in regard to the supply of public funds, and also in meeting the costs of management and administering credit provisions. Nevertheless their performance was not commendable as many societies became more interested in lending public funds than in recovering the outstanding loans. This was inevitable as it was not the farmers' own funds which were at stake but public funds . In the mid 1960s the introduction of the 'green revolution' enhanced the demand for credit; improved farm inputs such as improved seed, chemical fertilizer and pesticides, which farmers had not used in the past, now came on the scene. The farmers' own working capital did not permit access to these inputs, as his consumption requirements were pressing, and he was barely able to maintain existing levels of production and consumption with the available working capital. The obvious alternative was to provide funds to farmers through Cooperatives. The Credit Inquiry Commission (1959) observed that the performance of the cooperative movement in general and credit societies in particular was unsatisfactory. The Commission recommended the establishing of the Agricultural development Bank with the purpose of enhancing the overall supply of credit from the institutional sources. It was expected that the entry of the Agricultural Development Bank into rural finance would provide an effective competition to societies. Nevertheless, many more credit societies did not do well in the 1960s, or in the first half of the 1970s.[4] The Agricultural Inquiry Committee (1975) recorded that the cooperative credit movement in Pakistan, and in the Punjab in particular, was not capable of meeting the credit needs of farmers, primarily due to deficiencies inherent in its structure and organization.[5] Earlier, however, the Government of Pakistan had become more committed to the cause of agriculture and preferred to disburse more loanable funds through the Agricultural Development Bank and the commercial Banks. The inherent deficiencies of Cooperatives and the preferential treatment assigned by the Government to the commercial Banks was one reason (among others) for the share of cooperative credit tending to decline further. In 1975 the share of cooperative credit fell abruptly to 8 percent as against 15.7 percent in 1974. And this was mainly due to a sudden increase in the share of commercial Banks in the business of rural lending, which rose from 31 percent in 1974 to some 51 percent in 1975. At the same time, the share of the Agricultural development Bank started to decline after 1973, so much so that it fell from some 55 percent in 1973 to 19 percent in 1979.

Second, in view of the increased provision of credit by the commercial Banks to larger farmers, it became necessary to provide adequate funds to the small farmers. As late as the second half of the 1970s attempts were made to revitalize and rehabilitate the movement, and agricultural credit societies were entrusted with the task of disbursing public funds, on a cost-free basis, to their members. As noted in Chapter Four, the measures taken by the Government in the late 1970s resulted in increased provision of cooperative credit to the farm sector. Nevertheless, this does not imply that those who needed credit did really get it. The incentive of interest free loans to members of societies was a good step, but unfortunately it was misused partly because it was operated through incompetent functionaries of the cooperative department, and partly through political pressure. Consequently the advantage that was visualized at the time of conceiving this scheme was frustrated.[6]

The absolute importance of cooperative credit in the Punjab can be judged from both its contribution towards total credit needs and by its demographic coverage. From both points of view, the role of cooperative credit societies can be shown to have been rather poor. We consider the former aspect first.

The estimated total credit needs of farmers in the Pakistan Punjab have never been fully met from the available supply of institutional credit. The Agricultural Enquiry Committee (1953) found that non-institutional sources met the bulk of demand for credit by the farmers. The committee found that relatives and friends provided an average 64 percent of the credit supply in the province of the Punjab. Landlords accounted for 17 percent and shop-keepers for 3 percent. At the same time the committee observed that the commercial money-lenders accounted for 17 percent of the supply of credit in the province.[7] The Committee on the Working of Cooperative Institutions (1964) reported that institutional sources accounted for only 9 percent of the total credit needs of farmers.[8] The Credit Inquiry Commission (1959) projected the minimum short-term production credit needs to about Rs 614.8 million for the year 1969-70. The available supply of credit from institutional sources (including Cooperatives) was however only Rs 171.69 million in 1969-70.[9] The Fifth Five Year Plan estimated that the credit availability per cropped acre increased from Rs 4.75 in 1970-71 to Rs 44 in 1977-78. It however projected that this would further increase to Rs 89 by 1982-83.[10] But despite an increased volume of credit, a number of other studies[11] established that the provision of institutional credit was not sufficient to meet the requirements of the agricultural sector in view of the rising demand for improved agricultural equipment and farm inputs. The Sub-committee on Agriculture and Credit (1973) appointed by the Agricultural Advisory Council estimated that 53 percent of the total cash requirements in agriculture could be identified as agricultural credit needs.[12] According to this criterion, the total credit requirements for 1975-76 were estimated at Rs 2140 million, whereas the total availability of institutional credit in the same year was Rs 1255 million in Pakistan.

It may thus seem, in the light of the above findings that the credit needs of the farm sector in Pakistan, as also in the Punjab, remained largely unmet from the institutional sources and that farmers tended to rely on non-institutional sources to fulfil their credit needs.

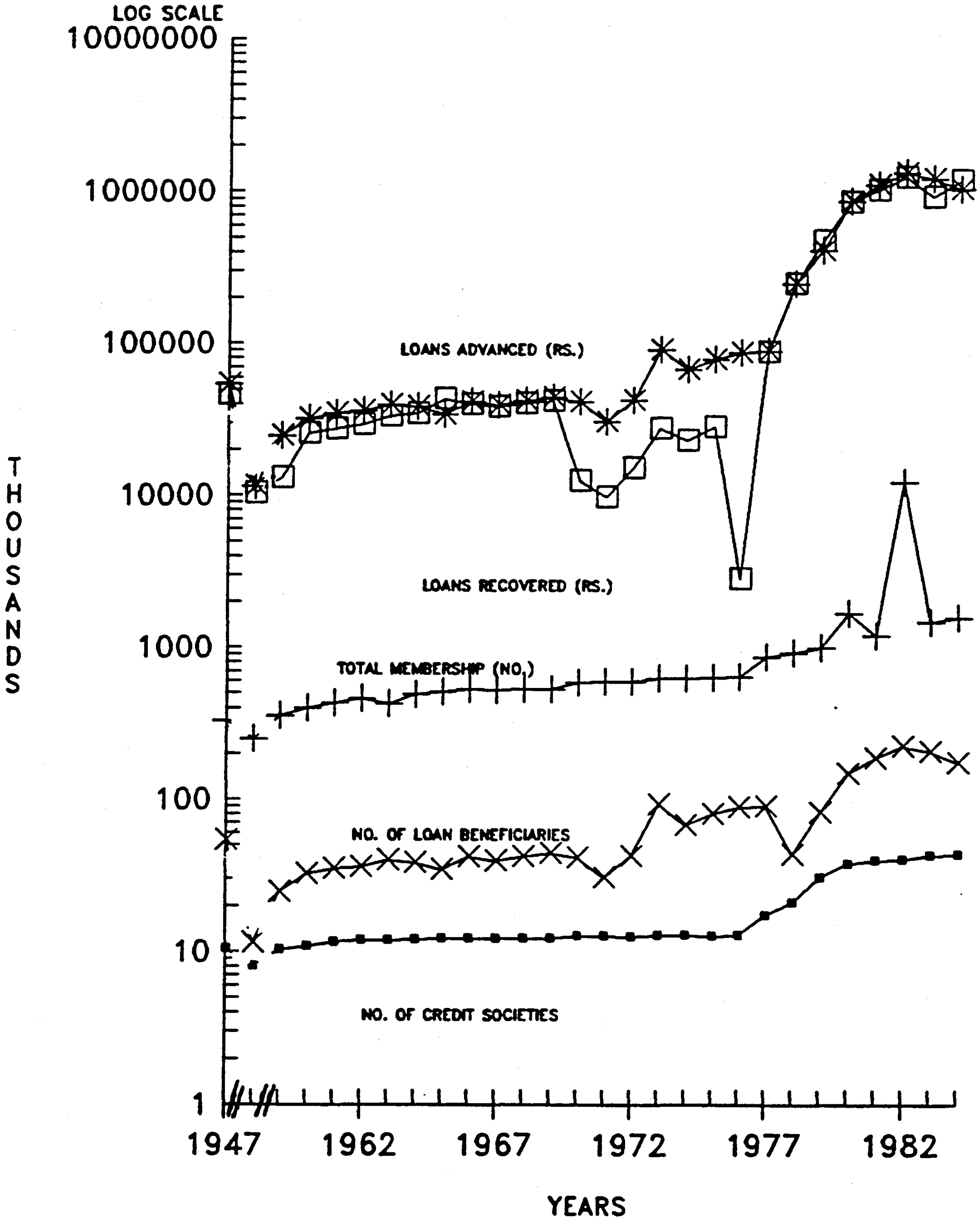
This argument obtains further support from the findings of the Rural Credit Survey (1974), which after surveying nearly 100,000 farm households in Pakistan recorded that only 9.7 percent of the total borrowings came from institutional sources. However, after the entry of commercial Banks into agricultural lending, the supply of credit from institutional sources increased considerably. Nevertheless, despite the enhanced provision of credit, the main dependence of farmers in the Punjab remains on non-institutional sources.[13] In late 1985 the Agricultural Census Organization of Pakistan conducted another survey covering all the four provinces of Pakistan. The survey recorded that 27 percent of all the rural households including the farm and non-farm households had some recourse to institutional credit. For the farm households this proportion was 30 percent for under 0.5 hectare category, whereas it was 44 percent for the 60 hectares and above category. On a provincial basis, the survey revealed that 34 percent of the under 0.5 hectare category in the Punjab had recourse to institutional credit, as against 65 percent of the total farm households in the Punjab.[14] This shows that access to credit was generally higher amongst large sized farm holdings. These findings support the earlier view that insufficient credit was available from institutional sources and that farmers depended more on non-institutional sources to fulfil their credit needs.

It may be recorded that some observers[15] suggest that the ratio of credit to the total output flow in agriculture should be 25 percent. Nonetheless, it is not easy to estimate credit needs precisely. They are a complex entity and depend on (among other factors) the degree of commercial activity of agriculture, the cash-flow relationships particular to individual enterprises etc. However, calculated on the basis of the above formula, the results are summarized in Table 5.5. It may be noted that agricultural GNP in the Punjab was Rs 4483. 50 million in 1972 and Rs 17586.50 million in 1981. Total institutional credit disbursed in these two years was Rs 128.00 million and Rs 4027.93 million respectively. The ratio of institutional credit in agricultural GNP came to 3 percent and 23 percent respectively; the ratio of cooperative credit to agricultural GNP stayed at only 0.8 percent in 1972 and 6.4 percent in 1981. These results establish that despite considerable injections of rural credit by the institutional sources (including Cooperatives) in agriculture in the 1970s its quantum in terms of total credit requirements in agriculture remained less than 'estimated credit needs'.

The role of the cooperative credit movement in the Punjab may be evaluated in terms of extent of participation in, and support of members of the credit societies. It can however be pointed out at the outset that the performance of societies in this respect has generally remained less than satisfactory.

Data on the working of agricultural credit societies in the Punjab are presented in Figs. 5.3 through 5.9 (also see Tables 5.6 through 5.10). As noted earlier, the number of credit societies in the Punjab increased at a higher rate as compared with the non-credit societies. The number of credit societies increased at the rate of approximately 1 percent a year during 1960 through 1976. There was a significant increase in the formation of credit societies after 1976, as the number of societies increased from 17165 in 1977 to 37920 in 1980, roughly at the rate of 32 percent a year. This trend continued in the subsequent period, though the rate of establishing societies fell to 3.4 percent a year between 1981 and 1984. (see Table 5.6) Thus the experience of the late 1970s is atypical and needs explanation. As noted earlier, the Government of the Punjab introduced the interest-

FIG 5.3 PRIMARY AGRICULTURAL CREDIT SOCIETIES IN THE PAKISTAN PUNJAB



Note: The first three observations relate to 1947, 1954 and 1959.

free lending policy in 1978, and used the cooperative movement as a vehicle to funnel interest-free credit into the farm sector. Many more credit societies in the Punjab were established under the directive of the Government. New societies were generally formed by the departmental officials without giving any regard to the principles of cooperation. Many societies were established overnight just to impress the superiors up the line with the successful implementation of the Government directive. As such, a policy of expansion rather than consolidation was pursued by the department from 1977 through 1980.[16]

The role of the cooperative movement obviously did not depend only on the formation of new societies, but also on the average size of membership and its long-term changes. In this respect two important features may be pointed out. Firstly the average size of membership per society remained small - only 41 in the Punjab. Secondly the annual rate of expansion in membership for the period, 1977 through 1980 was lower than in the formation of new societies. The exception to this pattern was the period 1960 through 1976, when the rate of expansion in membership was 3 percent a year, as against the formation of societies which roughly increased at a rate of just over 1 percent during the same period. The important implication of the discrepancies in the rate of formation of societies and enrolment of members, especially in the late 1970s meant that per capita administrative and maintenance expenditure must be increasing over time.

As has been noted earlier in Chapter Four, the Government of the Punjab made many attempts to establish large-sized viable primary units at the base level of the movement, but these attempts generally witnessed lesser success. The underlying trend shown by the data reveal that societies generally remained small-sized. There are two reasons for such a pattern. First, the credit societies did not provide sufficient credit; the farming population found it unattractive to join the movement. Second, the attempts made by the department to promote the movement were too insignificant to persuade prospective members in rural areas to join the societies. In this regard a number of studies document the failure of the movement to enrol large numbers of the farming population in the Punjab. The Cooperative Inquiry Committee Report (1955) recorded that only eight percent of the farm population was embraced by the movement.[17] Waheed recorded that the effective coverage of farming community by the movement in the Punjab was around 15 percent in 1984.[18] The Rural Credit Survey of Pakistan (1975) concluded that only 4 percent of the rural households in Pakistan were enrolled in the movement.[19] Data on the households reporting membership of Cooperatives by type of households are given in Table 5.7. It may be seen from the table that only 1 percent of households in the smallest size of farm category reported cooperative membership but this proportion increased to 13 percent in the largest size of farm category of 60 hectares and above. The cooperative societies, according to the survey are common in the Punjab, yet only 6 percent of the total farm households reported membership. Only 1 percent of the farm households in other three provinces (NWFP, Sind, Baluchistan) reported membership of cooperative societies. The relatively higher figure of 6 percent of all farms in the Punjab was due to the fact that 21 percent of the 60 hectares and above farm size category households in the Punjab had reported membership of the cooperative societies.[20]

These statistics would imply that the movement in the Punjab was largely centred within bigger farm households. It may be that they controlled the management of societies and they might have imposed restrictions on the entry of new members (with small holdings), primarily to make use of Cooperatives provisions to themselves. This argument obtains support from the available evidence[21] which suggests that many societies in the Punjab did not accept their obligations to admit anyone who, in return for its benefits, would undertake in good faith the duties which membership implied. Many credit societies simply did not enrol new members, as the management of these societies restricted entry in order to obtain economic advantages for themselves and for the existing members.

Despite the increase in the number of societies, many Cooperatives in the Punjab were regarded as economically non-viable in the classification of societies by the department. The credit societies were categorised by the department into four audit classes and the audit classification was supposed to reflect their business performance. Class 'A' Cooperatives were considered sound and viable financial units while class 'D' were comprised of those units which were in bad financial shape and had little chance of survival. In between 'A' and 'D' were 'B' and 'C' classes. 'B' was a class which was not as sound as 'A' but was considered nonetheless viable. The only difference between 'A' and 'B' was that the former managed its affairs without calling for outside assistance, service or advice, while the latter had to depend for audit service and for expert advice on the Department of Cooperation. 'C' class credit societies were neither sound nor viable units on the day of classification but were capable of promotion to 'B' class if they were able to improve their affairs, recover overdue loans and build up adequate reserves. If the necessary corrective measures were not taken, these Cooperatives were relegated to the 'D' class which meant inoperative and liquidating societies. In addition, there were many societies which were not classified at all and were 'unclassed'. In addition, many societies were actually in the process of liquidation. The classification as described above proceeded from sound and viable to poor and disintegrated units of Cooperatives in a descending order.[22]

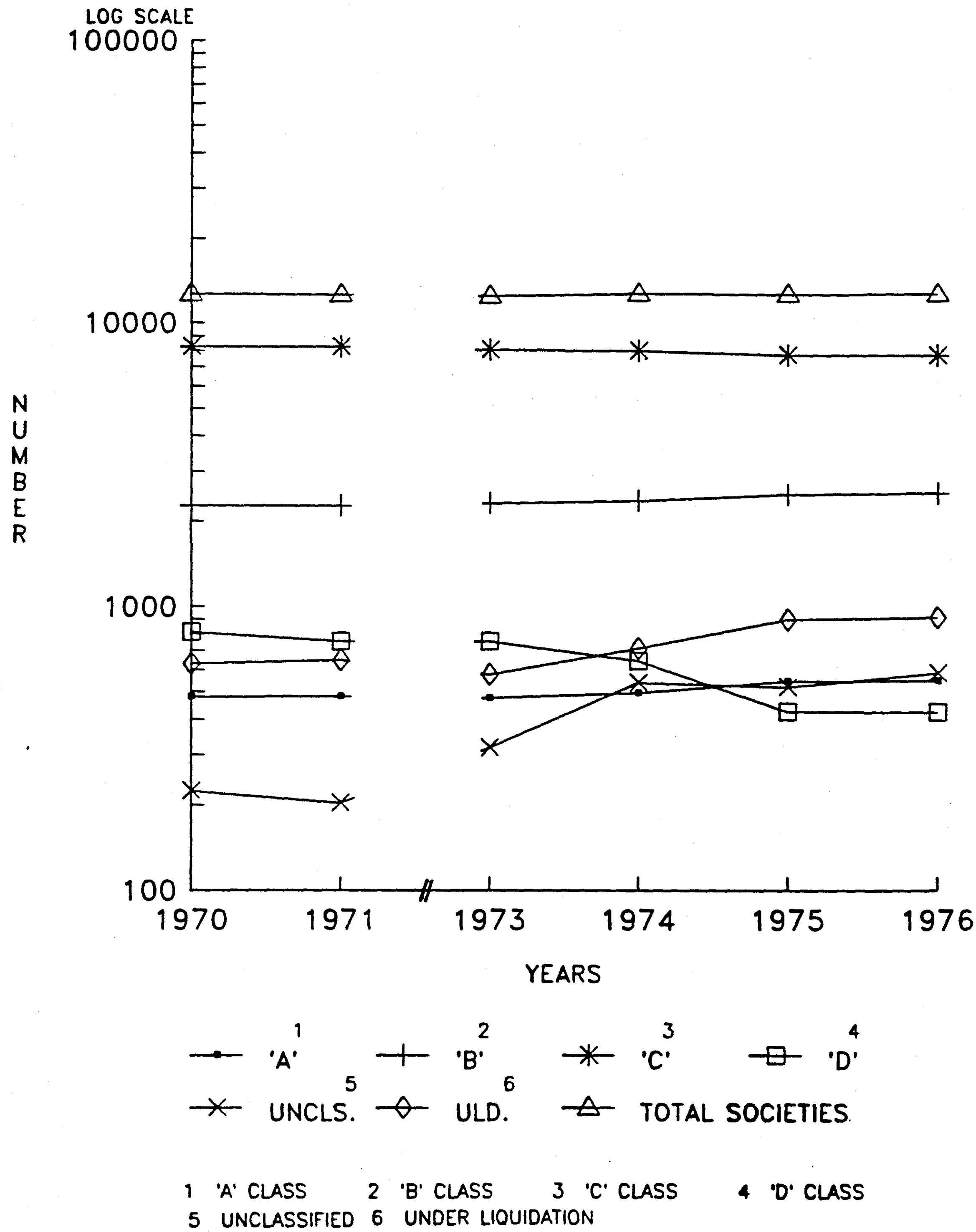
It may be noted that the criterion chosen by the department for the classification of societies was deficient in certain respects. The criterion covered only a very simple aspect of business performance and excluded many other aspects such as the number of years a society had been formed, size of a society, repayment rate, involvement of large or small farmers in cooperative affairs and so on. The departmental staff encountered a difficulty in this regard as the societies did not maintain any data on the above aspects; most members and management committees were illiterate and hardly knew the importance of maintaining proper records. However, despite these limitations, the criterion was employed by the department to evaluate business performance of societies.

According to the Department during the year 1970 about 21 percent of the cooperative credit societies were relatively successful ('A' and 'B') while some 79 percent were unsuccessful. In subsequent years the number of non-viable societies in the Punjab was on the increase. It was estimated in 1976 that out of the total 12757 societies, 4 percent of societies fell in the 'A' category, 19 percent in 'B', 60 percent in 'C' and some 3 percent in 'D' category. The percentage of societies unclassified or under liquidation in 1976 came to 4 percent and 7 percent respectively. Thus only 23 percent of societies were viable and fell in 'A' and 'B' categories as against 64 percent in 'C' and 'D' categories. It has to be concluded that the cooperative movement as a whole in the Punjab could scarcely be described as economically viable, at least in the year 1976. (see Fig.5.4; also see Table 5.8)

It is difficult to take these figures as reliable. Quite apart from the extreme simplicity of the criterion, its application entailed taking a very short-run view so a society could be placed in a particular category as a result of chance variation in its performance. Despite such difficulties, the criterion was supposed to be a useful guide for the evaluation of business performance of societies in the Punjab.

The Department of Cooperation abandoned the classification of societies into these categories after 1977. Critics[23] suggest that this was done deliberately to conceal the true picture of the working of the cooperative credit movement. It has been alleged that the number of bogus and non-viable societies had increased. The Report of the National Commission on Agriculture (1988) recorded that out of 45,000 agricultural Cooperatives in Pakistan, as much as 50 percent were dormant, and of the remaining, probably only 5 percent were genuine, viable and active undertakings.[24] According to a study conducted by the Centre for Administrative Research and Development studies in the Punjab, out of 34543 societies as many as 50 percent were found to be inactive undertakings in 1984.[25] These findings are

FIG 5.4 CLASSIFICATION OF PRIMARY AGRICULTURAL CREDIT SOCIETIES IN THE PAKISTAN PUNJAB



consistent with the conclusion that, after the introduction of the interest-free lending policy in 1977, the number of 'bogus' and 'non-viable' societies was on the increase. This further reflects that neither the management nor the general membership in societies was committed to cooperative principles. The plausible conclusion is that the only object of establishing a society and becoming its member was to take advantage of the provision of interest free credit - as we shall see, even to the extent of indulging in forgery.

Another way of gauging the spread of the cooperative idea, to measure the extent to which farmers began to participate in the Cooperatives, is to examine the composition of working capital available to societies. It has already been pointed out that agricultural credit societies obtained their working capital from the following sources (a) share capital paid up by the members (b) a reserve fund created out of the profit (c) deposits from the members and loans from (d) Central Cooperative Banks/Punjab Cooperative Bank (e) non-members (f) Government (g) other sources. Funds from the first three sources formed the owned and those from the last four formed the borrowed capital of societies.

Relevant statistics on the sources and composition of working capital are presented in Fig.5.5 (also see Table 5.9).

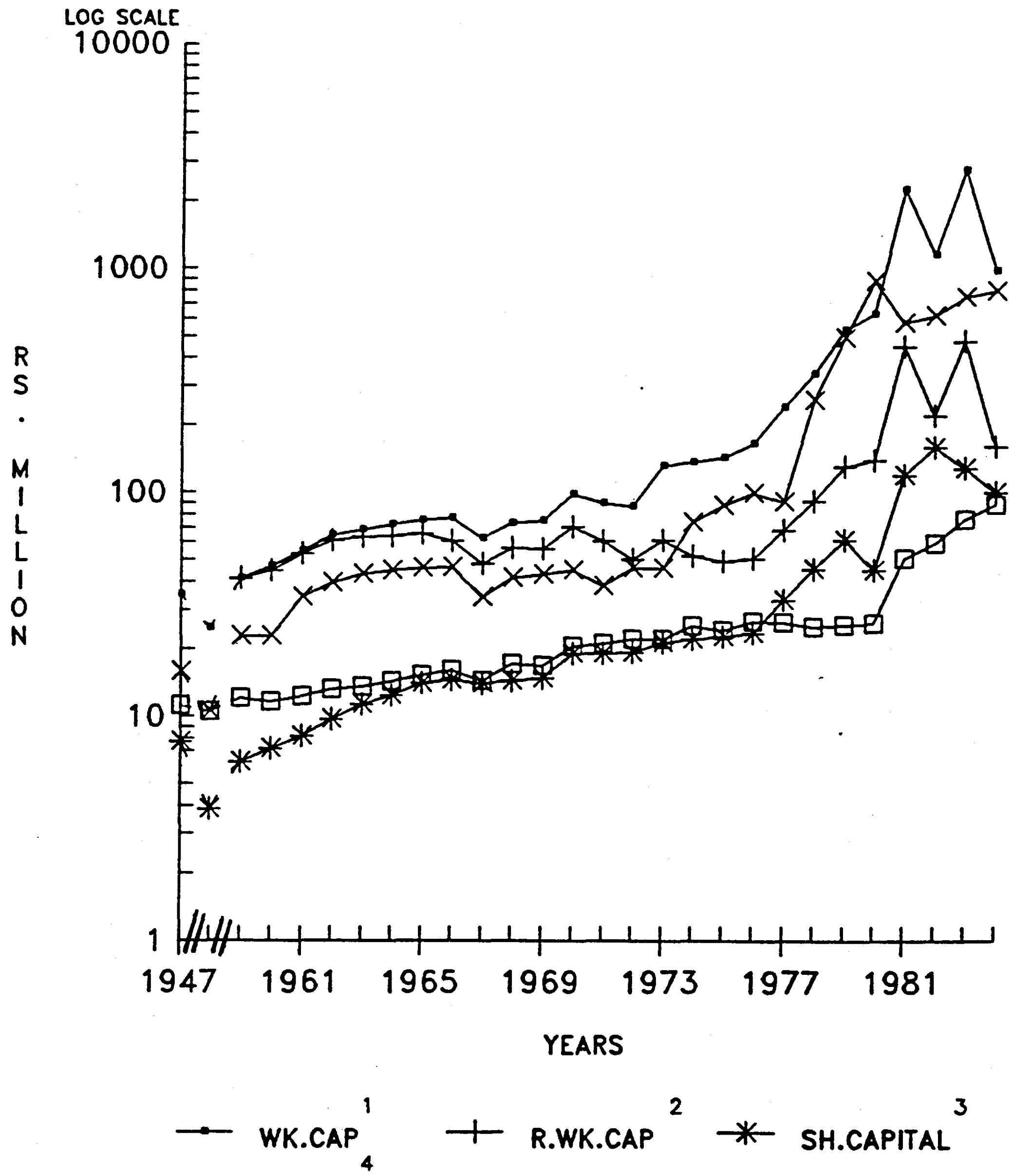
As noted earlier, total working capital available to credit societies increased from Rs 46.51 million in 1960 to Rs 164.82 million in 1976. There was a significant increase in the working capital available to the credit movement after 1976; although after reaching a peak in 1981, a sharp decline in working capital became evident in 1982. The working capital in societies was largely derived from the borrowings (that is loans and deposits held) rather than the share capital and reserve funds. It may be noted that during the period 1947 through 1976, the percentage share of borrowed funds (loans and deposits held) of societies ranged between 42 and 69 percent. Credit societies borrowed between 79 and 93 percent during the years 1977 through 1984.

The above statistics imply that after the introduction of the interest free lending policy of the Government in 1978, working capital in societies increased primarily on account of borrowings (loans and deposits held) rather than the share capital, reserves and/or deposits from the members.

As stated earlier, three important sources of working capital - that is share capital, reserve funds and member's deposits formed the 'owned capital' of societies. In the absence of any relevant statistics available separately for members deposits it is difficult to comment precisely on exact contribution of 'owned capital' to the working capital in credit societies in the Punjab. However some idea can be had of the relative contributions made by the share capital and the reserve funds to the total working capital of societies.

Share capital was first introduced in 1918 though this meant a deviation from the original Raiffeisen principle. It was normally of small value Rs 10-15 each - payable in half yearly or yearly instalments. Presently the share capital of a society consists of shares of Rs 10 each and a member is expected to purchase a minimum of 10 shares over a period of 10 years. The by-laws of societies do not allow distribution of profit to shareholders for a minimum of 10 years; afterwards a cooperative can repay the share capital, and also the

FIG 5.5 SOURCES AND COMPOSITION OF WORKING CAPITAL IN PRIMARY AGRICULTURAL CREDIT SOCIETIES IN THE PAKISTAN PUNJAB



1 WORKING CAPITAL 2 'REAL' WORKING CAPITAL 3 SHARE CAPITAL
4 RESERVE FUNDS

Note: The first three observations relate to 1947, 1954 and 1959 profit earned by the society to its shareholders.

The underlying hope in introducing share capital was that this would not only encourage thrift among the members, but also increase the societies' financial strength and by reducing their dependence on outside capital, should make possible lower interest rates to members. From the statistics presented in Fig. 5.5 (also see Table 5.9) it seems that this expectation was not fulfilled as share capital never accounted for more than 23 percent of the working capital throughout the period 1947-84. A careful perusal of the data contained in Table 5.9 would nonetheless show that despite a steady increase in the share capital, its percent share of the working capital tended to decline between 1977-81. At the same time, there was an increase in the loans and deposits held by the societies. As a matter of fact, an increase in the working capital of societies (especially after 1977) was accounted more by borrowed funds, rather than the share capital and reserves.

Many field studies undertaken in the Punjab[26] established that cooperative credit societies did not adhere to the model by-laws regarding receipt of share capital from members. Khan (1971) found that the share capital in societies did not correspond to the number of members and shares held per member. He further recorded that the usual method of purchasing shares by members was out of the borrowed funds and with the passage of time it became a norm among the societies to deduct 10 percent of the loan amount every time it was sanctioned to a member till the total deductions summed up to a maximum Rs 100.00 per borrower. This practice was justified by the management committees as compulsory savings. The mechanism at work, however, deprived the members of understanding through action the philosophy behind the contribution of share capital. The fact that they became members did not in any way mean either sacrifice on their part or acceptance of any responsibility whatsoever. Mostly the members did not protest against the deductions as they got the loaned funds without any effort and took it as easy money. Moreover, most of the borrowers understood these deductions were something like 'loan fees'.[27]

The Reserve fund which normally constituted the largest single component of the owned capital of societies was created by the accumulation of a certain portion of the annual net profits and entrance fee. Presently the Reserve fund in a society should be maintained according to section 39(2) of the Cooperative Societies Act (1925). The Cooperative Societies Act requires that 25 percent of the net profit earned by a society is transferred to the statutory reserve funds. After a period of 10 years a cooperative is at liberty to maintain any other reserves.[28] Data on the profit earned by societies in the Punjab were not available; it is difficult to say if at any time such a condition was fulfilled by societies. It was however found in a study undertaken in the Punjab in 1973[29] that 53 percent of the sample 'A' and 47 percent of the 'B' class societies did maintain statutory reserves. However the statutory reserve funds accounted for 8 and 11 percent of the working capital in 'A' and 'B' class credit societies. So it appears that the societies in the Punjab had not earned adequate profit in the past and they also failed to maintain adequate statutory reserves. The data presented in Table 5.9 show that the share of reserve funds as a percent of working capital ranged between 11 and 25 percent during 1960-70. There was a further decline after 1978 such that the reserve fund as a percent of working capital stayed at 2.2 in 1981.

As noted earlier data on members' deposits were not available from departmental sources. However a number of studies undertaken in the Punjab proved that the making of deposits was rarely emphasized by credit societies. This is mainly because the societies were not seen as attracting deposits, particularly from the rural areas where they lacked not only the required infrastructure (such as office space, secure facilities) but also the necessary expertise. In addition, competition from commercial Banks with their relatively sound financial base made Cooperatives less attractive to depositors.[30]

It may thus be concluded that despite considerable expansion of the credit movement, especially after 1978, the qualitative aspects of the societies had been neglected both by the members and the departmental staff. The cooperative movement had become a hand-maiden of the Government. There was no adherence by the members to the principles of cooperation. The mobilization of owned funds remained far less and the major thrust of the movement was on borrowed funds received mainly from the Government through the Cooperative Banking system.

Another way at assessing the performance of credit societies was to evaluate their lending business. As stated earlier, the share of cooperative credit in the institutional sources of finance remained less than 30 percent after the introduction of interest-free lending policy in 1978; however loans advanced by cooperative credit societies in the Pakistan Punjab remained far less than total credit demanded in the farm sector. Nevertheless, the total loans advanced by societies increased from Rs 53.6 million in 1947 to Rs 90.49 million in 1977. Thereafter there was a quantum increase in loans advanced by societies, which increased from Rs 259.27 million in 1978 to Rs 8830.0 million in 1981. (see Table 5.6) However, despite this cooperative credit, as already noted, as a share of total institutional lending remained less than 30 percent by 1981.

Relevant statistics on the lending business of societies are presented in Fig. 5.3 (also see Table 5.6). It may be seen that the ratio of repayment of loans advanced was not at all bad especially during 1947-69. It tended to stay fairly high. However there were six years - that is 1970-76, in which the ratio dropped to less than 0.4; in contrast there were again six years - (1977-82), when the ratio of repayment exceeded 0.9. The overall average repayment to loan ratio for 1960-84 stayed at roughly 0.76. And this was not at all that bad. Nevertheless, it is important to underline the cause for low recovery especially for the period 1970-76. A sudden drop in recovery of cooperative loans in 1970 may be attributed to two factors. First prior to 1969, the present Punjab formed an integral unit of the province of 'West Pakistan'. And as noted earlier in Chapter Four 'one unit' was dissolved in 1969, and the old administrative set-up in Punjab was revived. It is probable that the administrative adjustments would have made it difficult for the department to assign proper attention to the supervision of the movement and this factor resulted in a sudden fall in the recovery of loans. Second, war started between India and Pakistan in 1971, and the war front covered almost 90 percent of the geographic area adjoining the boundary between the two Punjabs. Many of the rural population were affected and this must have influenced the movement, which found it more difficult to recover loans from members. The third factor was the involvement of commercial Banks in the business of rural lending in 1972. As noted earlier, the relative share of cooperative credit in the institutional sources declined considerably after 1972, primarily due to a shift in the lending policy of the Government which become more committed to the progress of the commercial Banks. It is possible that the lesser attention assigned by the Government to the movement in the first half in the 1970s was another contributory factor in the fall of recovery of loan from members. We shall turn to the later period (i.e. 1978 onward) later.

Primary agricultural credit societies in the Punjab were entrusted to provide credit to their members to meet their credit needs and in particular to fulfil credit requirements for specifically productive purposes. In addition, societies were expected to provide loans to non-cultivators to enable them to improve their economic conditions by making "productive use" of credit. Prior to 1978, loans advanced to cultivators were primarily made to enable them to purchase minor farm implements, improved farm inputs (improved seed, fertilizer, pesticides etc.). In addition, credit was provided to the cultivator members and non-cultivators for other 'non-specified' purposes.[31]

Prior to 1978, credit to cultivators was advanced on the basis of maximum credit limit (MCL). The maximum credit limit prescribed for the farmers for the irrigated and non-irrigated areas was fixed at Rs 1,000 and Rs 600 respectively. The credit limit had no relevance to either the needs of the farmer or to his repayment capacity. Similarly the MCL of a society was fixed by the central cooperative banks irrespective of the need of the credit society. The channel of receiving loan proposals was so indirect and subject to abuse that loan proposals could not be made in the way the farmers would have desired. The whole procedure of lending was controlled and it led to both inadequate loan amounts and number of loans per cooperative.[32] And this was inevitable under the circumstances as available working capital, both with the Cooperative Banking system as well as the societies, was insufficient.

Relevant statistics on the average loan advanced to a member in a society, are presented in Table 5.10. It can be seen that between 1947 and 1976, loanable amounts did not match with the maximum credit limit (MCL) prescribed for the farmers for the irrigated and non-irrigated areas. These statistics confirm that cooperative credit was insufficient; the societies became unable to meet the conditions set out by the department in terms of maximum credit limit. It may thus seem that the normal credit needs of a member farmer and the loan he was able to get from his society were significantly out of balance. In a survey in 1952, the credit requirements for cultivators amounted to Rs 1300/per family and about Rs 800/per family cultivator for the upper and lower social strata respectively. In 1955-56, the average loan advanced by the cooperative society was only Rs 54.[33] Thus not only was cooperative credit inadequate in aggregate terms, it was also inadequate at the level of the individual borrowers.

As discussed earlier it was after 1978 that credit societies were able to advance loans of up to Rs 6000 per farmer member for the purchase of improved farm inputs. This amount was sufficient when judged from the point of view of the 'cash requirements' for the purchase of improved farm inputs (improved seed, fertilizer, pesticides etc.). Nevertheless, after 1978 the loan granted by a society to a member, on average did not correspond to the stipulated amount of Rs 6000 (see Table 5.10). In fact the loan granted per member throughout the years 1978-84 remained far less in amount than that allowed to a member.

The data on the number of loan beneficiaries of the credit societies were not available from departmental sources. If it was assumed that member farmers in a society actually received the maximum loan amount prescribed then the number of loan beneficiaries could only have been between 4 and 15 percent of the total membership during the years 1947-77. Between 1977 and 1984 the situation did not change much, as only about 11 percent of the total membership could have been provided with the maximum prescribed amount of loanable funds from the societies (see Table 5.6). Of course, this assumption is too simplistic but it does place the amounts loaned in perspective. The membership of societies increased throughout 1947-84 and it is logical to expect that the members in fact received loans of a lesser share of the maximum credit limit.

The performance of credit societies can also be judged from information on the available working capital per member. It may be noted from the statistics contained in Table 5.10 that average working capital per member ranged between Rs 117 and Rs 277 during the period 1960-77. There was an increase in the average working capital available per member, especially after 1978; nonetheless the amounts do not suggest that the societies were in a position to lend anything like the prescribed maximum credit limit throughout the period 1978-84 and even before. Moreover, the major reliance of members was on borrowings, confirming that the societies in the Punjab operated just as a pay office on behalf of the Government, and not as the original ideology would suggest as a 'cooperative institution' according to true letter and spirit.

Despite an increase in the provision of working capital per member, the 'real' value of working capital declined over time (see Table 5.10). This shows that not only did the funds available per member remain small but in terms of 'real value' the loaned amounts declined in subsequent years. It is probable that members failed to make effective and productive use of these loans primarily because they were insignificant in amount.

Data presented in Table 5.10 further show that loans advanced per member were generally small in amount compared with the available working capital per member. This suggests that the societies were also underlending. Nonetheless it is possible that the societies retained a certain amount of working capital in the form of 'indivisible reserve funds' to meet 'unforeseen' contingencies.

To summarize, then, individual loans were insignificant in amount and in aggregate were financed by borrowing from the Government rather than by collective use of local funds. Thus it seems likely that loans were not used for productive investments by the member farmers, but rather added to their 'unproductive indebtedness'. In this regard, it may be noted that inquiries were conducted in the Punjab in 1951 and 1957. According to the 1951 study, about 36 percent of the families surveyed were in debt, the average debt being Rs 414. Of the amount 28 percent was incurred for 'domestic purposes'. In 1957, 55 percent of the surveyed families were found to be in debt. Of the average debt of Rs 452, about 34 percent was for the same purpose. The 1951 survey showed 'social ceremonies' as accounting for another 16 percent of debt; in the later study, the cost of weddings alone was responsible for nearly 8 percent.[34] The CSO survey of agricultural credit in the early 1960s[35] indicated that 45 percent of cultivators were in debt to the extent on average of Rs 598. Loans were used mostly for household expenditure (45 percent).

In the 1960s the societies were advancing loans to member farmers for short- term (up to one year), and medium-term (one to five years) purposes, loans being provided in cash. Loans for short-term purposes included funds for the purchase of seeds and chemical fertilizers. Loans for medium-term purposes included the funds for the purchase of livestock (milch animals), storage facilities, farm tools and implements and minor land improvements. The CSO survey referred to above further revealed that of the total average cash loan of Rs 598, 45 percent of the amount was used for the livestock. Other uses were land improvements (6 percent); the construction of storage facilities (5.6 percent), the purchase of seeds (5.2 percent), fertilizers (1.1 percent) and farm tools and implements (0.8 percent). It was concluded that only 64 percent of the loaned amount was put to productive uses as against the 36 percent of the loan that was used for household expenditure.

As noted earlier, the insufficiency of credit from institutional sources compelled the cultivators to borrow in addition from non-institutional sources to meet their credit requirements, thereby increasing indebtedness in the farm sector. The Pakistan Rural Credit

Survey (1985) has estimated the total amount of outstanding debt from the institutional and non-institutional sources by type of households, and these data are presented in Table 5.11. Averages based on these data show that the average total debt (irrespective of source) per indebted household for the overall farm households category was Rs 12010. For the institutional sources it was Rs 31246 and for those indebted to non-institutional sources it was Rs 8360. For the smallest size of farm category corresponding figures per indebted household were Rs 9510, Rs 17578 and Rs 9079 for the total debt, debt from the institutional sources and debt from the non-institutional sources respectively. The corresponding figures for the largest size of farm category of 60 hectares and above were RS 109,885. Rs 100,752 and Rs 67132 for the average total debt, the average institutional debt and the average non-institutional debt.[36] The data presented above pertain to the total amount of debt net of repayments made and due by the households on the day of the survey.

A better idea of the relative share of outstanding debt from the institutional and non-institutional sources is further presented in the Table 5.11. These data establish that farm indebtedness was a severe problem and that indebtedness was of an acute nature in cases where the borrowers had received loans from institutional sources. It seems that the intensity of farmers' indebtedness to the institutional sources had only been possible because their operations have been generally underwritten. The rural indebtedness is thus only one side of the coin; in addition the institutions are indebted to the Government. And this has wider implications in terms of the Government's obligations to many developed countries and international donor agencies.

Let us now examine repayments of loans from cooperative members. The recovery of loans from members in societies was generally found satisfactory for the period 1947-69, and 1977-84. It was only during 1970-76 that the recovery of loans from members in societies declined to a low level. Reasons for poor recovery of loans from members in societies have been noted, and it may now be relevant to identify the factors leading to a generally higher recovery of loan from cooperative members.

The higher recovery of loans by societies during 1947-69, was (among other factors) the result of strict adherence by the department to the administrative discipline of societies. Many defaulting members in societies were expelled and their debts recovered as arrears of land revenue. A factor of some importance is that the Cooperatives enjoyed more or less a monopoly in the provision of farm credit as far as the institutional sources of finance were concerned. At the time of enrolment in societies a member was aware that in case of loan default he would be expelled from cooperative membership and therefore his only source of credit would be the money-lender. Since the money-lender charged a much higher rate of interest on his loans compared with those of the cooperative society, the members of societies in general refrained from loan default due to the fear of expulsion from the society and further reliance on money-lenders.

As has already been noted the war with India, and dissolution of the 'one unit' were two plausible factors for the fall in recovery rates during 1970-77. In addition, the increased supply of credit from institutional sources in the Punjab's agriculture was associated with relatively liberalized lending policies of the credit institutions.

The farmer member of a society, even if he was committed to the administrative discipline of the society, found it easier to default in respect of the cooperative loans due to the availability of alternative sources of institutional finance. Many cooperative societies in the 1970s found it hard to compete with other formal sources of finance. The members, in general, showed less interest in cooperative affairs. Those who enjoyed control in societies received an undue share of cooperative loans and they were the main loan defaulters.[37]

As stated earlier, the Government of the Punjab introduced the incentive of interest-free loans provided through the Cooperatives in 1978. This incentive of the Government resulted in better recovery of loans advanced by societies due to two reasons. First, the quantum of loan granted to a loan recipient was raised by 50 to 60 times the existing level, and loans were granted in kind (mainly in the form of improved seed, chemical fertilizers and pesticides). It is possible that the productivity at the farm level went up, due to the increased use of these improved farm inputs and this, in turn enabled the farmer to pay back to his society (This is reconsidered in Chapter Seven). Second, the grant of interest-free loan proved helpful in creating a realization on the part of farmers that it was necessary to repay loans in time so as to enjoy the privilege of this facility in the future as well.

Contrary to the above argument, critics[38] suggest that funds meant for disbursement of loans in the form of improved seed, chemical fertilizers and pesticides were actually diverted towards short-term interest bearing investments. And, through smart forgery new loans created in fictitious names were adjusted against the 'old' loans.

Further, through this practice members in societies, besides making big illegal earnings, were able to show high recovery rates.

The proponents of the cooperative movement[39] however contend that the movement should be evaluated in relation to different criteria from those applied to a regular business because a cooperative is not supposed to be a commercial business venture or a profit making enterprise. Its objectives are largely distributional. It is a system of providing welfare to the poorer cultivating and non-cultivating farming groups and of providing them with an opportunity to improve their own economic position through taking advantage of subsidized loans. Of course, concessional lending cannot be profitable in a commercial sense.

When judged from the point of view of distributing welfare to the poorer farmers, the objectives of the movement have largely remained unfulfilled. As noted, the amount of credit advanced to the average member was insignificant and it is therefore possible that the funds provided had no considerable impact on farm productivity. It may be that the farmer members were instead tempted to divert loans to non-productive use. In point of fact the purposes to which members put their loans were often not those for which the credit societies had advanced the loan. It was therefore easy to note the danger of abuse of the loan for purposes other than production in such a situation. In a study of a village in the Punjab,[40] Khan discovered that loans put to productive use made up only 33 percent of the total loans issued. He observed that the credit society was not a blessing to the village since the cheap credit provided was used for 'non-productive' purposes thereby merely increasing farm indebtedness.

Past experience suggests that concessional lending to members was a disincentive insofar as optimal productive use of cooperative credit was concerned. Wherever Cooperatives provided cheap loans, they failed to run a sound administrative organization or to transfer welfare to the poorer members. The reasons for this were simple. The cooperative societies were left free to decide on membership and mode of operation. As a consequence, the large farmers and politically strong farming groups dominated the Cooperatives and annexed Government funds for their own purposes.[41]

Evidence from the Punjab has established that better-off farmer members in societies dominated the management committees and the bulk of cooperative credit was channelled to them. The small farmers, for whom the system was primarily designed, remained by and large outside the fold of cooperative lending. Khan & Bhatti (1973) concluded that in the sampled societies 31 percent of the total loans were obtained by members of the management committee, who constituted only 15 percent of the total members. They further recorded that the average amount borrowed by a member of the management committee was about 115 percent more than that granted to an ordinary member.[42]

The large farmers and the committee members were the major loan beneficiaries and invariably they were the major loan defaulters. It was revealed in one study that 86 percent of the committee members (as well as the large farmers) in societies were loan defaulters as against 37 percent ordinary members. Moreover, the committee members received preference in the grant of loans.[43]

The successful operations of Cooperatives and the quality of its management ultimately depended on the alertness of its members and the pressure they could exert on the committee of management to conduct cooperative affairs efficiently. This in turn, called for awareness amongst member of their rights and obligations and the responsiveness and competence of the managing committee. In short, the success of Cooperatives depended on the necessity of inculcating amongst members and the management the ideals and goals of cooperation.

It may be noted that in the earlier years of the inception of the movement in Europe, cooperation needed to disseminate its ideas and aspirations widely to the public who were not well informed about this novel form of organization. Hence a considerable emphasis was placed on the education of both members and the public at large as potential members. The continued importance ascribed to education over one hundred years later is a recognition by the International Cooperative Alliance (ICA) of the limited understanding and popular misconception still held by many persons as to the nature and operation of Cooperatives.[44]

The ICA Report of 1966 recognized in a more specific sense the need to educate both members and officials in the running of the Cooperatives as both a business and a democratic organization. The available evidence from the Punjab[45] on the subject generates little confidence as to the successful attainment of this objective. The standard of management, particularly among the base level societies, if assessed in terms of educational qualification and the opportunities for continued management training, has frequently remained poor. At the secondary/apex level the resources available for Cooperatives to influence or make representations at Governmental or international level are also extremely limited. While the ICA Report calls for "necessary responsibility" of the movement to educate people in the ideas and practices of cooperation, it can be argued that this responsibility has not been accepted by the movement in any real sense in the Punjab.

The task of imparting the necessary education and training to members and management in societies has been entrusted to the Department of Cooperation and the Punjab Cooperative Union. The Department of Cooperation, in particular fulfils this role through its field staff (cooperative extension workers). The cooperative extension worker is responsible for the organization, promotion and development of the movement at the base level. The extension worker is expected to organize a cooperative group, develop group leadership, supervise its functions and provide guidance to the management of societies. He is expected to inspect a society from time to time and undertake coercive measures and impose penalties wherever necessary and permissible under law. In this way the cooperative extension worker combines in his person the authority of the Government function and the traditional responsibility of extension agent.

The cooperative extension workers in the Punjab are trained in the elementary concepts of cooperation at the Punjab Cooperative Training College located at Faisalabad (Punjab).The training of extension workers has been shown to leave much to be desired. Supposedly trained extension workers are not capable of imparting the requisite education to the management committee of societies. In addition, this responsibility has also not been taken up properly by the cooperative training college.[46]

The extension worker is generally low paid with very few facilities provided by the department in terms of transportation, daily allowance, etc.; he is expected, on the other hand, to undertake a gigantic task. As a consequence few extension workers in the Punjab have performed their role satisfactorily. And this is reflected in terms of poor maintenance of cooperative records, lack of awareness and ignorance of the members and management committees of societies in respect of the principles of cooperation, rights of cooperative membership together with responsibilities.[47] It may however be argued that this was to have been expected given that the Cooperatives had been used as an instrument of the Government to channel cost-free credit for subsidizing agriculture; the ideals of cooperation would scarcely be relevant.

The sheer lack of sufficient numbers of trained and qualified staff to administer Cooperatives is another problem. It has been the practice to assign to the departmental official (usually a sub-inspector) the responsibility of supervising about 50 cooperative societies. As stated earlier, the starting pay of the worker is low and provide no incentive for the creation of a well qualified staff. The opinion of Hough on the subject holds good even to-date: he stated in 1959 that:

> "There has been fewer failures due to over-direction than have been due to too slack a guiding rein for new societies or those with a low credit rating. The inadequacy of the education of officers and members of societies in cooperative principles; failure to insist on practices in conformity with these; incompetent or slack supervision; too infrequent audit, and lack of follow-up on audit findings; the inaptitude of members; the inadequacy of credit available; failure to detect in time malpractices of committee members in the mis-appropriation or misuse

> of funds; and the want of expert guidance for societies or other types of credit are major causes of failure, rather than the over-strictness now held up to reprobation".[48]

The Punjab Cooperative Union is similarly engaged in the task of imparting the necessary education and training in cooperative practices. The Union performs this task by publishing leaflets, organizing seminars and arranging conferences. In addition, the Union performs the task with the assistance of its own instructors, who organize courses of short duration (3 to 5 days) for the members of management committees of primary societies on a voluntary basis. In practice, however, members education has not been developed sufficiently to produce any impact on operational aspects of Cooperatives.[49]

An important task which the Department of Cooperation in the Punjab is expected to undertake is the regular audit and inspection of Cooperatives. At the primary level this task has again been entrusted to the cooperative sub-inspector, who himself is not closely familiar with audit work. As a result, the task of audit is either not undertaken at all, or not effectively performed. Field studies[50] undertaken in the Pakistan Punjab have established that a large number of societies remain unaudited. And this in part is attributed to the shortage of trained and experienced staff of the Department. Moreover management committees in societies were found to be failing to maintain proper records as the members themselves are often incompetent and often unable to record correct entries. This practice has often made it more difficult to undertake the audit task effectively.[51]

As noted before, the sub-inspector and the field extension worker are low paid and do not have requisite facilities. This again makes it difficult for them to visit the societies regularly. In many instances the departmental staff visit societies only once a year.

The success of cooperative credit societies in the Punjab depended to a greater extent on the ability and sincerity of their management committee members. The management committee of a society is comprised of a president, vice-president, secretary, treasurer and two executive members. The ordinary members of a society annually elect the members of the management committee. The management committee in turn performs routine work, decides on loans and ensures recovery of credit from members. In short, management undertakes as many functions for the promotion and development of Cooperatives as are assigned to it by members in a society. In addition, it ensures that there is effective participation of members in cooperative affairs and in the decision-making process.

In the light of research studies[52] undertaken in the Punjab it was found that important decisions in cooperatives were generally taken by a group leader (a person who enjoyed leadership quality within the social structure of the village by his being better off, outspoken or a member of the village welfare committee) who was sometimes a president, vice-president, treasurer or secretary. Mostly the opinion of the group leader determined the final decision. Important aspects of organisation such as regular elections of the members of the management committee were ignored. Once the management committee had been elected, no meetings of the committee were held and decisions were taken without the participation of the ordinary members. Important aspects of management viz., better education of the members of the management committee in the principles and philosophy of cooperation and strict adherence to the inspection and audit of the societies by the Department of Cooperation were ignored. The affairs of societies were, by and large, controlled by better-off farmers who owned large holdings and enjoyed prestigious positions in the village committees (such as members of the union council, basic democracy, Chairman of 'Ushr' and 'Zakat' Councils) constituted for the welfare of villagers. The multiple role performed in the village community granted the members of the cooperative's management committee enough hold over the society in order to manipulate decisions in their own favour without having any regard for the opinion of ordinary members or respect for the statutory by-laws of Cooperatives framed by the Department of Cooperation.

In short, performance of Cooperatives in regard to adherence to democratic procedures in many of the Cooperatives has remained rather poor. The criticism of Cooperatives in this respect should in fairness be somewhat moderated. Observers have often noted difficulties of ensuring democratic organization and frequent divergence of practice from expectations. Nonetheless, a cooperative must be judged against its ambitions as codified in its by-laws and rules of business. The evidence leads to the conclusion that the practice of popular and democratic control was only nominal, and in practice, the principle of 'one member, one vote' was not adhered to while taking decisions concerning the cooperative's operations.

It is important to outline briefly the role of the Department of Cooperation in the administration of the cooperative credit movement in the Punjab. As noted in Chapter Four, the movement in India was conceived and used as a Government sponsored activity. It thus required that a separate Department of Cooperation be established to supervise the movement, and to encourage and regulate the working of societies. A Department of Cooperation was thus established in the Punjab.

Presently, the Department of Cooperation in the Punjab is headed by a Registrar, who is the administering authority and controls the working of the movement. The department is responsible for the registration, supervision, audit, inspection and liquidation of all types of societies in the province. In addition, the department undertakes the task of promoting the cause of the movement.

The close supervision of the movement has been entrusted to the cooperative department, and the staff of the department is expected to nurture Cooperatives in their infancy. The official staff is required to develop the societies such that they become independent in their day- to- day operations. Nevertheless cooperative bureaucracy has established its stronghold on the cooperative institutions, jeopardising their autonomy. In practice, the cooperative field staff virtually directly manage the affairs of many societies, and disregard their development and promotional role. The statutory obligation of "audit" has been totally ignored. No concrete measures are taken to train the management of societies to enable 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. And the Cooperatives have not been able to grow as an autonomous 'self-help' institution.[53]

Given too much official control, the implications for the movement were rather adverse. There was an undesirable gulf between the educated and the illiterate. It would be natural to expect that cooperative officials would be out of touch with the members of primary societies. Often the members in societies lamented the official red tape which caused delay in the sanctioning of loans. Sometimes the complaint was made that gifts and special services were required to execute credit transactions by the cooperative inspectors. It has been observed that highly-placed officials when visiting villages are often attended by a retinue of petty officials who overawe the simple village folk. All of this has tended to reinforce a poor image of the officials in the minds of the cooperators. The cooperative officials and workers do not serve, listen, teach and cooperate; rather they dominate and control. This has created a gulf which separates them from the most important single group in the cooperative set-up i.e., the members.[54]

5.II Effectiveness of Cooperatives as a Tool of Development

The reports of the official Government inquiries[55] and appraisals by independent researchers[56] indicate that Cooperatives have not achieved the development goals set for them by economic planners. Even although Cooperatives are sponsored by the Government, their activities have little effect on the existing patterns and trends of economic activity and their performance has little relevance to the wider context of social and economic change and the general strategy of development. The design and functioning of Cooperatives have relatively little to do with major economic problems in rural areas such as marginalization of small farmers and unemployment among landless agricultural labourers; moreover, only a small proportion of the farming population has been effected by the Cooperatives.

In assessing the impact of Cooperatives, there arises a problem of identifying the changes for which the cooperatives themselves have been responsible, rather than results of other quite different factors. For example, the influence of money-lenders in some communities in the Punjab waned when Cooperatives were established, but the primary reason was the migration of professional money-lenders to India.[57]

Similarly, there arises the problem of the relation between idealised objectives and actual performance. A considerable gap has always existed between the aims and the performance of Cooperatives. Indeed the impact of Cooperatives bears little relation to the goals stated in either the charter of Cooperatives or the official plans of the Government. This could be regarded as the failure of the movement. However, when performance is compared with what prevailed before the Cooperatives were introduced, the cooperatives seem to have produced some positive results.

The following assessment of the performance of Cooperatives in the Punjab is made in relation to the following objectives:

1. Self-reliance
2. Agricultural innovation and productivity
3. Social impact and structural change

The cooperative movement has been described as a "movement that builds men and communities and gives to small people a dignity and a significance". Thus according to a Government policy declaration in 1962, it was stated that:

> "Political democracy cannot succeed unless it is accompanied by a successful economic democracy. 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.[58]

The continued support of the Government for the cooperative movement in the Punjab was based on the assumption that the rural population in the province needs essential services to improve their economic status. It was held that long-run economic development with appropriate social change was only possible if Government involvement in terms of provision of capital funds, as well as administration of rural cooperatives, was ensured. While this policy affected the ideal of democracy and autonomy within cooperative operations, it was recognised that, without Governmental financial support and consequently some degree of Government control, cooperatives would have not become properly established. As has been established earlier, the credit societies have been virtually sponsored by the Government with the specific aim of channelling credit to members: their origin and their functions must therefore be seen as aspects of Government policy.[59]

This dependency on the Government for the establishment and support of Cooperatives has created a dilemma for the self-reliance of the movement. The Cooperatives are so dependent on state assistance that it is unlikely that they could survive without Government support. The dilemma of Government involvement and cooperative independence cannot be easily resolved because recommendations have been and are often made in the official plans for an even closer association of the

Cooperatives with the Government.

The cooperative movement has not been able to replace the traditional dependency system (e.g. patronal system) by self-reliance and community initiative achieved through cooperative action. In this regard the dilemma confronting the movement is that Cooperatives are established in rural areas generally characterized by dependency relations and are unable to replace this dependency by self-reliance. The dependency relations became more pronounced but in another form under the cooperative, wherein the state has become a new patron.

Credit was advanced by the cooperative movement to attempt innovations that could lead to increased productivity. But it has been established that insufficient credit was provided. It was further noted that, except in certain years, loan repayments were generally inadequate. The entire issue of agricultural credit as a means of increasing production in the Punjab has however been a thorny problem. While the Government has remained liberal in providing subsidized agricultural credit, the primary societies nevertheless often have had at their disposal only limited supplies of credit because of their failure to follow prescribed conditions, their inability to generate enough capital of their own or to recover loans. The evidence has established that much of the credit advanced by Cooperatives was not used for productive purposes. Although the record of repayment has not been bad in recent years, those who must need credit were often refused a loan facilities.

Even productivity considerations in Cooperatives posed a dilemma. While some cooperative members (generally members of the management and other better-off farmers in societies) took undue advantage of cooperative credit and other services, the others were not able to do so - the result - a gulf between the better-off and the ordinary members to the access of cooperative services - leading to greater economic inequalities; a practice contrary to the cooperative ideals.

In addition, the social benefits of Cooperatives were slower to emerge and less evident than the economic benefits, although the latter were by no means a common feature. Actual achievements in regard to greater socio-economic equalization, structural change and relief of mass poverty fell far short of the announced goals of the policy makers.

Rural communities in the Punjab are characterized by an uneven distribution of wealth and status among the inhabitants. Evidence has proved that there was unequal distribution of the benefits of rural Cooperatives within such communities. These who were already in more fortunate positions took advantage of the cooperative services; the disadvantaged of the community benefited less or not at all. While in principle the introduction of a cooperative in a highly structured community means the establishment of a new institution aimed at restructuring and promoting equality, evidence has established that Cooperatives were not effective in bringing about structural change in the communities. The impact of the community structure upon the Cooperatives was stronger than the impact of the cooperative upon the community structure.[60]

The effectiveness and viability of a cooperative as an institution depended to a greater extent on the relative homogeneity of its members or at least on the absence of sharp class and caste barriers in the community from which the membership was drawn. The evidence has established that these essential components were missing from the organizational framework of the Cooperatives. In the Punjab communities, where Cooperatives were established, existence of divisive forces, group barriers and divergent interests of members were a common feature. There was an absence of democracy and equality within cooperatives. Heterogeneity of cooperative membership was well pronounced but the leaders in societies were generally major land owners, traders and even money-lenders (sometimes combining all these roles). The large landowners rented out land and hired labour; their tenants and labourers were drawn from the village poor. The poor were often indebted to the rich. These economically weaker individuals were incapable of participating on an equal footing with those on whom they were already deeply dependent. The fact that the poor frequently belonged to inferior castes complicated the situation.

In brief, the introduction of the cooperative movement to a social system that is structured along hierarchical lines or controlled by particular interests will not necessarily bring about much reform or democratization to the prevailing system. The rural communities in the province were not already characterized by communal solidarity, although such solidarity has tended to be assumed by policy-makers.

In summary, the cooperative movement played a variable role in increasing economic productivity in rural areas, with an average economic impact that was not very significant, and only a marginal role in implementing social and structural change, in spite of the ambitious goals often assigned to them.

5.III Factors Determining the limited success of Cooperatives in the Pakistan Punjab

The discussion of the working of Cooperatives in the Punjab suggests that many factors have contributed to the impasse confronting the movement, especially at its primary level. The factors that have determined the limited success of Cooperatives may be grouped into 'external' and 'internal' factors.

The foremost among the 'external' factors is the character of the uneducated and faction-ridden leadership. In an environment of apathy and ignorance it was inevitable that the primary impulse for cooperative organization would have arisen, not spontaneously from below, but from the act of a Government anxious to improve the conditions of farm people by emancipating them from the clutches of money-lenders. A Department of Cooperation was established to serve this role, headed by a Registrar invested with wide powers of supervision, control and arbitration over the movement. The efficiency of the departmental structure has inevitably depended on the qualities of the man at the top. Any lack of care in selection, or failure to train the men once selected, or lack of continuity of tenure weaken the capacity for effective leadership. While senior officials became bureaucrats, the field staff remained poorly qualified for the task of educating the membership in cooperative ideals and practices. In effect, the officials responsible for the movement have been unable to provide the right degree of guidance. Where too much guidance has been given, there has been no sense of participation on the part of the membership; where too little has been given the people may have merely participated in failure.

Cooperatives are primarily a distinctive type of business concern. They can never produce results if the required skill and talent in business management is not available. Through lack of managerial competence even viable organizations will not prove productive beyond a certain degree. Provisions of the necessary managerial input required an up-to-date programme of cooperative education and training. The casual treatment meted out to cooperatives by Government policy and also in the press and media created an attitude of apathy amongst cooperative workers. Cooperation is a complex phenomenon, and it is not merely bringing together 10 or more persons. The real problem of the cooperative functionary starts after the cooperative has been registered. This is where the movement is suffering miserably. Setting targets in terms of numbers of societies creates an impression that after a cooperative has been registered the task of the department's functionary is over. The creation of the cooperative is meaningless unless it produces a significant impact on the economy of members involved in the organization. Members' requirements are to be fulfilled and further information needs to be obtained regarding the priorities among their requirements. Business skills, training, education and management are the instruments through which this object can be achieved. It is these institutional arrangements for the training and education of Cooperatives which have generally been lacking from the movement.

At the apex level of the movement, the Punjab Cooperative Bank has just functioned as a pay office. All credit operations, from the sanctioning of borrowing limits and preparation of loan application through to the release of funds by the Cooperative Bank, have virtually been handled by the cooperative officials. The staff of the department is often scared of questioning the justification of the demand, the genuineness of the documents and other procedural requirements. A financing Bank, except with the prior permission of the Registrar, cannot have access to the society or its records for ensuring/checking the proper utilization of funds. Thus there is a complete absence of the Banker-customer relationship between the financing Cooperative Bank and the borrowing cooperative societies. The Punjab Cooperative Bank is just an on-looker in the whole situation.

At the primary level, the major cause of the limited success of Cooperatives has been the lack of popular participation in it. From the beginning, the movement has been the creation of the Government rather than the result of people's demands. It has been devoid of local initiative, leadership, finance and management. With little financial stake in its success, farmers have not assisted in its development. They have treated it more like a public dole and the more powerful farmers have benefited disproportionately. It has been a classic case of good intentions being subverted by inappropriate methods of operation. Government control of Cooperatives has robbed the cooperative ideology of its very essence. As such the movement has failed to mobilize resources of its own, as there is no practice of thrift and collection of deposits.

The introduction of the policy of interest-free loans to subsistence farmers seems to have failed, as according to one estimate[61] the bulk (about 70 percent) of interest-free credit of nearly Rs 2000 million was utilized by bigger farmers who have got their "pocket societies" registered with the department. This could have been expected as the natural outcome of an interest-free lending policy. The Rochdale principle of charging market prices for cooperative services and distributing profit to members later would have probably worked better; it would have ensured efficient use of social resources and through the distribution of profit, provided concessional or subsidized lending for member borrowers. The flaw with the policy of interest-free loans was that it was not strictly directed toward a target group - that is the small farmers, and supervised closely to achieve that objective. It could have been anticipated that in the absence of any close supervision, the big farmers would have found it attractive to join societies by illegal methods. And this is what has happened in the Punjab's Cooperatives.

The continuing barrier to the development of primary societies has also been the result of the strong primordial and ethnic relationships within the villages. In this environment, cooperative structures became a victim of local, ethnic, feudal or social conflicts. The state intervention in the present system has not produced any considerable positive impact.

In short, what we find in Cooperatives in the Punjab is the fact that most members of societies lacked knowledge of the basics of cooperation. Illiteracy was one factor, but at the same time serious attempts were not made to teach the peasants the rights and responsibilities of membership. Members did not subscribe to share capital. In addition they did not bring their savings to societies. They looked upon societies as a Government agency aimed at providing interest-free credit.

The inadequacies of operational aspects of Cooperatives were associated with shortcomings in their management, disbursement of loan and its recovery. The management affairs were manned by incompetent persons, with little training and education in cooperation. In many instances, ordinary members did not take an active part in cooperative affairs. And this resulted in the control of management by a few powerful persons.

Even the basic principles of any viable organization were not maintained; accounts were not properly maintained and the repayment of loans not insisted upon.

The failure of societies was also seen in terms of poor coverage of farm population, and also in inadequate mobilization of 'owned funds'. The restrictions imposed by the existing members and the management on the entry of new members was another obstacle in the development of the movement.

The working capital was inadequate. Inadequacy apart, working capital was not tailored to farmers needs. The interest-free provision of credit by the societies was either misutilized or misdirected by the members. And this practice resulted in operational losses, corruption and sub-optimal allocation of Cooperatives resources, mainly channelled to them by the Government.

5.IV Conclusions

The cooperative movement in the Pakistan Punjab has served primarily as an instrument of Government policy. The bulk of the finance available to the movement came from the Government, and has made cooperatives an extension of the Government's welfare and expenditure policy rather than making them worthwhile, self-sustaining institutions in their own right.

The movement has brought little benefit to the mass of poor inhabitants in the Punjab's villages. Cooperatives have not served as agents of change and development for the vast number of subsistence farmers. The better-off rural inhabitants have taken undue advantage of cooperative provisions: the Government-supported credit (and limited technical guidance) channelled through the movement.

In point of fact the majority of small farmers have been excluded from cooperative membership due mainly for castes and ethnic reasons. Many cooperatives are in the control of rural elites, most amongst whom are better off large farmers. This is one (among others) major reason that cooperatives successfully benefited the better-off; to the extent of their success, however they have tended to increase income differentials within the community since poorer inhabitants gained little or no advantage.

The Punjab's Cooperatives have been assumed to be community wide in their membership, however the existing structure in the community has tended to be reproduced within cooperatives. Those who are better-off control the management and in turn influence the nature and distribution of cooperative benefits. Tenants, share-croppers or farm labourers have been excluded from membership. Small farmers who are cooperative members often fail to qualify for cooperative loans due to one or other reason propounded by the management of societies. And they in turn must continue to turn to non-institutional credit sources. Corruption and abuse of position by the management, and by the leaders in the cooperatives, is the major factor why benefits have not flown to poorer members.

The structural, organizational and operational deficiencies as were evident in the movement in the united Punjab, were inherited by the movement in the Pakistan Punjab and they in turn have affected cooperative performance badly. Excessive Government control, lack of owned funds, reliance on borrowings, insufficient training and education of cooperators for instance are some of the characteristic features of the movement in the Pakistan Punjab.

The next chapter looks into the problems, set-backs and achievements of Cooperatives as an instrument of development in the Indian Punjab.

Notes to Chapter 5

1. For the structural and organizational aspects of primary societies as also their working relationship with the Punjab Cooperative Bank see Waheed, A. (1985), pp28-35; also see Government of Pakistan Report of the National Commission on Agriculture (1988), pp399-400.

2. See for instance Government of Pakistan Cooperative Inquiry Committee Report (1954) pp38-42; Waheed, A. (1985) p28-32; Government of Pakistan Report of National Commission on Agriculture (1988); pp400-402.

3. See for instance Federal Bank for Cooperatives (1977) pp13-44 Government of Pakistan Report of the National Commission on Agriculture (1988); pp405-408.

4. See Government of Pakistan Report of the Credit Enquiry Commission (1959) Chapters V & VI.

5. See Government of Pakistan Report of the Agricultural Enquiry Committee (1975) pp19-22.

6. See Waheed, A. (1985); pp15-18; also see Government of Pakistan National Commission on Agriculture (1988) pp401-402.

7. See Government of Pakistan Report of the Pakistan Agricultural Enquiry Committee (1953); p77.

8. See Government of Pakistan Report of the Committee on the working of Cooperative institutions (1964) pp7-9.

9. See Government of Pakistan Credit Enquiry Commission Report (1959) p7.

10. See Government of Pakistan, Fifth Five Year Plan (1978) p36.

11. See for instance Government of Pakistan Report of the National Commission on Agriculture (1988); Chapters 23 & 26; Ahmed and Amjad (1984) Chapter 11.

12. See Ahmed, A. (1977) p46.

13. See for instance Government of Pakistan Rural credit survey (1974) Chapter 7.

14. Government of Pakistan Rural Credit Survey (1985) pp514-19.

15. See Ahmed, V. & Amjad, R. (1984) p160.

16. The sudden increase in number of credit societies in the Punjab did not lead to the provision of sufficient credit to the subsistence farmers. Interest free loans provided by these societies were generally misutilized or misdirected to non-productive uses. For further elaboration on this point see chapter 7 of the thesis; also see Government of Pakistan Report of the National Commission on Agriculture (1988) pp399-402.

17. See Government of Pakistan Cooperative Inquiry Committee Report (1955); p47.

18. See Waheed, A. (1985), p38.

19. See Government of Pakistan Rural Credit Survey (1985) Chapter 9.

20. Ibid pp517-520.

21. See for instance Khan, M.A. (1971) Chapters IV & V.

22. For the classification of societies into various categories see Khan, M.A. (1971), pp26-27.

23. See for instance Khan, D.A. (1982) pp120-30; Government of Pakistan Report of the National Commission on Agriculture (1988); Chapter 23; Haroon Farooq (1986) chapters 2 & 3.

24. See Government of Pakistan Report of the National Commission on Agriculture (1988) pp401.

25. See Centre for Administrative Research and Development Studies (1984) pp29-33.

26. See Khan, M.A. (1971); Khan, M.A. et al (1973); Khan, D.A. (1982).

27. See Khan, M.A. (1971) pp77-78.

28. Ibid, p79.

29. See Khan, M.A. et al (1973) pp20-21.

30. See Government of Pakistan Report of the International seminar on Integrated Rural Development (1973) pp90-91; Khalecq Uzaman (1981) pp27-31.

31. See Government of Punjab (1974) pp7-9.

32. See Government of Pakistan Report of the Seminar on Integrated Rural Development (1973) pp91; also see Government of Punjab, Annual Reports on the working of cooperative societies in the Punjab (various issues).

33. See Khan, M.A. et al (1973) pp21.

34. See for instance Andrusj, R. and Mohammad, A.A.F. (1966) pp131-32.

35. See US AID (1967) pp91-92.

36. See Government of Pakistan Rural Credit Survey (1985) pp503-7.

37. See Khan, M.A. (1971) pp95-99; Khan et al (1973) pp75-78.

38. See Government of Pakistan National Commission on Agriculture (1988) Chapter 23; Khan, D.A. (1982) pp128-29.

39. See for instance Lambert, P. (1963); Dulfer, E. (1974); Munker (1976); ICA Report (1966); Cole, G.D.H. (1944).

40. See Khan, M.A. et al (1973) p24.

41. See Khan, M.A. (1971) Chapter V; Government of Pakistan Report of the National Commission on Agriculture (1988); Chapter 23, also see Inayatullah (1972).

42. See Khan, M.A. et al (1973) pp24-25.

43. See Gill, Z.A. (1976) pp59-60.

44. See ICA Report (1966).

45. See for instance Chaudhry, H.A. & Rizwani, A.R. (1970) pp138-41.

46. See Government of Pakistan Report of the International seminar on Integrated Rural Development (1973) pp92-95.

47. Ibid p94; also see Khan, M.A. (1971) Chapter VII.

48. See Hough, E. (1959) Preface XX.

49. For the working of the Punjab Cooperative Union see for instance Haroon, F. (1986) chapter 3; Report, Government of Pakistan International seminar on Rural Development (1973); pp101.

50. See for instance Khan, M.A. (1971); Khan, M.A. et al (1973); Government of Pakistan Credit Inquiry Commission Report (1959); Government of Pakistan Report of the National Commission on Agriculture (1988).

51. See for instance Khan, M.A. (1971) pp83-85; Siddigue, M. (1980) pp31-33; Gill, Z.A. (1976); pp 19-20.

52. See for instance Khan, M.A. (1971) pp64-71; Khan, M.A. et al (1973)

53. See Government of Pakistan Report of the Seminar on integrated Rural Development (1973) pp92-102; Government of Pakistan Report, Agricultural Inquiry Committee (1975) pp19-22; Khan, D.A. (1982) pp120-32.

54. See for instance Qarni, O.M. (1977) pp9-16; also see Inayatullah (1972).

55. See Government of Pakistan Report of the National Commission on Agriculture (1988); Government of Pakistan Credit Inquiry Commission Report (1959); Government of Pakistan Agricultural Enquiry Committee Report (1975); Government of the Punjab, Annual Reports on the Working of Cooperative Societies (various issues).

56. See for instance chapter 7 of the thesis. It has been established that mushroom growth in the number of societies has resulted In the failure of many agricultural credit societies in the Punjab. Also see Inaytullah (1972); Khan, D.A. (1982); Khan, M.A. (1971); Khan, M.A. et al (1973); Lowdermilk (1964);

57. See for instance Chaudhry, H.A. & Rizwani, A.R. (1970) pp71-72.

58. See Haque, Z. (1968), pp137-138.

59. See Chaudhry, H.A. & Rizwani, A.R. (1970) Chapter 3; also see Inayatullah (1972); Chapter VI.

60. Ibid.

61. See Government of Pakistan Report of the National Commission on Agriculture (1988) p401.

TABLES - CHAPTER 5

Table 5.1 Working of the Punjab Cooperative Bank in the Pakistan Punjab

(Rs million)

Year	Share capital	Deposits held	Reserves and other Funds	Total borrowings	Working capital
1970	8.72	28.53	16.38	57.04	110.68
1971	8.72	63.74	16.31	4.76	93.54
1972	8.72	65.57	16.32	22.27	112.88
1973	8.72	56.39	16.52	62.26	143.90
1974	8.72	47.58	17.30	62.93	134.17
1975	8.72	40.62	19.27	52.24	149.03
1976	9.52	107.14	17.26	161.21	295.15
1977	81.02	150.80	17.26	152.68	330.42
1978	85.93	237.69	17.26	170.92	436.06
1979	85.95	236.39	17.26	299.74	556.82
1980	152.38	310.41	85.65	666.09	1077.25

Source: a) Government of the Punjab; Annual Reports on the working of Cooperative Societies in the Punjab (various issues)
b) Farooq Haroon (1986)

Table 5.2 Loans Advanced and Recovered by the Punjab Cooperative Bank in the Pakistan Punjab

(Rs million)

Year	Loans advanced	Loans recovered
1970	165.13	84.48
1971	159.00	105.40
1972	119.50	70.10
1973	122.60	18.20
1974	123.60	25.00
1975	129.60	22.30
1976	166.80	--
1977	90.40	89.10
1978	259.20	253.00
1979	491.70	487.30
1980	883.00	874.00

Source: a) Government of the Punjab; Annual Reports on the working of Cooperative Societies in the Punjab (various issues)

b) Farooq Haroon (1986).

Table 5.3 Primary Agricultural credit and non-credit societies in the Pakistan Punjab

(Rs million)

Year	No. of Societies		Membership		Working Capital (Rs million)	
	Credit societies	Non-credit societies	Credit societies	Non-credit societies	Credit societies	Non-credit soc.
1950	8598	1588	246000	86000	30.10	8.00
1955	9255	2900	282000	158000	28.50	17.10
1960	10822	4312	396000	228000	46.51	43.20
1961	11499	5458	430000	288000	54.32	60.40
1962	11853	5578	458000	291000	62.11	48.20
1963	11882	5551	425000	284000	67.73	47.00
1964	11960	5587	492000	292000	71.51	50.00
1965	12121	5488	512000	291000	75.09	44.00
1966	12186	5451	527000	290000	76.72	45.70
1967	12116	5535	522000	305000	62.52	50.70
1968	12151	5401	528000	297000	73.00	53.80
1969	12178	5303	532000	293000	74.66	59.80
1970	12652	4651	591294	233000	98.53	29.90
1971	12600	4648	593059	231000	90.14	31.60
1972	12491	5607	592713	337000	86.90	71.70
1973	12792	6214	624640	352000	131.36	96.40
1974	12774	4120	628924	217000	136.45	33.40
1975	12658	-	633674	-	143.76	-
1976	12757	-	642066	-	164.82	-
1977	17165	-	865000	-	239.63	-
1978	20997	1241	926000	120000	341.05	77.01
1979	30548	1232	1006000	120000	537.26	78.72
1980	37920	1216	1683000	119000	633.99	89.12

Source: Government of the Punjab; Annual Reports on the working of Cooperative Societies in the Punjab (various issues)

Table 5.4 Agricultural Loans Advanced by the Institutional Sector in the Pakistan Punjab

(Rs million)

Year	Coopera-tives	Taccavi loans	Agri. Devel-ment Bank	Commercial Banks	Total
1948	53.68	2.70	-	-	56.38
	(95.2)	(4.7)	-		
1950	82.88	1.40	-	-	84.28
	(98.3)	(1.67)	-		
1955	31.78	2.60	-	-	34.38
	(92.4)	(7.5)	-		
1960	69.52	5.60	-	-	75.12
	(92.5)	(7.4)	-		
1966	78.39	3.80	48.3	-	130.49
	(60.0)	(2.9)	(37.1)		
1970	99.29	3.70	77.3	-	173.27
	(53.2)	(2.1)	(44.6)		
1972	39.08	8.92	80.0	-	128.00
	(30.5)	(6.9)	(62.5)		
1973	42.02	10.23	169.09	85.70	307.04
	(13.6)	(3.3)	(55.0)	(28.0)	
1974	143.72	67.50	415.57	286.40	913.19
	(15.7)	(7.3)	(45.5)	(31.3)	
1975	81.54	12.13	396.31	520.90	1010.88
	(8.0)	(1.2)	(39.2)	(51.5)	
1976	91.84	25.67	532.86	608.10	1458.46
	(6.3)	(1.7)	(36.5)	(55.4)	
1977	95.45	13.14	638.77	970.10	1717.46
	(5.5)	(0.76)	(37.1)	(56.4)	
1978	138.04	9.00	430.53	1290.92	1868.49
	(7.3)	(0.48)	(23.0)	(69.0)	
1979	413.78	11.96	416.93	1381.11	2223.78
	(18.6)	(0.54)	(18.7)	(62.1)	
1980	708.64	8.22	711.55	1587.40	3015.79
	(23.5)	(0.27)	(23.5)	(52.6)	
1981	1126.25	8.30	1066.61	1826.77	4027.93
	(27.9)	(0.21)	(26.4)	(45.3)	

Note: Figures in parentheses indicate percent of total institutional loan disbursed in a year.

Source: a) Agricultural Statistics of Pakistan (1975)
b) Punjab Development Statistics (1986)

Table 5.5 Supply of and Demand for Institutional Agricultural Credit in the Pakistan Punjab

(Rs million)

Year	Contribution of Agri. Sector to GDP at current factor cost	Credit require-ments (25% of Col.2)	Supply of Agri. credit through institutional sources	%age of credit supply to the credit require-ments
1	2	3	4	5
1972	17,934	4,483.50	128.00	3
1973	21,907	5,476.75	307.04	6
1974	28,084	7,021.00	913.19	13
1975	33,533	8,383.25	1,010.88	12
1976	38,338	9,584.50	1,458.46	15
1977	43,832	10,958.00	1,717.46	16
1978	50,315	12,578.00	1,868.49	15
1979	53,936	13,484.00	2,223.78	16
1980	62,504	15,626.00	3,015.79	19
1981	70,346	17,586.50	4,027.93	23

Source: a) Pakistan Economic Survey 1985-86 (1986)

b) Punjab Development Statistics (1986)

Table 5.6 Lending operations of Primary Agricultural credit societies in the Pakistan Punjab

Year	No. of credit societies	Total membership	Loans advanced (Rs '000')	Loans recovered (Rs '000')	No. of loan Beneficiaries	Ratio of repayment to loan advanced
1947	10369	326666	53684	46204	53684	0.86
1954	8409	250000	11448	10353	11448	0.90
1959	10285	352000	24668	12999	24668	0.52
1960	10822	396000	32070	25639	32070	0.79
1961	11499	430000	34731	27246	34731	0.78
1962	11853	458000	35734	29371	35734	0.82
1963	11882	425000	39450	33253	39450	0.84
1964	11960	492000	38280	34702	38280	0.90
1965	12121	512000	34183	43085	34183	1.26
1966	12186	527000	41602	39854	41602	0.95
1967	12116	522000	39376	38435	39376	0.97
1968	12151	528000	41829	40392	41829	0.96
1969	12178	532000	44054	42171	44054	0.95
1970	12652	591294	41220	12570	41220	0.30
1971	12600	593059	30610	9380	30610	0.30
1972	12491	592713	42380	15170	42380	0.35
1973	12792	624640	92330	27710	92330	0.30
1974	12774	628924	67980	23190	67980	0.34
1975	12658	633674	79880	28250	79880	0.35
1976	12757	642066	88740	28380	88740	0.31
1977	17165	865000	90490	89140	90490	0.98
1978	20997	926000	259270	253010	43212	0.97
1979	30548	1006000	491730	487380	81955	0.99
1980	37920	1683000	88300	874900	147166	0.99
1981	39840	1203000	1124829	1040113	187471	0.92
1982	40333	1409000	1351215	1271004	225202	0.94
1983	42839	1482000	1238655	941569	206442	0.76
1984	43409	1584000	1055710	1208660	175951	1.14

Source: Government of the Punjab; Annual Reports on the Working of Cooperative Societies in the Punjab (various issues)

Table 5.7 Households Reporting Membership of Cooperative Societies by type of Household

Type of Household	Total	Reporting Membership of Cooperative Societies	
		Number	Percent of Total
All Households	9,245,493	231,538	2.5
Non-Farm Households	4,086,066	20,342	*
Farm Households - Total	5,159,427	211,196	4
Under 0.5 Hectares	484,277	6,859	1
0.5 to under 1.0 ha.	582,987	8,508	1
1.0 to under 2.0 ha.	886,750	22,177	3
2.0 to under 3.0 ha.	919,295	25,891	3
3.0 to under 5.0 ha.	1,083,284	41,231	4
5.0 to under 10.0 ha.	769,556	60,439	8
10.0 to under 20.0 ha.	307,339	30,080	10
20.0 to under 60.0 ha.	108,345	13,769	13
60.0 and above	17,594	2,242	13

* Percentage less than 0.5

Source: Pakistan Rural Credit Survey (1985)

Table 5.8 Classification of Primary Agricultural Cooperative Credit Societies in the Pakistan Punjab according to their performance

Year	'A' Class	'B' Class	'C' Class	'D' Class	Unclassified	Under liquidation	Total
1970	479	2265	8246	810	223	629	12652
1971	481	2273	8241	755	203	647	12600
1973	475	2321	8048	753	318	576	12491
1974	496	2374	8025	644	540	713	12792
1975	547	2500	7752	427	520	900	12686
1976	549	2517	7765	425	584	917	12757
Average:	506	2383	7989	630	429	733	12675
Percent of Total:	4	19	63	5	3	6	100

Source: Govoernment of the Punjab; Annual Reports on the working of Cooperative Societies in the Punjab (various issues)

Table 5.9 Working capital in Primary Agricultural credit societies in the Pakistan Punjab (Rs million)

Year	Total working capital	'Real Value' of working capital	Share capital	Reserve funds	Deposits and loans held	GDP deflator 1959 = 100
1947	34.78	-	7.70	11.22	15.85	-
1954	24.74	-	3.84	10.45	10.44	-
1959	40.95	40.95	6.26	11.98	22.70	100.00
1960	46.51	44.73	7.17	11.64	22.70	103.97
1961	54.32	53.10	8.15	12.29	33.86	102.29
1962	62.11	60.71	9.65	13.14	39.32	102.16
1963	67.73	63.03	11.28	13.57	42.87	107.44
1964	71.51	63.76	12.39	14.35	44.76	112.15
1965	75.09	65.13	14.01	15.23	45.84	115.29
1966	76.72	60.91	14.57	16.07	46.08	125.95
1967	62.52	48.16	14.03	14.47	34.01	129.80
1968	73.00	56.60	14.44	17.22	41.33	128.96
1969	74.66	55.76	14.76	16.81	43.10	133.88
1970	98.53	70.26	19.13	20.58	45.05	140.23
1971	90.14	60.58	19.14	21.14	38.33	148.78
1972	86.90	50.41	19.37	22.07	45.67	172.37
1973	131.36	61.48	21.33	22.05	45.67	213.64
1974	136.45	52.24	22.06	25.45	73.36	261.18
1975	143.76	49.10	22.78	24.27	87.85	292.75
1976	164.82	50.87	23.69	26.55	99.60	323.97
1977	239.63	67.86	33.04	26.37	90.49	353.08
1978	341.05	91.54	45.39	25.04	259.27	372.54
1979	537.26	130.52	61.22	25.59	491.73	411.61
1980	633.99	138.98	44.97	26.13	883.00	456.15
1981	2252.96	452.76	119.33	50.55	575.91	477.60
1982	1165.18	220.98	159.79	59.31	621.15	527.27
1983	2760.16	477.68	128.00	75.94	752.86	577.82
1984	987.91	161.56	100.56	88.24	799.15	611.47

Source: Government of the Punjab; Annual Reports on the working of cooperative societies in the Punjab (various issues)

Table 5.10 Data on the Primary Agricultural Credit Societies in the Pakistan Punjab (Average per member) (in Rupees)

Year	Working capital	Share capital	Reserve funds	Loan advances	'Real' working capital
1947	106.68	23.61	34.41	164.67	–
1954	98.96	15.36	42.47	45.79	–
1959	116.33	17.78	42.48	70.00	116.33
1960	117.44	18.10	29.39	80.98	112.95
1961	126.32	18.95	28.58	80.76	123.48
1962	135.61	21.06	28.68	78.02	132.55
1963	159.36	26.54	31.89	92.82	148.30
1964	145.34	25.18	29.16	77.80	129.59
1965	146.66	27.36	29.74	66.76	127.20
1966	145.57	27.64	30.49	78.94	115.57
1967	119.77	26.87	27.72	75.43	92.26
1968	138.25	27.34	32.61	79.22	107.19
1969	140.33	27.74	31.59	82.80	104.81
1970	166.71	32.36	34.82	69.74	118.88
1971	152.00	32.27	35.64	51.61	102.15
1972	146.79	32.71	37.28	71.58	85.15
1973	210.51	34.18	35.33	147.96	98.52
1974	217.27	35.12	40.52	108.24	83.18
1975	227.10	35.98	38.34	126.19	77.56
1976	256.72	36.90	41.35	138.22	79.23
1977	277.02	38.19	30.48	119.30	78.45
1978	368.30	49.01	27.04	104.61	98.85
1979	534.05	60.85	25.43	531.02	140.95
1980	376.70	26.72	15.52	524.65	138.15
1981	1872.78	99.19	42.01	935.01	376.35
1982	826.95	113.40	41.89	958.98	156.83
1983	1862.45	86.36	51.24	835.79	322.32
1984	623.68	63.48	55.70	666.48	101.99

Source: Compiled from Tables 5.6 & 5.9

Table 5.11 Households Reporting and Total Amount of Outstanding Debt from Institutional and Non-Institutional Sources by type of household

No. of households in thousands
Amounts in million Rupees

Type of Household*		All Households	Households number	Total Credit Amount	Total Credit Percent
All households		9,245	4,475	25,757	x
Non-Farm households		4,086	697	4,404	x
Farm households	Total	5,159	1,778	21,353	100.0
Under 0.5 hectares		484	145	1,379	6.5
0.5 to under 1.0 ha.		583	189	1,428	6.7
1.0 to under 2.0 ha.		887	257	1,720	8.0
2.0 to under 3.0 ha.		919	295	1,921	9.0
3.0 to under 5.0 ha.		1,083	399	3,320	15.6
5.0 to under 10.0 ha.		70	308	4,231	19.8
10.0 to under 20.0 ha.		307	128	3,957	18.5
20.0 to under 60.0 ha.		108	49	2,471	11.6
60.0 and above		18	8	921	4.3

		Institutional Credit Households Number	Institutional Credit Amount	Institutional Credit Percent
All households		271	8,240	x
Non-Farm households		19	366	x
Farm households	Total	252	7,874	100.0
Under 0.5 hectares		5	86	1.1
0.5 to under 1.0 ha.		8	81	1.0
1.0 to under 2.0 ha.		18	259	3.3
2.0 to under 3.0 ha.		28	349	4.4
3.0 to under 5.0 ha.		46	808	10.4
5.0 to under 10.0 ha.		63	1,746	22.2
10.0 to under 20.0 ha.		51	2,259	28.7
20.0 to under 60.0 ha.		26	174	22.2
60.0 and above		5	539	6.8

Table 5.11 (cont.)

	Non-Institutional Credit		
	Households Number	Amount	Percent
All households	2,297	17,517	x
Non-Farm households	184	4,038	x
Farm households Total	1,612	13,479	100.0
Under 0.5 hectares	142	1,293	9.6
0.5 to under 1.0 ha.	183	1,347	10.0
1.0 to under 2.0 ha.	246	1,461	10.8
2.0 to under 3.0 ha.	274	1,572	11.7
3.0 to under 5.0 ha.	365	2,512	18.6
5.0 to under 10.0 ha.	266	2,485	12.6
10.0 to under 20.0 ha.	98	1,698	12.6
20.0 to under 60.0 ha.	33	725	5.4
60.0 and above	6	382	2.8

* As estimated from the Rural Credit survey sample
x Not applicable

Source: Pakistan Rural Credit Survey (1985)

CHAPTER 6

COOPERATIVES AND DEVELOPMENT IN THE INDIAN PUNJAB

The purpose of this chapter is to analyse the performance of cooperatives in the Indian Punjab in a manner comparable to that of the preceding chapter dealing with the Pakistan Punjab. The chapter is organized into four sections. Section I deals with the organizational and operational aspects of cooperatives, in particular the agricultural cooperative credit societies. Section II adjudges the performance of cooperatives as an instrument of development. Section III covers important problems faced by the cooperative movement, and finally section IV summarizes the major issues flagged in the chapter.

6.I Organizational and operational aspects of cooperatives

The manner of the evolution of the cooperative movement in the Indian Punjab, as discussed in detail in Chapter Four, suggests that the performance of cooperatives, either as autonomous 'self-help' organizations and also as a vehicle to serve the government's developmental objectives, was much less than satisfactory. This limited success, indeed failure, of the movement to achieve certain assigned goals was attributed to many complex factors. The operational inefficiency of the cooperative movement, especially the cooperative credit system, was attributed to, amongst other factors, its structural weaknesses, inadequate progress in the reorganization of cooperatives into viable units, the lack of focus on qualitative improvement in working procedures; problems in the rate of recovery of loans, mobilization of deposits, lack of skill and managerial competence of the members of management committees, bureaucratization of cooperatives and so on. It was held that the movement in the Indian Punjab was largely under the control of the government, and as such was used by the government to serve its developmental objectives. It was concluded that from either perspective cooperatives failed to bring any significant improvements in the socio-economic status of its members or to introduce changes in their circumstances.

In the light of the above conclusions, it is necessary to analyse in more detail the organizational and operational aspects of cooperatives in the Indian Punjab. It will be argued that deficiencies inherent in the structure and organization of cooperatives were major factors that stood in the way of any operational success. And this in turn was the major reason for the limited effectiveness of cooperatives as an instrument of development.

The structural aspects of the cooperative movement have been discussed earlier in Chapter Four. It is important to note that there are two separate cooperative structures for the provision of short, medium and long-term cooperative credit in the Indian Punjab. In that respect the structure of the movement in the Indian Punjab contrasts with that in the Pakistan Punjab. The Pakistan Punjab has a two-tier cooperative structure, with the Punjab Cooperative Bank at the apex level, and the primary societies at the base level, and this structure is different in the sense that the movement dispenses only seasonal loans (short-term credit); no medium-term or long-term credit is provided by the movement in the Pakistan Punjab.

The three types of credit, namely short-term, medium-term and long-term are provided in the Indian Punjab by two agencies; a) Primary agricultural credit societies,(helped and guided by other supporting institutions) which supply short and medium-term credit; and b) the Land Development or Land Mortgage banks (with their own connected organizations) which provide long-term finance.

In the provision of short and medium-term credit, the organizational structure in the Indian Punjab consists of three agencies: the first consists of the primary agricultural credit societies which operate at the village level and form the base of the credit structure. The federations of these societies, the central cooperative banks, form the second tier of the movement and their area of operation is usually confined to a district. At the topmost level are the federated central cooperative banks forming an apex cooperative bank, which serves the financial needs of the cooperative movement in the state.

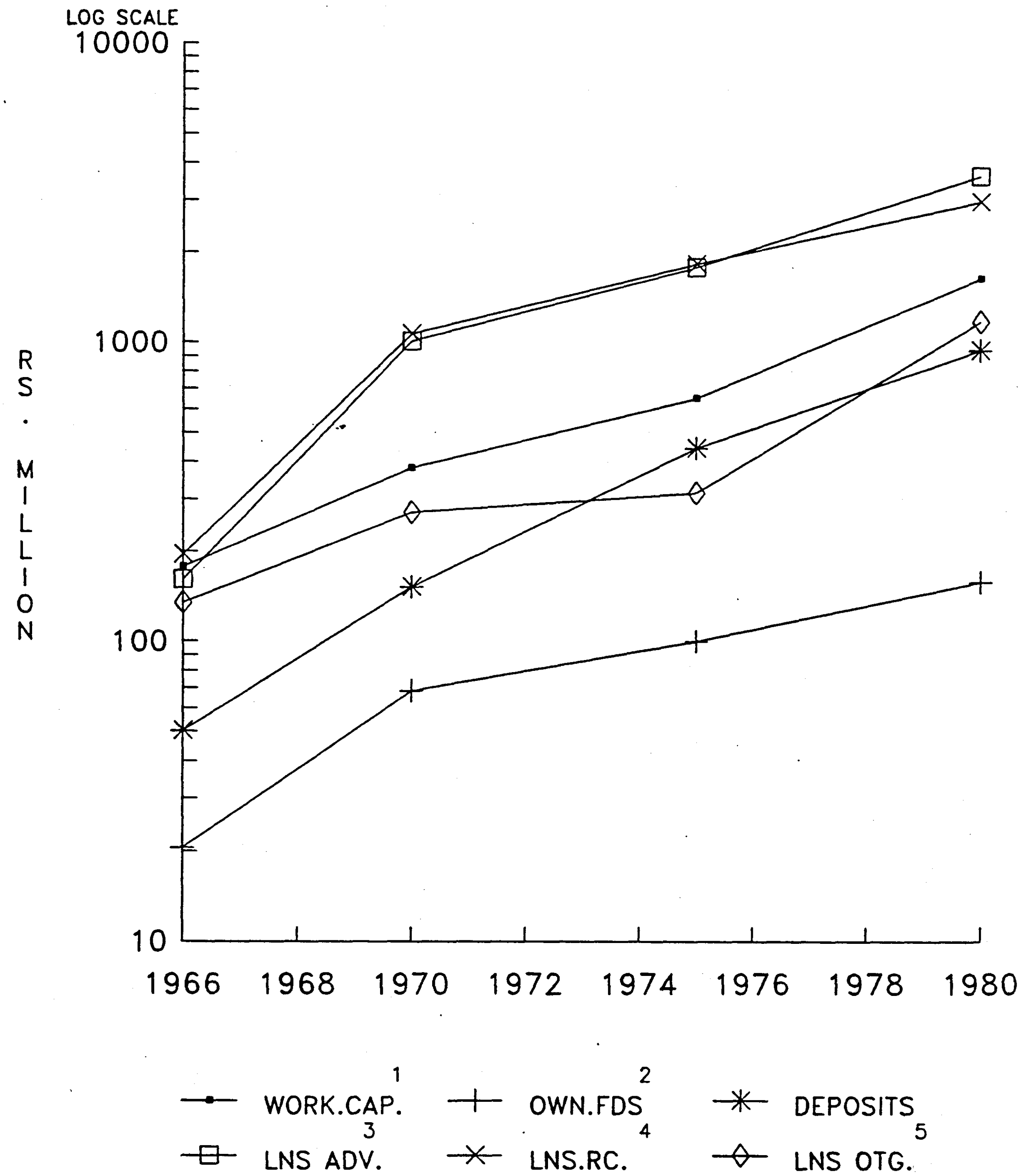
Given that the role of long-term cooperative credit differs from that of either short or medium-term credit, a separate organization called the Land Development Banks (formerly Land Mortgage banks) was established in the 1920s. Structurally, it has two tiers. The upper tier is the State Land Development Bank and the Primary Land Development Banks form the lower tier. The financing of the cooperators is done by the State Land Development Bank through the Primary Land Development Banks or their branches.

At the apex level of the cooperative credit structure (providing short and medium-term credit) in the Indian Punjab is the Punjab Cooperative Bank. All central cooperative banks in the state are federated with the Punjab Cooperative Bank. The Punjab Cooperative Bank mobilizes and deploys financial resources amongst various sectors of the movement. The finances provided by the Reserve Bank of India and the government of Punjab to the Punjab Cooperative Bank ultimately flow to the members of village-level societies in the state.

The Punjab Cooperative Bank in the Indian Punjab has not been able to build a sufficient base of its own working capital. The owned funds of the bank formed only 9 percent of its working capital in 1980. The Punjab Cooperative Bank relied to a major extent on borrowed funds to conduct its business. The bank also faced problems in its lending operations. Despite a significant increase in loan advances, loans outstanding have shown an increasing trend, forming some 34 percent of total advances in 1980. The Punjab Cooperative Bank has faced a severe problem in recovering these outstanding loans from the central Cooperative Banks throughout the period 1966-80 (see Fig.6.1; also see Table 6.1).

There has been noted a tendency on the part of the Punjab Cooperative Bank to divert a significant proportion of its funds to the non-agricultural sector in order to spread the increased cost of its deposits and other operational expenses, and to earn large profits. It has indeed become a problem to induce the bank to commit its funds to rural lending. But at the same time it may be unreasonable to expect the bank to lend its high-interest-bearing deposits at much lower rates and so involve it in loss and impair its viability. While the Reserve Bank of India, as a matter of policy, allowed the Punjab Cooperative Bank to lend to institutions outside the cooperative fold, such a situation has raised an important question: whether as a result of the need to deploy costly deposits in correspondingly more profitable avenues of lending, the Punjab Cooperative Bank is tending to move away

FIG 6.1 DATA ON PUNJAB COOPERATIVE BANK IN THE INDIAN PUNJAB



1 WORKING CAPITAL 2 OWNED FUNDS 3 LOANS ADVANCED
4 LOANS RECOVERED 5 LOANS OUTSTANDING

Note: The diagram serves an illustrative purpose only; the time intervals are not equal.

from the development role expected of it in the rural sector.[1]

At the secondary level of the movement central Cooperative Banks have been established.[2] As discussed earlier in Chapter Four, the essential function of a central cooperative bank is to act as a channel between primary societies and the Punjab Cooperative Bank. Besides providing credit to primary societies, the central Cooperative Banks act as a balancing mechanism for transferring the funds of surplus societies to those in deficit.

The central Cooperative Banks, like the Punjab Cooperative Bank, have not been able to mobilize enough of their own working capital. The owned funds of these banks formed only 14 percent of their total working capital in 1980 and the major dependence of the banks was on borrowing from the Punjab Cooperative Bank.

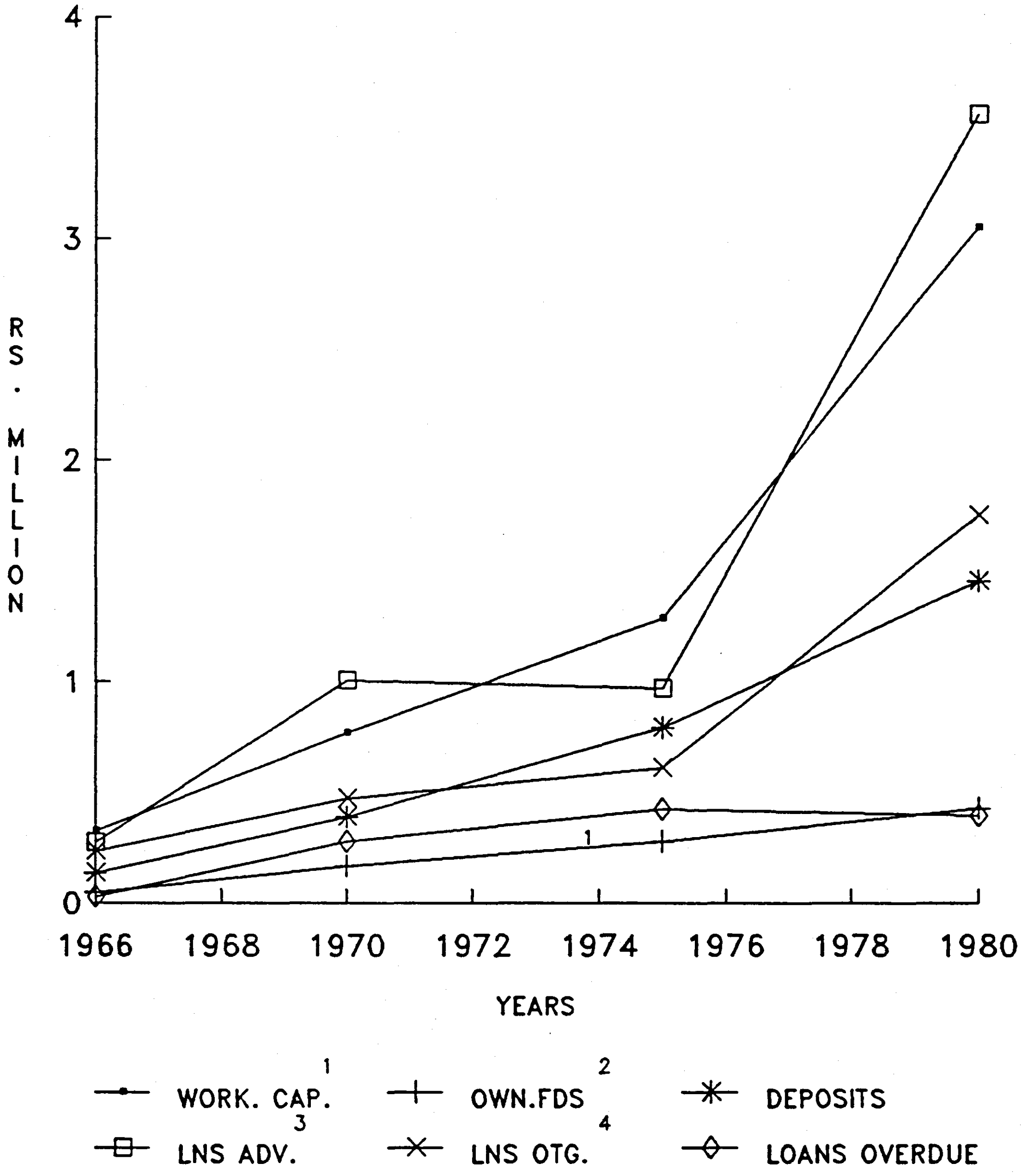
The deposits in the central cooperatives have increased significantly in recent years. Between 1966 and 1980, total deposits in the central cooperative banks increased by about 1074 percent. Deposits formed some 47 percent of the working capital in 1980. The spurt in deposits has been largely due to concerted and sustained efforts made by the central cooperative banks in the wake of the Reserve Bank of India's scheme for linking its re-finance assistance to the deposit mobilisation efforts of the bank. In this regard an extra half percent interest offered by banks (over and above the ceiling rates of interest applicable to commercial banks) as allowed by the Reserve Bank of India has encouraged mobilisation of deposits.

The loans advanced by central Cooperative Banks have increased from Rs 273.18 million in 1966 by some 1232 percent in 1980. However, a major problem with the central Cooperative Banks has been the steady growth in outstanding loans. Outstanding loans formed some 49 percent of the total advances in 1980. In addition, the overdue loans have averaged some 32 percent of outstanding loans for the period 1966-80. (see Fig.6.2; also see Table 6.2)

Despite the fact that loans advanced by central Cooperative Banks have increased, studies of the utilization of loans have revealed that lending in several cases has not been preceded by proper appraisal of the economic viability of investment programmes and there has not been any verification of the end use of the loan by the banks. Similarly there was no arrangement for post-disbursement follow-ups, and the borrowers have tended to divert a good part of loans for purposes other than those specified in their applications.

Against the background of rising overdue loans and consequent deterioration in the financial position of many central Cooperative Banks, a programme of rehabilitation was introduced in 1971. The programme envisaged investigation of overdue loans with a view to identifying irrecoverable debts and ascertaining the reasons for overdues. The implementation of the rehabilitation programme was not uniformly satisfactory, as evidenced by the deterioration of recovery performance. Many central Cooperative Banks did not draw up the necessary annual plans covering all aspects of the rehabilitation programme. Some central Cooperative Banks did not create rehabilitation cells as recommended by the concerned authority. Similarly, investigation of overdues on a rigourous basis at the level of the primary agricultural credit societies was not completed by the banks; as a result, the funds released by the government were not fully utilized by these banks. Again, certain measures essential to

FIG 6.2 DATA ON CENTRAL COOPERATIVE BANKS IN THE INDIAN PUNJAB



1 WORKING CAPITAL 2 OWNED FUNDS 3 LOANS ADVANCED
4 LOANS OUTSTANDING

Note: The diagram serves an illustrative purpose only, the time intervals are not equal complement the rehabilitation programme, such as revitalization of primary agricultural credit societies, selection of certain high-performance societies for intensive development, strengthening and improving the arrangements for supervision over field staff and mobilization of resources were not seriously taken up.

We now turn to the provision of long-term credit. Formerly known as Land Mortgage banks and now Land Development Banks, these institutions generally consist of primary Land Development Banks and the Punjab Land Development Bank.[3] The primary banks at the base of the long-term credit structure in the Indian Punjab deal directly with the peasants, while the Punjab Land Development Bank performs the functions of financing the primary Land Development Banks and provides a link between the primary banks and other sources of finance in the state. However, where primary banks do not exist, the Punjab Land Development Bank provides finance directly to the peasants or through its branches.

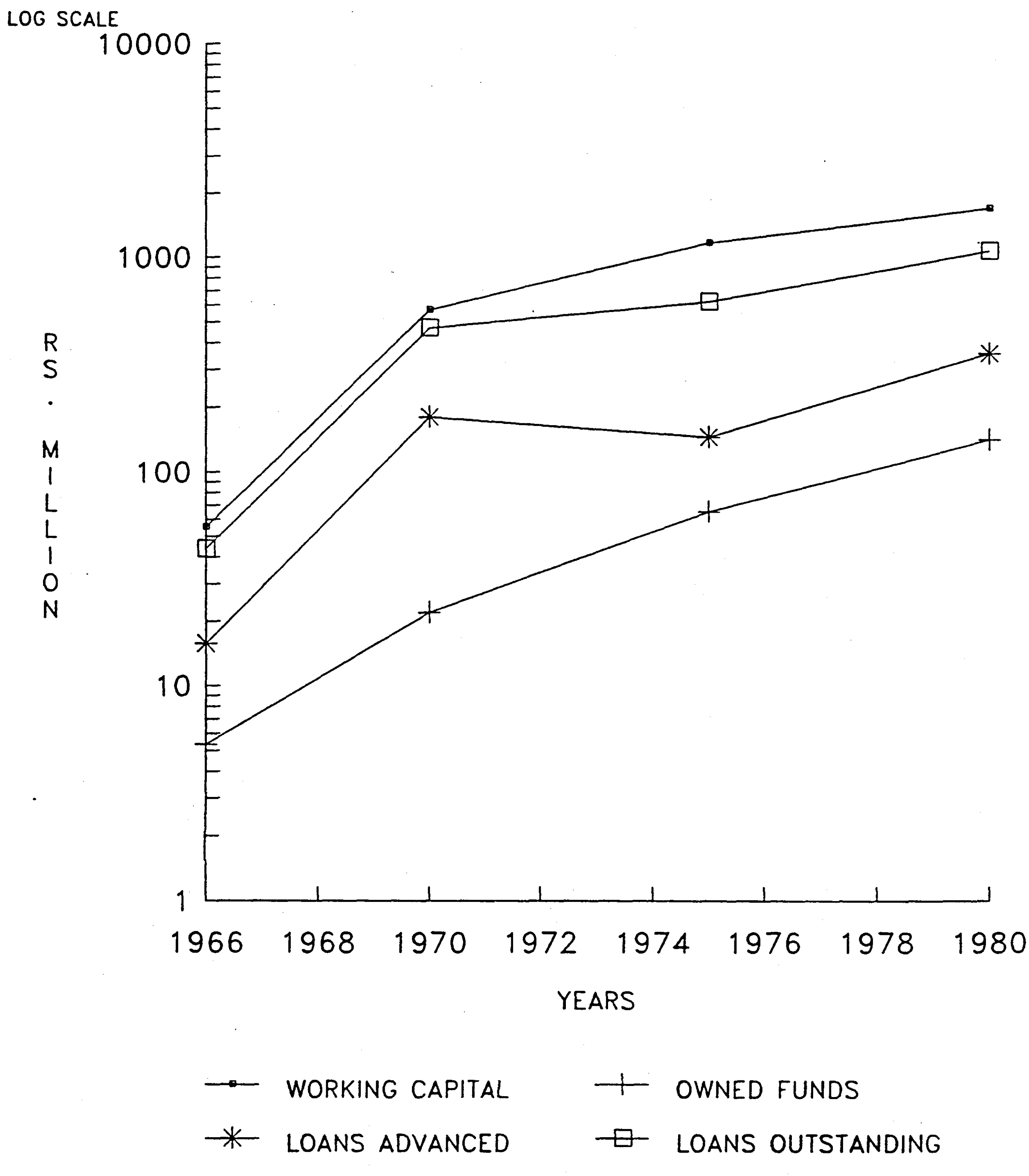
These banks provide credit for the purchase of agricultural equipment, improvement of land, redemption of past debts and the recovery of mortgaged land. Long-term loans are granted for a period of 5 to 20 years or even more. As the name of these banks indicates, loans are granted against the security of land. The amount of the loans is usually related to the value of land mortgaged or the land revenue levied on these lands. Repayment is made either by equal instalments of the principal, with interest being calculated every year on the amount outstanding, or by equated annual instalments of the principal and interest together.

The working capital of the Punjab Land Development Bank has been built largely of borrowing from the government of the Punjab and the Reserve Bank of India. Owned funds of the Punjab Land Development Bank formed only some 8 percent of the working capital of the bank in 1980. The loans advanced by the Punjab Land Development Bank to the primary Land Development Banks have increased but again the major problem is the recovery of loans from the primary banks. Total loans advanced by the Punjab Land Development Bank to the primary banks amounted to Rs 360.15 million in 1980. As against this, loans outstanding at the Punjab Land Development Bank amounted to Rs 1081.04 million in 1980. (see Fig.6.3; also see Table 6.3)

At the primary level there were 44 Land Development Banks with about 0.29 million farmers on their rolls. Owned capital of these banks accounted for 12 percent of the working capital in 1980. Loans advanced by these banks increased from Rs 16.45 million in 1966 by some 1644 percent in 1980, but the recovery of loans from members has remained quite low. The operational efficiency and organizational competence of many banks has left much to be desired. Testimony to this is the rising overdues in primary banks. These increased from Rs 0.01 million in 1966 to Rs 44.9 million in 1960. Overdues as a percentage of outstanding loans formed some 42 percent in 1980. (see Fig. 6.4; also see Table 6.4)

From the point of view of purposes for which loans were made, minor irrigation schemes have accounted for the major part of the total lending of these banks, followed by farm mechanization and land improvement. Loans granted to artisans and landless labourers were generally negligible. Evidently the main thrust of the lending of

FIG 6.3 DATA ON PUNJAB LAND DEVELOPMENT BANK IN THE INDIAN PUNJAB



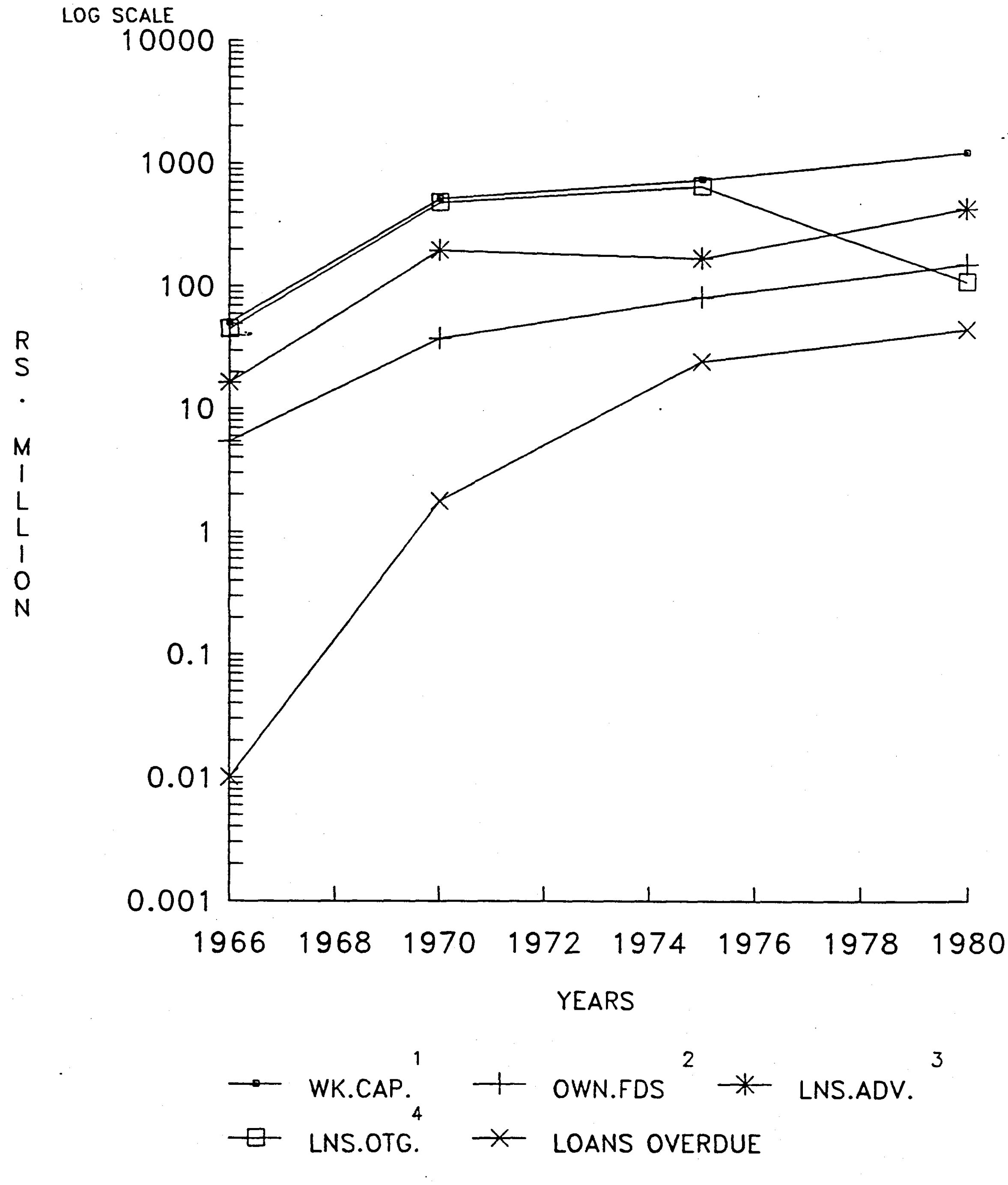
Note: The diagram serves an illustrative purpose only; the time intervals are not equal.

these banks has been to finance land-based activities. Although these banks are also empowered to lend for non-land-based activities, which would be of direct benefit to the rural poor, in practice this has not been taken up in a big way, due presumably to lack of expertise and technical know-how available to the banks.

The major problem of the long-term cooperative credit structure was that in a number of cases investment credit dispensed by the Punjab Land Development Bank was not productively deployed, hence the rising trend in overdue loans, rendering several primary Land Development Banks either eligible for only restricted lending or ineligible to undertake any fresh lending programmes. Moreover, a sizeable proportion of loans overdue in these banks stemmed from either non-utilization or misapplication of the loan advanced.

Several other factors have contributed to the rising trend of overdues. Amongst them are included laxity in post-credit follow-up and monitoring of end use; lack of technical guidance to the loanees, natural calamities and wilful default. Further, little attention was paid to ensuring that the borrowers reaped the full benefit of their investment on completion of the project through the application of the needed production credit. Since Land Development Banks did not furnish a list of their borrowers to the primary agricultural credit societies within their jurisdiction, long-term loanees were not normally assured of the complementary production credit support as a matter of course. The absence of any effective operational link between the primary Land Development banks/branches of the Punjab Land Development Banks and the short-term credit wing gave rise to the inability of the cooperative credit system to assess the credit-worthiness and credit servicing

FIG 6.4 DATA ON PRIMARY LAND DEVELOPMENT BANKS IN THE INDIAN PUNJAB



1 WORKING CAPITAL 2 OWNED FUNDS 3 LOANS ADVANCED
4 LOANS OUTSTANDING

Note: The diagram serves an illustrative purpose only; the time intervals are not equal.

capacity of its clients in a comprehensive manner.

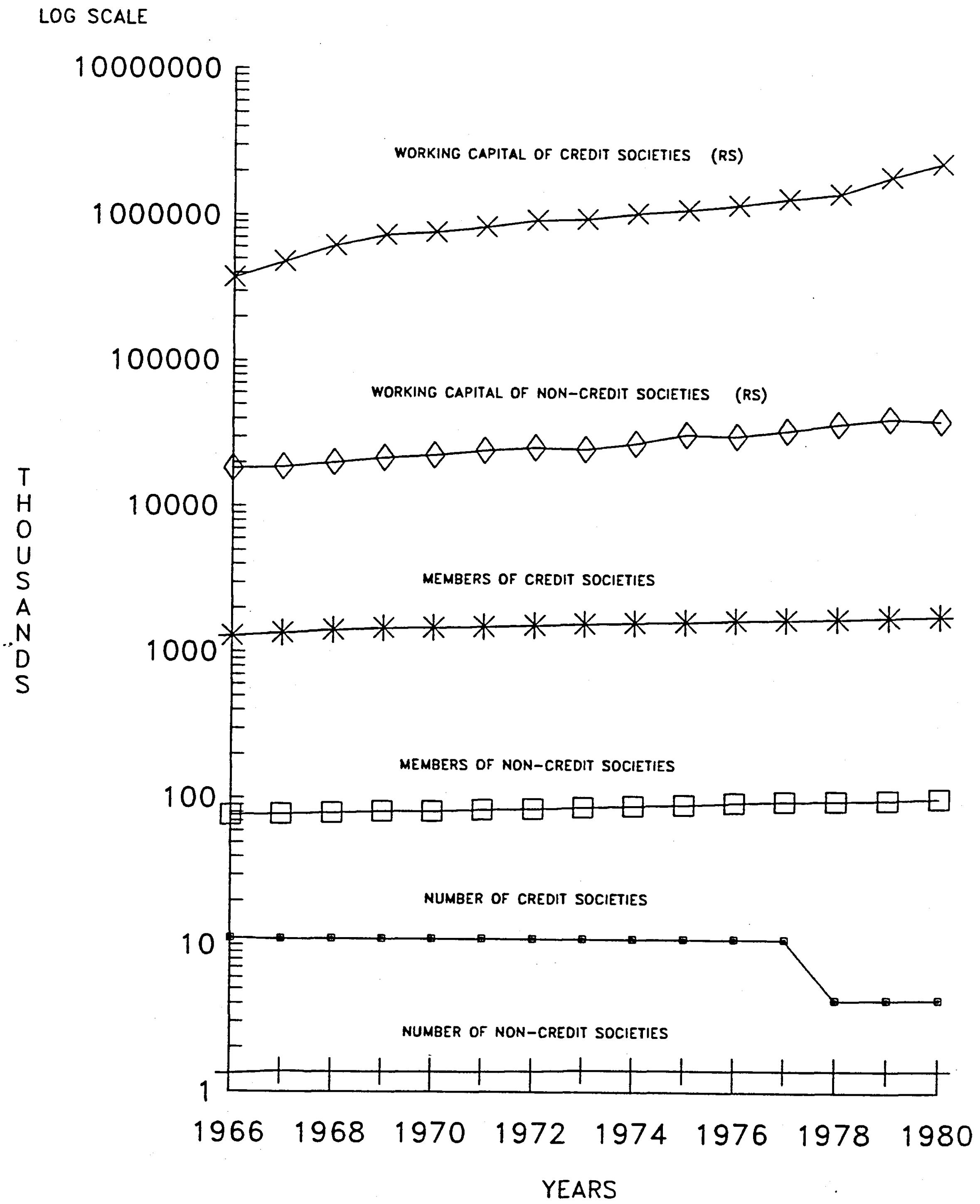
The most disquieting feature of the Cooperative Banking system in the Indian Punjab is that in recent years it has been subjected to a excessive degree of politicization. The form in which politicisation has manifested itself is the ad hoc suspension of elected boards of management of Cooperative Banks by the government by exercising the power conferred on it under the State Cooperative Societies Act, and the appointment of government officials to manage the affairs of the Cooperative Banks. But although supported by statutes suspensions have generally been resorted to without any compelling and convincing reasons. The boards of Cooperative Banks were superseded and their management was placed in the hands of departmental officials in order to weed out vested interests from cooperatives; to bring about uniformity in elections to the committee and to disqualify defaulters from holding office on the managing committee. While such measures were nominally targetted at 'improving' the management of the banks the general consequence of such policies was the frequent transfer of some of the departmental incumbents, leading to lack of continuity in leadership, control and guidance from the top.[4]

Primary societies usually epitomize the vitality and service potential of the cooperative movement. In the Indian Punjab they may be again classified into credit and non-credit societies, with the former providing the mainstay of the movement. Relevant statistics on the working of primary agricultural societies (credit and non-credit) are presented in Fig.6.5 (also see Table 6.5) The data presented refer to the period, 1966-80. (Data for the earlier period were not available for the non-credit societies).

In 1966 the total number of primary agricultural societies (credit and non-credit societies) in Punjab came to 12389, with 11064 classified as agricultural credit and only 1325 as agricultural non-credit societies. This number fell to 12344 in 1977 with 10942 as agricultural credit and only 1402 as agricultural non-credit societies. So by 1977 some 88 percent of the primary societies in Punjab were agricultural credit societies and only about 12 percent were agricultural non-credit societies. Thereafter there was a sharp decline in the number of agricultural credit societies in the Punjab. Thus out of a total 5662 primary agricultural societies some 75 percent societies were agricultural credit societies, as against 1396 non-credit societies in 1980. Despite sharp reductions in the number of agricultural credit societies in the late 1970s the movement remained centred in the sphere of credit. The absense of growth in the formation of new credit (indeed there were fewer at the end than at the beginning of the period due to the drop in 1978) or non-credit societies differs significantly from the results established in the Pakistan Punjab where the rate of formation of credit societies after 1978 was significant . The rapid growth there was attributed to the government policy entrusting the movement with the role to channel interest free credit to the agricultural sector. Thus many new credit societies in the Pakistan Punjab were established after 1978.

Data presented in Fig.6.5 show that the two categories (credit and non-credit) had 1,784,000 and 100,985 members representing some 94 percent and 6 percent of the total membership respectively in 1980. During the period 1967-80 the membership of credit societies increased roughly at the average rate of 3 percent, as against the non-credit

FIG 6.5 PRIMARY AGRICULTURAL CREDIT AND NON CREDIT SOCIETIES IN THE INDIAN PUNJAB



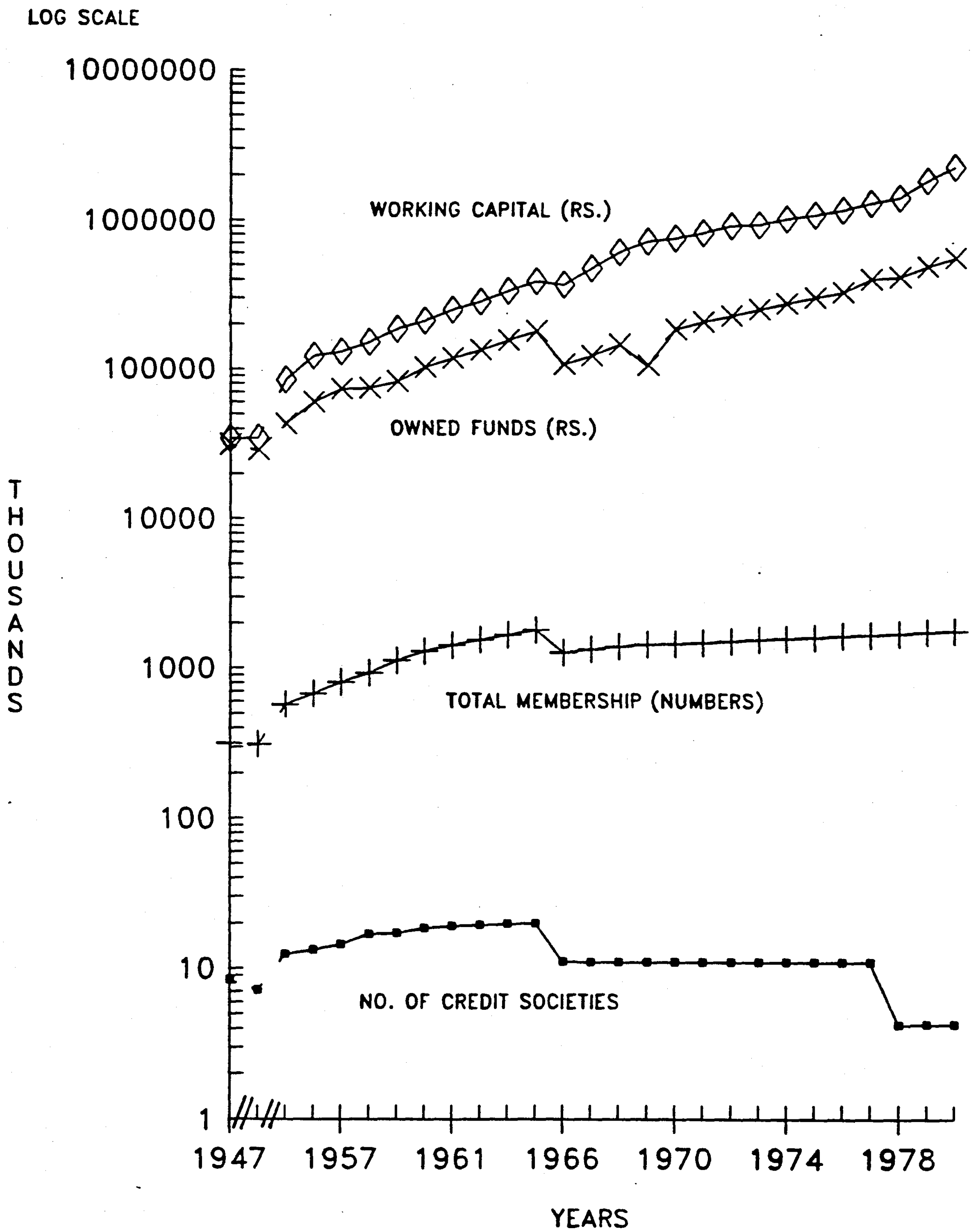
societies which grew at the average rate of 2 percent. These statistics suggest that the rural population in the Indian Punjab was attracted more towards the 'services' offered by agricultural credit societies. Moreover, average size of membership, of an agricultural credit society was 418 as against 72 in the non-credit society in 1980 so the agricultural credit societies in the Indian Punjab were generally larger than those in the Pakistan Punjab. Fig. 6.5 also shows that a significant increase in the working capital available to the credit societies took place through the period 1966-80, primarily from borrowing, rather than from owned funds (also see Fig.6.6). Data on the sources of working capital in non-credit societies were not available, but it seems likely that non-credit societies, like credit societies, relied primarily on borrowed funds in order to run their businesses. The working capital of the credit societies increased at an annual rate of 14 percent as against 6 percent in the case of the non-credit societies during the period 1976-80.

The cooperative movement in the Indian Punjab, like that in the Pakistan Punjab, remained centred in the sphere of agricultural credit. And this was in line with the policy of the government in the Indian Punjab which after the independence of India in 1947 had assigned more importance to agricultural credit in general and cooperatively provided credit in particular.

It is against this background that we now turn to look at the working of the agricultural credit societies in detail.

The performance of agricultural credit societies in the Indian Punjab may be studied through an examination of the following aspects:

FIG 6.6 DATA ON PRIMARY AGRICULTURAL CREDIT SOCIETIES IN THE INDIAN PUNJAB



Note: The first three observations relate to 1947, 1950 and 1955.

(a) the relative importance of credit cooperatives among institutional sources of finance

(b) the importance of cooperative credit in relation to total 'credit needs' of farmers

(c) the extent of local participation in, and support for agricultural credit societies and

(d) the welfare effects of cooperative credit distribution.

The relative importance of cooperative credit among the institutional sources of rural credit may partly be judged from the data contained in Table 6.6. The data given in the table excludes supply of credit by commercial banks. Ordinary commercial banks have advanced agricultural credit, but according to some observers,[5] they were not a dominant source of institutional credit in the Indian Punjab at least up to the first half of the 1970s. Similarly data on 'Taccavi loans' were not available after 1974.

Data given in table 6.6 show that the supply of institutional credit (Primary agricultural credit societies, Land Development Banks and Taccavi loans) were enhanced considerably between 1960 through 1974, and a major share of the supply of institutional credit came from the agricultural credit societies. The supply of rural credit was augmented through Land Development Banks and Taccavi loans as well.

It will be recalled that Taccavi loans are emergency loans for short-term purposes; they go up in periods of droughts and go down to negligible levels in periods of bumper harvests. Therefore, for the purposes of private investment in agriculture, loans from Land Development Banks and primary agricultural credit societies are more relevant. It was estimated that in 1970-71, 51 percent of long-term loans were advanced for the installation of tubewells.

It is difficult to comment on the relative contributions made by the various institutional sources of farm finance in the Indian Punjab. Nor it is possible to comment on the changes that have been taking place in the business of rural lending, especially in the provision of institutional credit in recent years since it has not been possible to have access to the relevant data. An idea of the relative position of cooperative credit among the institutional sources of rural credit can be had from the overall position for the country, data for which are shown in Table 6.7. The share of cooperative credit in total institutional credit in India declined from 75 percent in 1975 to 57 percent in 1980, whereas the share of commercial banks increased steadily during this period from 20 percent in 1975, to 34 percent in 1980. Cooperatives, on the other hand, continued to dominate the short-term credit scene, although their share of short-term credit declined from 84 per cent in 1974-75 to 70 percent in 1979-80. So despite the entry of commercial banks into the financing of agriculture in the early 1970s, the relative importance of cooperative credit did not undergo any significant change and credit societies continued to disburse the major share of the total institutional credit provided to the agricultural sector.[6]

A study carried out in 1972 in the IADP district of the Ludhiana district (Punjab)[7] showed a broadly similar situation on the relative distribution of loans from different sources. An examination of a sample of 1526 farmers and the sources of their loans is shown in Table 6.8. Cooperatives met 63 percent of the total volume of credit borrowed by the sample farmers. The nationalized banks provided another 18 percent, thus 81 percent of total credit was provided by the institutional agencies. Money-lenders, friends and relatives provided the remaining 19 percent. This is a long way indeed from the barely 3 percent contributed by the cooperatives in 1961. The study further established that cooperatives had succeeded in loosening and practically removing the grip of money-lenders on farmers' livelihood in the Punjab. Chaudhri and Dasgupta (1985) found that for the Indian Punjab as a whole, farmers in the largest size group obtained on average nearly 90 percent of their credit from the government and cooperative agencies whereas the farmers in the smallest size group obtained about 70 percent of their credit from these sources. The traditional source, namely the village money-lender, was insignificant for the largest farm size group although it still contributed about 20 percent of all borrowing by small farmers. The actual rate of interest paid by farmers in different size groups was not known; however the rate of interest charged by the state and cooperative sources varied between 7 and 9 percent, while the rate of interest charged by the money-lenders varied between 18 and 100 percent. Chaudhri and Dasgupta observed that small farmers in all probability were able to obtain credit from state and cooperative sources for their agricultural production needs but, in addition had to depend on the money-lenders for consumption credit. They however concluded that information about the credit needs of farmers in different farm size groups was not known nor was it possible to comment on the extent to which these needs were met by the state and cooperative sources.[8] (see Table 6.9)

These findings show that despite an increase in the provision of farm credit by the commercial banks, in recent years, cooperative credit forms a significant part of institutional credit in India, as also in the Indian Punjab. In contrast to the Pakistan Punjab, where the government has been committed to dispense agricultural credit through the commercial banks and the agricultural development bank, the government in India has generally relied on the efficiency of the cooperative movement. It may be noted however that even after the introduction of the interest-free lending policy of the government and despite the quantum increase in cooperative credit which occurred after 1978, the share of cooperative credit in the Pakistan Punjab stayed less than 30 percent in the late 1970s. Thus the cooperative movement in the Indian Punjab has not only been entrusted with the task of advancing short-term, medium-term and long-term credit, but in terms of the supply of institutional credit, it seems to have done fairly well, compared with the cooperative credit movement in the Pakistan Punjab.

The absolute importance of cooperative credit in the Indian Punjab can be judged from both its contribution toward total credit needs and by its demographic coverage. From both points of view the role of agricultural credit societies in the Indian Punjab has been rather significant. Let us consider the first aspect first.

It was estimated by the Rural Credit Survey Committee (1954) that institutional agencies met only 7 percent of the farmers' credit needs of which cooperatives contributed 3 percent. By 1961-62, the All India Rural Debt and Investment Survey found that cooperatives provided 16 percent of farmers' credit needs, while all institutional agencies as a whole were responsible for 19 percent. By 1968-69, the National Credit

Council estimated that institutional finance was responsible for meeting 39 percent of the needs of the farm sector, and in this, the share of cooperatives was as much as 33 percent.[9]

Even the target for disbursement of loans for 1979 (the last year of the Fifth-Five Year Plan) was set at Rs 1300 crores for short-term credit, against the estimated need for credit of Rs 3000 crores. With the Nationalized Commercial Banks providing an additional Rs 400 crores, the institutional finance met 56 percent of the total credit needs of the farm sector. Nonetheless there was still a gulf between the supply and demand for credit, which was filled by the non-institutional sector.[10]

Table 6.12 contains data on the availability and demand for cooperative credit (short and medium term) in the Indian Punjab. It may be noted that at no time after 1967 were cooperatives able to fulfil the total short and medium-term production credit needs of their member farmers, though they provided a major share of the institutional credit (also see Fig. 6.8). A study undertaken by the Economic and Statistical Organization of the Government of the Punjab in 1971[11] revealed that of the total loans demanded by the sampled beneficiaries, the highest proportion (39.8%) was provided by the agricultural credit societies, followed in rank order by friends and relatives (37.8%) money-lenders (22.0%) and the Taccavi loans (0.4%). It was established that the available quantum of institutional credit fell short of the total demand for credit, but there was a significant shift in the provision of credit from the non-institutional sources to cooperative credit over the passage of time.

It may thus be noted that both in terms of the supply of institutional credit and also in meeting farmers credit needs, the two Punjabs show considerable similarities. Institutional credit (including cooperative credit) has generally remained insufficient in the two Punjabs to fulfil production and consumption credit needs of farmers and peasants continue to rely on non-institutional sources to meet the balance of their credit requirements.

The statistics on the working of agricultural credit societies in the Indian Punjab are partially presented in Fig. 6.6 (also see Table 6.10). It can be seen that the number of societies has grown from 13144 in 1956 to 19981 in 1964, at a growth rate of approximately 5.5 percent a year. Nonetheless a significant decline in the formation of new societies took place between 1967 and 1977, so that the average growth rate remained negative for the whole period, 1967-1977. Further, it may be noted that there was a sharp decline in the number of credit societies after 1977, and the total number of credit societies declined from 10942 in 1977 to some 4266 in 1980. This contrasts with the Pakistan Punjab where we have noted that the rate of establishing new societies, especially between 1977-80 was not only positive, but very significant (the average rate of growth for the period, 1977-80 was about 32 percent). Let us examine the Indian case in detail.

The relatively slow growth of societies in the Indian Punjab was the result of attempts which were made by the government of India to revitalize the societies through structural reorganization and rationalization of their operations. These structural reforms were directed towards determining the optimum size and nature of functions of the society so as to make them economically viable and managerially efficient. The official policy regarding size of a society crystallized around the mid 1960s. At the conference of the State Ministers for Cooperation held in 1964 it was decided that in order to satisfy minimum criteria of viability (such as the ability to appoint a full-time paid secretary to set up a regular office, to contribute to reserves and to pay dividends) area-wise standards for the quantum of business necessary for a society should be worked out and a plan should be drafted for programmes of reorganization through amalgamation of non-viable units and liquidation of defunct ones. Reorganization on this basis was expected to be completed by 1966-67, resulting in a reduction of the total number of societies to 0.12 million. However, even at the end of 1967-68, the number of such societies remained at 0.17 million in India. In 1973, the working group on cooperation for the Fifth Five Year Plan recommended that a primary agricultural society should be treated as viable only when it reached a minimum short-term agricultural credit business of Rs 0.2 million. Again at the meeting of the Registrars of cooperative societies convened by the Reserve Bank of India in 1976, it was decided that for the purpose of determining viability, a normal cropped area of 2000 hectares should be considered adequate to provide a minimum short-term credit potential of Rs 0.2 million. Further in order to remove the existing lacunae in the legal procedures which was responsible to some extent for the delay in implementing the reorganization programme, it was proposed to amend the state Cooperative Societies Acts to provide for compulsory amalgamation of societies.[12]

As a result of the efforts of the government of India to reorganize the movement, the number of agricultural credit societies in the Punjab was brought down to 10923 in 1969 as against 19981 in 1964. Further reorganization of the movement at the state level in the Indian Punjab resulted in a sharp decline in the number of societies from 10942 in 1977 to 4259 in 1978. Indeed, a scheme for revitalizing the movement was started in 1977 and many defunct and non-viable societies were eliminated from the cooperative scene. Further, many small-sized primary units were merged and converted into large-sized primary societies to make the movement essentially viable.[13]

Here, then, arises a significant contrast between the evolution of the cooperative credit movement in the Indian Punjab and the Pakistan Punjab, during the latter half of the 1970s. While the Indian government followed a policy of consolidation as against expansion of the movement, the government in the Punjab (Pakistan) vigorously pursued a policy of expansion of agricultural credit societies after 1977. Comparable data for the number of viable primary societies for the Indian Punjab were not available; it is thus difficult to comment on the relative success achieved by the cooperative credit movement in the Indian Punjab by following the policy of consolidation, when compared with that of the movement in the Pakistan Punjab. However, it has been established that the expansion of the cooperative credit movement in the Pakistan Punjab in terms of number of societies has resulted in an increase in the number of non-viable and 'bogus' societies, and the following Chapter provides some local evidence of this. As such, the policy of expansion, as against consolidation, has done more harm than good to the movement in the Pakistan Punjab.

Another way of looking at the performance of the cooperative credit movement is to estimate the coverage of the rural population provided by the cooperatives. It was reported that by 1971 all villages in the Indian Punjab had been covered by the primary agricultural credit societies. In addition, the total membership in societies rose to about 1.48 million farmers, which accounted for 98 percent of the farming households in the Indian Punjab.[14] According to a further Survey carried out in 1980, a typical large-sized primary society covered 2 to 3 villages in the Indian Punjab.[15] The cooperative credit movement had therefore made significant progress in terms of coverage of the rural population after 1947. In comparison the movement in the Pakistan Punjab was not able to cover more than 15 percent of the farming population by 1981. In addition, it has generally been established that agricultural credit societies throughout Pakistan, and in the Punjab in particular, were established by the larger farmers, and the proportion of small farmers in the membership of societies remained far less.

There is enough evidence to show that primary agricultural credit societies in the Indian Punjab were in the control of cultivators, amongst whom most were generally the larger farmers. As such a considerable segment of the weaker sections of the rural community (including rural artisans, village craftsmen and agricultural labourers) remained outside the cooperative fold. It may however be argued that the societies in the Indian Punjab, as also in the Pakistan Punjab, were generally concerned with the provision of improved farm inputs, a matter of little relevance to the rural artisans, village craftsmen etc. Nonetheless the societies were still unable to enrol in their membership the small cultivating farmers. The All India Rural Credit Review Committee Report (1969) remarked

> "the comparative neglect of the small cultivators by cooperatives results from more factors than one. One of these is that the principle of open membership is not always effective as several cooperatives operate as a closed shop for the benefit of one particular group or caste or faction. Secondly, the repaying capacity of the small cultivator is called into question and the loan often ruled out on this ground. Thirdly, in the distribution of limited funds available, it is the small farmer who gets left out. These are some of the factors which keep some restrictive practices alive in practice, even though on paper they are supposed to have ceased to exist".[16]

The role of cooperative movement in the Indian Punjab did not only depend on the formation of new societies, but also on the average size of membership and its long-term changes. As noted, the cooperative credit movement in the Indian Punjab by 1971 had enrolled some 98 percent of the farming population. A further increase in membership of societies in subsequent years indicates that the movement had succeeded in enrolling almost 100 percent of the rural areas in the Punjab.

Let us consider the average size of membership in a society and its long-term changes. The average size of membership in a credit society remained small for the whole period 1955-64 at only 67; however, when compared with that of the average size of membership in a credit society in the Pakistan Punjab, it was at a fairly higher level. Nonetheless a significant increase in the average size of membership occurred in subsequent years. Between 1978-80, the average size of membership in a society was 410 in the Indian Punjab.

The average annual rate of growth of membership was 13.8 percent for the whole period 1956-64; as against an average growth rate of 3.1 percent for the years, 1967-80. It seems that a vigorous campaign was launched by societies to enrol as many new members as possible during the 1950s and in the first half of the 1960s. As noted earlier, when 98 percent of the farming population in the Punjab has been covered by the credit societies up to 1971, the rate of enrolment in societies must increasingly fall in the subsequent years. Nonetheless the increase in the average size of membership in a society was the result of consequent reduction in the number of agricultural credit societies especially after 1977. The above findings establish that the agricultural credit societies in the Indian Punjab were large sized, as against the small sized primary societies in the Pakistan Punjab. Further, in terms of enrolment of new members, the societies in the Punjab (India) made significant progress when compared with that of the credit movement in the Pakistan Punjab. A probable implication of large sized primary unit in the Indian Punjab can be that the societies had economies of scale, better management, standardized routines etc. In addition, it is possible that the per capita administrative and maintenance expenditure of the department perhaps decreased over time. It is possible that the per capita availability of working capital, as also the per capital loan advances might be expected to have increased (we shall deal with these aspects later).

The primary agricultural credit societies in the Indian Punjab, like those of the credit societies in the Pakistan Punjab obtained their working capital from the usual sources: (a) share capital paid up by the members (b) a Reserve Fund created out of the profits (c) deposits from the members and loans from (d) central Cooperative Banks and other sources. Funds from the first three sources formed the 'owned funds', while the loan from central Cooperative Banks and other sources formed the borrowed capital of societies.

From Fig.6.6 (also see Table 6.10) we can further note (bearing in mind the log scale) that working capital of credit societies in the Indian Punjab was made up primarily of borrowed rather than owned funds (share capital, reserve funds and deposits). Although there was an increase in both categories, the latter as a percent of the working capital tended to decline after 1964. Moreover, there was a steady decline in the percent share of 'owned funds' in the working capital of societies after 1977, while the total working capital steadily increased. The credit societies in the Indian Punjab, even after their reorganization in the late 1970s, tended to depend more on borrowed funds rather than on the owned funds. A more or less similar pattern was noted in the credit societies in the Pakistan Punjab, where the credit societies showed a virtual total dependence on borrowing from the Punjab Cooperative Bank after 1977.

Many field studies undertaken in the Indian Punjab have established this characteristic reliance on borrowing rather upon owned funds to manage their business. A Survey of selected societies in the Indian Punjab undertaken by the Economic and Statistical Organization in 1976,[17] established that owned funds in sample societies constituted only 23.5 percent of the working capital. An almost similar conclusion was obtained from a study undertaken by the Punjab Agricultural University, Ludhiana, in 1967.[18] This revealed that borrowing remained a major source of the working capital of the societies.

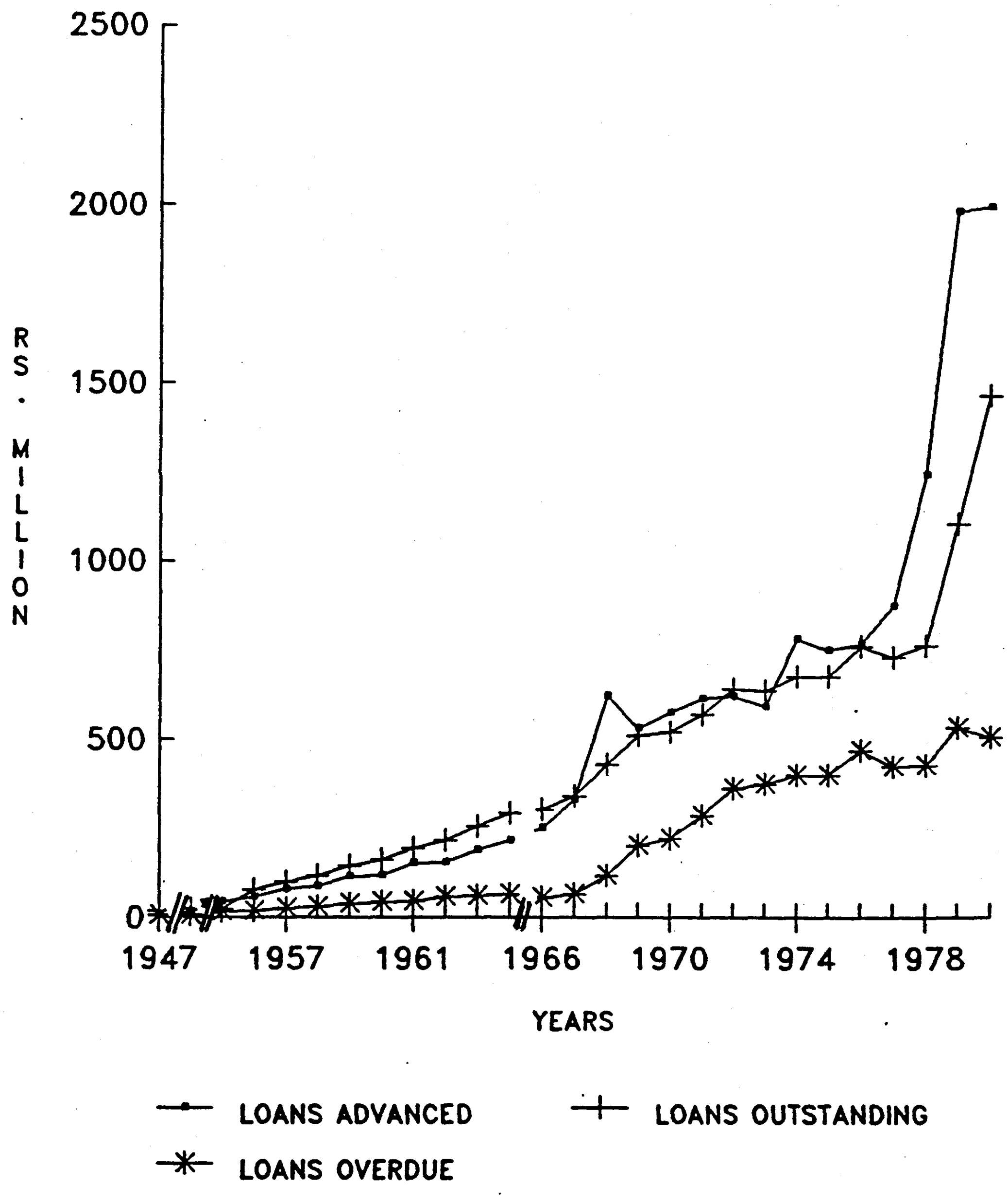
Many factors were responsible for this dependence of societies on borrowing from external sources.[19] Amongst the important factors were the negligence of members in failing to adhere to the by-laws pertaining to the purchase of share capital; a lack of will and persuasion of the management committee to inculcate habits of thrift and create the confidence among members and non-members necessary for attracting local deposits; lack of infra-structural facilities, viz. proper space for buildings and lock-fast facilities to keep the savings in safe custody. Above all, members' perceptions that credit societies were merely a means of access to government funds was another factor; members were fundamentally ignorant of the vital cooperative principle of self-reliance. Large amounts of funds were provided by the government on easy terms. In addition members found it unattractive to bring their savings to societies with the object of building sufficient owned capital of societies.[20]

The agricultural credit societies in the Indian Punjab, as in the Pakistan Punjab, were certainly expected to promote the spirit of thrift and mutual aid amongst their members. The principle of state partnership in the share capital and management of societies was however enunciated by the All Indian Rural Credit Survey (1954), and the policy was intended to boost the image and prestige of societies so that they could attract rural savings and build up their own financial strength through deposit mobilization. However, as noted, this objective remained largely unfulfilled and societies came to be perceived as mere lending agencies. Lack of interest shown by members in deposit mobilization was however the result of complex factors: unattractive interest rates offered to depositors; infrequent deposit mobilization campaigns launched by the management committees of societies; a higher rate of illiteracy; absence of any traditional banking habit among the rural people; absence of proper infra-structure in terms of office and safe facilities, and so on.

Let us turn now to the major activity of cooperative credit societies in the Indian Punjab to advance loans for short and medium-term credit purposes. Loans were granted either in cash or in kind. However, loans in kind, (generally in the form of chemical fertilizers, crop pesticides and HYV seeds etc.) were generally more prevalent. Total loans advanced by cooperative credit societies showed a spectacular increase over the period 1947 to 1980. (see Fig.6.7; also see Table 6.11) Further data are presented in Fig. 6.8 (also see table 6.12) which shows the distribution of cooperative loans according to purposes. Fig. 6.8 indicates that loans for short-term purposes occupied a significant part in the cooperatives' total loan advances. A major share of short-term loans was allocated to the purchase of chemical fertilizers. Loans for medium-term purposes did not exceed 14 percent in any year during the period 1966-80 and the relative share of medium-term loans in the total supply of cooperative credit tended to decline with the passage of time.

A Survey of utilization of cooperative loans for agricultural purposes in the Indian Punjab conducted in 1971[21] established that of the total loans advanced by the sampled credit societies a little over 91 percent was for short-term purposes, and about 9 percent was granted for medium term purposes. The study observed that 'current agricultural purposes' which included purchase of seeds, fertilizers, pesticides and use for other ancillary purposes was the most important

FIG 6.7 LENDING ACTIVITY OF AGRICULTURAL CREDIT SOCIETIES IN THE INDIAN PUNJAB

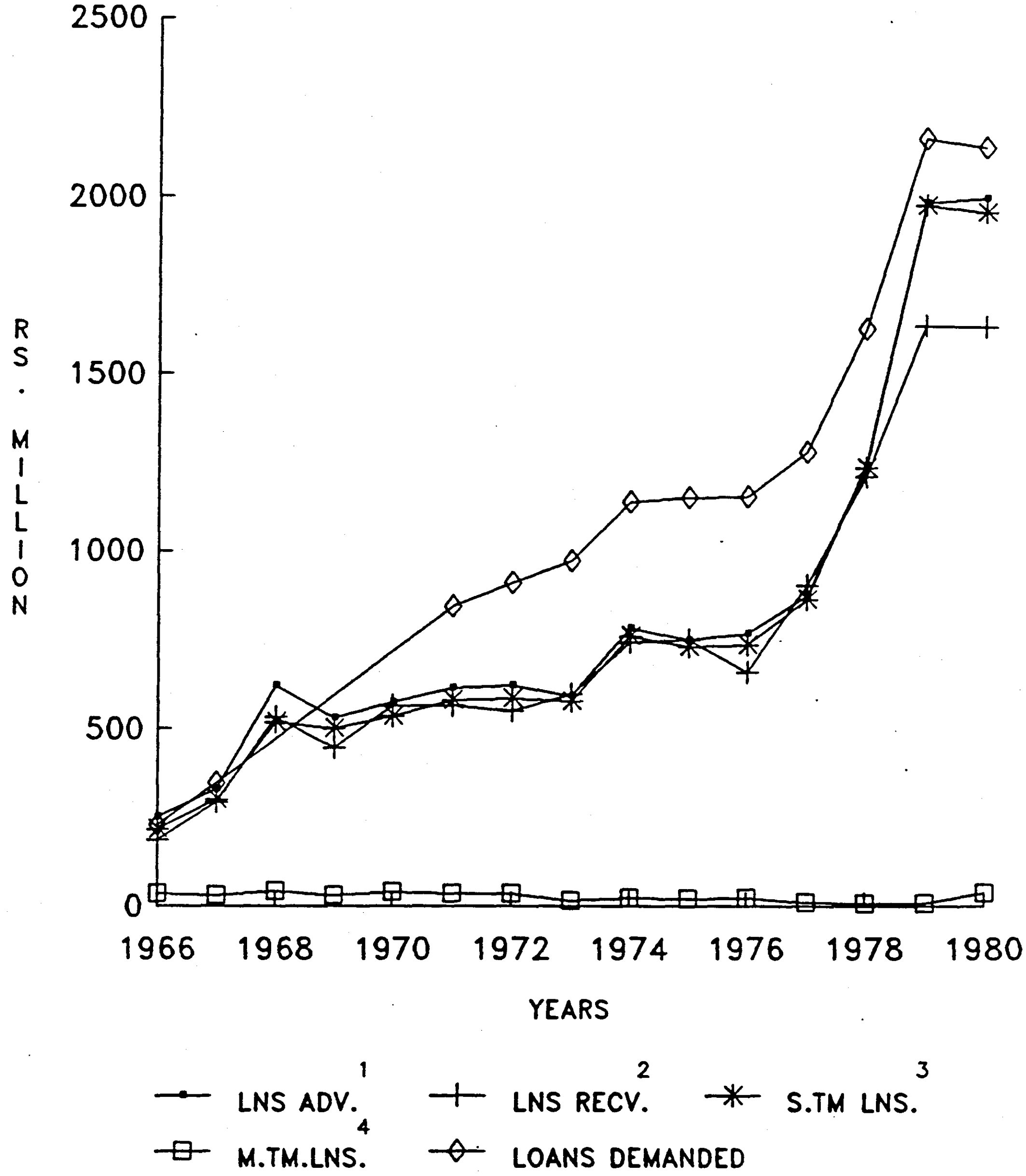


Note: The first three observations relate to 1947, 1950 and 1955.

category for which about 79 percent of the total short-term credit was provided. At the same time purchase of cattle was the most important purpose for which medium-term loans were advanced. Similarly the Survey of selected primary agricultural cooperative credit and service societies in the Indian Punjab in 1976[22] established that the major part of loans advanced by societies was normally granted in the form of crop loans. The Survey revealed that loans given for fertilizer constituted 84 percent of the short-term credit and loans for purchase of cattle/milch cattle accounted for about 6 percent of the total credit advanced.

The supply of cooperative credit for short-term purposes in the Punjab was increased during the 1960s and in subsequent years in order to provide peasant cultivators with improved farm inputs in order to raise farm production. The Indian Punjab was and is one of the most active states in promoting the use of a system which linked the supply of subsidized fertilizer, on credit, with an approved package of farm practices and HYV seed. The cooperatives were employed by the agriculture department as an integral part of the extension effort and as an instrument of government agricultural policy. The cooperatives played a key role in the state's programme for disseminating new farm technology, mainly the provision of chemical fertilizers to small farmers. A study of 22 primary credit societies undertaken in the Punjab during 1972[23] reviewed the expansion of short term cooperative credit, its extensive distribution over small-sized operational holdings and its productive use. The 22 societies distributed Rs 2.49

FIG 6.8 LENDING BUSINESS OF AGRICULTURAL CREDIT SOCIETIES IN THE INDIAN PUNJAB



1 LOANS ADVANCED 2 LOANS RECOVERED 3 SHORT TERM LOANS
4 MEDIUM TERM LOANS

million in 1972 in the following manner:

Holding size	Percent share in loans
15 acres	9
7.5 -- 15 acres	46
0 -- 7.5 acres	29
Tenants and labourers :	17

The productive nature of the crop loans and their relationship with the 'green revolution' can be further seen as under.

(Rs. in lakhs)

Year	Total	Total Crop loans by 22 selected societies	
		Cash loan	Kind loans (fertilizer, pesticides, etc.)
1966	2.86	1.83	1.83
1970	10.61	1.19	9.42
1972	14.29	2.21	12.08

The data presented above show that between 1966 and 1972, there was a shift from cash loans to loans in kind; the share of kind loans (viz fertilizers, pesticides etc.) increased significantly with the passage of time. This implies that in the 1970s the governments in both the Indian and Pakistan Punjabs followed a policy of encouraging loans in kind in order to ensure that the peasants made productive use of credit.

The loans by credit societies in the Indian Punjab were generally granted under 'cash credit' system wherein the farmers were sanctioned a credit limit, operative for the crop season, to be drawn on as and when required and to be repaid as and when income accrued to the cultivator. It was noted that the 'cash credit' system did not work as intended and certain weaknesses became apparent in selected areas of the Punjab.[24]

One study[25] showed that the coverage of members under the scheme was very limited, ranging between 3 in one society and 224 in another; out of 2113 members in 46 primary agricultural credit societies who enjoyed cash credit limits for 1977-78, 1085 members had utilized their limits in full, but as many as 268 members had made no repayments at all into their accounts during the year. The study further revealed that the credit limits which were fixed for individual borrowers bore no relationship to the difference between the borrower's actual cash outflows and inflows. Moreover, the extent of ignorance about the purpose of the scheme was considerable, so that in the absence of pre-operation briefings, transactions in the accounts were infrequent. In brief, the members operated their cash credit limits more or less as fixed loans, with one or two withdrawals unrelated to any particular seasonality of farm operations and without frequent credits into their accounts corresponding to inflows of funds. Furthermore, the lending procedures and policies were cumbersome and effectively debarred many more members from the 'cash-credit' facility offered by the societies. The cooperative credit was generally subsidized below market rates, and in conjunction with crop plans, was the channel of access to farm inputs supplied by cooperatives. The general procedures of lending were further modified and under the subject 'crop loan system' a part of loan was disbursed in kind mainly in the form of fertilizers. This system presupposed the existence of satisfactory arrangements for procurement of fertilizers/seeds/pesticides in adequate quantities and of the types in demand and their distribution through a net-work of outlets conveniently situated from the cultivators' point of view. This in turn involved a measure of coordination with all concerned with the supplies, but such coordination was lacking in many cases. As a result, cooperatives were unable to provide timely and adequate supplies of fertilizers/seeds/pesticides. Further, it became the practice to insist on the borrowers obtaining fertilizers only from cooperatives, which naturally obliged them to use the type which happened to be available to them at the time of uplift. While such practices caused unnecessary delays in the provision of services, the system due to its rigid and strict procedures, discouraged members from using the services provided by societies.[26] As a result only a limited percentage of borrower members from societies actively used the lending facility.

The crop loans advanced by societies were secured against personal surety and/or a floating charge on land created by the borrower in favour of the lending institution. Owner-cultivators and registered tenants did not generally have problems in providing the type of security required of them for crop loans, but in the case of an oral lessee or share-cropper whose interests in his cultivated holdings were unidentifiable, the rules for security for loans required a) solvent sureties from those who were owners of land or were registered tenants; b) provision of a collateral tangible security in the form of gold or silver ornaments, sufficient to cover the loan, c) in the absence of the above the loan was granted only in kind, up to an aggregate value of not more than Rs 500 against the surety of another member provided the guarantor was acceptable to the managing committee of the society.

It may be observed, in the light of the above rules, that the ceiling of Rs 500 in respect of an oral lessee/share cropper was too low to meet his credit needs when an increase in input cost was taken into account.[27]

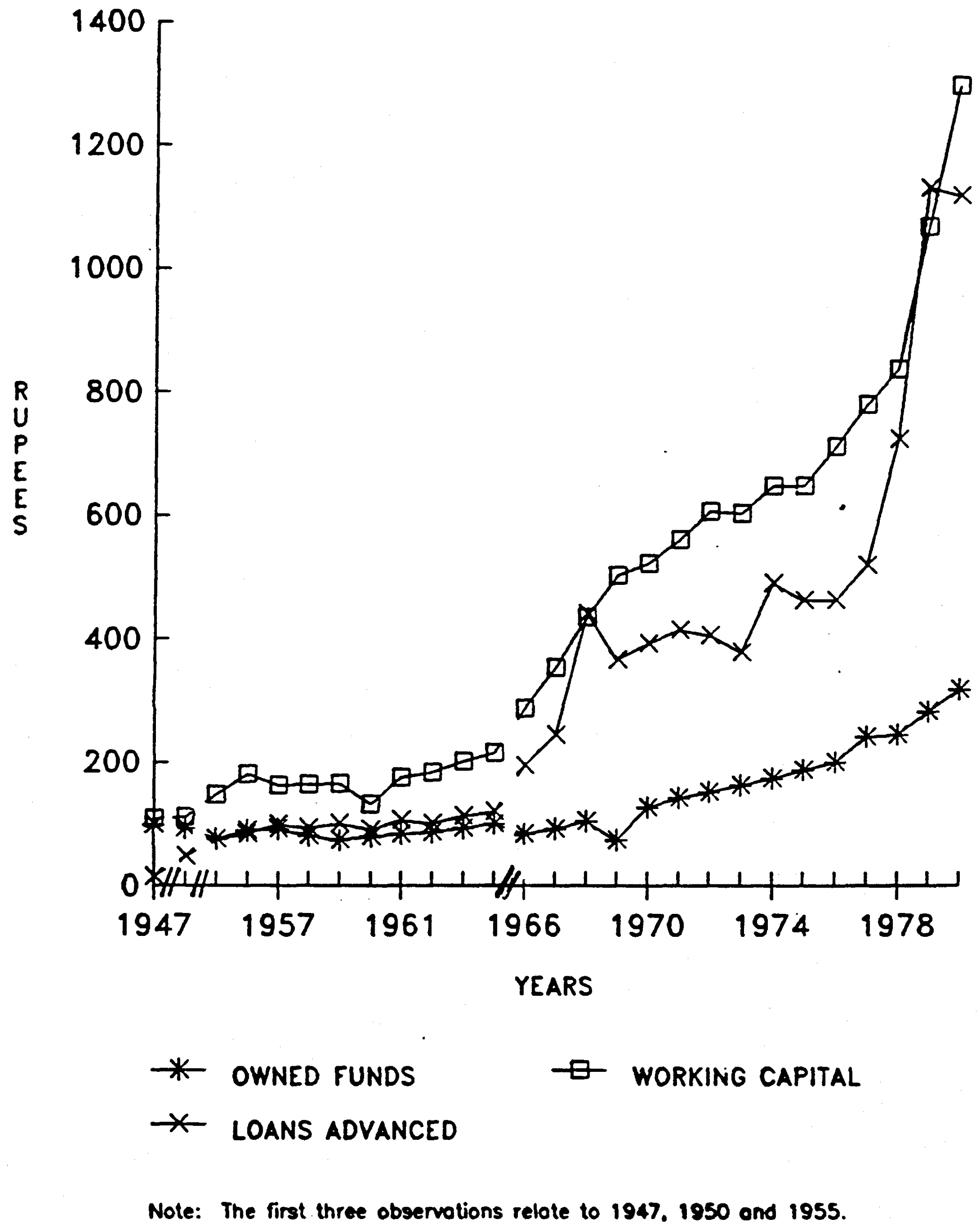
The statistics on recovery of loans from members of societies are presented in Figs. 6.7 and 6.8 (also see Tables 6.11 and 6.12). The ratio of repayments to loan advances appear satisfactory remaining fairly high during 1966-80. But behind this, as can be seen from Fig.6.7 (also see Table 6.11) the outstanding loans of societies showed a significant increase. Furthermore, the percentage of overdue loans within the total outstanding loans reached as high as 59 percent between 1947-80. (See Note 1 regarding the distinction between overdue and outstanding loans). These are very revealing statistics and show that the credit societies in the Indian Punjab, compared with the Pakistan Punjab faced a major problem in recovering loans from their members.[28] A study undertaken at the Agricultural University, Ludhiana[29] confirmed the prevalence of mounting overdues in the sampled societies in the Indian Punjab. It was found in this study that the percentage of overdues to loans outstanding in societies varied between 20 and 123 percent in selected districts in the Punjab.

Many factors contributed to mounting overdues in the Punjab's cooperatives. The research studies undertaken in the Punjab[30] revealed that lack of will and discipline among cultivators to repay, and the unhelpful attitude of the government in not creating a favourable climate for recovery, were the primary factors responsible for mounting overdues. In addition, failure to adhere to prescribed lending procedures, defective lending policies including untimely loan disbursement, under-financing/over-financing and unrealistic scheduling of loan repayment; neglect of/or absence of effort for marketing arrangements and linkage of credit recovery with sale of produce; ineffective supervision, mis-application of loans; apathy and indifference of management of societies to taking coercive measures for recovery; unforeseen natural calamities such as drought, floods etc., were some of the contributory factors leading to overdues in societies. These problems in the recovery of loans continued to impose limits on the success of the cooperative movement in the Indian Punjab throughout the period under reference. Poor recovery performance not only impeded the progress of societies, on account of their prima-facie ineligibility to draw fresh finance from their financing banks when their overdues exceeded a specified percentage of demand (which was generally 50 percent), but also the defaults of primary societies to the central Cooperative Banks impaired the latter's capacity to draw funds from higher financing agencies, particularly the Reserve Bank of India, as Central Cooperatives Banks whose overdues exceeded 60 percent of the demand were not normally eligible for re-finance from the Reserve bank. Thus the overdues in societies resulted in the choking of credit channels. The reasons for poor recovery of loans have been given but it needs to be stressed that accumulation of arrears in members' dues was generally due to wilful default and irregular lending, slackness in supervision, indifference to recovery efforts, inaction against defaulters and bans on, as well as interference in, recovery work of primary agricultural credit societies by the governments.[31]

It had also become a common feature particularly at the time of elections, for politicians of most hues to indulge in adverse propaganda concerning the obligation to repay cooperative dues. Even more disheartening was the tendency of the government to stall recovery of cooperative loans by staging the recovery proceedings launched against defaulters. At times the governments have been reported as exempting whole classes of defaulters from payment of their dues to primary agricultural credit societies and paying the said amount to the institutions direct from the exchequer.[32]

Let us now examine the per capita availability of working capital and its relationship with the owned funds (share capital and deposits and reserve funds) per member. Relevant statistics are presented in Fig.6.9 (also see Table 6.13). It can be seen that the average working capital per member tended to increase, but the increase was not due to increased owned funds, and was instead the result of additional borrowed funds. An increase in the share capital per member and the deposits per member was also not associated with the increase in the average loan advances to a member. This again implies that the increase in working capital per member during the period 1947-80, was not on account of mobilizing owned funds. In short, the extent of local participation in cooperative affairs was low, and the general

FIG 6.9 DATA ON PRIMARY AGRICULTURAL CREDIT SOCIETIES IN THE INDIAN PUNJAB (AVERAGE PER MEMBER)



Note: The first three observations relate to 1947, 1950 and 1955.

expectation of the members was that they would receive credit mainly channelled from the government without contribution on their part. They did not buy shares or keep their savings in societies. A similar characteristic has been noted in credit societies in the Pakistan Punjab.

As noted earlier in Chapter Five, the proponents of the cooperative movement in the Indian Punjab, just as in the Pakistan Punjab, contend that the movement should be evaluated in relation to different criteria from those applied to a regular business, because a cooperative is not essentially a commercial business venture or a profit-making enterprise. Its objectives are largely distributional. It is a system of providing welfare to the poorer cultivating and non-cultivating rural groups and providing them with an opportunity to improve their own economic position through cheap loans.[33]

The welfare objectives of the movement in the Indian Punjab have largely remained unfulfilled. It has already been noted that a considerable part of the weaker sections of the rural community including rural artisans, village craftsman and agricultural labourers were outside the cooperative fold. Even members from underprivileged sections of the rural community were debarred from borrowing from the societies. Restrictive practices in the matter of financing the weaker sections of the membership were prevalent despite the Reserve Bank's stipulations that not less than 20 percent of the short-term agricultural loans issued to primary credit societies by central Cooperative Banks should go to finance small farmers and weaker sections of the community, and that at least 60 percent of disbursements should go towards meeting the investment credit needs of the weaker sections. Many factors have prevented the weaker sections borrowing from a society. Amongst the more important reasons are: inadequate and untimely disbursement of loans; non-availability of consumption credit; inconformity of lending procedures with needs; risks involved in borrowing; the lack of programmes specifically tailored for these groups, and structural inability of the society to lend.[34]

Cooperatives, viewed as welfare organizations for the economic betterment of small farmers, were generally unsuccessful because the larger farmers and the politically strong groups dominated the societies and utilized the services for their own purpose. Myrdal has observed

> "credit cooperatives have become mainly the preserves of the upper strata in the villages including the money-lenders, who often acquire their funds from them ... The Public expenditures involved [in Government sponsorship of cooperative credit societies] might accurately be viewed as a subsidy to the upper strata in the Indian villages: the peasant landlords, privileged tenants and a few smaller peasant proprietors".[35]

Myrdal's opinion on the status of credit cooperatives is endorsed by the National Council of Applied Economic Research in its Survey[36] of 3000 Indian farmers wherein it was established that cooperative credit was indiscriminately granted to the privileged class.

The statistics (NCAER Data) relating to the distribution of cooperative credit by size of farm holding are depicted in Table 6.14. Cooperative credit went largely to better-off farmers. 46 percent of cooperative credit was disbursed to large farmers (defined here as those owning more than 4 hectares of land) who formed only 29 percent of cooperatives borrowing clients, while 54 percent was disbursed among the remaining 71 percent of their clients (small farmers).

While the findings of the National Council of Applied Economic Research reveal an inequitable allocation of cooperative resources amongst different categories of farmers, the statistics pertaining to the borrower members in societies showed that only a limited number of members in societies received credit from societies. It was estimated that only 34 percent of the total membership in societies were borrowing members. At the same time, 31 percent of the members from the weaker sections obtained loans from societies in 1977-78. This means that some 66 percent of members in general and 69 percent of members from the weaker section were excluded from the lending activities of societies. Although these statistics are silent on the distribution of loans according to size of holdings, the Rural Credit Follow-Up Survey (1961)[37] concluded that the cooperative system was massively biased against the small farmers. Many field studies have corroborated the extensive class bias in the supply of credit. A study conducted in the Broach District (Gujrat) in 1972[38] reported that cooperative coverage was over 50 percent for farmers above 4 hectares, but as low as 7 percent for farms under 2 hectares. Furthermore, over 75 percent of all loans went to farmers with holdings above 4 hectares and the value of loan per acre increased with farm size. Singh, Kumar and Sheri Ram's study in Muradabad District[39] (UP) reported that farmers with holdings under 2 hectares bought 84 percent of their fertilizer on the market, preferring not to deal with the cooperatives for the bulk of their supplies. One can do no better than to quote the NCAER study;

> "The cooperatives channelled more of their funds to the larger than to the small sized categories of farmers, particularly in the HYV areas. This could be attributed primarily to two factors. In the first place, a relatively small portion of the class of small farmers has as yet been enrolled as members of credit cooperatives compared with the larger categories of farmers. Our study brings out that only 16.16 percent of the households belonging to the smallest category were members of cooperative societies. The corresponding percentage of farmers in the three other classes, in ascending order of size were 24.2, 41.3 and 31.9 percent respectively. Secondly, the lower capital base of the smaller farmers meant that the volume of institutional credit available to them was also relatively small".[40]

While loans granted by societies went largely to the better-off members in societies, in many cases credit obtained by members was diverted to non-productive purposes. A study undertaken by the Economic and Statistical Organization in the Punjab found in 1971[41] that about 23 percent of the loan recipients diverted loans to purposes which were not originally stated in their request for a loan. It was further found that amount of loan diversion varied between 16.1 percent in holding size of 15 acres and above farm holdings and 37.7 percent in the holding size of less than 5 acres. On the whole, the number of loan divertors and amount of loan diversion was comparatively greater among small size holdings than among the large farmers. Moreover it was found that 27.3 percent of the loan funds borrowed for short term purposes and 55.5 percent of loan granted for medium-term uses were diverted to non-productive purposes.

The reasons stated by the members for loan diversion were urgency of repayment of old debts, consumption and other household needs, purchase of minor farm implements, redemption of land, purchase of shares and other pressing needs.[42]

The inequitable distribution of cooperative services amongst members (to the disadvantage of weak members) arose because the management responsible for the affairs of societies was composed relatively better-off farmers and other influential non-farming members and they were biased against the small farmers in the provision of cooperative loans. The Rural Credit Survey (1954) and the All India Rural Credit Review Committee Report (1969) and various other studies have established that the management affairs in societies were controlled by influential members and the big landlords, who generally were least interested in the welfare of the weaker members. They were only interested in improving their own economic status by taking maximum advantage of cheap credit channelled by societies towards themselves.[43]

So not only was the credit insufficient, but its allocation was determined by the members of the management committee in a way that resulted in only the better-off members (and the management itself) obtaining the advantage of cheap credit. These findings are in conformity with the results established in respect of credit societies in the Pakistan Punjab. It was established in Chapter Five that many members of management committees of societies took undue advantage of the interest-free loans by forgery or other illegal means. It may thus seem that the cheap credit provided by the governments in the two Punjabs was primarily annexed by large farmers. Chaudhri and Dasgupta have established that in the Indian Punjab the large farmers benefited from the cheap cooperative credit with average nominal rates of interest of about 9-10 percent, in a situation where the inflation rate was about 10 percent, much more than the small farmers.[44]

As has been noted in Chapter Five, the success of cooperatives depends not only on the quality of their management, as also on the alertness of their members and the pressure they can exert on the committee of management to conduct cooperative affairs efficiently. This in turn calls for an awareness amongst members of their rights and obligations, as well as the responsiveness and competence of management committees. The bulk of cooperative membership in the Indian Punjab like that in the Pakistan Punjab were ignorant of their responsibilities. At the same time office bearers did not acquire the requisite skill and facilities required for exercising proper control. The management committee members were not adequately aware of the methods required to run a cooperative on business-like lines.

The Punjab cooperative union in the Indian Punjab was responsible for imparting the necessary education and training to prospective cooperators. The union performed this role by publishing material on cooperation and by organizing courses for members of management committees. This was done with the assistance of cooperative education instructors who provided training to the management committee members and ordinary members on a voluntary basis. The attendance at these courses was also voluntary. It was noted that in relation to total membership of the primary societies in the state, members education was not extensively organized at the local level as to have any significant impact on the working of the societies. Continued mounting overdues are conclusive evidence of this failure. The programmes for improving effective coverage for increased lending and for functional diversification could only achieve the desired results if members, existing and prospective, were adequately enlightened as to their obligations and office bearers made to realize their responsibilities.[45]

The management affairs of cooperative credit societies in the Indian Punjab were generally undertaken by a committee of members elected from amongst the general body of the societies. The general body of the society delegated powers to the elected members (Management Committee) to perform one or more of such functions; to formulate policies and programmes to develop business of societies; implement various schemes for the welfare of members, as approved by the General Body; appoint, control, promote, demote, suspend or dismiss staff; maintain up-to-date accounts; a register of members and other official records; arrange for collection of funds; advance loans, check their use and ensure their effective recovery. The managing committee is comprised of five members, but usually a president, secretary and the treasurer look after the management affairs in societies.

The Department of Cooperation, Government of the Indian Punjab supervises overall working of societies and ensures that affairs in societies are dealt with in accordance with the bye-laws and statues of cooperative credit societies Act. The department deputes an inspector and/or sub-inspector to visit societies, who has to cover an area of 20 to 30 villages to audit and inspect cooperatives and to provide necessary help and guidance to members of the management committee to ensure proper functioning of societies.

The research findings from the Indian Punjab have established that cooperative credit societies were by and large controlled by people who enjoyed higher social status in their villages and belonged to upper castes. Most of the managing committee members enjoyed a better economic position in terms of landholdings. Most amongst them were illiterate. Leadership of credit societies in the state remained in the hands of persons who commanded influence amongst fellow members for a variety of reasons. The study undertaken by Sidhu and Sidhu (1984)[46] yielded very interesting results. They concluded that the proportion of relatively large sized farmers in the management committees of successful credit societies in the Indian Punjab typically was some 33 percent whereas in the case of unsuccessful societies it was around 60 percent. This could be taken to mean that the greater presence of large farmers in the management committees of societies determined their failure!

The same study established that between 28 and 42 percent of members of the management committee of successful and unsuccessful societies respectively were also the members of other committees constituted by the government for the welfare of villagers, and by virtue of their better positions in the village were able to take undue advantage of credit facilities.

The control of societies by the better off rural elites/large farmers undermined the democratic spirit in the decision making process. Many cooperatives were criticised for their only nominal adherence to democratic practices in cooperative operations. This was particularly true since cooperatives in the Indian Punjab were characterised by their big-farmer bias and domination by vested interests. While the model by-laws of societies framed by the Reserve Bank of India and commended to the Punjab government provided that the policies and programmes of the societies should be decided with the consent and participation of all members on a democratic basis, such guide-lines were often ignored. Thus all decisions pertaining to the operation of societies were taken by the few influential members of the management committees of the societies, without having any regard to members views on the subject.[47]

The need for prompt and systematic audit of cooperatives cannot be over-emphasized, but that generates the need for an agency which can undertake this task and ensure the quality of the audit. The Department of Cooperatives in the state has been entrusted with the task of audit of societies. However the existing machinery for the audit of societies was short of well-trained and experienced staff. As a result there was generally considerable delay in the audit of societies and many societies were left unaudited for even two years or more.

A Survey undertaken by the Economic and Statistical Organization in Punjab in 1976[48] found that inspection of sampled societies was very infrequent at the levels of Assistant Registrar and Deputy Registrar, whereas typically an inspector actually handled from 24 to 33 societies annually during the period under study. Ideally the number handleld by the inspector should have been longer. Lack of proper inspection resulted in reduced performance of various functions of societies particularly in the recovery of outstanding loans from members. Out of 42 societies, only 18 were audited by the staff of the cooperative department at the time of Survey.

The laxity shown by the departmental staff in the audit and inspection of societies was in part attributed to lack of proper knowledge of the concerned staff, the absence of proper facilities such as transportation and the large area of operation under the control of one person. At the same time, mismanagement of the record books and entry of wrong figures in registers made proper audit extremely difficult for the staff concerned.

6.II <u>Effectiveness of Cooperatives as an Instrument of Development</u>

The introduction of the cooperative movement to the Indian Punjab was conceived as one of the important instruments for the economic, social and cultural development of the peasants. The cooperatives were consciously established to improve the socio-economic conditions of the poorer members of society by encouraging their spirit of initiative, increasing their personal and national capital resources by the encouragement of thrift, by eliminating usury through the sound use of credit and contributing an increased measure of democratic control of economic activity and of equitable distribution of cooperative services.

The above objectives of the movement are very broad; in their limited references to the cooperative credit system the official policy statements have stressed a specific role for cooperatives as agents of rural development. In this regard it is pertinent to quote from the CRAFICARD report which observed:

> "Our objective is to support integrated rural development with the necessary credit from the institutional sector. It is the national policy that while striving for this objective, the approach should be to ensure growth with social justice. This means that credit should be sufficiently wide-spread as to cover the poorer sections of the population. These sections have so far not got a fair deal in the matter of credit. Often, they have not been considered a reasonable risk for institutional credit, despite the exhortation of the All India Rural Credit Survey Committee, 1954 (AIRCS) more than two decades ago, that the cooperative system should

> accept the concept of credit worthy purposes. In recent years, modern technology has shown that many families earlier considered credit risks can be effectively brought into the pool of credit worthy families through a judicious use of credit for improvement".[49]

Although the emphasis of various committees has been laid on development-oriented lending, the experience in the Indian Punjab suggests that cooperatives and other credit agencies have nonetheless demonstrated certain basic shortcomings viz, an emphasis on the credit worthiness of borrowers instead of credit-worthiness of purposes for which loans are required; ad hoc or fragmented lending to individuals without a project or area-based approach to lending; an absence of a much-needed bias in favour of small farmers and other weaker groups whose need for credit is greater and more urgent. The cooperatives, which had an earlier start in the provision of credit, have tended to go the way of private commercial banks with the result that social priority purposes, needy groups of borrowers and backward areas have been neglected. The lending operations of cooperatives, like those of the commercial banks, have tended by and large to become only money-lending, lacking satisfactory organizational, procedural and operational arrangements for planned and systematic dovetailing with the overall national development policies and objectives.[50]

In assessing the role of the cooperative movement in terms of the economic and social development of the peasants, we pose two questions. First, how important were cooperatives to the spread of credit and the use of improved farm inputs? Second, how equitable was the distribution of cooperative services? Our general conclusions can be briefly stated at the out-set. First, the local institutional structure in the Indian Punjab had little impact on the spread of credit and other improved farm inputs. Second, cooperatives were highly inequitable in respect of their intended objective of delivering credit to the smaller farmer. The following analysis is based on sufficient evidence to establish that cooperatives were controlled by elites, and that the actual performance of the institution is consistent with a class-bias explanation.[51]

In this regard, the report of the All India Rural Credit Review Committee (1969) observed

> "there are a number of instances in which small cultivators are denied credit even when the amount is within their repaying capacity. A variety of factors account for this. The most important of these is the traditionally conservative approach of the influential and better-off sections of cultivators who dominate the cooperative and run it as a closed shop. Prejudice and indifference towards the small man - sometimes based on caste or other sociological factors - also account for this attitude of exclusiveness".[52]

The exclusiveness towards the poor sections in respect of cooperatives' provisions is not the only cause of inefficient working of the cooperatives, but the structural deficiencies in the institution of cooperatives have set limits to the successful implementation of the policies of credit and input provision to the under-privileged sections of the farming community.

Before proceeding further we pose two more questions. First, were cooperatives in the Indian Punjab capable of running their affairs independently without any direct government involvement? Second, did cooperatives have any significant impact on structural transformation of the community wherein they (the cooperatives) were established? As to the first question, cooperatives have continued to rely crucially on government's financial aid as well as on the administrative support; Punjab's cooperatives are rural institutions which permit collective action by the more progressive farmers and which mediate between these farmers and the government. From the perspective of the government, the cooperatives permit the administration to influence or regulate farmers' behaviour by non-market mechanisms. The advantage of this device is that it permits the administration to target benefits and regulatory policy on that group of farmers, large or small, who contribute most to the government's development goals. Although the mechanism at work seems to have been partly successful in accomplishing the government's purposes, this policy has resulted in the violation of the ideals of complete autonomy and democracy within cooperative operations. The issue of government involvement and cooperative independence is, however, debatable, since one can argue that without government patronage and financial support, it would be unlikely for the movement to survive in the state.[53]

As to the second question, the impact of cooperatives on structural change within the communities in which they operate, achievements in respect of greater socio-economic equalization and relief of mass poverty have fallen far short of the goals set out in the policy statements of the government. However, politicisation of the cooperative movement in the Indian Punjab has produced a group of aspiring local politicians who have used cooperatives to further their political careers. These politicians are able to gain political support by servicing farmers needs for inputs, credit and for pressure to be put on the government. The combined effect of the subsidized credit which the cooperatives have provided and the political brokerage role played by the cooperative leadership in the face of onerous government regulations is probably enough to explain farmers' continued support for the cooperative system in the state.[54]

Let us now turn to assess the general impact of cooperatives on the development of the agricultural sector in the Indian Punjab, compared with the Pakistan Punjab. This role of cooperatives can be studied by analysing the performance of the cooperative credit movement in the spread of improved farm technology (eg improved seed, chemical fertilizers and pesticides etc.). The new farm technology evolved in the 1960s was generally technically appropriate to the farming conditions in the two Punjabs. Nevertheless it is difficult to conclude that the cooperatives made any significant contribution to its initial spread. According to some observers the key constraints on the spread of improved technology did not appear to be institutional. Firstly it has been argued that the spread of new seeds and the concomitant increase in chemical fertilizer use were associated primarily with the availability of good irrigation systems in the two Punjabs. Secondly, as could be anticipated profitability appeared to be an important factor in the adoption of new technology in the two Punjabs. However, profitability may not have been seriously influenced by cooperatives in the green revolution wheat areas in both the Punjabs. Higher market price levels, fertilizer imports and distribution policies, rural electrification and regulated markets were some of the other major factors influencing profitability, not the cooperatives. In the Indian Punjab, price levels were indeed substantially influenced by the procurement activities of the cooperatives, undertaken on behalf of the government which virtually monopolized the wholesale grain trade within the state. The procurement prices were revised upward to a considerable extent in the face of rising production costs and increasing requirements for larger public services in both the Punjabs, but the cooperatives were only acting as government procurement agents, and only stabilized grain prices for the farmers in the Indian Punjab. This function became particularly significant in the 1970s as gluts appeared in the state market constricted by restrictions on grain export on government account. Between 1967-68 and 1971-72, for example, government procurement of wheat (on both national and state account) ranged between 30 and 50 percent of total production. In the 1960s, however, free market prices were generally higher than those received from the cooperatives in the Indian Punjab. Moreover, the government's ability to procure was less a result of the price incentives offered the farmer than of the physical restrictions on grain movement outside the Punjab.

The two Punjabs have been active in promoting the use of a system which linked the supply of subsidized fertilizer on credit with an approved pack of farm practices and seed. Cooperatives in both the Indian Punjab and Pakistan Punjab were employed by their respective Agriculture Departments as an integral part of the general extension effort and as an instrument of government agricultural policy. The cooperative institutions were thus assigned a key role in the programme for disseminating new technology in both the Punjabs. However, a number of studies undertaken in the Indian Punjab indicate little difference in terms of profit, cropping patterns or input use between those who obtained credit and fertilizer from cooperatives and those who depended directly on the markets. A study by Khalon and Sankayan[55] has established that in the area of study the system of fertilizer had no effect on production whatsoever at the farmers level. This result had an important implication that the cooperative societies and private agencies supplied the same fertilizers to the farmers which did not differ with respect to quality, weightment, adequacy and timely availability, all taken together. Almost similar findings were reported regarding the use of the technical package of inputs. It might be expected that the technical services provided might have given an advantage to cooperative members. It appears, however, that the package was not the most profitable combination of inputs and was commonly ignored by the farmers. Indeed, with the exception of highly favoured areas in both the regions technical advice was often poor and ignored by farmers.[56]

Thus, although cooperatives played a major role in fertilizer distribution in both the Punjabs at least during the mid 1960s and in subsequent years, it was probably not the local distribution system that affected the access of farmers to inputs, but the allocation of fertilizer within the federal system of both India and Pakistan. It was this which created localized conditions of plenty and scarcity. Thus the farmers were more likely to have difficulty getting fertilizer in areas in both India and Pakistan which had low priority in national allocations than in major hybrid wheat growing areas in both the Punjabs which were assured of ample supplies.

The spread of hybrid wheat and/or chemical fertilizer use depended much more on the new technology of irrigation. Thus public or private investment in water control was an important factor in the spread of new varieties and use of chemical fertilizer. The fertilizer use in both the Punjabs increased in areas which already had the highest usage before the green revolution - reflecting previous rural investment and commercialization. In both the Punjabs, however, access to irrigation water was widespread by the mid 1960s and rural families with higher incomes were very aware of the need to make the transition to their new technology.

The widespread access to irrigation water in the Pakistan Punjab was the result of an enhanced supply of water from an effective canal network system and improved 'On-Farm Water Management Programme' undertaken by the Department of Agriculture and the Water and Power Development Authority (WAPDA) throughout the country. In addition, heavy public investment in the installation of tubewells and subsidy granted to farmers for the installation of private tubewells were some of the other factors for enhancing supplies of irrigation water. In the Indian Punjab, on the other hand, widespread access to irrigation water was attributed to the lending activities of rural institutions, particularly the Land Development Banks. Randhawa pointed out that from its inception in 1958, the Punjab State Land Development Bank made increasingly significant contributions to the financing of tubewell installation. In 1965-66, the level of lending for tubewells was only Rs 5.4 million. By 1970-71 total annual lending for tubewells was Rs 95.18 million.[57] Additional loans funds for tubewells were provided during the period from the Agricultural Re-finance Corporation.

Thus during the key years i.e., 1965-69, when new varieties were becoming established, public lending for tubewells represented the major share of the cost of installed wells in the Indian Punjab, and private credit for tubewells expanded only in the mid 1960s when lending was competitive and credit was in ample supply. This situation helped to establish new varieties by improving water control on the farm, and it also helped the smaller farmer who benefited from an improved supply of credit at lower rates.

In short, the role played by the cooperatives in the spread of the use of seed of high yielding varieties and chemical fertilizers was of some significance in both the Punjabs. But the expansion of intermediate-term credit and its intimate relationship with tubewell installation for increased supplies of water was the major factor for the success of green revolution technology in the Indian Punjab.

Even if it is assumed that the cooperatives were not the critical factor in explaining the initial spread of green revolution in the mid 1960s, it is still possible, as the critics suggest,[58] that they contributed to the inequitable pattern of the benefits of growth in both the Indian Punjab and the Pakistan Punjab. It may well be the case that cooperatives in both the Punjabs were the major factor inhibiting the delivery of benefits to the poor member farmers. We have argued that access to the components of new technology (eg chemical fertilizers) for members of societies was highly skewed in favour of large and better-off farmers, and that the operation of and decision-making in societies was very much influenced by better-off members who enjoyed control of cooperative operations. Several studies undertaken in both the Punjabs[59] point to the dominance of better-off members in the management affairs of societies and the conclusion that they misappropriated cooperative services themselves. Cooperative credit was subsidized below the market prices, and thus an incentive existed for the politically more influential farmers to gain control in societies in order to receive a major share of subsidized credit. The original purpose of cooperatives in both the Punjabs was not only to supply production credit to meet the needs of members, but also to serve as a welfare agency for the under-privileged sections of the village community. Credit was certainly provided, but, cooperatives as a means to bring about socio-economic equalization failed more or less in both the Punjabs.

The cooperatives supposedly specialized in production credit but they were incapable of devising means of eliminating non-productive use of cooperative credit. The provision of loans under 'crop loan system' and 'loan in kind', were generally not successful in preventing the abuse of credit in either of the Punjabs. A number of field studies undertaken in India and Pakistan[60] confirm that loans borrowed by members in societies were diverted to non-productive purposes.

We may thus conclude in the light of the available evidence that cooperatives in both the Punjabs have had an uncorrectable bias against the small farmers. The inequitable distribution of cooperative credit was the result of elite control, cooperatives' lending programmes and inefficiency of societies in the form of failure to adhere strictly to lending and recovery procedures.

6.III A Summary of the Major Problems of Cooperatives

As has been noted earlier the working of cooperatives in both the Indian Punjab, and the Pakistan Punjab was inhibited by structural and operational deficiencies in the cooperative system inherited from the colonialist regime traced earlier in chapter 4. Some of the major problems in this regard are now summarized.

Non-institutional credit has predominated in the rural credit market in the two Punjabs, though in the Indian Punjab there has generally been a greater tendency to give emphasis to the provision of institutional credit. Cooperative credit has however received significant attention from the governments in the two Punjabs in recent years. Despite extensive provision of cooperative credit the coverage attained by the credit movement has generally remained small in the Pakistan Punjab. In contrast, the movement in the Indian Punjab has embraced almost 100 percent of the farming population in its membership. Though it is difficult to establish if the movement has in fact been able to benefit all the membership in societies in the Indian Punjab. However without the volume of credit available to the movement in the two Punjabs, the number of loan beneficiaries provided with adequate credit would have been much smaller. Where there is insufficient provision of cooperative credit (as well as other institutional credit), members have continued to rely on non-institutional sources.

There are significant differences in the cooperative structure in the two Punjabs. As against the three-tier Indian cooperative structure, there is a two tier cooperative structure in the Pakistan Punjab. Again, the movement in the Indian Punjab has dispensed short, medium and long term credit. While in the Pakistan Punjab the movement has undertaken the role of disbursing seasonal agricultural loans in 'kind'. Furthermore, there is a separate cooperative structure for the distribution of long-term cooperative credit in the Indian Punjab.

At the secondary level of the movement, central cooperative banks have been established in the Indian Punjab, while the central Cooperative Banks have ceased to work in the Pakistan Punjab, after 1976. The absence of central cooperative banks in the Pakistan Punjab makes it very difficult for the primary agricultural credit societies to maintain a close working relationship with the apex cooperative bank, while the Punjab Cooperative Bank in the Pakistan Punjab has found it very difficult to supervise the end use of credit advanced by it to the primary societies.

At the base level most of the primary societies in the Pakistan Punjab were of a small-size compared with large-sized primary cooperatives in the Indian Punjab. In both Punjabs these societies have dispensed short-term seasonal credit, but the credit societies in the Indian Punjab have also advanced medium-term credit, although loanable funds are generally inadequate. The credit societies in the Pakistan Punjab disburse only seasonal loans in kind (eg fertilizer, improved seed and pesticides). The credit societies in the Indian Punjab on the other hand have advanced a major share of short-term loans in the form of chemical fertilizers.

There has been considerable emphasis placed on the rehabilitation of the credit movement in both Punjabs, especially during the latter half of the 1970s. A considerable increase in the formation of new societies in the Pakistan Punjab took place after 1978. In comparison, the number of societies in the Indian Punjab has declined significantly following the implementation of the rehabilitation measures. Most credit societies in the Pakistan Punjab were found to be non-viable and bogus undertakings. It is however not known if the primary units in the Indian Punjab operated as viable large units after the reorganization of the credit movement in the late 1970s.

The owned funds of credit societies in the two Punjabs generally remained limited; deposits were small or negligible and borrowings from the Cooperative Banks formed the main source of working capital of the societies. Similarly amounts loaned to individual members remained small in relation to their credit needs. The security requirements, especially in the Indian Punjab, were unduly restrictive and lending procedures were generally cumbersome. The proportion of borrowing members generally remained small, when judged from the viewpoint of the maximum credit limit in the Pakistan Punjab. Average loans granted to members from the credit societies in the Indian Punjab also remained small in amount. Most loans granted by societies in the two Punjabs went to the better-off large farmers who generally controlled cooperative affairs in the two Punjabs.

The end use of cooperative loans was not closely supervised, and many loans granted by societies were reported to have diverted to consumption purposes and/or 'unspecified' 'non productive' uses. Medium-term loans granted by societies in the Indian Punjab, as also the provision of long-term cooperative credit remained inadequate. The problem, again was the misutilization and diversion of these loanable funds.

The provision of cooperative credit in both Punjabs was not supported in an integrated manner, by advice or improved know-how, supply of needed agricultural requisites and arrangements for the marketing of crops.

The volume of overdue loans and the proportion they formed of the loan outstanding at the primary, secondary and apex levels tended to increase throughout the whole period, 1947-80 in the Indian Punjab. On the other hand, recovery of loans from members in societies in the Pakistan Punjab was made effective following the introduction of cost-free lending policy of the government in the late 1970s. The experience of the Pakistan Punjab in the late 1970s, in terms of loan disbursement and its recovery from the members, was quite different when compared with that of the Indian Punjab.

Owing to limited range of activities, and relatively small turnover of business, the credit societies did not employ trained or experienced managers to run their affairs. Often the societies in the two Punjabs depended on the honorary services provided by the better-off rural elites/large farmers, who in turn enjoyed complete control of societies. They did not necessarily acquire training and experience to manage cooperative affairs. Consequently many of the societies in both Punjabs were not managed effectively. Another associated problem with the managerial affairs in societies was that the management committees often restricted the entry of new members in order to take an undue advantage of the services provided by societies for themselves and for the existing members by illegal means. Most members of societies did not participate in the decision-making process of societies. In addition representation was not granted to the weaker members in cooperative's management affairs.

The Department of Cooperation in both Punjabs was generally incapable of undertaking their statutory functions satisfactorily. Lack of supervision, infrequent audit and inspection, but extensive control of the movement were the distinguishing features of the departments in both Punjabs. In addition the staff concerned with the promotion and supervision of the movement at the base level has been inadequate, often low-paid and generally incompetent to take up the gigantic task. The non-governmental organizations such as the Punjab Cooperative Unions in the two Punjabs, entrusted with the role of imparting training to the members of societies and to also promote the cause of the movement, have been found to be incapable of performing their task satisfactorily, primarily due to shortage of adequate staff and requisite financial resources.

At the secondary and apex level of the financial structure, the cooperative movement leaves much to be desired. The central cooperative banks have been incapable of mobilizing their own funds and are largely dependent on the apex cooperative bank in the Indian Punjab. They reflect weaknesses viz unsatisfactory management, increase in overdue loans and financial losses. And these weaknesses at times have been aggravated by weaknesses at the apex cooperative banks.

Three major points concerning the apex cooperative banks in both Punjabs may be noted. Firstly, the role of these banks in the financing of cooperatives is quite significant. However, for fulfilling their financing operations, these banks depend on government funds, normally released by the countries' central banks to both Punjabs. Secondly, the percentage of overdue loans in these apex banks has sharply increased over the years. In the Pakistan Punjab, however the percentage of outstanding loans declined considerably after 1978 mainly due to effective repayment of loans from primary societies.

Thirdly, a large part of the funds released by the apex cooperative banks has been provided for financing seasonal crop production credit needs. The demand for medium term loans has increased, but the funds made available to the societies, by the apex cooperative bank in the Indian Punjab have not been sufficient to meet the medium-term credit needs of their members.

The general role of cooperatives in the spread of improved farm inputs to the smaller farmer members in societies in the two Punjabs has been limited. The cooperatives are biased against the subsistence farmers, as societies are in the control of better-off farmer members, who in turn discriminate in the provision of credit and other improved farm inputs to the small farmers. The fact that as a result many large farmers have access to seed, fertilizer, credit and also to irrigation water could then wrongly be interpreted as the employment of a technology inapplicable to small farmers. Critics on the other hand suggest that there has not been much significant difference in the output per unit area of cooperative members, compared with the non-members, particularly in areas which have wider access to improved farm inputs with an assured supply of irrigation water. The Land Development Banks in the Indian Punjab have shown some good progress in the financing of tubewell installation. An enhanced supply of water in many areas in the Indian Punjab has been attributed to the generous grants made by the bank for the installation of tubewells, which in turn has increased the supply of irrigation water, and this to a greater extent has facilitated an effective use of improved seed and fertilizers provided by the credit societies.

In short, we may note that despite many shortcomings inherent in the structure and organization of cooperatives in the two Punjabs, the credit movement in the two Punjabs has made some progress in terms of enrolment of membership, as also in the provision of credit. The policy of interest-free lending introduced by the Pakistan Punjab in the late 1970s and adopted by the societies is worth mentioning in this regard. This policy has resulted in almost 100 percent recovery of loans from members in societies. This is significantly different from the experience of the cooperative credit movement in the Indian Punjab. As such, there has been an essential difference in the evolution of the cooperative credit movement in the two Punjabs, after the mid 1970s. The experience of cooperative credit societies in lending cost-free credit and making 100 percent recovery from members possible would perhaps find no comparison with the cooperative credit movement in the Indian Punjab as also with the experience of credit movements in many other developing countries of the world.

A case study was undertaken by the author to evaluate the performance of cooperative credit societies in a selected region in the Pakistan Punjab, following the adoption of the cost-free lending policy of the government. The findings of the case study are reported in the following Chapter.

6.IV Conclusions

Both in conception and practice cooperatives in the Indian Punjab as in the Pakistan Punjab have been an important component of the government's development policy. The model was conceived as a 'multipurpose unit' aimed at serving its members by supplying credit, improved farm inputs, storage facilities, marketing assistance etc. In practice, however the major function has remained the provision of credit and the improved farm inputs. As the bulk of resources have been supplied by the government, cooperatives are as much an agent of government administration, as a voluntary organization.

Cooperatives have been in an ambiguous position. They have been expected to promote the interests of small farmers and other weaker segments of rural society. The potency of cooperatives of poor farmers to assert group interests has remained limited, due to the strength of political-cum landholding/commercial groups inside the membership and inability of local cooperative officials to stand up to them when the government is indifferent. Further as a community institution entrusted with a role to promote welfare of members in a village, cooperatives have achieved little success.

Even from the narrow perspective of their role as a vehicle for channelling government funds cooperatives have been more active in distributing loans than in collecting them when due. The local elites who control societies have appropriated funds, supplied by the government, with no intention of repaying and making the society work.

The cooperatives have not undertaken the promotional task which the development administration desired them to accept as part of their service to the community. These activities required them to expand membership and encourage the extension of credit to all sections of the rural community. However little information and resources have trickled down to the poor farmers, though richer farmers were progressive in seeking their own advantages.

The cooperatives form not only a part of governments' development efforts, but undoubtedly because of this they are an integral part of the pattern of local level politics. And what we have in the Punjab cooperatives are rural institutions which permit collective action by the more progressive farmers and which mediate between these farmers and the government. From the perspective of the government, the cooperatives permit the administration to influence or regulate farmers behaviour by non-market mechanisms. The advantage of this device is that it permits the administration to target benefits and regulatory policy on that group of farmers, large or small, who contribute most to governments development goals - those who adopt improved technology. Nevertheless, cooperatives seem to have been less successful in accomplishing the governments' stated purposes, as the strategy has produced dissemination of benefits generally only to the most privileged sections of the rural society.

We now examine the results of a case study undertaken to evaluate the performance of credit societies in a region in the Pakistan Punjab.

Notes to Chapter 6

1. It may be noted that loans advanced by three-tier and two-tier cooperative structures in the Indian Punjab are classified as short-term (up to one year), medium-term (one to five years) and long-term (exceeding five years) for most defined specified productive purposes. The repayment schedule depends on the purpose for which a loan has been advanced. For instance, assume that a loan granted for short-term purposes shall be repaid by a member at the end of the year, or after the harvest of the crop. Then, if the loan is not repaid within the appointed period, the loan due to a member stands 'outstanding' against him until the new loan for the next year (or crop season) is issued; thereafter the 'old loan', if still not repaid, is classified as an 'overdue loan'. In reality the borrower is permitted an additional period of time in which to repay, thereby altering the relationship between outstanding and overdue loans. The particular period of time allowed to a society and the other cooperative institutions (e.g. Central Cooperative Banks, Punjab Cooperative Bank, Primary Land Development Banks and the State Land Development Bank) in which to ensure repayment of the loan is actually specified, but information on this was not available. Thus it is not a straightforward matter to relate short-term repayment to long-term accumulation of overdues. For the working of the Punjab Cooperative Bank see for instance Gill, M.S. (1983), chapter 5; also see Reserve Bank of India CRAFICARD Report (1981). Punjab Cooperative Union, Achievements of the Punjabs Cooperatives at a Glance through statistical data (1982), p12.

2. For the working of Central Cooperative Banks see Gill, M.S. (1983) chapters 5 & 6; Reserve Bank of India CRAFICARD Report (1981); For the statistical data on the Bank's working see Punjab Cooperative Union, Achievement of Punjabs Cooperatives (1982) pp13-15; Rao, M.K. (1976) pp207-21.

3. For the working of Punjab Land Development Banks see Singh, N. (1982); chapters 3 & 4; Rao, M.K. (1976) pp207-21; Singh, B. (1982) pp13-18.

4. See Singh, N. (1982) pp71-73; Randhawa, M.S. (1984) pp16-23.

5. See for instance Chaudhri and Dasgupta (1985) pp56-57.

6. See Reserve Bank of India CRAFICARD Report (1981), chapter 2.

7. See Singh, G. (1972) pp27-33.

8. See Chaudhri & Dasgupta (1985) pp99-102.

9. See Gill, M.S. (1983) pp157-59.

10. See Reserve Bank of India CRAFICARD Report (1981) pp40-41.

11. See Economic and Statistical organization Report on the Survey of utilization of cooperative loan (1971); p4 (summary of findings).

12. See Reserve Bank of India CRAFICARD Report (1981), pp45-47.

13. See Sidhu, J.S. and Sidhu, D.S. (1984) pp382-91.

14. See Chaudhri & Dasgupta (1985) pp56-57; also see Punjab Cooperative Union Achievements of Punjab Cooperatives (1982) p5.

15. See Sidhu, J.S. (1980) pp39-43.

16. See Reserve Bank of India All India Rural Credit Review Committee Report (1969) p174.

17. See Economic and Statistical organization (1976) p23.

18. See Singh, G. (1967) p38.

19. See Economic and Statistical organization (1971) pp5-7; Economic and Statistical organization (1976) pp27-28 (summary); Reserve Bank of India Rural Credit Follow up Survey (1961) pp235-42.

20. See Reserve Bank of India CRAFICARD Report (1981) pp101-5.

21. See Economic and Statistical organization (1971) p16.

22. See Economic and Statistical organisation (1976) p26.

23. See Singh, G. (1972) pp51-69.

24. See Sidhu, J.S. & Sidhu, D.S. (1984) pp382-91; also see Singh, I. (1982) p5-8.

25. See Gill, M.S. (1983) pp89-91.

26. See Sidhu, J.S. (1980); Singh, B. (1982).

27. See Sidhu, J.S. & Sidhu, D.S. (1984) pp383-91; also see Singh, B. (1982).

28. Many more studies undertaken in the Indian Punjab established that recovery of loans from members in societies remained poor. See for instance Singh, B. (1982); Sidhu, J.S. (1980); Sidhu, J.S. & Sidhu, D.S. (1984); Singh, G. (1967); also see Gill, M.S. (1983) chapters 3 & 4.

29. See Sidhu, J.S. (1980) pp78-81.

30. See for instance Sidhu, J.S. (1980); Singh, B. (1982), Singh, G. (1967); also see Economic and Statistical organization (1971); Economic and statistical organization (1976).

31. See Gill, M.S. (1983); chapters 5 & 6.

32. See Singh, B. (1982) Chapter 3.

33. See for instance Reserve Bank of India CRAFICARD Report (1981); Reserve Bank of India All India Rural Credit Survey (1954); Agarwal, A.N. (1981); Reserve Bank of India All India Rural Credit Review Committee Report (1969); also see Lambert, P. (1963).

34. See Gill, M.S. (1983) chapters 5 & 6.

35. See Myrdal, G. (1968) p1338.

36. See National Council for Applied Economic Research, credit requirements for agriculture (1974).

37. See Reserve Bank of India Rural credit follow-up Survey (1961) pp239-40.

38. See National Council of Applied Economic Research (1974); p100.

39. See National Council of Applied Economic Research (1972) pp32-35.

40. See National Council for Applied Economic Research (1974) p33.

41. See Economic and Statistical organization (1971) pp4-5 (summary of findings).

42. Ibid, p5.

43. See Reserve Bank of India Rural Credit Survey (1954); Reserve Bank of India All India Rural Credit Review Committee Report (1969); Reserve Bank of India Rural Credit Follow-up Survey (1961) pp237-38; Reserve Bank of India CRAFICARD Report (1981) pp291-230; also see Gill, M.S. (1983) chapters 6 & 7.

44. See Chaudhri & Dasgupta (1985) pp56-57.

45. See Economic and Statistical organization (1971) pp4-6 (summary); Economic and Statistical organization (1976) pp25-28 (summary).

46. See Sidhu, J.S. & Sidhu, D.S. (1984) pp383-91.

47. See for instance Economic and Statistical organization (1971) pp3-4 (summary); Reserve Bank of India All India Rural Credit Review Committee Report (1969) pp573; Singh, J. (1982) pp113-14.

48. See Economic and Statistical organization (1976), p27.

49. See Reserve Bank of India CRAFICARD Report (1981) p10.

50. See Gill, M.S. (1983) chapters 5 & 6.

51. See for instance Thorner, D. (1964); chapter 1, Singh, G. (1972).

52. See Reserve Bank of India All India Rural Credit Review Committee Report (1969) p573.

53. See for instance Kuldarni, K.R. (1962); Reserve Bank of India CRAFICARD Report (1981); Gill, M.S. (1983).

54. Ibid.

55. See Kahlon and Sankhayan (1974).

56. The major problem in this respect rested with the staff of the Department of Agriculture Extension in the two Punjabs. The field staff did not have the acquired requisite training. In addition, the staff lacked coordination with the officials of the Department of Cooperation. The farmers in both the Punjabs did not generally listen to the advice rendered by the extension staff. See for instance Kahlon, A.S. (1970); Kadri, A. (1981)

57. See National Council of Applied Economic Research (1974) p89, Table 43.

58. This has already been dealt with before, see for instance Note 35-38 above.

59. See for instance Khan, M.A. (1971); Economic and Statistical organization (1976).

60. See for instance Gill, M.S. (1983); Khan, M.A. (1971); Khan, M.A. et al (1973); Sidhu, B. (1982).

TABLES - CHAPTER 6

Table 6.1 Working of the Punjab Cooperative Bank in the Indian Punjab

(Rs million)

Year	Working Capital	Owned funds	Deposits held	Loans advanced	Loans recovered	Loans overdue
1966	178.06	20.50	50.29	160.85	195.50	134.69
1970	380.05	68.17	151.64	1006.31	1060.31	269.78
1975	650.53	99.76	443.76	1773.98	1819.66	313.32
1980	1623.69	157.57	938.63	3602.51	2956.52	1169.37

Table 6.2 Working of Central Cooperative Banks in the Indian Punjab

Year	Working Capital	Owned funds	Deposits	Loans advanced (Rs million)	Loans outstand-ing (Rs million)	Loans overdue (Rs million)
1966	323.35	49.46	135.56	273.18	234.51	26.96
1970	768.51	167.02	387.46	1006.52	471.81	275.87
1975	1286.04	277.20	791.14	969.41	609.16	424.35
1980	3055.74	428.83	1456.08	3565.93	1751.89	394.94

Source: Punjab Cooperative Union (1982)

Table 6.3 Working of the Punjab Land Development Bank in the Indian Punjab
(Rs Million)

Year	Working capital	Owned funds	Loans advanced	Loans outstanding
1966	55.16	5.35	15.75	43.71
1970	569.98	29.17	180.07	468.49
1975	1172.57	65.32	145.68	625.70
1980	1725.84	142.44	360.15	1081.04

Table 6.4 Working of the Primary Land Development Banks in the Indian Punjab
(Rs Million)

Year	No. of Banks	Total Membership	Working capital	Owned funds	Loans advanced	Loans outstanding	Loans overdue
1966	25	28554	50.27	5.42	16.45	44.83	0.01
1970	34	114521	512.66	37.81	195.66	476.72	1.76
1975	42	220323	737.97	81.25	169.75	653.73	24.41
1980	44	296973	1232.70	151.93	433.72	109.22	44.92

Source: Punjab Cooperative Union (1982)

Table 6.5 Working of the Primary Agricultural credit and Non-credit Societies in the Indian Punjab

Years	No. of Societies		Membership		Working Capital (Rs million)	
	Credit societies	Non credit societies	Credit societies	Non credit societies	Credit societies	Non credit soci-eties
1966	11064	1325	1282000	76555	368.30	18.26
1967	10954	1369	1349000	78037	476.12	18.63
1968	10931	1359	1407000	79009	612.37	20.02
1969	10923	1363	1446000	81000	727.21	21.58
1970	10932	1363	1464000	80940	765.03	22.52
1971	10931	1368	1482000	83275	831.91	24.20
1972	10935	1372	1528000	84771	927.34	25.41
1973	10932	1395	1559000	86563	941.71	24.97
1974	10938	1396	1596000	88661	1033.56	27.27
1975	10936	1400	1623000	90861	1094.21	31.56
1976	10937	1401	1660000	93756	1182.01	30.74
1977	10942	1402	1682000	95634	1310.52	33.72
1978	4259	1394	1718000	96484	1436.14	37.65
1979	4271	1395	1754000	98697	1871.57	40.68
1980	4266	1396	1784000	100985	2312.43	39.35

Source: Punjab Cooperative Union (1982)

Table 6.6 Institutional credit supply by sources in the Indian Punjab

(In Million Rupees)

	LDB *	PACS **	Taccavi ***	Total
1960-61	-	118.0	-	-
1965-66	17.5	275.5	107.3	400.3
1966-67	16.5	248.9	47.8	313.2
1967-68	50.5	329.5	24.9	404.9
1968-69	153.0	578.1	5.1	716.2
1969-70	178.9	528.1	7.7	714.7
1970-71	195.7	572.7	43.5	811.9
1971-72	-	-	-	-
1972-73	-	620.0	-	-
1973-74	-	590.0	-	-

Notes: * Land Development Bank
** Primary Agricultural Credit Societies
*** Taccavi loans are state loans disbursed through the Revenue Department in the Punjab.

Ordinary commercial banks also advance agricultural credit in the Punjab but they are not dominant sources and data for them are not available.

PACS loans in the Punjab do not include the long-term loans advanced by these cooperative societies.

Source: Chaudhri & Dasgupta (1985).

Table 6.7 Supply of Institutional Credit in Indian Agriculture

(Rs Million)

Credit Institutions	Loans and advances issued during the year ended June 30th					
	1975	1976	1977	1978	1979	1980
1. Cooperatives	10390 (75%)	11870 (71%)	14300 (70%)	14440 (67%)	15600 (60%)	17440 (57%)
a) Short-term	7500	8810	10160	10580	11110	12180
b) Term-loans	2890	3050	4140	3860	4490	5260
2. Government's short-term	770	820	820	980	1190	1530
3. Scheduled Commercial Banks	2740 (20%)	4050 (24%)	5080 (25%)	5590 (26%)	8000 (31%)	1045 (34%)
a) Short-term	1460	2120	2540	2880	3650	4700
b) Term-loans	1280	1920	2540	2810	4350	5750
4. Regional Rural Banks	-	20	160	440	1010	1000
Total:	13900	16750	20370	21550	25800	30420
a) Short-term	9740	11770	13690	14880	16960	19410
b) Term-loans	4170	4980	6680	6680	8840	11010

Source: Reserve Bank of India (1981)

Table 6.8 Distribution of Credit (from all sources) amongst Different Holding Groups in the Indian Punjab

(In Rupees)

Holding size (in acres)	Total credit per acre from all sources	Total credit from Cooperatives	Cooperative credit as percentage of total credit
0--5	275.09	170.45	61.96
5.1--10	188.90	119.67	63.35
10.1--15	181.24	116.66	64.37
15.1--20	154.99	110.41	71.24
20.1--25	94.43	57.11	60.48
25 and above	218.73	121.82	55.69
Total average:	179.54	112.72	62.78

Source: Gurdip Singh (1972)

Table 6.9 Sources of credit and its use in the Indian Punjab 1967-70 (average)

					Source of Credit-Percent			Utilisation - Percent			
Size-Group (acres)	Average size (acres)	No. of holdings	Loan per holding (Rs)	Loan per Acre from State and Coopera-tives (Rs)	States and Coopera-tives	Money Lenders	Others	Purchase of land	Input	Invest-ment	Non Pro duct-tive
<10	6.73	55	336.84	35.35	70.22	20.82	8.96	-	37.40	42.04	20.56
10-<17.5	13.43	63	630.28	33.51	72.56	8.81	18.63	2.17	45.37	45.90	6.56
17.5<25	20.81	65	772.26	33.69	91.07	3.98	4.95	1.58	52.02	35.39	11.01
25 +	35.11	87	1244.32	31.68	89.07	3.08	7.85	4.35	58.62	27.14	9.89
Average	20.87	270	803.48	33.19	85.76	5.42	8.82	2.55	53.44	30.50	13.51

Source: Chaudhri & Dasgupta (1985)

Table 6.10 Data on the Working of Primary Agricultural Credit Societies in the Indian Punjab

Years	No. of Societies	Membership (in '000')	Share capital Rs million	Deposits Rs million	Owned funds Rs million	Working capital Rs million
1947	8419	317	8.76	10.56	31.20	34.31
1950	7157	311	8.89	12.28	28.68	34.44
1955	12359	572	10.53	17.39	42.52	83.88
1956	13144	676	22.59	20.36	59.50	122.00
1957	14344	804	30.09	23.90	73.14	129.86
1958	16823	928	36.28	28.81	74.35	151.74
1959	17107	1128	42.17	35.16	82.38	185.72
1960	18448	1298	48.07	43.21	101.78	210.86
1961	19019	1427	54.99	51.45	118.33	249.56
1962	19389	1556	62.06	58.41	133.24	283.35
1963	19801	1674	70.17	70.84	155.24	335.16
1964	19981	1812	78.65	85.24	179.73	387.90
1966	11064	1282	66.65	90.65	107.42	368.30
1967	10954	1349	76.54	111.38	123.14	476.12
1968	10931	1407	92.41	141.64	146.47	612.37
1969	10923	1446	102.06	145.20	106.80	727.21
1970	10932	1464	112.00	178.68	185.63	765.03
1971	10931	1482	123.03	203.47	208.55	831.91
1972	10935	1528	136.91	204.99	229.76	927.34
1973	10932	1559	147.17	209.60	252.51	941.71
1974	10938	1596	161.98	226.76	276.91	1033.56
1975	10936	1623	124.53	233.88	304.02	1094.21
1976	10937	1660	189.57	232.07	330.68	1182.01
1977	10942	1682	201.39	235.85	405.32	1310.52
1978	4259	1718	253.72	252.86	419.28	1436.14
1979	4271	1754	307.92	246.33	492.15	1871.57
1980	4266	1784	351.74	236.32	564.60	2312.43

Source: Punjab Cooperative Union (1982)

Table 6.11 Lending Business of Primary Agricultural Cooperative Credit Societies in the Indian Punjab

(Rs Million)

Year	Loans advanced	Loans outstanding	Loans overdue	%age of overdues to outstandings
1947	4.58	16.98	5.38	31.68
1950	14.80	22.02	4.48	20.34
1955	42.73	23.32	13.97	59.90
1956	56.56	77.54	17.93	23.12
1957	78.93	99.20	23.98	24.17
1958	86.40	116.28	29.95	25.75
1959	112.93	142.83	37.31	26.12
1960	117.60	161.61	41.62	25.75
1961	149.77	192.35	44.27	23.01
1962	154.36	215.76	56.24	26.06
1963	187.04	255.96	59.88	23.39
1964	215.00	292.06	64.35	22.03
1966	248.86	301.57	54.11	14.60
1967	329.48	339.53	64.96	19.10
1968	619.66	427.94	115.27	26.90
1969	528.14	510.47	199.69	39.00
1970	572.65	519.73	221.35	44.50
1971	613.91	569.13	284.91	47.20
1972	620.22	641.43	361.84	56.00
1973	590.19	635.00	374.57	59.00
1974	781.79	675.40	396.96	58.00
1975	749.75	675.41	399.09	59.00
1976	767.56	757.83	468.55	65.00
1977	873.16	728.74	422.49	58.00
1978	1241.64	761.62	426.30	67.00
1979	1981.16	1102.87	530.95	58.00
1980	1992.06	1462.58	503.33	34.00

Source: a) Gurbachan Singh (1967)
b) Punjab Cooperative Union (1982)

Table 6.12 Lending Business of Primary Agricultural Cooperative Credit Societies in the Indian Punjab

(Rs million)

Year	Loans advanced	Loans recovered	Short-term loans	Medium-term loans	Loans advanced for fertilizer purchase	Total demand for Cooperative loans for (Production purposes)
1966	248.86	185.79	215.19	33.67	54.03	227.61
1967	329.48	291.73	300.54	28.94	108.33	346.35
1968	619.66	531.42	517.14	41.52	248.28	--
1969	528.14	445.58	498.98	29.16	268.30	--
1970	572.65	563.30	532.78	39.87	277.36	--
1971	613.91	564.51	579.03	34.88	287.43	842.70
1972	620.22	547.93	584.49	35.72	320.07	909.80
1973	590.19	596.62	574.82	15.36	353.73	971.20
1974	781.79	741.38	758.14	23.64	583.39	1138.34
1975	749.75	749.75	729.20	20.55	568.59	1148.84
1976	767.56	658.15	734.95	23.61	633.30	1151.30
1977	873.16	902.25	863.98	9.16	716.37	1278.64
1978	1241.64	1208.76	1233.35	8.28	944.14	1627.63
1979	1981.16	1633.91	1972.95	8.20	1544.42	2160.21
1980	1992.06	1632.35	1953.89	38.17	1187.70	2135.68

Source: Punjab Cooperative Union (1982)

Table 6.13 Working of the Primary Agricultural credit societies in the Indian Punjab

(Average per Member)

Years	Working capital (Rupees)	Loan advances (Rupees)	Share capital (Rupees)	Deposits (Rupees)	Owned funds (Rupees)
1947	108.23	14.44	27.63	33.31	98.42
1950	110.73	47.58	28.58	39.48	92.21
1955	146.64	74.70	18.40	30.40	74.33
1956	180.47	83.66	33.41	30.11	88.16
1957	161.51	98.17	37.42	29.72	90.97
1958	163.51	93.10	39.09	31.04	80.11
1959	164.64	100.11	37.38	31.17	73.03
1960	131.95	90.60	37.03	33.28	78.41
1961	174.88	104.95	38.53	36.05	82.92
1962	182.10	99.20	39.88	37.53	85.62
1963	200.21	111.73	41.91	42.31	92.73
1964	214.07	118.65	43.40	47.04	99.18
1966	287.28	194.11	51.90	70.70	83.79
1967	352.94	244.24	56.73	82.56	91.28
1968	435.23	440.41	65.67	100.66	104.10
1969	502.91	365.24	70.58	100.41	73.85
1970	522.56	391.15	76.50	122.04	126.79
1971	561.34	414.24	83.01	137.29	140.72
1972	606.89	405.90	89.60	134.15	150.36
1973	604.04	378.56	94.40	134.44	161.96
1974	647.59	489.84	101.49	142.08	173.50
1975	647.18	461.95	76.72	137.94	187.31
1976	712.05	462.38	114.19	139.80	199.20
1977	779.14	519.12	119.73	140.21	240.97
1978	835.93	722.72	147.68	147.18	244.05
1979	1067.02	1129.50	175.55	140.43	280.58
1980	1296.20	1116.62	197.16	132.46	316.47

Source: Compiled from Tables 6.10 and 6.11

Table 6.14 Percentage Distribution of Loans by Size of Holding in India.

Source	Size of Holding			
	Small		Large	
	A	B	A	B
Government	62.9	90.0	37.1	10.0
Cooperatives	53.6	71.3	46.4	28.7
Commercial Banks	36.2	58.2	63.8	41.8
Money-lenders	70.5	87.7	29.5	13.3
Friends and relatives	25.4	72.0	74.6	28.0
Total:	55.0	81.3	45.0	18.7

Note: Column A refers to the percentage of total credit disbursed by the relevant source.

Column B refers to the percentage which the small farmer group forms of the total clientele of the relevant source.

Small farmers are defined as those owning less than 4 hectares of land.

Source: National Council of Applied Economic Research (1974).

CHAPTER 7

COOPERATIVES AND DEVELOPMENT - A CASE STUDY OF AGRICULTURAL CREDIT SOCIETIES IN A SELECTED REGION IN THE PAKISTAN PUNJAB

The purpose of this chapter is to analyse in detail the performance of agricultural credit societies in a representative area of Pakistan's Punjab. The chapter is divided into six sections. Section I delineates the need for such a case study of the agricultural credit societies. The general setting of the representative area (Markaz) is given. In addition the method employed for conducting a census survey is described. The substantial problems encountered in conducting field work are also dealt with in this section. Section II is concerned with the general assessment of the cooperatives' performance in the representative area. This section is based on the information available from the official records of the societies. Section III deals in particular with the analysis of the impact of lending 'in kind' on agricultural productivity of the members of the societies. Data used in this section are generated from interviewing sampled members of the societies in the Markaz. Section IV assembles information in support of the claim that significant irregularities occurred in the operation of the interest-free lending scheme implemented by the societies in the Markaz. Section V adjudges the relevance of the Raiffeisen principles in evaluating the cooperatives' performance in the Markaz. Finally section VI summarizes the principal issues flagged in the chapter.

7.I The General setting

As noted earlier in Chapters Four and Five, a policy for the provision of interest-free loans to farmers owning 12½ acres of land or less was announced by the government of Pakistan's Punjab in 1978. Under this scheme interest-free production loans of up to RS 6000 per borrower per year, subject to a limit of RS 500 per acre, were able to be granted by the cooperatives. These loans were granted in 'kind': a credit note was issued by the Punjab Cooperative Bank to the society which was then produced to the input supplier for stocks of chemical fertilizers, improved seed, crop pesticides and crop sprayers. The limit was raised from RS 500 to Rs 800 per acre in 1985, and up to a maximum of Rs 10,000 per borrower per year. It has been claimed by the government that most of the farming population (owning 12½ acres or less) benefited from the interest-free lending policy of the societies. The claim is based on the facts that the quantum of loans granted by the agricultural credit societies in Pakistan's Punjab increased from Rs 125.92 million in 1978 to Rs 1105.57 million in 1984, with an average recovery of 93 percent from the societies for the said period. Critics[1] on the other hand have argued that the supply of interest-free loans by the societies in the Punjab was diverted to non-agricultural short-term interest-bearing investments. It has been alleged that members with outstanding loans could, by misrepresentation and the use of fictitious names, obtain new loans to which they were not entitled. Moreover through this practice, besides members making substantial illegal earnings, Societies were able to show high recovery rates. In addition, as was reported earlier in Chapter Five interest-free loans provided by the societies in the Punjab generally did not reach the targeted group (i.e. the small farmers). Indeed, many new societies were established overnight by departmental officials to make the interest-free lending scheme of the government appear to be a successful policy. This practice, critics suggested, resulted in the formation of many 'Bogus societies', 'one-man societies', and, 'Family societies' at the primary level of the movement. The general consensus moved in the direction of the view that the interest-free lending policy did more harm than good in terms of the developmental objectives of the movement in Pakistan's Punjab.[2]

In view of the above allegations it was considered worthwhile undertaking a case study of the working of the agricultural credit societies in a representative area of Pakistan's Punjab with the following objectives:

(a) to assess the general performance of agricultural credit societies.

(b) to analyse the impact of lending 'in kind' on agricultural productivity.

(c) to test the claim that irregularities in the operation of the interest-free lending scheme were significant.

The limitations involved in terms of finance and time obliged the author to confine the scope of the present research to one 'Markaz' in the Pakistan Punjab; hence the choice of Thikriwala Markaz, reportedly the area of the highest concentration of successful cooperatives in the Punjab, for a census of cooperatives, using a sample survey of their members.

The Thikriwala Markaz[3], as classified by the Ministry of Local Government and Rural Development, comprises 38 villages in the territorial limits of 11 union councils of the Punjab. The Markaz is located on the metalled road between Faisalabad and Jhang districts at a distance of about fifteen miles from Faisalabad. Thikriwala Markaz is located in a district of the Punjab which is well known not only all over Pakistan, but even in the outside world, for having a history of record agricultural production and for earning the reputation of being the 'granary of the Indo-Pakistan sub-continent' long before independence. The assured supply of irrigation water, long hours of sunshine, and fertile lands have made the area very suitable for the production of wheat, sugar cane, maize and many other cash crops.

The Markaz is characterized by a farm structure containing a significantly high proportion of small farmers. It was estimated that of the total 19212 farm households in the area, 90 percent were small farmers' households with holding sizes of 12½ acres or less, whereas the remainder (10 percent) owned holdings exceeding 12½ acres and were categorized as large farmers.[4] Given the productivity of land, the smaller farms in the Markaz, however, represent considerable commercial activity in financial terms.

The Thikriwala Markaz is thickly populated with a total population of 123,000.[5] However, the average size of holdings being small, a large number of people from the area are employed in one form or the other in Faisalabad district. As a consequence there is a labour shortage at the time of sowing and harvesting of crops. This is linked to the necessity and demand for mechanised cultivation in the region.

Infra-structural facilities in Thikriwala Markaz are well-developed. There exists one intermediate college, six high schools, two middle schools for boys and three middle and three industrial schools for girls. The other facilities provided by the government to the residents in the Markaz include, amongst others, one hospital and two dispensaries for the residents and animal health care respectively. Thus the social environment is suitable for village level institutions to facilitate the process of development in the Markaz.

Institutional agricultural credit in the Markaz is provided by the cooperatives, the Agricultural Development Bank of Pakistan, and the commercial banks operating in the area. Medium and long-term loans are provided by the Agricultural Development Bank of Pakistan and interest-free crop production loans (short-term credit) are granted by the commercial banks and the agricultural credit societies.

7.I.1 Procedure and Method for Undertaking a Census Survey

The Thikriwala Markaz was selected as the research area for reasons of both convenience and merit. First, as already noted, the villages in the Markaz are located at a distance of fifteen miles from Faisalabad and were accessible by the researcher who was stationed at Faisalabad during the course of undertaking the present fieldwork. Moreover, of some relevance was the general opinion of the cooperative promoters (the staff of the Department of Cooperation) that the Thikriwala is the area in Pakistan's Punjab that contained the highest concentration of successful and effective cooperative organizations. There were 35 societies in the Markaz registered with the Department of Cooperation. According to the departmental officials the reported societies covered all the villages of the Markaz and all the societies were actively involved in the provision of interest-free loans to their member farmers in accordance with the government's directive.

The second reason was that after the introduction of the interest-free lending policy of the government virtually no research had been undertaken on the performance of the cooperatives in the Thikriwala Markaz. There was a dearth of information on the changes introduced into the organization, as well as on the impact of cooperative lending on the members' economy as a result of the provision of interest-free credit 'in kind'.

Having decided to undertake research in the area a census survey of the reported 35 societies was envisaged. The departmental officials were requested to provide a list of the location and addresses of the registered societies together with the names and addresses of their operators. The requisite information was provided and attempts were made to visit registered societies. However only 29 societies out of a total 35 reported societies were traced. No evidence was found of the remaining 6 societies. It seemed that this could be evidence of deliberate irregularities and that the six societies registered with the department were probably 'bogus' entries.

Data necessary for the general assessment of the performance of the 29 cooperatives was contained in the official records maintained by the individual societies. The accuracy of such data was testified to by the appropriate departmental official (the cooperative inspector concerned with the supervision of the working of societies in the Markaz). Given the limited range of the data recorded by the societies it was decided to generate further necessary information by interviewing a sample of members of the 29 societies.

Two sets of data were to be generated. First, the data available from the official records of the societies related to the types of members, sources and composition of working capital, lending business of the societies, frequency of audit and inspections etc. These data were extracted from the official records of each of the 29 societies. Second, the data required for analysing the impact of interest-free lending 'in kind' on agricultural productivity of members farms were not available from the official records and were instead to be obtained through interviews from the sampled members. A questionnaire was prepared in the light of the stated research objectives. A list of the names and addresses of the total members in the 29 societies in the Markaz was obtained from the cooperative inspector. According to the information made available, there were 925 members in the 29 societies in the Markaz. It was decided to draw a 25 percent random sampled from the total membership of the cooperatives and this on an average came to around 10 members per society, making a total of 231 members in 29 societies. Further, in order to serve as a control group for evaluation purposes, it was decided to include in the research frame non-members from the villages from which the members in societies were drawn. The total number of non-members was kept to half of the sampled member respondents (i.e. 116 non-members) in the societies.

As noted in Chapter Five, widespread irregularities in the operation of cooperatives had been reported in a number of studies undertaken in the Punjab. It was decided to test this claim in the sampled societies in the Markaz, hence the third objective of undertaking the present research: to establish the extent of irregularities in the provision of interest free loans to the members farmers by the societies. It was anticipated that this information would be obtained by interviewing the members, management committee members and the inspector. In addition, information available from these sources could be compared with the official records of the societies.

As noted, out of the total 925 members in the societies, a 25 percent sampled (231 members) was drawn. However it became very clear from the outset that it was impossible to adhere to the 25 percent sample. Two major problems were encountered. Firstly, the list of registered members included individuals who could not be located at their given addresses. In addition some registered members were known to no-one in the environs of the villages. Among the members actually available, many refused to reply to the questions asked. The operators of the societies were requested to present at least some reasonable number of their respective membership. This request was not properly acceded to either. Secondly, the cooperative inspector was not supportive of our research endeavour, and was unable to help us find the requisite number of member respondents from the 29 societies. Despite the fact that these two limitations proved a major hurdle in our attempt to undertake the present research, ultimately we were able to locate 75 members from the 29 societies. Nonetheless among them some 40 percent (30 members) were concentrated in only two societies. The rest of the members were spread over the rest of the societies.

In point of fact, our preliminary discussions with the operators of the societies and the cooperative inspector raised suspicions about the probable widespread prevalence of irregularities in the operations of the societies. The suspicions were strengthened given the proportion of the requisite number of sampled members from the 29 societies who were unavailable one way or another for interview. Ironically, however, this provided significant evidence relevant to the third objective but at the cost of placing serious limitations on the use a census survey to obtain evidence relevant to the first and second objectives. But evaluation of the performance of the societies was not possible by any other means. Despite the limitations, therefore, it was decided to proceed with the census survey of the 29 societies and interview the 75 members and 37 non-members on various aspects of cooperation outlined earlier.

The results of the findings of the fieldwork are presented in the following sections.

7.II Assessment of the general performance of Agricultural credit societies

As noted, there were a total 29 agricultural credit societies in the 38 villages of the Thikriwala Marakz, and according to their reported activities, these societies were providing interest-free loans 'in kind' (mainly supplies of chemical fertilizer and improved seed) to their member farmers. A society on average served 1.3 villages in the Markaz, but in relation to the total farm households, the total membership in the societies was very small (see Table 7.1). On the assumption that one farm household was represented by one member in a society, the total registered membership in the 29 societies represented 925 households out of a total of 19212 in the Markaz. This would mean that only some 5 percent of the total farm households in the Markaz were enrolled in the membership of the societies. These findings are consistent with the results reported in Chapter Five where it was noted that the cooperatives in the Pakistan Punjab embraced only some six percent of the total farm population in the province. To the extent that the figure of 925 is inflated by fictitious names, or individuals who are no longer members, then the coverage of households is accordingly less.

The primary agricultural credit societies in the Markaz, like those in the whole province, were expected to enrol small farmers (owning 12½ acres or less). However the large farmers were not debarred from membership of the societies. The rationale behind the reorganization of the credit movement that started in 1978 was nonetheless that the small farmers had not so far received much benefit from cooperative provision, especially of credit, which generally was taken by the large farmer members in the societies. The interest-free loans 'in kind' were specifically targeted at the small farmers. A vigorous campaign was started by the Department of Cooperation in the Punjab to enrol small farmers in the membership of the societies. (It may be noted however that the large farmers, though allowed membership, were not eligible for the provision of 'interest-free credit' provided by the societies. They could only receive 'credit in kind' by paying the usual interest rates which varied between 9 and 11 percent during 1978 through 1986).

Data compiled on the general profile of cooperative members from the official records of 29 societies are presented in Table 7.1. Some 89 percent of the members owned 12½ acres or less as against 11 percent of the members who owned more than 12½ acres. In terms of membership the small farmers were fairly represented and in that respect the sampled societies had apparently conformed to the departmental instructions.

Table 7.1 further shows that some 65 percent of the total membership were illiterate as against 35 percent literate members. These statistics stand comparison with the literacy rate in Pakistan, which is generally below 25 percent. A significantly higher percent of literate members in the societies, especially from the rural areas, would imply that the farmer members in societies were likely to be aware of the range of potential benefits to be realised from cooperation. In contrast, the illiterate members were conceivably recruited by the departmental staff and/or became members of societies as a result of the inducement of interest-free credit.

As noted in Chapter Five, the primary agricultural credit societies in the Punjab obtained their working capital from (a) share capital paid-up by the members; (b) a reserve fund created out of the profit; (c) deposits from the members and (d) a loan from the Punjab Cooperative Bank. The sampled societies were no different.

Data on the sources and composition of the working capital in the sampled 29 societies are given in Table 7.2. The working capital of these societies was dominated by borrowed funds, rather than by owned funds (share capital, reserve funds and the members deposits). Owned funds formed only some 4 percent of the total working capital. These are revealing statistics. The lack of commitment of local funds suggests that the extent of local participation in and members' support for their societies was insignificant. Let us analyse the data in respect of the components of the working capital.

As noted in Chapter Five, the subscription of share capital was made a requirement of the movement in the hope that this would encourage thrift among members, and increase the societies' financial strength by reducing their dependence on outside capital. This would help to make possible the provision of funds at relatively low interest rates to members. According to the present by-laws, the share capital of a society should consist of shares of Rs 10 each and a member in a society is expected to purchase a minimum of 10 shares over a period of 10 years. The by-laws of societies do not allow distribution of profit on shares for a minimum of 10 years; afterwards a cooperative must repay the share capital, as also the profit earned by the society, to its shareholders.

The 29 sampled societies had a life of less than ten years after their reorganization in 1978 and as such none of these societies had reached the point at which it was required by law to repay the share capital, and the profit earned upon shares, to their members. Nonetheless, it was evident from the official records that there was hardly a single society wherein the stipulated requirements for the purchase of share capital by the members had been fulfilled. In total only 15 percent of the total membership in the sampled societies had fulfilled the statutory requirements of purchasing the requisite number of shares. As such share capital formed only 2.5 percent of the total working capital in the sampled societies. These findings are supported by the earlier studies reported in Chapter Five wherein it was established that the share capital as a percent of the total working capital in the Punjab's cooperatives was low and that the societies had normally tended to depend more on the borrowed funds.

The reserve fund in a society is created by the allocation of 25 percent of the net profit earned by a society. The sampled 29 societies did indeed earn profit in the form of commission received by them on the purchase of chemical fertilizers. Nonetheless the no allocation of profit, as required under the by-laws, into the reserve funds was found consistent with the requirements. In point of fact the figures in the official records of the societies were inconsistent. A careful analysis of the data pointed to the conclusion that the operators of the societies were confused about maintaining proper accounts. They were interested only in the receipt of interest free loans from the Punjab Cooperative Bank and in the repayment of the loan to the Bank at the appointed time, and not in the establishment of a revolving fund to permit the growth in credit provision by the societies.

In addition deposits in the sampled societies formed only some 1.5 percent of the total working capital. Two points must be noted in this regard. Firstly, the societies were not seen as viable deposit-takers, either from the members or non-members, as they had not acquired any suitable office space, locker facilities and competent staff to manage deposited savings. Secondly, availability of branches of the commercial banks in the area had made it easier and more convenient for the members to keep their savings in relatively sounder financial institutions.

The sampled societies in the Markaz, as in the Punjab as a whole, had not adhered strictly to the principles of cooperation. The mobilization of local funds remained minimal and the major thrust of the sampled cooperatives was on borrowed funds received mainly from the government and channelled primarily by the Punjab Cooperative Bank. Such practice on the part of societies made these societies a hand-maiden of the government, in stark contrast with the self-sustaining, autonomous self-help institutions cooperatives were considered to be. And this was the natural outcome of the interest-free lending scheme; members' own funds were not forthcoming as the cheap public funds were readily available to them through the cooperatives.

As noted, the main object of the provision of the interest-free 'credit in kind' was to enable the members to make use of improved farm inputs (improved seed and chemical fertilizer), thereby increasing productivity at their farms. According to the rules a small-farmer member could receive a loan up to Rs 10,000 without paying any interest, for two crop seasons. However the actual maximum credit limit of a member depended on his crop production credit requirements per season. These varied from one season to another.

The sampled societies had maintained official records of the provision of interest-free credit to individual members. However, the credit recorded as having been provided to a member did not in practice always coincide with the actual amount received by the member. (This point shall be elaborated in section IV, wherein it shall be established that significant irregularities in the working of the sampled societies were being perpetrated).

If it is assumed that member farmers owning 12½ acres or less (i.e. 825 members) actually received the maximum loan amount prescribed (i.e. Rs 10,000) allowed a member, then the number of actual loan beneficiaries would be 351, which means that some 42 percent of the membership in the societies could have been provided with the maximum prescribed amount of loanable funds from the societies (see Table 7.2). Of course, this assumption is too simplistic, but it does place the amount loaned in perspective.

Another way of looking at the lending business of the societies was to assume that all the members (only the small farmers) in the sampled societies had received the same lesser amount than was actually set as a maximum credit limit. When judged from this viewpoint, the average amount of working capital provided per member was Rs 4256. This amount, though only some 42 percent of the prescribed credit limit, was nonetheless much more per member than the average over Pakistan's Punjab as a whole. This does suggest that the working capital available to a member in a society in this Markaz was substantial and that the loan recipients would be able to make effective and productive use of the cooperatives' provisions (this point shall be elaborated on in section IV).

The data contained in Table 7.2 showing the small percentage of self-financed working capital can be interpreted in another way. Since there was no dependence on their own revolving fund and merely a dependence on externally sourced funds, there was no real commitment to operating the societies according to the principles of cooperation; members were only interested in the receipt of interest-free credit provided by the government and in repayment of these loans to the societies at appointed times.

The sampled societies advanced interest-free credit in kind to their small farmer members for two crop seasons i.e. 'Rabi crops' (crops sown in October/November and harvested in May/June of the following year) and 'Kharif crops' (i.e. the crops sown in April/May and harvested in November/December). According to the rules, a member farmer in a society was obliged to repay his loan to his society in cash within a period of two months after the harvest of the current crop. Thus loans received by a member for 'Rabi' crops had to be repaid to his society sometime in July/August of the next year. Similarly a loan granted for 'Kharif' crop had to be repaid in January/February of the following year. This in effect meant that for approximately eight months of the year the cultivator is carrying two loans, and for the periods of roughly two months duration (February/March and August/September) he is carrying one. A new loan would only be issued to a member for a particular crop season given satisfactory recovery of the loan from him during the preceding years. That is, the Rabi (or Kharif) crop of the preceding calendar year. The rules framed by the department for the recovery of loans further stipulated that the defaulting member is expelled and the recovery of the loan from him ensured as arrears of land revenue.[6]

According to the official records, all the 29 sampled societies had repaid the loans to the Punjab Cooperative Bank at the appointed time. The cooperative inspector in the Markaz (and the official records) testified that 100 percent recovery of loans from the societies in the Markaz was ensured. This was indeed a great achievement of the cooperative movement as also of the Department. The inspector attributed 100 percent recovery of the loans from societies to the successful implementation of the interest-free lending scheme by the department (the reasons for 100 percent recovery of the loans from the sampled societies to the Punjab Cooperative Bank shall be dealt with in section IV).

The organizational aspects of the sampled societies are now considered. As noted in Chapter Five the day-to-day working of the

Punjab's cooperatives depended to a greater extent on the ability and sincerity of their management committee members. The ordinary members of a society should annually elect the members of the management committee to undertake as many functions for the promotion and development of cooperatives as are assigned to it by members in a society. The structure is intended to ensure that there is effective participation of members in cooperative affairs and in the decision-making process.

The management committees of the societies in the Markaz conformed outwardly to the desired pattern. Since the small farmers formed the targeted group, it could be expected that a major section of the small farmers would be represented in the management committees of the societies. As noted earlier, some 89 percent of the total members in the sampled societies were small farmers. Nonetheless the official records showed that only 17 percent of the operators (usually committee office bearers) of the societies in the Markaz were actually small farmers. The others in ranking order were businessmen (33 percent) large farmers (32 percent), influential and better-off persons (10 percent) and government servants (8 percent) (also see Table 7.3). These statistics show that far from the small farmers being in control of the societies, they were in the control of either large farmers, non-agriculturists (i.e. businessmen) and/or influential rural elites.

Although the by-laws of the societies debarred non-cultivators from becoming members of societies, a good number of operators were nonetheless found to be non-cultivators. This was a clear violation of the statutory requirement. In addition, the presence of a large number of large farmers, and influential rural elites as main operators of the sampled societies implied that they too were interested in (illegally) obtaining interest-free credit (the nature and extent of irregularities in the sampled societies shall be dealt with later).

According to the rules the elections to the various positions of the management committee of a society should be held every year. Data extracted from the official records of the sampled societies showed that in fact elections to the various offices of the management committees were rarely held and existing members continued to enjoy their positions for many years. In some 55 percent of the sampled societies the same persons acted as presidents of their respective societies for up to four years without seeking approval of the members through the ballot box. The situation for the other positions on the management committees in the sampled societies was not substantially different (see Table 7.4).

As noted earlier, the operators and the committee members were influential persons and they enjoyed a relatively higher social status in relation to other members. A principal reason for the perpetuation of the term of office of office bearers once elected was that the cooperative inspector was opposed to any change in membership of the management committees. The inspector argued that the existing borrowers were under certain moral obligations to the present members of the management committee, which was collectively responsible for the grant of a loan. Consequently if the members of the management committee changed every year, the moral pressure for the repayment of loans by cooperative members would be reduced. While it might have some justification the inspector's argument seriously undermined the democratic character of the societies. That apart, the justification provided by the inspector for the perpetuation of the same management committees for a longer time period possibly concealed the true explanation. It is probable that interest-free loans provided by the societies were misutilised and/or misdirected to non-agricultural uses by the management committees in an understanding with the cooperative inspector, who then shared the advantage embodied in the interest-free lending scheme (this point is elaborated in section IV).

The data compiled from the official records of the societies revealed that most members of the management committees were literate. Thus out of the 29 presidents in the sampled societies, only 10 percent were classified illiterate. Amongst others the illiterate committee members in a ranking order were executive members (30 percent), treasurers (15 percent), vice presidents (15 percent). None of the secretaries in the sampled societies, according to official records was illiterate (see Table 7.5). In addition, most members of the management committees had fulfilled their personal requirement to purchase share capital. Thus of all the members in the management committees of the sampled 29 societies almost 85 percent of presidents, 80 percent of vice-presidents, 75 percent of secretaries, 85 percent of treasurers and 80 percent of executive members had purchased the requisite number of ten shares, (see Table 7.6).

Most members of the management committees, then, were literate and had adhered to the minimal necessary requirements laid down in the by-laws of the societies. Moreover, most members of the management committees performed the duties relating to the day-to-day working of the societies on a voluntary basis. The official records maintained by the societies revealed that there was only one society among the 29 sampled societies which paid a nominal honorarium to its secretary for record-keeping and other day-to-day tasks.

As noted earlier in chapter five, the department of cooperation in the Punjab is expected to undertake regular audit and inspection of cooperatives. At the primary level this task is entrusted to the cooperative inspector (or sub-inspector) who is expected to be competent in audit work. Normally, at least one or two audits and inspections at the primary level of the movement should be undertaken annually by the cooperative inspector or sub-inspector. In addition it is expected that the superior official (i.e. the Assistant Registrar) of the department visit the primary societies to confirm that the working of societies was as required under the departmental rules.

The audit and inspection of societies is necessary because societies are generally managed by persons who have no formal training in the principles of cooperation. Investigation of the sampled societies revealed that neither did the department of cooperation undertake an adequate number of audits, nor did the responsible staff visit the area to inspect the operation of these societies. The official records of the societies revealed that the average number of audits was 0.25 per society per annum. In many instances the records showed that societies were not audited at all. In addition the number of visits by the Assistant Registrar to the area were extremely limited. Half of the sampled societies remained unaudited by the departmental officials, especially during the three years preceding the survey (also see Table 7.7).

The Punjab Cooperative Union is charged with the task of providing the necessary education and training in the principles of cooperation for the members of the primary societies by organising courses of short duration (3 - 5 days) with its own instructors and also with the assistance of the cooperative inspector. The staff of the union organise courses at the Markaz level and members of the societies, together with the management committees, are expected to attend, although the attendance nonetheless is voluntary. Information from the sampled societies revealed that at no time during the five years preceding the survey had such courses had been organised, so the members had no opportunity to learn the principles and basic concepts of cooperation.

The foregoing general discussion of the performance of the sampled societies, based on their official records, has established that their activity of providing interest-free credit was effectively controlled by literate non-agriculturalists and large farmers. The quantities of working capital made available per member were significant and had the potential to increase agricultural productivity significantly. It is now appropriate to assess the extent to which this potential was realised.

7.III Impact of Interest free Lending 'in kind' on agricultural Productivity

As noted in section I, out of a nominal total of 925 members in the 29 societies only 75 members distributed unevenly among the societies were ultimately available for interview. This precluded achievement of statistical representativeness intended at the outset of the study. However, the time and financial constraints within which the research had to be conducted did not permit the sampled frame to be reconstructed, for example by focussing exclusively on societies which could be described as genuine. Ironically the sampling problem arose because of the extent of irregularities in the constitution and operation of a large member of 'societies'. In other words the deficiencies of the data in terms of the first two objectives of the study were a form of evidence relevant to the third objective - an interaction which was not fully anticipated at the outset. To provide this limited sample with a roughly comparable control group 37 non-members were interviewed. These were from the same villages in which the sampled member farmers in societies were located.

A brief note on the views of the members and non-members on general features of cooperation may be in order before analysing the impact of provision of interest-free credit on members' agricultural productivity. Data contained in Table 7.8 show that most of the members (100 percent) had joined the societies to obtain interest-free loans in kind with the ultimate purpose of using these funds for increasing agricultural production at their farms. 98 percent also responded that they believed in farmers working together. This result is by no means surprising, since informal 'cooperation' or sharing in agriculture activities is a general feature of the rural social structure. It cannot therefore be taken as a commitment to formal cooperative memberships. The other reasons as stated by the members in ranking order were that procurement of credit through alternative channels was too time consuming (84 percent); were motivated to membership by the departmental staff (75 percent), were persuaded by the existing members to join (25 percent); and that the neighbours, friends and relatives were members (15 percent). The contrast between these low figures and the 98 percent commitment to 'working together' shows the extremely limited local interest in recruitment to the formal cooperative structure. In short, then, it can be concluded that the main object of joining a society was to receive interest-free credit to increase agricultural production.

The non-members, on the other hand, claimed that they did/could not join the societies because the cooperative inspector never asked them to join, suggesting some selectivity on the part of the inspector. This view was held by almost 49 percent of the non-members. In addition, other reasons stated by the non-members for not joining the societies were that they were not aware of the existence of a society in the village (46 percent), they were refused entry by the vested interests (38 percent), they were engaged in activities that did not leave them enough time to think of joining the societies (19 percent); they were afraid that they might owe debt to a society in case of non-payment (8 percent). (also see Table 7.9)

On balance, then, the answers do not contribute to a picture of thrusting and dynamic cooperative development, with enthusiastic public projection of its benefits. The contrary impression is created of a selective and exclusive club, with narrowly focussed benefits.

The members and non-members were also compared in relation to their access to credit, from both institutional and non-institutional sources. As noted earlier in Chapter Five, credit available from institutional sources in the Punjab was generally limited. Moreover the provision of cooperative credit was extremely limited, such that even members of societies had to turn to the non-institutional sources to fulfil their crop production credit needs.

The data on the sources of credit and availability of loans from these respective sources are given in Table 7.10. Loans (in addition to these in kind) were mainly used for the purchase of improved farm inputs, and other agricultural purposes. Significantly the data show that the cooperatives met only 31 percent of the total credit requirements of their members for crop production purposes. Although cooperatives met 82 percent of the credit requirements for fertilizer and 60 percent for improved seeds, the cooperatives did not provide any 'cash funds' for other 'productive uses'. As such some 69 percent of the total cash requirements of the sampled 75 member farmers for crop production purposes were met from other sources (institutional as well as non-institutional sources); overall the institutional sources met only 63 percent of the total credit needed by the sampled member farmers for crop production purposes. Thus the cooperative members had to meet some 37 percent of their crop production credit needs from non-institutional sources. Thus not only was the provision of cooperative credit insufficient, but also when total availability of institutional credit was taken into account, the loans received by members fell well short of their estimated credit needs for growing crops. Similarly it may be noted from the table that non-members had also relied on both institutional (other than cooperative) and non-institutional sources to fulfil their crop production credit needs. Given that members' and non-members' dependence on credit sources is so similar, except for members' particular use of the cooperative, some initial doubts have to be raised regarding the hypothesis that the particular provision of interest-free cooperative credit 'in kind' to the members would have significantly improved their farm productivity when compared with that of the non-members. Moreover, the fact that the even provision of chemical fertilizers and improved seeds by cooperatives to members fell significantly short of their own requirements, warns against a simplistic acceptance of the argument that the mere provision of credit in kind by the societies would significantly influence members' agricultural productivity.

Of course, an increase in agricultural productivity is not just dependent on the application of chemical fertilizers in required amounts and in sowing improved seed. Other complementary factors such as improved technical know-how, better farm management practices, regular and timely irrigation of the crops may well be required to affect agricultural production. Despite this, it was nonetheless considered useful to compare fertiliser application rates and yields of major crops between members and non-members, and then to link this with data on differences in gross farming incomes. (The relevant data are presented in Tables 7.11 through 7.13). It may be seen from Table 7.11 that cooperative members applied a relatively higher amount of phosphatic fertilizer compared to non-members. There were two possible reasons for this difference. Firstly, although both groups were generally aware of the potential benefits to be obtained from applying chemical fertilizers, members may have used more as a result of the relatively lower prices they had to pay. Non-members were obliged either to buy from registered dealers at the controlled price, or to pay an additional premium by buying from other informal sources. However, since cooperatives obtained supplies at a discount, members were offered a financial advantage. This could then form an incentive to use more phosphatic fertilizers. In contrast, members' application rates for nitrogenous fertilizer were lower than those of non-members. Assuming these differences to be significant it may be merely the consequence of the supply policy of the cooperatives (providing more of the phosphatic type and less of the nitrogenous in line with agronomic recommendations) or of indivisibilities in provision (cooperatives provide fertilizer only by the entire sackful; avoiding excess supply might lead to lower application). On the other hand, given greater general reliance on nitrogenous fertilizer in the farming community and the existence of considerable price premium in the black market, members' low application rates could well be evidence of diversion of cooperative supplies into the black market for cash to be used for other production or consumption purposes.

The sampled members were asked to comment on the quality of services provided by the societies. They were asked questions about the amount and quality of fertilizer supplied by cooperatives, its sufficiency at the appropriate times and about fertilizer prices. Replies are given in Table 7.14. Members were generally satisfied with the availability of fertilizers ahead of sowing time. Moreover, they regarded the quality of fertilizer supplied by cooperatives was comparable with that obtained from any other source. However, a good number of cooperative members seemed dis-satisfied with the amount of fertilizer provided to them by cooperative management. They complained that the price charged by a cooperative for fertilizer was rather still higher; nonetheless the price in the black market and that charged by the registered dealers from the non-members was considerably higher than that charged by cooperatives.

The Department of Cooperation had allocated part of the funds for the supply of improved wheat seed to the member farmers of the sampled societies. Only ten out of the twenty-nine societies were providing this facility. The management in the rest of the 19 sampled cooperatives complained that despite repeated requests to the officials of the department, improved seed was not provided. The recipients of improved seed in the ten sampled societies were not confident in the quality of the seed provided by the cooperatives, and a good number of members complained about the non-availability of seed when it was required. Most of the members were not sure whether the price charged by cooperatives was higher or lower compared to other sources. The limited extent of their knowledge may suggest that the prospect of interest-free loans for the purchase of seed had greater attraction than any other aspect of the situation so they did not feel the need to make any queries in this regard (see Table 7.15).

The sampled members in cooperatives were further asked questions as to the general features of cooperation. (see Table 7.16) Most of the respondents were aware of the prospective advantages to be gained in associating with the cooperatives. Nonetheless, they believed that a cooperative was an organization which catered for the needs of relatively large farmers. A good number of respondents appreciated the procedure for loan advances and its recovery. Many of the members complained of malfunctioning due to mismanagement of the societies by their respective operators.

In point of fact many of the respondents advocated expansion of the scope of cooperatives. They were of the opinion that the societies should provide cash credit, supply the diesel oil and also market members' farm produce. Almost 100 percent of the members were of the view that credit should be granted in cash and not in kind; 65 percent wanted to extend the jurisdiction of cooperatives to the supply of farm inputs other than fertilizers, which included the supply of minor farm implements. Many of the respondents wanted an increased flow of technical knowledge and guidance from their societies in order to bring about an increase in agricultural production.

As noted earlier, the credit provided by the interest-free loans could, from a particular perspective, be regarded as adequate in amount for crop production needs. Accordingly the prospect for significant improvement in yields was present, on the assumption that fertilizer provided by the scheme was actually used, and neither diverted for sale in the black market nor merely substituted for what otherwise would have been purchased.

However, Table 7.12 shows that the average yields per acre of major crops did not differ significantly as between members and non-members. It might have been anticipated that yields of members' crops would have been higher compared with those of non-members, the cheaper credit encouraging more intensive use. The similarity of their yields robs the interest-free credit scheme of a principal justification and raises questions about the basis of its popularity amongst members, and suspicions that this was due to the opportunities for abuse which the system afforded. (This point shall be elaborated later).

The popular logic in favour of loans 'in kind' was not only that agricultural productivity would be increased, but also that this would have the consequence of higher incomes for members. Given that productivity was apparently not improved this link became suspect.

Data presented in Table 7.13 confirm the absence of significant differences in farming incomes between members and non-members. However the data also show that most of the members were not full time farmers and/or they had devoted more attention to their non-farming activities in order to supplement their farm incomes. These findings were consistent with our earlier observations; according to the official records, 41 percent of the total members of the management committees in the sampled societies were non-agriculturists, including businessmen and government servants. All this suggests that they had joined the societies solely to obtain interest-free credit provided by the government (rather than out of any enthusiasm for cooperation) and the credit received by them was either used to free their own funds for non-agricultural uses or indeed diverted directly to that end in contravention of the rules.

The apparent absence of substantial agricultural productivity or income gains by members from the credit scheme can be interpreted at worst as evidence of widespread irregularities inherent in the operation of the interest-free lending scheme. It is to this particular aspect of the case study to which we turn in the next section.

7.IV Extent of Irregularities in the operation of the interest free lending scheme

This section is based on a thorough re-examination of the official records, the responses to the survey of members and detailed conversations with the members of the management committees of the sampled societies.

As already noted, out of 35 societies officially reported to be in operation only 29 cooperatives were found to exist in the 38 villages of the Markaz. Six societies, though registered with the department, did not exist at all. These were evidently bogus entries in the register. Given the procedure for registration, this implies that the cooperative inspector together with other influential members in the Markaz had managed to register 'pocket' societies in fictitious names, and they in turn were illegally diverting the cooperatives' provisions to themselves.

A brief note on the procedure for the registration of a cooperative in the Punjab is required, as a bench mark for identification of irregularities. According to the prescribed procedure, at least 10 farm households should be willing to join together to try to solve their economic (agriculturally related) problems on the basis of a 'self-help' approach, before applying for the registration of a society to the department. Once the prospective members state their willingness to buy shares in a society amounting to a total of Rs 100, and are ready to pay the membership fee (Rs 50), they are provided with an application form by the department. The completed form together with the prescribed fee and Rs 100 worth of shares are submitted to the department for departmental consideration. Prior to the processing of the application by the department, the cooperative inspector or sub-inspector visits the location (the village) and calls a meeting of the persons intending establishing a society. This meeting is generally held at a common place so that other households from the village can participate. The inspector is supposed to collect information about the members and the accuracy of entries regarding members' farm holdings at this meeting. Assuming the inspector's report is satisfactory, the Assistant Registrar of the area concerned registers a society. This primary society is then automatically affiliated with the Punjab Cooperative Bank for the purpose of obtaining interest-free credit.[7]

The amount of credit advanced to a primary society by the Punjab Cooperative Bank depends on the maximum credit limit (MCL) of a society. The MCL of a cooperative is determined by adding up the MCLs of its individual members. The MCL of a member is intended to be based on his crop production credit requirements. However, in practice this is an informal procedure involving the discretion of members of the management committee. The maximum credit allowed a member is Rs 10,000 for a farm of 12.5 acres for two crop seasons in a year. The production credit needs of members differ from one season to the other and therefore so do their MCLs. Once the MCL of a society is fixed, the society can apply for a loan up to its MCL from the Punjab Cooperative Bank.[8] Theoretically the procedure is so simplified that the representative of a cooperative can get its loan sanctioned within a very short time. Thereafter the documentation serves as a credit note to be given to state-appointed dealers in exchange for improved seed, chemical fertilizers, crop pesticides and crop sprayers. The cooperative then advances loans to its individual members as per its stipulated rules.

Despite the prescribed lending procedures and the procedures for the registration of a society, widespread irregularities in both the organization of sampled societies and their operations were noted during the fieldwork. The irregularities may be classified into three groups:

(a) organizational irregularities

(b) operational irregularities

(c) managerial irregularities

These aspects together with related issues are discussed below.

(a) <u>Organizational Irregularities</u>

These irregularities were evident partly as a result of the laxity shown by the cooperative inspector in his adherence to the prescribed procedures for the registration of a society. Indeed it is difficult to avoid the conclusion that the cooperative inspector had some complicity in the irregularities. The author was able to identify a number of the irregularities in the working of the societies.

Accordingly the sampled societies were grouped into five categories on the basis of their organizational patterns.

(1) <u>'One-man' Societies</u>

These societies were officially registered, but in practice they were under the control of a single operator who had managed to enter fictitious names of supposed member farmers in the official records of the societies. Generally, it seemed that this was done with the knowledge of the cooperative inspector. In effect the single operator and the cooperative inspector were diverting the cooperatives provisions to themselves.

(2) <u>Family societies</u>

These societies were operated either by the members of one 'family group' or by their close relations. These societies were classified 'family societies' only when (a) they had two or more members in their respective committee of management from one family and

(b) their members were in practice cultivating the same farm. When members of a society came from the same family, but managed separate farms, a society was not treated as a 'family society'. While there were no legal impediments to related persons operating as a cooperative, the intention of the institution of corporation was to bring together members from different families, so achieving a new social cohesion.

(3) <u>Bogus societies</u>

These societies were categorised as 'bogus societies' when their operators did not present any of the official records to the author despite repeated requests. These societies were known in the village to no-one. The so-called operators of these societies seemed to have had established these societies with the connivance of the cooperative inspector.

(4) <u>Non-genuine societies</u>

These societies provided services to member farmers who having joined the societies, proceeded to obtain credit either through 'under-reporting' or 'over-reporting' their farm holdings. The management of these societies became a party to these deceptions. The members of these societies were able to receive an undue share of cooperatives provisions. Nonetheless some of the sampled members of these societies complained about the misconduct of these societies by their own committee members.

(5) <u>Genuine societies</u>

These societies were registered by the department according to the prescribed procedure. The size of holdings of the sampled members in these societies and the amount of the loan received by them from their societies were found correct when checked from the official records. Furthermore member of these societies did not register any complaint against the members of the management committees.

The distribution of the sampled societies according to these categories is shown in Table 7.17. Of the total 29 societies some 46 percent were 'one-man societies'. The other societies in ranking order were family societies (20 percent), bogus societies (17 percent), non-genuine societies (11 percent) and the genuine societies (6 percent).

There was thus only a very remote hope that the interest-free credit provided by these societies had actually reached the targeted group (the small farmers). The extent of irregularities in the formation of societies in the Markaz was in line with the studies reported in Chapter Five: these had concluded that most of the primary societies in Pakistan, as also in the Punjab, were bogus undertakings, largely established by local vested interests. If we were to use the proportions found in the fieldwork to estimate the number of different categories of societies in the province, then out of a 17271 active societies in the Punjab the number of the genuine societies would be only 1036 as against 7945 one-man societies, 3454 family societies, 2937 bogus societies and 1899 non-genuine societies in the year 1982. Furthermore, as noted earlier in Chapter Five, these findings were not inconsistent with the studies undertaken by the centre for Administrative Research and Development[9] in the Punjab wherein it was reported that only 50 percent of the societies in the Punjab were barely viable undertakings of a total 34543 societies in 1982.

These widespread irregularities in the formation of societies in the Markaz would not have been possible if the cooperative inspector and the other departmental officials had strictly adhered to the rules. However, management committee members were themselves by and large dishonest and concealed the facts before applying for registration of societies to the department. Nonetheless they succeeded in obtaining interest-free loans 'in kind' from the department. Given that most of these societies were found to be non-viable/bogus undertakings, any chances of their smooth operational performance seemed slim.

b) <u>Operational Irregularities</u>

Despite these organizational shortcomings, an attempt was made to analyse the operation of the societies, especially to assess their performance in providing 'loan in kind' to the small farmers. The 75 sampled members were interviewed with the object of estimating the magnitude of pre-emption of cooperative credit by the influential member-farmers. The categories of loan recipients in the sampled societies were identified and the distribution of cooperative loans to genuine cases was estimated.

The loan categories were classified as:

(1) <u>Bogus Loans</u>

These loans were shown either against the names of fictitious members or in the names of actual or family members, but the recipients did not acknowledge receipt of the loan.

(2) <u>Family loans</u>

Loans were judged as 'Family Loans', when they were shown against the names of one family member (or his close relative) in the record of a society. Such loans were defined as 'family loans' only when the recipients operated one family farm jointly.

(3) Actual Loans

These were loans not in the preceding categories which were found in the official records and were confirmed by their recipients as current entries.

(3i) Loans with Area over-reported

These loans were obtained by small farmers, whose land holdings did not exceed 12½ acres. However they had obtained more than the amount of loan to which they were entitled by deliberately reporting that they had more land than they possessed.

(3ii) Loans with Area under-reported

These loans were obtained by large farmers by under-reporting their operational holdings in the official records.

(3iii) Genuine loans

These were the loans in relation to which the amount reported in the official records were confirmed by the relevant members.

As noted already the by-laws of the societies did not debar large farmers (owners of land above 12½ acres) from becoming members of the societies. Nonetheless they were not eligible for the receipt of interest-free loans. Instead, they were required to pay some 9-11 percent interest per annum on the services provided by the societies. In practice, large farmers (amongst whom most where operators or committee members) had devised means to by-pass these rules and through illegal means managed to receive interest-free credit provided by the societies.

The above classification was supported by the available data. Data collected from the members and checked from the cooperatives record showed that of the 75 supposedly small farmers (owners of land not exceeding $12\frac{1}{2}$ acres), only 76 percent actually were small farmers. Of the rest, 19 percent were large farmers, and 4 percent as landless members. (see Table 7.18) In addition, as noted earlier, only 17 percent (5 out of 29) of the operators of societies were small farmers.

The flow of cooperative credit to the sampled members was nonetheless worked out in order to find out the extent to which interest-free loans had actually reached the small farmers. According to the official records 75 loans were actually granted to the sampled members. However it was found that 74 percent of the loans were recorded against names of sampled members who did not admit to the receipt of any loan from their respective societies. These were thus the bogus loans. The rest of the loans (26 percent) were reportedly distributed as 'actual loans' and 'family loans'. (see Table 7.19) Further data are presented in Table 7.20. It can be seen that of the 26 percent of the reported loan actually received (actual and family loans), loans with area over reported and loans with area under-reported were 11 percent and 4 percent respectively. Loans below reported amount stayed at 7 percent. In fact, the genuine loans, actually received by the members and coinciding with the records, formed only 5 percent of the total loans.

c) Managerial Irregularities

As noted the irregularities in the operations of the societies were widespread. Firstly irregularities were noted in terms of unconstitutional formation of the societies. As most of these societies were established (or reorganized) on the recommendation of the cooperative inspector, it is likely that the inspector himself was a party to the whole process that resulted in the formation of non-genuine societies. This argument has some support from our earlier observations made in Chapter Five; therein it was noted that the inspector is generally low paid, he has neither enough resources, nor any chances for further promotions to higher positions. The inspector himself may have been tempted to persuade influential vested interests in the villages of the Markaz to join with him in an operation such that government funds originally envisaged for agricultural development could either be put into non-productive uses or to developmental purposes outwith the sphere of agriculture. Secondly, it was likely that the committee members, especially the main operators, were themselves the main culprits. They were clever and literate enough to by-pass the rules. They managed to seek support from other rural folk who collaborated with them and managed to get the societies registered with the department. The prevalence of family societies and non-genuine societies in the Markaz may in part be attributed to the tactics that were pursued by the operators of these societies successfully seeking registration of their societies. Thirdly, as noted some of the operators of the societies were themselves government servants. These persons were in a position to influence the opinion of the inspector, who in turn, in good faith relied on genuineness of the information provided to him by these government servants. As such the irregularities noted may then be attributed to the laxity shown by the cooperative inspector in not strictly adhering to the rules and also in violating the departmental instructions in registering the societies.

In short, although an enormous amount of credit was granted by the societies according to the available data credit did not reach the targeted group. It is evident that the impact of the interest-free loans could not have been as significant as advocated by many experts on agricultural development in the Punjab. It seems entirely plausible that substantial funds provided by the societies were in fact diverted by the management committee members to themselves, and to some influential and vocal members. These loans, in turn were invested in non-agricultural short-term interest earning activities. In point of fact, the repayment period of interest-free loans was stretched reasonably over a period of some 11-12 months, the interest-free loans placed at the disposal of the operators of societies amounted to additional capital, which was available to them for a year without any fear of the departmental staff as repayment of the capital to the society was required only after a year. No interest payment was involved, and neither was there any supervision or check on the end use of cooperative credit. After a year the operators (especially of Bogus, Non-genuine and Family societies) paid back their societies the principal in order that they could then have a claim for priority for a new loan to be issued. This practice suggests that funds meant for agricultural development were invested in non-agricultural commercial undertakings which brought additional incomes to the cooperatives' operators and other vested interests. It is conceivable, of course, that a part of the additional incomes so generated may have been invested in agriculture in an indirect manner.

7.V The Relevance of Raiffeisen Principles

The original intention of the fieldwork was to assess the performance of the cooperatives in relation to the 'Raiffeisen Principles' which were established earlier in the study (Chapter 3).

Given the extent of irregularities which came to light during the fieldwork it can be anticipated that the comparison of performance with these Principles will leave the cooperatives in an unfavourable light. Nonetheless, the comparison is worthwhile since it reveals the fundamental weaknesses of the intended scheme and not just the particular ways in which it was illegally exploited.

It will be recalled that the Raiffeisen Principles were

1. Restricted area of operation.
2. Joint and unlimited liability of members.
3. Provision of loan only for profitable approved purposes.
4. Equality of status of members and democratic control.
5. Honorary services for managing cooperatives affairs.
6. Establishing of organizational and financial structures at the secondary and apex levels.
7. Mobilization of members' resources.
8. Distribution of Cooperatives' Profits into a Reserve fund.
9. Repayment of loans out of the profit earned by members and
10. Good conduct and discipline of members.

(1) <u>Restricted area of operation</u>

The credit societies in the Markaz were each established at the village level, nominally satisfying this principle. Nonetheless the size of a society generally remained too small in relation to the total number of farm households in a village. The members of these societies certainly came from the same village; but the group so constituted was not found to be cohesive. Although Raiffeisen did not debar any member of the rural community from membership of his societies, he nonetheless considered that the group (i.e. a cooperative) so constituted would be able to exercise the necessary mutual pressure on all members to make the organization viable. In practice what was found in the Markaz were primary societies, mainly established by the departmental staff, but invariably under the control of large farmers, who manipulated them to serve their own interests and who did not let the organization serve the objects of cooperation in their true letter and spirit. Implicit in this principle, then, is a minimum membership to achieve the necessary self-disciplinary objective.

(2) Joint and Unlimited liability

The sampled societies in the Markaz were certainly constituted on the principle of unlimited liability and thus conformed at least nominally to the Raiffeisen ideal. It will be recalled that the intention of this feature of the Raiffeisen cooperative was to maintain discipline in respect of repayment of loans granted on personal surety rather than specific collateral. The virtual 100 percent loan recovery rate achieved in the Markaz would appear to endorse this principle. However in fact it was not the pressure exerted by extending the members' liability which disciplined repayment in this particular situation. Since the cooperative was in effect merely channelling government funds (rather than employing funds belonging to the membership) liability to one another was minimal. The high repayment rate can be explained merely by the fact that entitlement for a further loan depended on repayment of the preceding loan. And since these loans were an attractive opportunity the obligation of repayment was accepted. Thus it can be seen that the significance of this principle is contingent on the working capital originating largely within the cooperative.

(3) Provision of loan only for profitable Approved Purposes

This principle sought to ensure that borrowers would be able to improve their standards of living and be able to repay their debts.

As noted earlier, although loans in kind provided by the societies were intended to increase agricultural productivity, in practice this objective was not fulfilled as a result of widespread irregularities in the working of the societies. The evidence points to the fact that loans received by members were used for purposes other than agricultural production. Nonetheless, members did apparently repay their loans, possibly out of non-agricultural earnings. Whether these were substantially increased through use of the loans is uncertain; at the very least they may have replaced other borrowings and thus reduced interest charges.

(4) Equality of status and democratic control

Raiffeisen believed that all members must have equality of status irrespective of their being rich or poor or coming from any particular faction, caste or group. He sought to ensure that affairs of the society were managed on a democratic basis by following the principle of 'one man, one vote'.

In practice, members in the sampled societies in the Markaz did not generally have equality of status. The better-off invariably controlled cooperatives affairs. The principle of democratic control was not adhered to by the sampled societies. Accordingly it can be said that this principle was generally violated.

(5) Honorary services for managing cooperatives affairs

The operators and the members of the management committee members did perform the day-to-day operations of the sampled societies on an honorary basis. However, this should not be taken to imply that the operators had conformed to the interest of the Raiffeisen principle. Most members of the management committees were performing the services albeit on an honorary basis, in a way that channelled resources to themselves and/or to a few other members leaving the ordinary members with no access to services at all.

(6) Organizational and Financial structures at the secondary and Apex level

The primary societies were affiliated with the Punjab Cooperative Bank. In addition, they were required to conform to the rules framed by the department. In point of fact, the movement in the Punjab has a well developed structure at the apex level. The financial needs of the sampled societies and other primary units are duly catered for by the Punjab Cooperative Bank. The organizational structures (Department of Cooperation and the Punjab Cooperative Union) are also well placed.

However, it could be said that the spirit of the original principle was associated with the notion that the primary societies would be actively raising working capital and that the secondary and apex structures would complement and support their activity. In this case it was the dependence on funds from central government which gave the higher levels a prominent role.

(7) <u>Mobilization of members resources</u>

As against Raiffeisen's societies, the sampled societies in the Markaz did not generate funds from their own sources. Amongst many other reasons, the factor of major importance was that most of the working capital of the societies was provided by the government in the form of interest-free credit. The members were supposed to buy shares and bring their savings to the societies. They did not conform to these essential requirements. It was public money which was put at stake; cooperatives were not looked upon as a self-help institution.

(8) <u>Distribution of Cooperative Profit into a reserve fund</u>

The sampled societies as a matter of fact, were required to transfer a part of their profit (25 percent) into the reserve funds. Nonetheless this requirement was not strictly adhered to by the management in the respective societies in the Markaz. Given that societies bought fertilizer at a discount which was not entirely passed on to members the possibility of profit existed. However, it was not evident from the records of the societies that such reserves as existed had been created by retention of part of these profits, nor that the principle was being currently upheld.

(9) <u>Repayment of loan out of the profit earned by the members</u>

This principle, in accord with the objectives of the sponsors of this particular lending scheme, was not respected by the members of the societies in its true letter and spirit. It has already been argued that loans provided by these societies were actually diverted to non-agricultural uses, or put into short-term interest bearing commercial undertakings. In this way further incomes were generated. As such the loans were repaid, but the actual purposes of loan and the intention of the sponsors of the interest-free loans in kind were seldom fulfilled.

(10) Good conduct and discipline of members

Raiffeisen believed that good conduct of the member of the management and ordinary members in the affairs of the societies would bring success to the societies. The sampled societies did not come up to this expectation. It has been established that most of these societies were non-viable and bogus undertakings. The members of the management committees were the main violators of cooperatives' discipline. Nothing better could be expected of the ordinary members.

7.VI Conclusions

The sampled cooperatives in this representative area of the Pakistan Punjab (Thikriwala Markaz) were primarily used as a government vehicle to distribute interest-free loans in kind intended to increase agricultural production. The cooperatives had no other functions besides providing loans 'in kind' and even this function was not adequately performed partly as a result of abuse of the scheme by the cooperative's operators and the cooperative inspector who by various illegal means channelled most of the public funds to themselves or to the influential and other vested interests in the Markaz.

The sponsors of the interest-free lending scheme were confident that through the societies' intimate contact with the villagers, they would create an atmosphere wherein not only the members but also non-members as well would benefit from the government's agricultural development programmes. However, most primary societies lacked the organizational set up to assume the role of providing public funds to the vast majority of the farming population. The origins of the failure of these societies are to be found in too ambitious a plan of the government to promote agricultural development through hastily organized primary units; lack of adherence by the departmental staff to the requisite administrative discipline required for the registration of the societies; infrequent audit and inspection of the societies, absence of comprehensive follow-up by the departmental staff in respect of the end use of credit; lack of proper education and training of the management committee members by the department and/or the Punjab Cooperative union; inadequate mobilization of members resources, too much reliance by the government on the sincerity and ability of the cooperative inspector to supervise the cooperatives' operations.

The commitment of an enormous amount of credit by the government to this scheme should have entailed the creation of a viable institutional framework to ensure that the loans provided were actually utilized by the members for increasing agricultural production. This would have avoided the subsequent squandering of much-needed resources for agricultural development. This framework was not created; nor was the need to do so even recognised. The basic problem was the presumption that merely by injecting free credit into a nominally cooperative structure agricultural development would automatically occur. The preceding section demonstrated the extent to which the Raiffeisen principles were breached by these societies: in effect there was no spontaneous support for true self-help societies. That being the case the alternative should have been to tailor the organizations into a practical institutional device suitable for promoting the cause of agricultural development, not just by making loans available but also by imparting the requisite technical know-how. It has to be concluded that the reorganization of credit provision in 1978 did not serve the objective of agricultural development through cooperation. It amounted to a waste of public funds, an outcome that might have been anticipated if more thought had been given to institutional structures in general, and to the demanding principles of cooperation in particular.

Notes to Chapter 7

1. See for instance Khan, D.A. (1982) pp128-29; Government of Pakistan Report of the National Commission on Agriculture (1988) Chapter 23.

2. See Government of Pakistan Report of the National Commission on Agriculture (1988) pp401-402.

3. A 'Markaz' is an administrative area covering some 30-40 villages. See Chaudhry, M.H. (1976) pp1-15.

4. Ibid pp21-22; The data were updated up to the year 1987 from the official records of the Markaz maintained by the Government of the Punjab, Department of the Local Governments.

5. Ibid.

6. See for instance Haroon, F. (1986) pp7-8.

7. See Waheed, A. (1985) Chapter 1. It may be noted that the prescribed procedure is seldom adhered to strictly by the departmental officials.

8. See Waheed, A. (1985) Chapter 1; An explanation to the determining of the Maximum Credit Limit (MCL) was made by the officials of the Department of Cooperation.

9. See Centre for Administrative Research and Development (1984) pp29-33.

TABLES – CHAPTER 7

Table 7.1 General Profile of Membership in the Sampled Cooperatives

Total farm households in the Markaz	Percent of farm house-holds enroled by the cooper-ative movement	Total members in the sampled coops.	Average members per cooper-ative	Size of Holdings of Members			Educational Level of members		No. of total members who purchased coop. shares
				0-5 acres	5-12½ acres	Above 12½ acres	*Illit.	**Lit.	
19212	4.8%	925	32	316 (34)	509 (55)	100 (11)	601 (65)	324 (35)	139 (15)

Note: Figures in brackets indicate the percentage of total 925 members in 29 cooperatives.

* Illit. = Illiterate
** Lit. = Literate

Source: Offical Records of the 29 sampled cooperatives.

Table 7.2 Sources and Composition of Working Capital in the Sampled Cooperatives

(Amount in Rupees)

	Total working capital	Share capital	Reserve funds	Total deposits	Total owned funds	Number of loan beneficiaries at the MCL (i.e. Rs 10,000 Per Borrower)
Total	3511272 (-) *	87781.00 (2.50)	17907.48 (0.51)	50913.44 (1.45)	156601.92 (4.45)	351
Per member (small farmers)	4256.08	106.40	21.70	61.71	189.82	

* Figures in brackets show percent share of the total working capital from the respective source.

Source: Official Records of the 29 sampled cooperatives.

Table 7.3 Size of Land Holdings and the Main Occupation of Cooperative Operators in the sampled cooperatives

(Numbers)

Agriculturists		Business-men	Govt./Public servants	Influential persons	Total
Up to 12.5 acres	Above 12.5 acres				
5 (17)	10 (32)	9 (33)	2 (8)	3 (10)	29 (100)

Figures in brackets indicate percentage of the main operators from the respective categories in the 29 sampled cooperatives.

Source: Official Records of the 29 sampled cooperatives.

Table 7.4 Period of occupancy of the members of the management committees in the sampled cooperatives

Particulars	Name of Office									
	President		Vice-President		Secretary		Treasurer		Executive Members	
(Years)	Societies No.	%	Societies No.	%	Societies No.	%	Societies No.	%	Societies No.	%
1	–	(–)	–	(–)	–	(–)	2	(10)	5	(12.5)
2	–	(–)	–	(–)	5	(25)	1	(5)	5	(12.5)
3	1	(5)	5	(25)	–	(–)	2	(10)	2	(5)
4	11	(55)	9	(45)	8	(40)	9	(45)	18	(45)
5	1	(5)	2	(10)	1	(5)	2	(10)	3	(7.5)
6	–	(–)	–	(–)	1	(5)	–	(–)	–	(–)
7	–	(–)	–	(–)	1	(5)	–	(–)	–	(–)
8	1	(5)	1	(5)	3	(15)	1	(5)	4	(10)
9	1	(5)	–	(–)	–	(–)	–	(–)	–	(–)
10	2	(10)	–	(–)	–	(–)	–	(–)	–	(–)
Above 10	3	(15)	3	(15)	1	(5)	3	(15)	3	(7.5)

Figures in parentheses indicate percentages of the total societies.
Source: Official records maintained by the 20 sampled societies.

Table 7.5 Education Levels of the members of the management committees of the sampled cooperatives

Name of office	Education Levels of the management committee members													
	Illiterate		Primary		Middle		Matric		F.A.		Graduates		Higher Degrees	
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
Presidents	2	(10)	2	(10)	10	(50)	5	(25)	1	(5)	-	(-)	-	(-)
Vice Presidents	3	(15)	5	(25)	4	(20)	5	(25)	1	(5)	1	(5)	1	(5)
Secretaries	-	(-)	1	(5)	5	(25)	9	(45)	2	(10)	3	(15)	-	(-)
Treasurers	3	(15)	1	(5)	3	(15)	3	(15)	5	(25)	4	(20)	1	(5)
Executive members	12	(30)	9	(22.5)	9	(22.5)	5	(12.5)	1	(2.5)	3	(7.5)	1	(2.5)

Figures in brackets indicate percentages of respective categories

Source: Official Records of the 20 sampled cooperatives

Table 7.6 Number of Shares held by the Management Committee Members in the Sampled Cooperatives

No. of shares	Name of Office									
	President		Vice-President		Secretary		Treasurer		Executive Members	
	No.	%	No.	%	No.	%	No.	%	No.	%
1	–	(–)	1	(5)	1	(5)	–	(–)	1	(2.5)
2	–	(–)	–	(–)	1	(5)	–	(–)	1	(2.5)
3	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)
4	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)
5	3	(15)	3	(15)	3	(15)	3	(15)	6	(15)
6	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)
7	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)
8	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)
9	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)
10	17	(85)	16	(80)	15	(75)	17	(85)	32	(80)
Above 10	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)

Figures in brackets indicate percentages of the respective categories

Source: Official Records of the 20 sampled cooperatives

Table 7.7 Audit and Inspection of the Sampled Cooperatives by the Departmental Staff, 1985-87

(Average per Annum)

Average number of Audits undertaken by		Average number of Inspections made by				Average number of Visits made by	
Sub-inspector	Inspector	Sub-inspector	Inspector	Assistant Registrar	Deputy Registrar	Sub-inspector	Inspector
0.25	--	0.05	0.05	0.02	0.01	0.13	0.06

Source: Official Records of the sampled cooperatives

Table 7.8 Factors Influencing the Sampled Members to Join the sampled cooperatives

Influencing factors		Total members: 75	
		Number	Percentage of the total members
1.	Wanted higher return for farm business	75	100
2.	Belief in farmers working together	73	98
3.	Persuasion and influence of an existing member	19	25
4.	Motivation of the departmental staff	56	75
5.	Alternatives to cooperative credit are too time consuming	63	84
6.	Neighbours, friends and relatives belonged	11	15

Source: Author's Field Work

Table 7.9 Reasons stated by the sampled Non-members for not joining the cooperatives

Total Non-Members interviewed: 37

	Reasons	Numbers	Percentage of total
1.	Not aware of the existence of a cooperative in the village	17	46
2.	Refused entry by vested interests in the cooperative	14	38
3.	Fear of bad debt	3	8
4.	Cooperative Inspectors did not ask to join	18	49
5.	Engaged in other businesses and cannot find time to participate in cooperative affairs effectively	7	19

Source: Author's Field Work

Table 7.10 Sources and Purposes of Credit obtained by the sampled Members and the sampled Non-members

(Amount in Rupees)

Purposes for which credit obtained	Total Cooperative Credit		Institutional Credit from other sources		Non-Institutional Credit		Total Credit available	
	Members	Non-members	Members	Non-members	Members	Non-members	Members	Non-members
Seed	9322 (60)	--	--	2121 (32)	6302 (40)	4562 (68)	15624 (100)	6683 (100)
Chemical fertilizer	154521 (82)	--	1103 (1)	35915 (55)	32107 (17)	29415 (45)	187731 (100)	65330 (100)
Pesticides	--	--	--	--	9635 (100)	18943 (100)	9635 (100)	18943 (100)
Any other (e.g. Diesel, Minor farm implements Development loans	--	--	172139 (54)	12446 (15)	148513 (46)	72688 (85)	320652 (100)	85134 (100)
Total loans	163843 (31)	--	173242 (32)	50482 (29)	196557 (37)	125608 (71)	533642 (100)	176090 (100)

Figures in parentheses are percentages of the total credit available from the relevant source:

Source: Author's Field Work.

Table 7.11 Pattern of Fertilizer application by the sampled Members and Non-Members

(in Nutrient Kgs./acre)

Members			Non-members		
N (Nitrogen)	P (Phosphate)	Sub-total	N (Nitrogen)	P (Phosphate)	Sub-total
36.02	27.23	63.25	38.45	21.28	59.73

Source: Author's Field Work

Table 7.12 Average Yield per Acre of Major Crops of the sampled Cooperative Members and the sampled Non-Members.

(in Kgs./Acre)

Crops	Member farms Average yield	Non-member farms Average yield
Wheat	948	956
Cotton	740	716
Sugarcane	17272	17532

Source: Author's Field Work.

Table 7.13 Gross Income of the sampled Members and the sampled Non-Members

(Amount in Rupees)

	Annual Average Income per Household	
Source of Income	Members	Non-Members
Income from farm enterprise	45731 (79)	46051 (90)
Income from non-farming activities	12349 (21)	4981 (10)
Total income	58080 (100)	51032 (100)

Figures in parentheses indicate percentage share to the total income from the relevant sources.

Source: Author's Field Work.

Table 7.14 Views of the sampled Cooperative Members on the Provision of Fertilizer from Cooperatives

(Views of 75 members)

Questions	Response of the Members: Agree	Disagree	Not sure
1. Cooperative ensures supplies ahead of sowing time	70 (93)	5 (7)	-
2. Marketing expenses are minimized as fertilizer is supplied at members door steps	35 (47)	10 (13)	30 (40)
3. Fertilizer available from the cooperative is cheaper than from other sources	17 (23)	39 (52)	19 (25)
4. Cooperative fulfils all fertilizer needs	71 (95)	4 (5)	-
5. Weight of the fertilizer is the same as written on the bag	29 (39)	3 (4)	43 (57)
6. The quality of fertilizer supplied by cooperative can be compared with the fertilizer obtained from any other source	71 (95)	-	4 (5)

Figures in parentheses are percentages of the total respondents.

Source: Author's Field Work.

Table 7.15 Members' Views on the Provision of Wheat Seed by the Cooperatives

(Views of 40 members)

	Questions:	Response of the Members Agree	Disagree	Not sure
1.	The quality of wheat seed supplied by the cooperative is better than obtained from any other sources	8 (20)	2 (5)	30 (75)
2.	Adequate quantity of seed is supplied as and when needed	21 (52)	19 (48)	-
3.	The price charged by the cooperative is lesser than of any other source	13 (33)	5 (12)	22 (55)

Figures in parentheses are percentages of the total respondents.

Source: Author's Field Work.

Table 7.16 Members' Views on the General Aspects of Cooperation

(Views of 75 members)

Questions:	Response of the Members: Agree	Disagree	Not sure
1. Farmers must cooperatate if they have to improve their social and economic status	52 (69)	8 (11)	15 (20)
2. Belonging to a cooperative means loss of independence	17 (23)	55 (73)	3 (4)
3. The only reason to join cooperative is to receive interest-free loan	72 (96)	3 (4)	-
4. Cooperative is for more progressive farmers	59 (79)	15 (20)	1 (1)
5. Cooperative ensures timely provision of goods and services	63 (84)	7 (9)	5 (7)
6. Cooperative has simple procedure for loan advances and its recovery	53 (71)	14 (19)	8 (10)
7. Cooperative management protects interests of weaker members	25	42	8
8. Decisions in a cooperative are taken on democratic basis	12	31	32

Figures in parentheses are percentages of the total respondents.

Source: Author's Field Work.

Table 7.17 Type and Classification of the sampled cooperatives.

Type of Societies											
Genuine societies		Non-genuine societies		One man societies		Family societies		Bogus societies		Total societies	
No.	Percent	No.	Percent	No.	Percent	No.	percent	No.	percent	No.	percent
2	6	4	11	16	46	7	20	6	17	35	100

Source: Author's Field Work.

Table 7.18 Classification of Sampled Members according to the Farm size and tenurial status.

Classification according to Farm Size						Classification according to Tenure						
Landless		Small up to 12.5 acres		Large above 12.5 acres		Owner		Owner-cum Tenant		Tenants		Total
Record	Survey	Record	Survey	Record	Survey	Record	Survey	Record	Survey	Record	Survey	
-	4	75	57	-	14	43	49	17	19	15	7	75
-	(4)	(100)	(76)	-	(19)	(57)	(65)	(23)	(25)	(20)	(10)	(100)

Figures in parentheses are the percentages.

Source: Author's Field Work and the Official Records of sampled Cooperatives.

Table 7.19 Distribution of the sampled Cooperative Loans According to the different loan categories.

Actual loans		Family loans		Bogus loans		Total loans	
No.	Amount	No.	Amount	No.	Amount	No.	Amount
11	40797.81	9	50212.69	55	222818.83	75	313829.35
(14)	(13)	(12)	(16)	(74)	(71)	(100)	(100)

Figures in parentheses are the percentages.

Source: Author's Field Work.

Table 7.20 Extent of Genuine Loans

Actual plus Family Loans													
Genuine loans		Loans with area under reported		Loans with area over reported		Loans below reported amount		Total actual + Family loans		Bogus Loans		All Loans	
No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
4	5	3	4	8	11	5	7	20	26	55	74	75	100

Source: Author's Field Work.

CHAPTER 8

SUMMARY AND CONCLUSIONS

Cooperative ideas were imported from Europe into the Indian sub-continent from the beginning of the 20th century. Their importation posed inevitable problems of transfer and assimilation of an alien cultural complex. Treating the period to the present as one of trial and error in cultural transfer and grafting on of an alien institution the results achieved at the local level in the Punjabs - from both a social and an economic standpoint - have on the whole not been very satisfactory, to judge from the findings of the present research. The question has to be faced, therefore, as to the wisdom of continuing along the same lines as in the past. It may be that more promising solutions to the problems of achieving development lie elsewhere. On the other hand, the possibility should surely be explored of creating new and more dynamic forms of cooperatives, better suited to local conditions and better able to mobilize the peasants effectively. After all, the present research has not demonstrated the inappropriateness of cooperative ideals; it has established, however that these are unattainable unless existing cooperative policies are consonant with these ideals and genuinely directed towards the benefit of rural populations.

Prior to presenting the conclusions and policy implications of the present study a note on the limitations of the research may be in order.

It could be said, with some justification, that the research has been both too general and too particular. On the one hand the interpretation and analysis of available documentation (academic literature, government reports and statistical data spanning some 70-80 years) can do no more than present a generalised picture of the rôle and achievements of cooperation in the Punjab. By its nature it can say little about the detailed performance of the institution of cooperation at the village level, even although that is the matter for concern. On the other, the case study, focusing on detailed village-level performance, is open to the charge of unrepresentativeness - that is, it may say little of relevance to the general picture. Indeed, it could be said that, since so few genuine cooperatives were found to exist, the case study is scarcely an indicator of general cooperative performance. This dilemma could only be resolved by a much more extensive and detailed village-level study, in relation to which the present study could be regarded as a provisional pilot study. In the absence of a wider survey the tension must remain, and care has to be taken in formulating the conclusion of the present research.

8.I <u>Summary of the Main Findings</u>

First, the survival and success of cooperatives is contingent on the spontaneous commitment of members to the principles which distinguish this particular institution from other structures of economic activity. Of course rural communities have to be introduced to the possibility of cooperative forms of organization: cooperative ideas and possibilities have to be diffused and in that respect government involvement may be necessary. However, much of the criticism of cooperative performance in the Punjab can be attributed to the fact that the cooperatives were virtually imposed from above on the local communities. The respective governments, in great haste for economic and/or political success, generated large numbers of cooperatives to carry out what may be bluntly called half-baked development policies. Membership of such cooperatives was to all intents and purposes arranged by a form of official bribery: rural folk were enticed into membership by promises of government hand-outs. It is hardly surprising that these spurious cooperatives mostly collapsed, with great damage to the reputation of the cooperative movement as a whole. Adequate credit was not granted, loans were generally not fully recovered and there was endless recrimination.

Second, the Punjab cooperatives largely failed to tap and display indigenous rural capital. This is a complex issue; in principle a cooperative could harness capital which already exists or modify saving motives to generate new capital - or indeed both. But the mere formation of a group of persons into a cooperative does not necessarily itself create the resources to obtain capital items. A group of farmers forming a cooperative may collectively produce on a sufficient scale to justify employment of their own tractor, for instance, but they still may not have access to sufficient funds to buy one. In line with the movement's historical antecedents it was generally assumed that the cooperatives could be self-financing; therein, modest individual capitals could be pooled to greater collective effect. But due to the nature and extent of the poverty of the vast majority of rural folk in the subsistence setting in the Punjabs this was not possible. Cooperatives did not flourish spontaneously in large numbers due to a kind of economic anaemia. Being uniformly impoverished and lacking capital from their own sources, they had to rely to an excessive degree on borrowings from the government via the cooperatives' banking systems. Nonetheless despite doing so cooperatives failed to provide the requisite services to all their members, services which in principle should have been financed out of their own pooled resources: they lost the support of their poorer members as a consequence. The redistributional objective of the cooperative ideals was not attained. While it is true that cooperatives should be economically self-sufficient, this does not of course mean that they must raise all their working capital from their own members' resources. There is nothing irrational or discreditable about borrowing, provided the debt can be properly serviced and ultimately repaid - which in turn requires the funds to be put to good use. In practice, cooperatives were established without any rational commercial objectives in the mind of their sponsors. As a consequence cooperatives proved ineffective in terms of any economic criterion.

Third, a common cause of cooperative failure was that the people themselves did not understand what they were doing. The ordinary members knew little or nothing about the way the cooperative was supposed to work, or about their own rights and responsibilities as members. The management committees failed to supervise cooperative affairs effectively. They did not maintain proper records. Nobody seemed to know how to place orders for requirements; how to run a business. Even the simplest village cooperative calls for a significant measure of managerial skills. The complex businesses of the secondary and apex cooperatives called for far more sophisticated management. It is hardly an exaggeration to say that management was almost always deficient - not necessarily to the degree of being fatally so but at least to the extent that it caused the standards of performance to be below what they could have been.

Fourth, the cooperatives in the Punjab exhibited irregularities to an extent which precluded the quality of mutual trust and dependence on each other which was a characteristic of the cooperative ideal. Dishonesty is a problem in almost all human organizations. The fact has to be faced, however, that cooperatives in the Punjab were particularly susceptible to it in most aspects of their operations. The opportunity for dishonesty was considerable. The members were uneducated, often illiterate. They did not fully understand the importance of the cooperative to them; they were unaware of the potential benefits from cooperation. Unfortunately too often, cooperation did not mean "unity is strength" to the cooperators, but "what belongs to everybody, belongs to nobody". Comparatively large sums of money were handled by people whose own incomes were not at stake: public funds were channelled into private pockets, especially where there was little risk of being found out. Where there were suspicions of dishonest practices it was difficult to substantiate them. Widespread small-scale pilfering and embezzlement were relatively easy to cover up, especially when the cooperatives' records were not properly kept or audited.

Fifth, the fundamentally democratic nature of cooperatives was conspicuous by its absence. More often than not cooperatives were dominated by the few wealthy or influential people who directed the affairs of cooperatives to serve their own interest, rather than the interest of the membership as a whole. This was primarily because the inegalitarian structures of the local communities tended to be reproduced in the cooperatives as well, contrary to the cooperatives ideal of the strong helping the weak. Loans from cooperatives were often given by the management to a few prominent members, leaving the mass of the poorer members with nothing. They continued to rely on non-institutional sources which were generally much more flexible about the repayment of principal as long as the money-lenders continued to receive high interest rates.

The conclusion that cooperatives in the Punjab did not provide much benefit to the masses of poor people is supported by evidence from quite diverse sources. It is an expected conclusion when we take into account the nature of local communities and how cooperatives operate in them. Indeed, the early cooperative movements in England never succeeded in reaching down to the lowest levels of the working class and mainly appealed to the better-off sections of the working class, until there was a substantial rise in wages for the main body of industrial workers after the middle of the 19th century. There is almost a parallel situation in the Punjab, where the majority of the rural folk live at or below subsistence levels: there is a comparative neglect of the small cultivators by the cooperatives, the much larger share of cooperatives resources going to the bigger cultivators. There is thus a situation in which the fruits of development continue to be denied to large sections of the rural community. This does raise an important general issue, however: are cooperatives an appropriate institution where people are uniformly poor (and so there are essentially no resources to pool) and where there is not already a strong development process underway (e.g. expanding urban markets for agricultural produce)? Are there external pre-requisites for cooperative success?

Sixth, cooperatives in the Punjab depend crucially on government support and are far from self-reliant. Self-reliance is a prominent objective of national policy. The development of cooperative self-reliance is generally seen as a contribution to national self-reliance efforts. Despite the proclaimed goal, however, government involvement and assistance was considered a necessary condition for the promotion of cooperatives from the very day of the introduction of the movement in the united Punjab and its subsequent developments in the Indian and Pakistan Punjabs. While both in the Indian and Pakistan Punjabs one of the arguments for encouraging the promotion of cooperatives was that for development to occur, the traditional dependency system must be replaced by self-reliance and community initiative, to be achieved through cooperative action. In practice, the introduction of cooperatives in any case did not replace dependency by self-reliance but perpetuated dependency in another form through the cooperative. In effect it involved the substitution of a new dependency system in which the government became a new patron.

Seventh, the supposed causal connection between credit provision and the promotion of rural economic development remains suspect. It was expected that cooperative credit would provide farmers with an effective cheaper alternative to local sources (non-institutional credit market), or to the other institutional sources. By putting this to good use cooperatives would fulfil an important function of promoting agricultural development. Interest rates in the informal credit market would then be lowered and factor prices generally corrected. As against these expected hopes, much of the credit advanced by cooperatives was insufficient in extent to cover even part of the 'production' requirements, and to make matters worse credit advanced by the cooperatives was not put to productive agricultural uses by the members: Moreover, the record of repayment was generally bad. The cooperatives did have mixed but not particularly significant achievements in terms of the diffusion of agricultural innovation and the promotion of higher productivity on their members farms. There was certainly insufficient evidence to conclude that the cooperatives provision of credit was either superior to other institutional means of promoting innovation and agricultural productivity.

The intended benefits of cooperatives are not all economic. However the social benefits from cooperation were less evident than the economic benefits; and the latter were by no means a common feature. Achievements in regard to socio-economic equalization, structural change and relief of mass poverty fell far short of the announced goals of the policy makers. The injection of cooperatives into local social systems that were structured along hierarchical lines or controlled by particular vested interests did not bring much reform or democratization to those systems: the rural setting was not characterized by communal solidarity.

Eighth, the findings of the case study undertaken in the representative area of the Pakistan Punjab established that most of the sampled cooperatives in the region had been established irregularly. At the root of that problem was the particular government policy of providing interest-free credit in kind which was found to be especially advantageous by influential and better-off members of the community, who kept the advantages of it to themselves. Ironically these advantages may have contributed to development outside of agriculture. Certainly the poorer farmers derived very little benefit.

Ninth and finally, it is ironic that having essentially imposed cooperatives on the community, the weaknesses of cooperatives in the Punjab should be attributable to inadequate supervision by government agencies. Ideally, the cooperative movement should provide its own supervision, partly from the elected committees, and partly from the apex organizations (the cooperative union, and the Department of Cooperation) which should provide audit, inspection and guidance services. In practice, however the management committees were not sufficiently knowledgeable, and the support and the supervision provided to the cooperatives by the apex cooperatives were inadequate. The apex was in fact, part of the system itself, and suffering from the same problems. Apex and secondary organisations were almost always under-financed or under-staffed. The major responsibility then fell on the cooperative departments. Almost without exception, they had inadequate staff and funds, and this was one (among many others) main cause of the limited success of cooperatives. The governments encouraged cooperatives to spring up in large numbers in what were adverse circumstances but then failed to provide adequate supervision. The audit work was either inadequate or not undertaken at all. Cooperatives handled large sums of credit without as much as a financial inspection. It is hardly surprising that there were widespread failures.

8.II Conclusions

The assessment of performance of an institutional structure is fraught with difficulty, primarily due to the complex of factors involved. It is by no means a straightforward matter to identify causes of inadequacies of performance when social, political and economic considerations are woven together. The fact that the institution in question is not the product of purely local forces but has instead been transplanted from a quite different time and place adds a further dimension of complexity. Failure could be attributed to rejection of the cultural transplant due to incompatibility, or to its association with the colonial past. Alternatively it could be due to the absence of necessary preconditions linked to opportunities for development and their perception by participants. But equally it could be attributed to government manipulation of the institution, to serve a particular and conceivably ill-suited objective given the circumstances prevailing in agricultural input and output markets in 20th century Punjabs. It is certainly evident that there is something fundamentally wrong with the way the cooperative system - in particular the credit cooperatives-operates, given the social objective of reaching the masses of the poor farmers. Either the credit system itself needs to be changed (by the provision of more extensive long-range support through arrangements to meet specific and well-identified problems of small farmers, who have inadequate collateral by insurance schemes against inability to repay loans because of weather or market conditions or the failure of new technology); or else the objectives should be changed so as to reduce emphasis on social goals of redistribution or relief of mass poverty and leave these goals to other kinds of programmes. The research findings suggest that the whole problem of incentives and facilities offered by cooperatives need to be reviewed.

Cooperatives can be a channel for delivering major technological innovations to their members such as improved seed, fertilizer, pesticides) but only when they have a clear mandate from and loyalty of their member participants; when mutual trust is widespread and the cooperative leaders exercise an accountable form of authority at regular meetings. The social solidarity of members is thus crucial. Introduction of the novel institution of cooperation can prove a success only when the community members are mobilized to use traditional social and political institutions to deal with local problems, if any, and then engage in a cooperative group to undertake other developmental tasks.

Cooperatives will not prove successful in the communities where class and caste structures are inegalitarian; cooperatives in effect become the preserve of the middle and upper class and their effectiveness in the community remains slight. As such cooperatives will bring success only when they are introduced into communities which have more flexible socio-economic structures and from which a relatively homogeneous group (in terms of their personal commitment to cooperation and to the socio-economic changes which constitute development) can be drawn into the cooperatives' membership. This would seem to be a principal pre-requisite for institutional change to occur and cooperatives to be enabled to create a cohesive group oriented to local socio-economic improvements.

To be effective, however, cooperatives also need to have strong links with outside agencies, such as the secondary and apex cooperatives, and the Department of Cooperation. In spite of the risks of being interpreted as imposing an alien structure on local communities there is still a necessity for the government to play an active role in promoting the idea of cooperation. Unless the outside agencies ensure the training of the local leaders, assist the cooperators in adopting new technology, provide sufficient credit and other requisites, audit cooperative accounts regularly and discipline those responsible for defaults and irregularities, there is no point in expecting any success from any type of a cooperative.

The difficulty of successfully equalizing or extending access to resources and means of production to the poorer members is an important issue that has emerged from the present research. Arguably, however, the problem is primarily a matter of the need for basic land reforms which should be enacted and enforced by the government. To blame cooperatives for failing to resolve what they are not designed to tackle is hardly appropriate. It can readily be argued that the more prosperous and large farmers will always be in a better position to make use of the services of cooperatives under the above conditions, and this in turn would continue to accentuate the income gap between themselves and the small farmers.

The failure of cooperatives can easily be attributed to the absence of conditions necessary for their success. Despite the risks of this line of argument it has to be said that some of the failures have little to do with the structures and functions of cooperatives as such. The areas in which external factors have contributed to the failure of cooperatives are: inequality in land ownership, illiteracy, corruption, dishonesty, political instability. The influence of these or other factors on cooperatives failures cannot be overlooked.

Cooperatives are frequently considered to be an effective tool for the structural change which is a basic pre-condition for the attainment of social and economic justice. The research suggests that this is too ambitious an expectation. It is too much to expect cooperatives (being essentially local institutions) to bring about such fundamental changes themselves. These changes are of a highly political and sensitive nature, materially involving policy considerations at the national level. The cooperative movement can only emphasise the education of members with the objective of developing social awareness so that they may, in addition to participating more effectively in the immediate affairs of their cooperatives, take a keener interest in the wider socio-political problems as a whole.

Despite the fact that there is generally a widespread misappropriation of cooperatives' funds due to the dishonesty of the cooperative office-holders, it is vain to expect cooperatives rapidly to change the people's morals. Human nature has not changed much in the past and there is little ground for expecting to discover any radical mechanism through which morals will be transformed at once. In part the matter is one of disparities of social and economic powers, as well as the abuse of that power. These cannot be remedied in the short run. Indeed, the whole history of Europe show that it was only through the attainment of successful economic growth that greater equality of distribution and social equality was achieved. Yet there is opportunity for an institution to embody checks and balances to restrain illegal behaviour, and in that respect there is clearly room for improvement.

In view of all of the above there may be little point in launching crash programmes for the expansion of cooperatives. There is a need for adequate provision for cooperative education and training, especially to inculcate in the minds of the cooperators the awareness of the rights and responsibilities towards cooperative in addition to the managerial skills. The likelihood of success or failure of a cooperative will thus be influenced by the attitudes of the cooperators and the structural aspects of the whole programme, including the secondary and the apex cooperative organizations.

Perhaps the most fundamental issue is whether or not the performance of the cooperatives, for all that it has been shown to be inadequate, has been better than might have been achieved by some alternative institutional arrangement: for example, an agency organized and administered wholly by the government to provide the same services or functions that cooperatives usually provide. An alternative system could involve peasants being treated separately and individually by relevant government departments. Yet another might involve delivery of services by a private agency. Then the basic issue to be considered by the policy makers is whether better results are more likely to be obtained by treating peasants individually or by grouping them into an organization, whether it be a cooperative or some other institution.

A radical alternative to the reform of the existing cooperative institutions would be a policy seeking to evolve wholly new kinds of local organizations - 'units of rural action' that could more effectively stimulate peasant participation and in particular more effectively involve the poorer members of the local community. To provide low-income farmers with the services and resources essential for their work and well-being will need profound social structural transformation. There are several structural factors identified by the present research that limit the development of any new organizational approach. The first in this respect is the weight of the vested interests, including the domination of larger farmers in cooperatives affairs: the result of the present patterns of the ownership of land and trade practices. The second factor concerns certain features of class and caste systems that prevent the full participation of subordinate groups in cooperatives. The third factor is the quality of control exercised by the government and the politicians in respect of the movement. Even in the best intended programmes of development, control from outside can appear locally as a new form of alien domination, discouraging participation. If large numbers of poor peasants and landless rural workers are to be mobilized for development using their own and external resources, they must be shown that the benefits accrue to them and not to the privileged groups in their localities or surroundings.

To sum up, the research has identified a pressing need for a serious review of cooperative policy. The research has established that cooperatives failure has been less a demonstration of the irrelevance of cooperative principles to the pursuit of development, and more a clear indication that the annexation of the cooperative concept to serve misguided and insensitive government policies creates organizations which are cooperatives in name only. Such a review should consider possible specific adjustments to cooperative methods and procedures to meet some of the individual problems the research has identified. It could in addition consider the possibility of converting existing credit-only cooperatives to multi-purpose cooperatives, to place the creation and employment of credit in a more integrated commercial setting. Finally it could also examine the possibilities and comparative advantages of alternative institutional arrangements to promote socio-economic development in the rural areas.

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