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AN APPRAISAL OF CREDIT CO-OPERATIVES
IN LYALLPUR DISTRICT, WEST PAKISTAN

by

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CREDIT CO-OPERATIVES IN LYALLPUR DISTRICT

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ABSTRACT

A co-operative is a democratic member owned, controlled, and patronized business organization with unique characteristics and distinctive principles to follow. A credit co-operative is a co-operative type of savings and lending association operated by and for the mutual benefits of its members. Usually it has two fold purposes: (1) to promote thrift among its members by encouraging them to open savings accounts and to build up cash reserves through periodic deposits of savings, and (2) to provide a readily available local source of credit for those of its members who need to borrow. The ultimate aim of the co-operators in the society is to build up sufficient capital for their own needs as a group.

The history of co-operatives in Lyallpur district started in 1906 with the establishment of primary credit and thrift societies, on the Raiffeisen model of unlimited liability, to relieve rural indebtedness. The co-operative movement in Lyallpur area and West Pakistan as a whole did not grow out of the initiative of the people. It was thrust upon them by the government without preparing adequate groundwork in member education.

From the findings of the present study, the main features of the societies were: small size; un-limited liability; management by honorary secretary-treasurers; lack of members' knowledge of principles and practices of co-operatives; low member equity capital; small volume of business; small average size loan; more than necessary official government control; lack of any definite scheme or program to attract and mobilize member savings and deposits; lack of adequate supervision of loans; and

absence of integration of credit with provision of production supplies and the marketing of members' produce.

Both credit and thrift aspects of the societies were below mark and ample opportunities for their expansion exist. The loan funds of the societies should be augmented through continuing member investment in capital by purchasing additional shares of stock, accumulation of reserves, and acceptance of increased deposits. A thrift campaign to encourage members to increase their savings and deposit them in their society should be carried out by the Co-operative Department in collaboration with the West Pakistan Co-operative Union.

Special emphasis should be placed on the education of members and the training of personnel by the Government. Members will patronize and participate more actively in their co-operatives when they understand co-operation and know about their own co-operative.

To be able to provide superior services to the members, co-operative credit societies must be managed by qualified secretary-treasurers working full time. For the effective supervision and guidance of the societies, capable and qualified sub-inspectors are required. To attract such personnel their salaries must be increased and better facilities should be provided to them.

Through carrying out the above recommendations, credit societies in the Lyallpur district should greatly improve their operations to meet the needs of the members for loans adequately.

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CHAPTER I

INTRODUCTION

In many countries farmers join together into co-operative societies to improve their position for obtaining financing for their farm businesses. These societies may be organized for specific functions such as obtaining low cost credit, purchasing of farm supplies, the use of farm machinery, processing and marketing of farm products, or a combination of these services.

Definition of a Co-operative Society

In order to determine the essential features of a co-operative enterprise, it is necessary to understand clearly the definition of a co-operative society. It is in essence a democratically controlled society through which the members jointly practice economic co-operation.

Various definitions of economic co-operation have been attempted by sociologists, economists and legal thinkers at various times. To Sir Horace Plunkett, a co-operation was "self-help made effective by organization." While Hobart Calvert puts it that "co-operation is a form of organization wherein persons voluntarily associate together as human beings on a basis of equality for the promotion of the economic interests of themselves."¹

In Calvert's definition apart from the principle of equality

¹ E.M. Hough, The Co-operative Movement in India, (London: Oxford Univ. Press, 1959), p. 40.

where persons voluntarily associate together as human beings, other essential features of a co-operative society which distinguish it from a joint stock profit making corporation are not clear. It, therefore, seems desirable that the definition of a co-operative society should be more comprehensive, so that its distinguishing features can be seen at first sight. This can be achieved by slight modification of Clavert's definition as given by Mr. Riazuddin Ahmad, chairman of the West Pakistan Co-operative Development Board, who says, "A co-operative society is a form of business organization in which persons voluntarily and actively associate together in a spirit of mutual help on a basis of equality for the achievement of their common economic objects."²

In simple words, therefore, a co-operative organization is a business owned, controlled and patronized by its members and operated by and for them on a non-profit basis. It is a business owned by the people who use it, not to earn profits on their money invested in its capital, but to obtain some needed service or services at as low cost as possible, consistent with continual functioning of the business.

In a co-operative society, the personal participation of the members in its affairs is of utmost importance. This can be seen from a comprehensive statement made by Edwin C. Nourse.

A co-operative organization aims to perfect a system of bringing many individuals together in a business association which will retain the personal interest and responsibility of the individual, instead of sub merging it or allowing it to be lost, as is the case in the highly impersonal form of the ordinary corporation."³

² A. Riazuddin, "Essential Features of a Co-operative Enterprise", West Pakistan Co-operative Review, West Pak. Co-op. Union, Vol. 1, (July 1963), p. 7.

³ Edwin C. Nourse, "The Economic Principles of Co-operation", Agricultural Co-operation, ed. M.A. Abrahamsen and C.I. Scroggs, (Minneapolis: Univ. of Minnesota Press, 1957), p. 171-172.

Principles and Practices of Co-operatives

A co-operative is a business organization which is different from other kinds of business organizations by its unique principles and practices. "By a principle is meant a 'governing law of conduct', a 'settled rule of action', which describes and defines the basic and essential characteristics of a particular system or a type of organization."⁴

As a business institution, a credit co-operative organization is amenable to the same underlying principles of successful business conduct as any private banking or credit business. It requires adequate capital, efficient management, sufficient volume of business, good records and accounts, etc., as any other similar business does to be successful. These elements of business operations are not, however, distinctive attributes of co-operatives. The principles the writer is concerned about are those which underlie or spell out the co-operative character of the business rather than those applicable to any business organization in general.

The main internationally recognized principles of co-operatives, including credit societies, are:

1. Open selective membership.
2. Democratic control.
3. Limited returns to invested capital.
4. Service at cost, through patronage refunds.

To these can be added several Rochdale practices. The important ones for credit co-operatives are:

⁴ Marvin A. Schaars, "Basic Principles of Co-operatives: Their Growth and Development," Abrahamsen and Scroggs, Ibid., p. 191.

1. Political and religious neutrality.
2. Promotion of education.
3. Books, records and information freely available to members.
4. Co-operative prices in line with those prevailing in the community.
5. Periodic reports to the members.

1. Open Selective Membership

The well known principle of "open or unlimited membership" is partly replaced by a selective membership policy in credit, and some other co-operative associations.

Though membership is open to all who meet the requirements stated in the by-laws, yet it is selective in that only those are admitted who will really abide by the by-laws of the society and serve the co-operative interests rather than just personal interests. This means that no one should be admitted whose membership would be harmful to the society. It is necessary that only those applicants be admitted who are honest in dealings, have good character and reputation, have the same economic interest as other members, are willing to accept responsibilities as members, are willing to abide by the by-laws of the society, and are not among those who have an interest which is in conflict with the objectives of the society. Only such members can contribute to the success of the co-operative society.

As the co-operative organization is basically for the benefit of all the members and works on the principle of mutual help, it is also important to exclude from membership those who have any vested interest or are engaged in a business competing with the co-operative

or have other interests hostile to those of the association. For example, a person who does a "money lending" business in the village, can not be accepted because he has a vested interest which is opposite to that of the society. Such a person, if admitted to the co-operative, may serve as more of a "trouble maker" than a "co-operator" simply because his interests and the interests of co-operative are not the same. He would seek to influence the operation of the society to protect his personal interest as a lender of money.

The selective process enables the co-operative society to reject the "trouble makers" and persons with conflicting interests and enroll as members only those who are worthy of trust and who can enhance greater harmony in the affairs of the co-operative society. The selection of members, however, should not be based on the personal likes and dislikes of the members of the Board of Directors.

The requirements for membership in the co-operative society are stated in its by-laws with the mutual agreement of the members. They should make clear the specific qualifications which applicants must possess in order to be admitted.

2. Democratic Control

This is perhaps a universally acknowledged principle of co-operation. It places ownership and control of the business in the hands of the persons who are intended to be served by the organization, the members. The co-operative society should be managed in a democratic way on the basis that all members have equal rights. Most commonly this is done by allowing each member but one vote on each issue voted upon by the members or in the election of directors.

Democratic control is based on the fact that those who own the association and are to benefit from its services as users or patrons should control it. Democratic control recognizes the personal equality of the members. Edwin C. Nourse states, "Not only it is argued that God has given as much brain power and ability to the man of small means as to the wealthy, but the self-respect and interest and loyalty of each is preserved and developed by this recognition of personal equality."⁵ A phrase of wide usage among co-operators in to the effect that the co-operative association is a union of persons, whereas the joint stock company or corporation is a union of capital. In co-operatives, "the idea is tenaciously held that membership is personal and that control should be democratically apportioned with no additional preponderance given to wealth."⁶

Democracy in control also recognizes that each member is eligible to serve on the board of directors, on committees, and to hold office. Proxy voting is prohibited so as to preserve the personal right of each member and to forestall domination by one or a few in the internal control of the organization.

a) Election of Directors

Members elect the board of directors. Eligibility to be a director should be based upon honesty, hard work, possession of good leadership qualities, interest in the work of the society, understanding of co-operation, and ability and knowledge of the business of the society. Members need to have explained to them that persons who want to be on the

⁵ Edwin C. Nourse, "The Economic Principles of Co-operation," Abrahamsen and Seroggs, op. cit., p. 173.

⁶ Ibid., p. 173.

board for the sake of mere prestige and status will not prove good leaders and should not be elected.

b) Decision Making

Democratic control requires that members have ample opportunity to take part in discussions in membership meetings and then indicate the policy that they prefer by means of their vote.

Members should attend meetings regularly to discuss the business affairs of their credit society, to vote upon the proposals before them, and to co-operate with the secretary-treasurer in carrying out the wishes of the membership.

Board members are the representatives and trustees of those who elect them. Their job is to supervise the management of the business and to see that decisions made by the board and in membership meetings are carried out.

The rights and duties of members in the functioning of co-operatives are varied. They are⁷:

- (1) To vote upon the constitution, by-laws, and amendments to these basic rules of the co-operative society.
- (2) To elect and recall directors.
- (3) To vote upon the appropriation of money for various purposes; to increase or decrease the capitalization; and to authorize deductions for operating costs.
- (4) To require both directors and officers to run the business legally and according to the constitution and by-laws.
- (5) To hold directors and officers liable for any damage

⁷ H.H. Bakken and M.A. Schaars, The Economics of Co-operative Marketing, (New York: McGraw Hill Co., 1937), p. 339.

incurring to the members for failing to discharge their responsibilities or violating the by-laws or constitution of the association.

The board of directors is responsible for general supervision and control of the business and the affairs of the association. The board of directors, with the manager, constitutes the active management of a co-operative. They have to carry out certain obligations as listed below:

- "(1) To formulate operating policy.
- (2) To enforce the policies adopted.
- (3) To appraise the results of its policies.
- (4) To hold on to competent officers who are to execute the board's policies.
- (5) To keep in touch with the membership as a liason group between the association and the membership.
- (6) To create confidence in the organization."⁸

If a director is negligent in these duties, the membership can recall him or fail to re-elect him when his term expires. If directors are negligent in the discharge of their duties, or deliberately do things which result in members suffering losses, the members can collect damages from the negligent directors. The members, however, serve no good purpose if they interfere with the employees and the manager in the details of the co-operative business. They have to take up such matters with the directors, who refer them to the manager.

⁸ Ibid., p. 340.

3. Limited Returns to Invested Capital

A co-operative needs money like any other business. It cannot borrow all the required capital, so it is necessary for members to invest the equity capital in a co-operative required as the financial foundation for its operation. When some members invest proportionally more than others, it is equitable to pay interest dividends on all shares of the co-operative. Since capital invested in shares is as productive as money borrowed from a bank, members are paid the same interest rate on their share capital as the co-operative pays on borrowed money. However, the purpose of members in joining a co-operative is service at cost rather than profits on their investment. Therefore, they can have service at cost only if all savings above the cost of operating the co-operatives, including interest on all capital employed in the business, are returned to them.

The principle of paying a limited amount for the use of capital is diametrically the opposite of the principle of having capital be the principal beneficiary of any gains, as is the case in a non co-operative corporation. In a co-operative it is the members who assume the major business risk, not capital. In other types of business, money is invested by the stock holders to earn the largest return possible and capital assumes all the risks.

In order that member patrons may obtain the major benefits of co-operative action, limited returns to capital are essential. The higher the dividends paid on shares, the less is the money remaining for division among the members as patronage refunds.

4. Service at Cost Through Distribution of Patronage Refunds

In a co-operative organization, "business operations are so conducted that they approach a cost basis."⁹ This means that provisions are made to return to patrons on an equitable basis any amounts over the cost of performing the services that the co-operatives are set up to perform. According to H.M. Oslen, patronage refund is defined as, "the patron's interest or share in the net amount of money arising from the operation of the group enterprise over and above the expenses of operation."¹⁰

Since the costs cannot be known exactly at the time the services are performed, the charges cannot be set to cover the total expenses exactly. In order to be safe, co-operatives follow the charges and prices established by their competitors which include the normal rate of profit. The surplus thus created is termed "net saving". Net savings are used to pay interest-dividends on share capital at the current rate of interest charged by banks and the amounts stated in the by-laws are set aside in the various reserves to maintain the financial strength of the co-operative. The residual amount is to be divided among the members as patronage refunds according to the amount of business each has done with the society during the year.

A co-operative society is a non-profit organization. Its purpose is to perform some service or services for its members more satisfactorily than they get else where and at lower net cost. It operates without profit through the distribution of patronage refunds which returns to the patrons the amount they over paid when they paid for services as

⁹ H.M. Olsen, Some Principles and Practices of Farmer Co-operatives, (Danville, Illinois: The Interstate Printers and Publishers, Inc., 1961), p. 14.

¹⁰ Ibid., p. 14.

they were rendered them. Some people have the idea that co-operatives earn profits as a result of their successful working like any other business concern. However, the dominant object of a co-operative society, it must be remembered, is the improvement of the economic condition of its members, and if this purpose is to be fulfilled, it must be able to earn savings as a result of its successful working like any other business concern.

The net savings of a co-operative legally belong to the members of the co-operative in their capacity as the patrons of the business and on account of the contractual obligations stated in the by-laws to return to the members any surplus above expenses on the basis of their representative patronages. The by-laws provide that all sums above the cost of performing services to the members must be returned to them as patronage refunds in proportion to the volume of business each has done with the co-operative. This requirement is, however, not carried out in many credit societies based on the Raiffeisen model, where instead of paying refunds on interest paid by borrowers the savings are allocated towards various funds in building up the capital of the societies. This aspect will be discussed in more detail later in this thesis.

It is due to the distribution of the net savings as patronage refunds to the members that co-operatives are exempt from paying income taxes upon patronage refunds. Bin Tareef observed that, "this obligation is recognized by courts as legally binding, so that co-operatives subject to the usual tax upon corporate income are authorized to exclude from taxable income, the total amount distributed as patronage refunds."¹¹ In

¹¹ Bin Tareef, M., Evaluation of Some Farmer Co-operatives in Lebanon, (Unpublished Master's Thesis, School of Agriculture, AUB, 1963), p. 18-19.

some countries co-operatives which distribute the same patronage refunds to non-member patrons as to members qualify for exemption from the corporation income tax.

Rochdale Practices

It is generally considered that the principles and practices for successful co-operatives were first formulated by the Rochdale Society of Equitable Pioneers. This group of weavers opened in 1844 a co-operative consumer store to meet their needs which later achieved remarkable success and progress. Therefore, the Rochdale Pioneers and their practices are very commonly given a great deal of consideration by co-operators at the present day. Though, some of their practices have been, over time modified in one or more ways, yet their importance cannot be overlooked. It seems that just listing of those practices which are relevant to the credit co-operatives, in particular, will be sufficient at the moment, while the details of these will be taken up in the later part of the thesis, when appropriate. The Rochdale practices relevant to the credit co-operatives are:

1. Political and religious neutrality.
2. Promotion of education.
3. Books, records and information freely available to members.
4. Co-operative prices in line with those prevailing in the community.
5. Periodic reports to the members.

Definition of Credit

In common terminology, co-operative credit refers to the use of capital, in cash or kind, obtained or borrowed from a co-operative society, by its members. To understand co-operative credit and distinguish it from other types of credit, it seems necessary to understand the terms "credit" and "credit co-operatives," clearly.

Credit has been defined as "the power or ability to secure goods or services in exchange for a promise to pay for them later."¹² "The word credit comes from the latin word 'credo' meaning, 'I believe'. Hence credit is based on confidence."¹³ When a person obtains credit, in any form or kind, it is based upon confidence in the future solvency of the borrower and his repaying it as per agreement. In this sense credit means ability to command the capital, in the form of money, goods, and services, of another in return for a promise to pay at some specific time in the future.

Credit does not only refer to borrowing of money but it is also used for goods and services. For example, when a farmer obtains seeds, fertilizer or insecticides, etc., from his co-operative and promises to pay for them at a certain specified time in the future, he is getting credit. This type of credit is commonly referred to as "credit in kind" to distinguish it from the advancing of a loan of money or bank credit. Bank credit refers to acquiring the use of money on the basis of repaying it in the future with interest to pay for this use.

¹² T.N. Beckman and R. Bartels, Credit and Collection in Theory and Practice, (New York: McGraw Hill Co., 1955), p. 3.

¹³ W.C. Murray and A.C. Nelson, Agricultural Finance, (Ames, Iowa: Iowa State Univ. Press, 1960), p. 36.

While credit has a somewhat technical meaning of its own, it is used in financial circles and writings as meaning about the same thing as borrowing. This synonymous usage probably has come about for convenience sake. The word "credit" is short and easy to use. Holding strictly to technical meaning often involves using two words rather than one. For example, a phrase might read "Use of borrowed funds." It is somewhat more convenient to say "use of credit."

This convenience in using the term credit has, in a way, brought some confusion. For example, a bank extends credit even where no money changes hands but the bank credits the person's account and he draws checks to pay bills. This, in common terminology is also called or referred to as credit. There is the additional point about getting goods on credit from shops. Since money is obtained from a bank or loan society on a similar bases it has become common to talk about credit in referring to money loans.

Functions of Credit

Credit performs functions which may be classified as economic, social and managerial.¹⁴

1. Economic Functions

a) The first economic function of credit is to serve as a medium of exchange in the economy. Money exchange is a cultural stage above barter but a credit economy is a step in advance of a money economy in which all transactions involve actual money changing hands. By the use of credit, transactions can be consummated quickly

¹⁴ Beckman and Bartels, op. cit., p. 10.

and easily on confidence without conveying coins.

b) A second economic function of credit is to make capital available for business purposes. Induced by the prospect of payment for use of their funds, individuals save to invest or to lend their money. Not only do they benefit from this but also those who borrow do too, for, with funds made available through credit, profitable industry can be conducted where before only ideas may have existed. The development of large scale enterprize both in Agriculture and Industry is facilitated by use of credit.

2. Social Functions

One of the social functions of credit is to make possible independence of thought and action. "It's use obviates the necessity for hoarding on the part of those who desire to save and leads them to place their funds in institutions where the principal is more secure than cash hoarding."¹⁵

3. Managerial Functions

Credit can be used as a powerful farm tool but like any powerful tool, it must be used properly and on a sound basis to be constructive for the user. Improperly used, credit can be destructive. This is well illustrated by giving the analogy of fire. It is said, "Every one has used fire. Fire properly used can be beneficial to man. Improperly used, it can be very destructive. Likewise, credit if properly used can be a major factor in improving the level of living of a farm family but if improperly used, it too can be destructive."¹⁶

¹⁵ Ibid., p. 11.

¹⁶ Farm Credit Administration; Farm Credit Manual, (Washington, D.C., F.C.A., May 1956), p. 10.

It is an established fact that credit is a tool, and if a man is going to use a tool efficiently and to his greatest benefit, he must first learn to use it properly. Murray and Nelson have pointed out this fact which can be seen from this quotation, "There is no magic about credit. It is a powerful agency for good in the hands of those who know how to use it. So is a buzz saw. They are about equally dangerous in the hands of those who do not understand them."¹⁷

Co-operative Credit Society

A credit co-operative is a co-operative whose function is supplying credit to the members. It is a co-operative type of savings and lending association operated by and for the mutual benefit of its members. Usually it has two fold purposes: (1) to promote thrift among its members by encouraging them to open savings accounts and to build up cash reserves through periodic deposits of savings, and (2) to provide a readily available source of credit for those of its members who need to borrow.

A co-operative credit society reconciles the interests of lenders (savers) and of borrowers, by combining them in one society. This means, in effect, that the ultimate aim of the co-operators in the society is to build up sufficient liquid capital for their own needs as a group.

Subsidiary to this general goal, Dr. Belshaw has pointed out the following aims of co-operative credit as follows:

1. To promote thrift so as to increase the supply of funds.
2. To draw on resources outside the locality. If central or apex banks can be built on the primary thrift and credit societies these agencies, using such means as improved discountable paper for marketing, may attract the resources of the reserve and commercial banks when the small local thrift and credit societies might not be able to do it.

¹⁷ Murray and Nelson, op. cit., p. 1.

3. To promote the effective use of loans and to reduce risks in the granting of loans by careful and continuous supervision.
4. In consequence, to reduce risks to lenders to the credit co-operative by adequate security.
5. By these means and by low costs of management to keep the cost of credit as low as possible.
6. To endeavor to make societies so credit worthy that they can obtain sufficient funds to help finance their co-operative undertakings.¹⁸

According to Dr. Belshaw if these aims can be met, the co-operative credit structure will be strong enough to carry a large share of the burden of financing agriculture.

On the basis of liability, credit societies are found to be functioning in various countries either with unlimited liability or with limited liability. Societies with both forms of liability have certain advantages as well as some disadvantages.

1. Co-operative Credit Societies with Unlimited Liability

The unlimited liability of members is what is termed "Unlimited contributory liability", that is to say, the members are liable to make contribution to any deficiency in the assets on winding up. Credit societies with un-limited liability were first started in Germany by Raiffeisen about a century ago, who laid great stress on the principle of un-limited liability. The fundamental principles applicable to Raiffeisen societies are:¹⁹

1. Un-limited liability and share capital of small denomination.

¹⁸ Horace Belshaw, "Co-operative Credit", in the University of California report on Farm Credit in Underdeveloped Areas, (Berkeley, California: Bureau of International Relations, 1953), p. 31.

¹⁹ Ahmad K. Katanani, A Plan for A Savings and Loan Society in Housh-El-Rafica, Lebanon, (Unpublished Master's Thesis, School of Agriculture, A.U.B., 1963), p. 9-10.

Un-limited liability means that each member in the society is responsible to the full amount of his possessions for repaying the debts and obligations of the society upon dissolution or failure. The principle of un-limited liability is closely associated with the general insistence that share capital be of low denomination to enable poor farmers to join. The essential idea of un-limited liability is the joint mutual liability of the members of the society as a group to repay the total amount borrowed even though some may be unable to repay what they individually borrowed.

2. The area of operation must be limited, i.e., within the boundaries of the village concerned in order to insure that members know and understand one another very well.
3. The membership decides in its annual meeting the maximum total amount of loans which the co-operative is authorized to borrow during the year, and also fixes the maximum amount which can be loaned to any member.
4. Unpaid members of committees, but the secretary and treasurer may be rewarded for their work by a decision of the general meeting.
5. Reserve funds are built up from annual net savings to strengthen the co-operative instead of distributing the major part of the savings as patronage refunds.
6. Loans are made for productive purposes and supervised very carefully to assure repayment.
7. Loans are advanced only to members.
8. Loans are covered by a promisory note signed by the borrower and guaranteed by not less than two persons.

9. Dividends or shares are limited strictly to the legal rate of interest.

The Raiffeisen model of credit co-operatives is especially preferable where farmers are poor and where the co-operative has to borrow from outside sources. "It is the cheapest form and it is the only security on which working capital can be raised."²⁰ Un-limited liability has an educative and moral value and reinforces the basic principle of "Each for all and all for each." "It fosters mutual trust, mutual watchfulness and mutual supervision over each other's dealings in a society."²¹

However, there are certain weaknesses in Raiffeisen's model of credit co-operatives. It works on the basis of mutual knowledge and understanding of members which restricts the area of operation but in return results in, relatively, a small membership. Due to small membership, the scale of operation is also small. A well qualified and competent secretary treasurer, therefore, cannot be hired which affects the amount of deposits, the co-operative can attract from members, due to lack of confidence.

It is commonly held that the principle of un-limited liability discourages large farmers from joining local co-operatives. They are afraid to risk the loss of their farms by joining a society with un-limited liability in which they are personally responsible for repaying all money borrowed if other members are unable to repay their loans. This deprives the society from their sympathies, abilities, and material help which could contribute to the efficient management of societies.

²⁰ K.R. Kulkarni, Theory and Practice of Co-operation in India and Abroad, (Bombay: Co-operator's Book Depot, 1958), p. 117.

²¹ Ibid.,

2. Limited Liability Credit Societies

Limited liability is of two types: (1) liability by shares and (2) liability limited by guarantee. In the former case, the liability is limited to the amount, if any, unpaid on the shares held by a member, while in the latter case, the liability of each member is limited to such amount as he undertakes to contribute to the assets of the society in the event of its winding up. There is another form known as "proportionate liability", which combines both the types mentioned above and in which case the guarantee is fixed as a multiple of the share value.²²

Though it is true that societies with limited liability can cover a larger area, have a greater number of members, have large scale operation, and can afford employing a full time working trained secretary-treasurer, yet in some cases where the society depends mostly on borrowed funds it poses a big problem of providing the security to assume repayment required by lending agencies.

It is necessary to explain the difference between a credit society and a savings and loan society. Actually both are credit co-operatives because they supply credit to their members but the main difference is that in the latter there is greater emphasis on savings and deposits by the members. The co-operative credit societies in India and Pakistan are examples of the former, while savings and loan societies in Jordan and Cyprus and credit Unions in the United States, which foster savings and investment as well as make loans, are examples of the later.

In savings and loan societies various means and ways are employed through which members are obliged to deposit savings in the treasury of their co-operative which helps build up the capital and thus increases

²² Ibid., p. 114.

the amount of owned funds of the society. In numerous instances co-operatives have induced saving by members by the simple process of withholding for capital purposes a part of the proceeds of their activity.

Indonesian village banks are reported to have a compulsory savings plan. The borrower member is charged 20 per cent on the loan, but part of this is credited to him as savings. At the beginning, the interest is 12 per cent, leaving 8 per cent for savings. As the bank gets stronger the interest charges gradually drop to four per cent, leaving 16 per cent for savings which are credited to the borrowers.²³

A farmer credit union, in the United States, is both a savings and lending association, with an initial emphasis on saving. This is so, because the money available for loans comes primarily from funds saved and deposited by members. It is this pooling of financial resources that provides the basic operating capital. The members may mail their savings or deposit it personally in their savings accounts. "Many credit union members choose to save through a deduction of some type."²⁴ No matter what techniques are used they all have the same purpose, to encourage members to build up their savings.

Role of Credit Co-operatives in Rural Development

Before one can see the role that co-operative credit societies play in the betterment of the socio-economic life of the rural masses, it is necessary to see the importance and role of credit to the farmers

²³ University of California, op. cit., p. 18.

²⁴ U.S. Dept. of Agriculture, Farmer Co-operative Service, Using Your Rural Credit Union, F.C.S. Circular 16, (Washington, D.C.: F.C.S., Sept. 1959), p. 3.

because supplying credit is one of the functions of these organizations.

To improve the standard of living of the farmers their income must be increased. A farmer's income is a function of quantity of produce sold and prices received for the sale of produce i.e., $\text{Income} = \text{Quantity} \times \text{Prices}$. In many cases the farmer as an individual cannot do much about the prices, but he can increase the yield and production and at the same time can reduce cost of production, and this way he can have higher income. In most of the developing countries the major problem is low production per man and per unit of land.

Here, then, the important point is to increase production. This can be accomplished in various ways such as, use of better quality seed, application of chemical fertilizer, using irrigation water, controlling insects and diseases, and use of better improved cultural practices. To do all these, a farmer needs constantly increasing amounts of capital.

Having practically no savings of his own, a farmer needs credit. The credit is required to meet the current expenses of the farmer during the interval between sowing and harvest. Such expenses may be personal, for the farmer must buy food and clothing for himself and his family; or they may be for actual cultivation expenses. In either case, they form a legitimate sphere for agricultural credit.

Among various sources of credit available to the farmers, the most suited is co-operative credit. Because small cultivators are men of poor means and have no tangible security to offer to the commercial banks and other institutional lending agencies who generally require land security for advancing loans. For commercial banks and lending agencies it is not a profitable proposition to advance small loans for short durations to numerous small farmers because of the high cost of adminis-

tering the loans. Moreover, most of the lending agencies are located in the towns and cities. Thus, it becomes difficult for poor illiterate farmers to approach these agencies and go through numerous unnecessary and time consuming formalities. If farmers' credit needs are to be met, an organization is needed which can provide credit to them at their door and this can be done only through co-operative credit societies located in farming villages.

"As a means of reaching the last man in the last village (in the comparatively less developed countries), co-operative credit has no rival except the money lender. It offers the only possible method of proved merit for reaching the people as a whole. It is the only practical alternative to usury."²⁴ Moreover, small local co-operatives can instill in members a strong feeling of responsibility for prompt repayment of interest and repayment of loan^s. They can also provide strong incentives to thrift and deposit of savings in the treasury of the society.

As compared with other types of institutions in securing small savings well organized co-operatives have distinct advantages. Because, "the procedure of deposit and withdrawal is less complicated; the officials to be approached belong to the same village; and the fact that money accumulated through saving is generally to be spent within the village creates that additional sense of confidence needed to encourage villagers to practice the habit of banking."²⁵

The role of credit co-operatives is both economic and social. The economic role or purpose may be regarded simply as the securing of

²⁴ United Nations, Rural Progress Through Co-operatives, (New York: Dept. of Econ. Affairs, 1954), p. 40.

²⁵ Ibid., p. 41.

appropriate credit at low cost and use of the borrowed capital and members' and non-members' savings in a productive way to increase production. The greater income produced will, in turn, increase the standard of living of the farm families.

The social purposes of co-operatives in general, including credit co-operatives, are many and diverse in nature. The co-operative credit societies can be used as important agencies to improve the welfare of members on a self-help basis. They also serve as centers for training people in democratic ways and for developing rural leaders.

The social objectives and purposes of economic co-operation can be summed up as, "They may be to provide a unique education in democracy, responsibility and toleration; to preserve a strong friendly or family spirit, and a sense of pride and power which is impersonal; to secure rational, constructive and unifying approaches to social and economic problems."²⁶

²⁶ Ibid., p. 14.

CHAPTER II

CREDIT CO-OPERATIVES IN WEST PAKISTAN

History and Development of Credit Co-operatives

The co-operative program in the Indian sub-continent was predominantly a credit program. Its inception was rooted in the desire to relieve rural indebtedness. The first legislation passed in 1904 was meant to provide a legal frame work for the registration of primary credit societies on the Raiffeisen model. Un-limited liability was expected to foster success based on self-interest and safe loans for lending banks. Then, the only source of credit to the farmers was through money lenders in the villages, who charged a very high interest rate.

Unlike many other countries where the co-operative movement was initiated by the people, in many parts of the sub-continent, including the territories now in Pakistan, the program was essentially of an official nature and the initial impulse for the introduction of co-operatives came from the government. Until very recently, co-operation has remained a policy and program of government rather than a movement of the people run by the people. This was because in introducing the co-operative program the government had one narrow objective in view, "The solution of the problem of rural debt and not socio-economic regeneration of the masses in general, so as to increase their standard of living."¹ With such a limited purpose and without an adequate educational program to generate response

¹ K.R. Kulkarni, Theory and Practice of Co-operation in India and Abroad, (Bombay: Co-operator's Book Depot, 1958), pp. 187-188.

from the people, co-operation remained mainly the concern of the State through the co-operative department.

Lack of general education in the country was a serious impediment. "The movement also grew slowly as the philosophy of co-operation presupposes a certain standard of mental development and self discipline."² Since 1904, the slow growth and development continued until the economic depression in the early 1930s which proved a real set back to the program. After the shock of this depression gave the first blow to the program, there was a second shock in 1947 at the time of partition of the Indian sub-continent into present day India and Pakistan. When Pakistan was established, the great majority of the co-operative officials and workers were Hindus who migrated to India. This created a vacuum in supervision, guidance, direction and management of co-operatives.

Due to the migration of Hindu members of the co-operatives, many credit societies were liquidated. As the co-operatives were of unlimited liability type, on liquidation, the burden fell on the members remaining in Pakistan. This discouraged and disheartened many members of the societies and had an adverse effect on the potential members in the villages where credit societies were operating.

Development and Progress in West Pakistan

When Pakistan came into being in 1947, the co-operative program was largely in an inactive state. On paper, a large number of societies existed, but the vast majority were not really active or operative. In the following few pages, it is intended, to analyse the post-partition

² Govt. of Pakistan, Credit Enquiry Commission Report, (Karachi: Govt. of Pakistan Press, 1959), p. 19.

development and progress of the co-operative credit societies.

Structure of Co-operatives Credit Organization

The co-operative structure in West Pakistan is three tiered. The primary credit co-operatives are at the base in the villages. They are linked to the central co-operative bank in the principal town of the area or in the district, while at the top there are three apex banks at the provincial level.

A. Primary Credit Co-operatives

Primary agricultural credit societies form the base of the co-operative credit structure and constitute its most important units. They occupy a predominant position in the co-operative structure. A great majority of these societies are of the Raiffeisen type of small size and un-limited liability.

B. Central Co-operative Banks

Central co-operative banks at the district level are of intermediate position in the co-operative structure. Membership in central co-operative banks is comprised of individuals and societies. Membership by individuals was considered necessary in the earlier stages in order to enlist the interest of the urban and trading classes and to form institutions of a size and composition which would be more likely to attract deposits of the wealthier section of the community living in towns. "The by-laws of most banks, however, require that at least 50 per cent of their shares should be held by societies. But this has not prevented many banks from being dominated by individuals."³ The credit enquiry commission

³ State Bank of Pakistan, Agricultural Credit in Pakistan, (Karachi, 1962), p. 53.

was of the view that some of the difficulties experienced by the co-operative banks after independence can be traced to the presence of individual members with little personal stake in the institutions from which they obtained their finances, at it, accordingly recommended that individuals should be removed from co-operative banks at all levels. The government accepted this recommendation and decided that co-operative banks should not have individuals as members. "In West Pakistan, the co-operative department has allowed a period of two years to the central banks for the retirement of share-holdings of individuals."⁴

C. Apex Co-operative Banks

Apex banks are at the top of the co-operative credit structure. The chief objective of an apex bank is to work as a balancing and financing agency for the co-operatives in the territory it serves.

At the time of partition there were three co-operative banks in West Pakistan. The Punjab Provincial Co-operative Bank is the oldest apex bank in the country, which was started in 1925. Later in 1934, the Sind Co-operative Bank in the province of Sind, assumed the status of a provincial bank. In 1958, another bank known as the Regional Co-operative Bank, Ltd., was set up as the apex bank for Hyderabad and Khairpur Division.⁵ In the former N.W.F.P. a bank known as Industrial Co-operative Bank was in existence at the time of partition. The Central Co-operative Bank at Dera Ismail Khan and Bannu and the Co-operative Banking Union at Hangu were merged into it in 1948 and the name changed to "The Frontier Co-operative Bank Ltd." This institution was intended to serve as an apex bank for the region.

⁴ Ibid., p. 54.

⁵ Ibid., p. 64.

The government was considering the advisability of having only one apex bank for the whole of West Pakistan. It has been decided that the Punjab Provincial Co-operative Bank, Ltd., would ultimately become converted into the apex bank for the whole of West Pakistan. The other apex banks have become members of this bank. But in their separate regions, they still function as apex banks for all practical purposes. An important benefit accruing to them from membership in the Punjab Provincial Co-operative Bank is the availability of credit on a large scale from the State Bank of Pakistan.

Membership in the apex bank is limited to co-operative central banks only. All banks hold shares in the apex bank in proportion to the share holding of the co-operative societies in them.

Statistics on Credit Co-operatives Since Partition

Since partition in 1947, there has been an increase in number of co-operatives, membership, capital and loan operations of credit co-operatives in West Pakistan. The general progress, financial position and lending operations will be analysed in a greater detail below.

1. General Progress

The numerical growth both in number of societies and membership is presented in Table 1. The figures in Table 1 show that there has been an increase of 2,824 co-operatives over a decade and that the majority of the co-operatives are of un-limited liability type. The increase in absolute figures looks quite encouraging but it may conceal certain weaknesses such as pointed out in the findings of audit classification for the year 1956-57. "Of the 10,985 societies in 1956-57, 2,421 were in D class, i.e., they were defunct and on the verge of liquidation,

TABLE 1
NUMBER AND MEMBERSHIP OF PRIMARY CREDIT CO-OPERATIVES⁺

Item	1948-49	1955-56	1959-60
1. Number of Co-operatives	9,047	10,597	11,871
Unlimited Liability	8,994	10,534	11,764
Limited Liability	53	63	107
2. Membership	251,310	338,686	438,327

⁺ Source: State Bank of Pakistan, Agricultural Credit in Pakistan, (Karachi: 1962), p. 44-46.

while another 2,194 were in C₂ category, i.e., they were nearly defunct.⁶ This means that over 40 per cent of the total number of co-operatives were in a moribund condition and of no consequence for financing purposes.

The statistics in Table 1 also show that membership during this period increased by 187,017. This increase in number of members appears to show greater progress than the growth in number of societies. But if analysed further, the increase may not mean much. This increase is equivalent to about 17,000 new members per year. On the other hand the population in the rural areas of West Pakistan expanded by an average of a quarter million per annum over this period. So the additional membership in credit societies did not even keep pace with the increase in rural population. Putting it in other words, it can be said that there has been no significant increase in the membership of the credit co-operatives in West Pakistan since partition.

⁶ Credit Enquiry Commission, op. cit., p. 26.

2. Financial Position of Credit Co-operatives

The financial position of the credit co-operatives can serve as a good indicator for their growth and progress. Co-operatives, being economic organizations, must be judged from their operations to find out if they are performing any valuable service for their members. This could be done by analysing the working capital, lending operations, and net earnings or losses of the co-operatives.

The owned funds of the co-operatives in West Pakistan increased by Rs. 12.84 million, or about 77 per cent since partition. These are made up mainly of paid in share capital and reserves. Figures in Table 2 show that though the percentage of owned funds, over the decade, increased by 77 per cent, yet the percentage of owned funds in the working capital declined from 56.32 per cent in 1948-49 to 47.77 per cent in 1955-56, and further declined to 35.35 per cent in 1959-60. This decline can be attributed to the increase in outside borrowings.

The increase in the outside capital was from Rs. 12.922 million in 1948-49 to Rs.⁺ 56.796 million in 1959-60 but most of it was from the borrowings and not members' savings. This indicates that the thrift side of the program, which is as important an aspect as the credit side, has not shown the requisite degree of progress. In fact, very little attention has been given to fostering and encouraging thrift among the members of credit societies in West Pakistan.

The financial position can be further analysed by calculating average working capital per society and per member. In the year 1959-60 there were 11,871 co-operative credit societies, with total membership of 434,327 and total working capital of Rs. 86.30 million. The average working capital, by calculation, amounted to Rs. 7,260 per society and

⁺ 1 Rupee = 20 U.S. cents

TABLE 2
COMPOSITION OF WORKING CAPITAL OF AGRICULTURAL
CREDIT SOCIETIES IN WEST PAKISTAN
1948-49 TO 1959-60⁺
(Millions of Rupees)

Items	1948-49		1955-56		1959-60	
	Amount	Per Cent of Working Capital	Amount	Per Cent of Working Capital	Amount	Per Cent of Working Capital
Paid in Capital	4.798	16.21	7.102	14.20	10.956	12.69
Reserves	11.866	40.11	16.799	33.58	18.548	21.49
Total Owned Funds	16.664	56.32	23.901	47.78	29.504	34.18
Deposits	5.265	17.79	10.181	20.35	14.761	17.12
Borrowings	7.657	25.89	15.944	31.87	42.635	48.70
Total Out-side Funds	12.922	43.68	26.125	52.22	56.796	65.82
Working Capital	29.586	100.00	50.026	100.00	86.300	100.00

⁺ Source: State Bank of Pakistan, *op. cit.*, p. 46.

Rs. 198 per member. This analysis clearly shows the meagreness of the resources of the average society and the limited extent to which an average member can be assisted by loans.

3. Trends of Loan Operation

The lending operations by the credit co-operatives expanded greatly between 1948-49 and 1959-60, as is shown by the data in Table 3.

Though the lending operations, considering the amount of loans

TABLE 3
TREND OF LOAN OPERATIONS, 1948-49 TO 1959-60⁺
(Millions of Rupees)

Items	1948-49	1955-56	1959-60
Loans advanced	7.01	26.50	53.05
Loans outstanding at the end of the year	25.16	36.49	67.80
Of which overdue	6.63	9.80	15.33
Percentage of overdue to outstanding	26%	27%	24%
Average outstanding loans per society	2,781	3,444	5,712
Average outstanding loan per member	100	108	156

⁺ Source: State Bank of Pakistan, op. cit., p. 49.

advanced, expanded through 1959-60 still the average amount of loan outstanding per member and per society remained small. This could be due to increase, over the period, in number of societies and membership.

The loans advanced increased from Rs. 7.01 million to Rs. 53.05 million, but at the same time the amount of outstanding loans increased from Rs. 25.16 million to Rs. 67.80 million. The amount of over dues loans also rose over the period, while the percentage of overdue to outstanding loans declined slightly, that is, from 26 per cent to 24 per cent. This indicates that the recovery of loans has not been very good, and over this period did not improve appreciably.

All of the loans advanced by the co-operative credit societies are only for a short term, usually not exceeding two years period.

Co-operative Department

In each province there is a co-operative department, headed by a registrar who controls the work for the entire province. The department has important and vital functions to perform in encouraging the establishment of primary societies and the co-operative banks on a sound basis, supervising these societies and banks, and training staff and also the personnel of the whole co-operative structure.

Organization of the Department

The Registrar of Co-operative Societies is the head of the Co-operative Department and is the chief officer on whom lies responsibility for the proper execution of policies and programs which foster co-operatives. Depending on the nature and volume of work, he is given assistance in the shape of a Deputy Registrar (Administration) or a Joint Registrar.

Next to the Registrar, there are Deputy Registrars. Each division in the province has a Deputy Registrar who supervises the work of departmental officers posted within his division.

At the district level the Assistant Registrar is the head of the staff of the Co-operative Department. Under him there are Inspectors, Sub-Inspectors, Inspectresses and Sub-Inspectresses, and a clerical staff. Normally a district has one Assistant Registrar but if the number of societies is such that one officer cannot cope with the work, he is given assistance either in the shape of an additional Assistant Registrar or the district is divided into two and each sector is placed under one Assistant Registrar. According to the Co-operative Inquiry Committee Report,

"one Assistant Registrar is supposed to be able to cope with the work of 1,000 societies or five Inspectors."⁷

The backbone of the department's field staff is the Sub-Inspector. It is considered that normally one Sub-Inspector would be able to supervise adequately about fifty societies. The work of these Sub-Inspectors is supervised by Inspectors. The functions of the Sub-Inspector are to educate the villagers so that they become conscious of the advantages of co-operative effort, to frame by-laws for societies, to help societies register, to inspect societies with a view to ensuring that they function according to the Co-operative Societies Act and the Rules, to audit the accounts of the societies, to see that loans are made on sound lines, and that requisite steps are taken for the collection of the loans. The Sub-Inspector, therefore, plays a very vital role in the co-operative program in the country. As Mr. Shah, Registrar of West Pakistan co-operative societies acknowledges, "It is on his efficiency that much of the successful working of the primary societies depends."⁸

A further discussion regarding his duties and functions will be taken up in more detail in chapter V of this thesis.

The organizational and administrative set up of the Co-operative Department can be seen from chart No. 1 on page 36.

Causes for Stagnation

A basic cause of the slow pace of development is illiteracy and

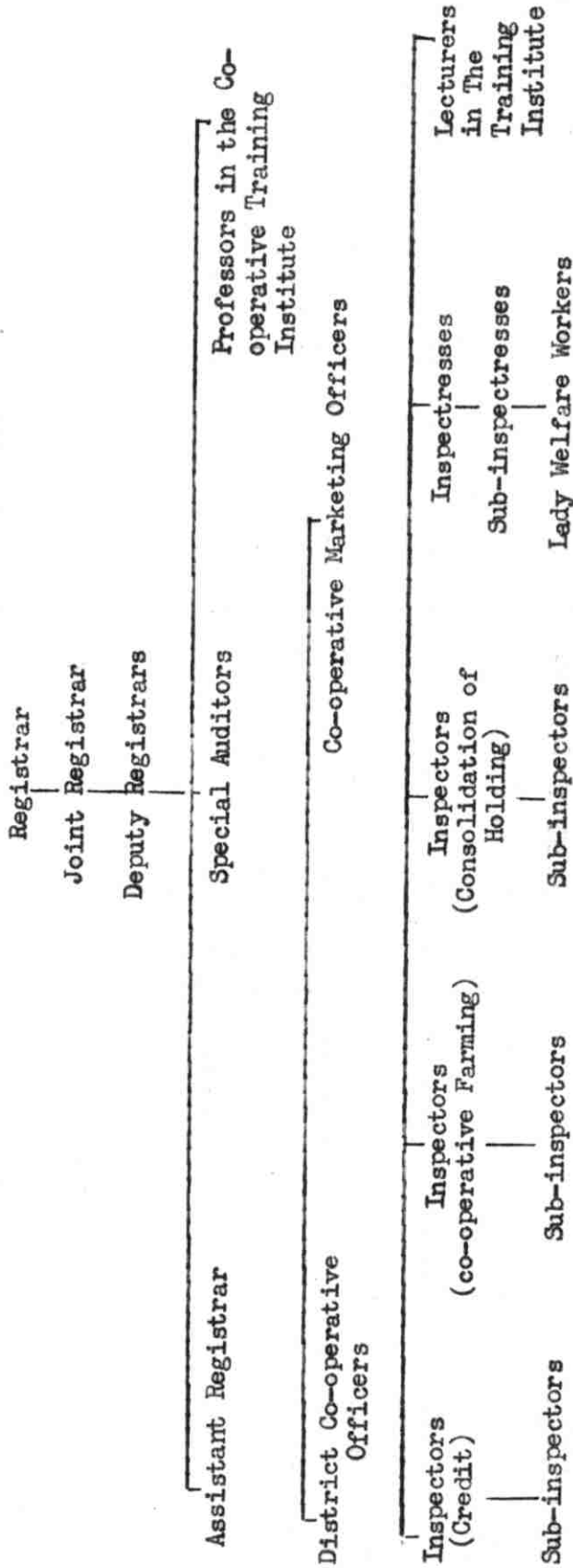
⁷ Govt. of Pakistan, The Co-operative Inquiry Committee Report, (Lahore: Govt. Printing Press, 1956), p. 32.

⁸ M.H. Shah, "The Role of Co-operative Credit and the Causes of its Slow Growth in Pakistan," Agricultural Economist, (Karachi: The Agricultural Economics Society of Pakistan, 1962), p. 15.

Chart No. 1

Government of West Pakistan

Administrative Set up of The Co-operative Department, 1958-59⁺



⁺ Report of the Working of Co-operative Societies in West Pakistan for the Year 1958-59, (Lahore: Govt. Printing Press, 1961), p. 1.

a subsistence economy where practically no savings take place for capital formation in savings deposits or investments. Very few peasant farmers in Pakistan have sufficient land to produce on a commercial scale for sale in the market. Most of them market but a varying surplus above the consumption needs of their families.

Besides, in spite of more than fifty years of the co-operative program, it still remains mostly government sponsored in its functions. The idea of co-operatives being member controlled and member owned organizations has not been absorbed into the minds of the people. Other external factors responsible for the slow progress during the post-partition period, as observed by the Credit Enquiry Commission, were "diversion of co-operative funds to non-co-operative uses; political intervention; nepotism; exploitation by the economically privileged members; weakening of the co-operative departments due to exodus of trained staff after partition, and lack of government support."⁹

Other reasons for the slow growth are development of the program, as presented by Credit Enquiry Commission, and which deserve a mention here are the following:

1. Un-limited Liability Unpopular

Many persons were deterred from joining the societies because they were operating on the basis of un-limited liability. In the former province of Punjab, for example, the Enquiry Committee stated that in the case of a large number of the societies liquidated, the clever members exploited the legal provisions of the law to evade their responsibility for repaying what they had borrowed personally so that the main burden

⁹ Credit Enquiry Commission Report, op. cit., p. 37.

of settling the debts of the society fell on the non-defaulting members. The effect of such experiences was indeed discouraging for the members who had to bear the burden of the loss, as well as to potential members in the areas where such unfortunate experiences were known to many farmers.

2. Dependence on Unpaid Staff

Another weakness characterising the primary credit societies has been the dependence on untrained and honorary office bearers who either did not exert themselves at all, or only for their own benefits. Very few villagers can read and write so that few ordinary members of credit societies can perform the work of the secretary-treasurer. The small income of the society from the low volume of loans extended prevents paying the salary required by a trained person for full time employment.

3. Problems of Delinquent Loans

At the time of partition, the overdue loans of credit societies in West Pakistan were about 22 percent of the total working capital of all co-operative societies and 33.23 percent of their outstanding loans. In 1956-57, the proportion had increased to 25.68 and 33.40 percent, respectively.¹⁰

The problem of unpaid past due loans has remained a regular feature of credit societies fluctuating from year to year in relation to crop failures and market conditions. As a result of these fluctuating overdues, the working capital of the societies for making new loans also

¹⁰ Waji-ul-Hasan Sayed, Extension of Production Credit by Co-operatives With a Program for West Pakistan, Unpublished Master's Thesis, (Beirut: Faculty of Agriculture, A.U.B., 1961), p. 124.

fluctuates in the opposite direction.

Other causes of the problem of overdues are, utilization of loan funds by the farmers for non-productive purposes and lack of integration of credit with marketing which should have assumed repayment of loans from the sale proceeds of the farmer member's agricultural produce. Besides, the inadequacy of a loan itself can be a major cause for delinquency of loans, because a loan which is inadequate for a specific productive purpose is usually used by the borrower for non-productive purposes which makes the repayment more difficult.

4. Failure to Develop Thrift

The primary motive behind the co-operative program originally was to create thrift among the rural population. When this part of the program did not build up sizeable savings deposits, the societies depended mainly on the higher level co-operative credit agencies to secure for them the funds required for extending loans to their members. Consequently, most members feel no personal interest in the credit society because they do not have a personal financial stake to be safeguarded by the collection of loans. They regard the credit society simply as a convenient local agency from which to borrow.

The writer's views of the above mentioned and additional weaknesses and how far they have been corrected during recent years, as revealed by the study of credit co-operatives in Lyallpur district made during the summer of 1963, will be presented in chapters IV and V of the thesis.

CHAPTER III

CREDIT CO-OPERATIVES IN LYALLPUR DISTRICT

The information presented in this chapter pertains to the overall picture of the agricultural primary credit and thrift societies in the Lyallpur district. The information was obtained as a result of several interviews with Mr. Mahmood-ul-Hassan Malik, the Assistant Registrar of Co-operative Societies, Lyallpur East Circle and Mr. S. Choudary, Inspector in the office of the Assistant Registrar. Most of the statistics were also obtained from various registers and books in this office.

A. History and Development of the Credit Co-operatives in the Area

The origin of the co-operative program in Lyallpur district dates back to the year 1906 when in the month of March two co-operative thrift and credit societies were registered in Chak (village) 96 and Chak 352 in Jaranwala Thesil, (sub-district) Lyallpur district. Four more societies of this type were registered in the same year in different chaks making a total of six registrations under the Co-operative Societies Act of 1904. In the following years, more credit and thrift societies were registered in the district. The program continued to grow until the partition of India in 1947.

The migration of Hindu members and officers of the societies to post-partition India proved a set back, as already mentioned in Chapter 2, to the over all co-operative program in the country and Lyallpur was no exception. The data is not available to show the exact number of societies

which suffered and the amount of the losses which the remaining members had to bear due to amounts owed by members who migrated to India. However, from the results obtained by interviewing the members of some of the societies, the adverse effect of the partition due to uncollectable loans and departure of experienced officials becomes quite evident and clear.

With the introduction of a planned program for expansion as envisaged in the First and Second Five Year Plans, many new societies were registered and the number of credit and other co-operative societies in the district rose rapidly. "At the end of the year 1961-62 the number of all kinds of co-operatives in the district stood at 1994. Out of these, 925 were agricultural thrift and credit societies."¹

Such a large number as 1994, necessitated the appointment of another Assistant Registrar and bifurcation of the district into two sub-districts. The second Assistant Registrar was appointed effective July 1, 1962 and independent charge of the area was transferred to him in the month of January, 1963.

Toba Tek Suigh and Samundri Thehils constituted the territory of the Assistant Registrar of Co-operative Societies for Lyallpur West, while Jaranwala and Lyallpur Thehils have come under the jurisdiction of the Assistant Registrar Co-operative Societies for Lyallpur East. The present study includes only the latter area.

1

Assistant Registrar Lyallpur East Circle, Annual Report for the Year 1962-63, (Lyallpur: Sept. 1963), p. 1. (Typed Report).

B. Statistics from the Assistant Registrar Co-operative Societies,

Lyallpur East

The statistics about the credit and thrift co-operative societies in the Lyallpur district, presented here were obtained from the office of the Assistant Registrar of Co-operative Societies. These include Thesils Lyallpur and Jaranwala only, that is, Lyallpur East Circle.

1. Present Strength of the Program

At the time of partition in August, 1947, the number of all kinds of societies in this circle (Lyallpur East) was 503 having a membership of 21,294 and a working capital of Rs. 12.1 million. At the close of the year 1962-63 the number of all kinds of societies stood at 1,070 with a membership of 65,885 and a working capital of Rs. 34.6 million. From these figures it is clear that within a span of 16 years the number of societies has doubled with a three fold increase in membership and working capital. Table 4 indicates the number of agricultural credit and thrift societies and the membership in credit and non-credit societies.

TABLE 4

NUMBER AND MEMBERSHIP OF CO-OPERATIVES IN LYALLPUR EAST

Item	1961-62	1962-63
1. Total Number of Agricultural Co-operatives	647	659
2. Number of Agricultural Credit Co-operatives	485	499
3. Membership in all Agricultural Co-operatives	25,695	27,603
4. Membership in Agricultural Credit Co-operatives.	20,283	21,386

It is clear, from Table 4 that the greatest number of societies are agricultural credit and thrift societies in the area. This is similar

to the co-operative program for the country as a whole. The number of agricultural credit and thrift societies, constituted 75.7 percent of the total number of co-operatives in the area for the year 1962-63. Of the total membership in all kinds of agricultural societies 77.5 percent is in agricultural credit and thrift societies.

Table 4 also indicates the increase both in number of societies and membership over the years 1961-62 to 1962-63.

2. Financial Position of Primary Agricultural Credit and Thrift Societies

The financial position of the primary credit and thrift societies for the year 1961-62 and 1962-63 is presented in Table 5.

TABLE 5
FINANCIAL POSITION OF CREDIT SOCIETIES IN LYALLPUR EAST

Item	1961-62	1962-63	Increase or Decrease Over the Year
Number of Societies	485	499	+ 14
	<u>Rupees</u>	<u>Rupees</u>	
Share Capital	825,000	914,423	+ 89,423
Reserves	1,139,609	1,193,204	+ 53,423
Other Funds	101,101	122,418	+ 21,317
Total Owned Funds	2,065,710	2,230,045	+ 164,335
Deposits	759,465	776,308	+ 16,884
Other Outside Funds	784,649	891,839	+ 107,190
Total Outside Funds	1,544,114	1,668,147	+ 124,033
Working Capital	3,609,824	3,898,192	+ 288,368
Working Capital Per Society	7,443	7,812	+ 369
Working Capital Per Member	178	182	+ 4
Ratio of Owned Capital to the Working Capital	57.2%	57.0	- 0.22%

It can be seen from the figures in Table 5 that there has been an increase in the working capital of the societies over the year. The working capital has increased from Rs. 3.6 million to Rs. 3.9 million during the one year period. The working capital of an average society thus increased Rs. 369 during the year. The working capital in absolute figures may seem reasonably adequate but when calculated per member it comes out to be only Rs. 178 and Rs. 182 for the years 1961-62 and 1962-63 respectively. This amount is by no means sufficient to meet the credit needs of a farmer for one year.

The soundness of the financial position of the credit societies can also be judged by looking at the figures showing the ratio of owned capital to the working capital. It is 57 percent for the year 1962-63 in Lyallpur East. While in 1959-60 the percentage of the owned funds to the working capital was 35.3 and 19.5 in West Pakistan and East Pakistan respectively. From this comparison it can be deduced that although the financial position of the credit and thrift societies in Lyallpur area is not very strong, yet it is much higher and stronger than the average for all societies throughout the country. The steady increase in the owned funds suggests the possibility that ultimately the credit and thrift societies will have accumulated the loan funds needed by the members for short term seasonal financing and they will not have to look up to their financing institutions for such financial help. There will, however, be needs for intermediate and longer term loans. Experience in other countries suggests that in an advancing economy the demand by farmers for loans

for expansion of production generally keeps ahead of individual capital accumulation. Young farmers have not yet been able to save sufficient to finance their farming operations without borrowing.

The outside financing for the co-operative societies in the district is mainly provided by the Central Co-operative Bank, Limited, in Lyallpur and the Central Bank, Limited, in Jaranwala. The former with its 8 branches has Lyallpur, Samundri and Toba Tek Singh Thesils only. The details of the operations of the Central Bank will be given in Chapter IV.

3. Lending Operations

In this section only the figures showing some aspects of the lending operations of the credit and thrift societies are presented. The details about the lending procedures, rate of interest charged, terms of loans advanced, credit limit and other aspects of lending operations will be discussed in the next chapter of this thesis.

TABLE 6

LENDING OPERATIONS OF THE CREDIT SOCIETIES IN LYALLPUR EAST

Item	1961-62	1962-63
	Rs.	Rs.
Loans advanced	1,805,000	1,370,000
Repayments	1,171,646	1,177,074
Loans due at the end of the year	2,442,895	2,633,021 ⁺

Figures in Table 6 are included for two years for the sake of

⁺ The writer failed to get any definite reasons to explain the greater overdues at the end of 1962-63.

comparison. The amount of loans advanced to the members declined over the year, whereas there was an increase in recoveries made and also of loans due at the end of the year. The figures in Table 6, indicate that the percentages of recoveries were 64.9 and 85.9 for the years 1961-62 and 1962-63 respectively. This shows an increase of 21 percent over the year. This means, in other words, that delinquencies declined by 21 percent over the period of a year. The main reason for the good recovery rate and the reduced total amount of loans required by members was that in the second year, farmers' incomes were higher due to good harvest which was a result of the reducing the salinity and alkalinity of the soils in certain areas. During the previous two years extensive programs of drilling tube wells, to reduce the water table, were going forward. This helped to bring back into cultivation some of the lands which had not been used for a long time due to salinity and alkalinity. This was accomplished by flushing the soil with irrigation water and draining the fields by pumping under-ground water for irrigation purposes.

CHAPTER IV

FINDINGS BASED ON THE STUDIED CREDIT CO-OPERATIVES

This chapter deals mainly with the writer's findings from the study of 35 credit co-operatives and interviewing 190 members thereof in Lyallpur East Circle during the summer of 1963. It is intended to appraise various points concerning the organization, operation, and record of performance of these societies in the present chapter. The major conclusions drawn from these findings, and recommendations based thereon will be given in the following chapter.

A. Methodology for Collecting the Information

To collect the data needed for this evaluation, the writer spent much of the summer of 1963 in the area. The information concerning the agricultural credit and thrift societies was obtained from various sources such as the Assistant Registrar of Co-operative Societies, the manager of the Central Co-operative Bank of Lyallpur, and members and officials of various credit societies.

The writer was aware of the fact that without the permission and full co-operation of the Assistant Registrar and his staff the study could not have been made. The necessary information concerning the number of credit societies in the district, their location and how they could be reached had to be obtained from his office. The Assistant Registrar and his staff were extremely helpful and co-operative in supplying the necessary information.

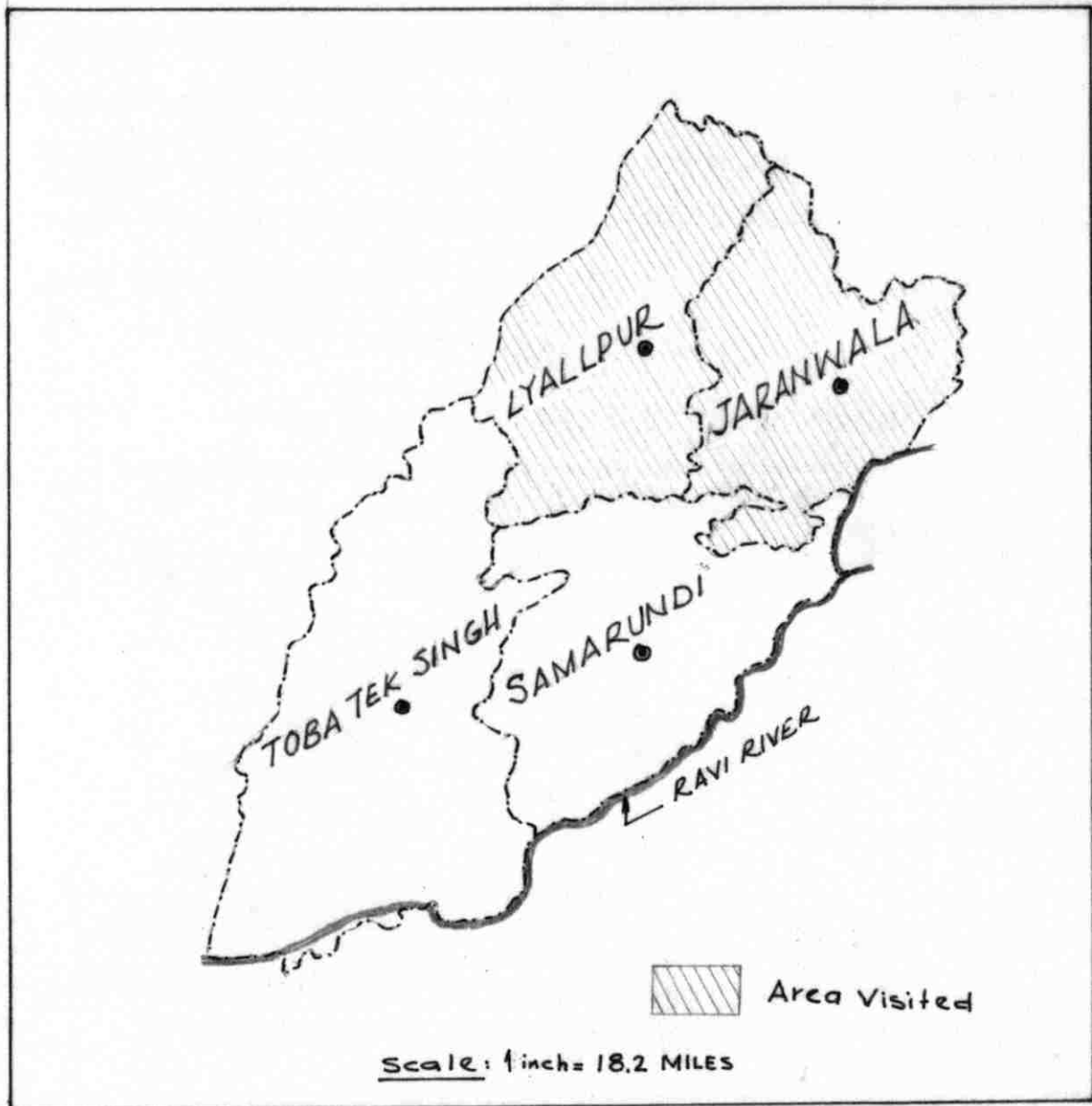
1. Sampling

When information concerning the total number of the credit and thrift societies was obtained, the next step was to draw a representative sample. The total number of the societies in the entire Lyallpur District was too large to take a representative sample covering the various grade classes of societies to be covered in the short duration of less than three months. Therefore, with the advice of Dr. B.L. Brooks and Dr. M.A. Khan, who had agreed to be the writer's advisor during the study, it was decided to take only Lyallpur East Circle which includes Thesils Lyallpur and Jaranwala. These two Thesils comprise the major part of the district. The location of both can be seen on the map of the district, on page 49.

The total number of the agricultural thrift and credit co-operative societies in the two Thesils on June 30, 1963, as obtained from the Assistant Registrar's office, stood at 499. This number was taken as the universe for drawing a representative sample.

Taking into consideration available means of transportation for reaching the various villages, time at the writer's disposal, and the very high summer heat where the average day temperature was above 100°F, it was estimated that during the period of about 2.5 months, a maximum of 40 credit societies could be studied. Therefore, with the consultation of Dr. Brooks and Dr. Khan of West Pakistan Agricultural University at Lyallpur, it was decided to take a randomized sample of 36 credit societies in such a way that the sample would include about six credit societies in each class. Having decided as to the number of societies to be covered in each class, a random sample was taken by drawing numbers. For example, there were 26 'A' class societies which were numbered from 1 to 26. Then 26 paper slips

MAP OF LYALLPUR DISTRICT



of equal size were taken and on each slip a number was written. The slips were folded and put into a basket. Then one by one six slips were drawn, returning each one back to the lot after drawing to maintain the universe at 26 societies. Before each draw the basket was well shaken. The same procedure was followed for other classes of societies. All of the drawn numbers of societies were interviewed with the exception of one 'C₂' class, and 2 'U.C.' class societies which could not be contacted before the writer had to return to Beirut. Table 7 shows the number of societies in each class that were studied.

TABLE 7
NUMBER OF SOCIETIES STUDIED IN VARIOUS CLASSES

Class	Number of Societies in the Area	Number of Societies Studied
A	26	6
B	68	7
C ₁	157	7
C ₂	30	5
D	151	6
U.C. (Un-Classified)	67	4
Total	499	35

The classification of the societies is done by the Assistant Registrar mainly on the basis of the number of delinquent loans and the percent of borrowings repaid by members, and the amount of help in terms of guidance the society needs from the department.

2. Questionnaires

For the purpose of collecting information, two sets of questionnaires were prepared, one for co-operatives and one for members. The former contained 50 and the latter 40 questions. Copies of the questionnaires are included in appendix.

The questionnaire for the co-operatives was designed to obtain from the secretary-treasurer of the co-operative societies information concerning the affairs of the society. Certain information from the books and registers of the societies was also recorded in this questionnaire.

The questionnaire for the members was to obtain information concerning their knowledge and attitude towards their co-operative society, to find out if they were satisfied with their societies, and how far their financial needs were being met by the society.

Besides the use of the questionnaires, the writer kept a note book and recorded other relevant facts which were not covered in the questionnaires but were brought up during the interview with the members and the secretary-treasurers of the societies.

3. Interviewing Procedure

The questionnaires were used for obtaining the information from the secretary-treasurer and members of the credit co-operative societies that were included in the sample. Both members as well as the secretary-treasurer were interviewed by the writer and their answers to the questions asked were recorded in the questionnaires.

The writer was not familiar with the area so the Assistant Registrar was kind enough to ask the sub-inspector in charge of the area which was to be visited to accompany the writer. This proved to be of great help and time was saved in locating the village, finding the sec-

retary-treasurer and contacting the members.

The writer, accompanied by the sub-inspector, would go to the village and first visit the secretary-treasurer and explain the purpose of the visit and ask him to co-operate in giving the needed information. He was assured that the information given by him in no way whatsoever would be used against him but could possibly be used in a constructive way and might prove beneficial to his society.

The average time spent in interviewing the secretary-treasurer ranged from two to three hours per interview. In most of the cases the secretary-treasurers of the societies were co-operative in furnishing the information. The problem was only when the secretary-treasurer could not be contacted in the village. In such cases the village was visited at another time, and in three such cases the writer and the sub-inspector stayed over night in the village. When it was impossible, the secretary-treasurer was informed beforehand about the visit. Most of the secretary-treasurers worked on an honorary basis.

The procedure followed in interviewing the members was that the writer would get the list of the names of the members of the society from the secretary-treasurer and take a systematic sample consisting of about 10 percent of the universe. For example, if there were 50 members in a society then five members were to be interviewed. One member was selected at random from the first five names on the list and then every tenth name throughout the remainder of the list was taken. If among the first five, say, number 2 was selected at random then numbers 12, 22, 32 and 42 were selected. This method was used because of its convenience and simplicity.

Some of the members who were selected by this sampling method would come to the secretary-treasurer's office while others had to be

interviewed in their fields or in the Union Council office.

Both individual and group interviewing procedures were followed. In the majority of the cases, however, the individual interviewing method was used.

It seemed necessary to make clear to the members that the writer was not from the co-operative department and the purpose of the interview was purely academic. A good response, however, was obtained when they were told that one of the object of interviewing them was to learn from their knowledge and experience of co-operation. This gave them a sense of confidence and encouraged them to talk more freely and even ask questions as to how co-operation is being practiced in Lebanon and other countries.

B. Organization

The administrative organization of co-operative societies may show slight variations from one country to another as the result of legislation and from one society to another due to different provisions in their by-laws. In a co-operative society the source of rights and powers lies not in possession of a given number of shares but in each and all of the members themselves. Consequently, the administrative organization of a co-operative society is bound to be democratic if the members exercise their rights and participate actively in the affairs of their societies.

1. Membership

Membership in a co-operative society is to be regarded as a privilege and responsibility. Success of a co-operative depends largely upon the loyalty of its members to each other and to their association. The importance of an active membership for the success of a co-operative

society can be seen from the statement of H.M. Olsen, Executive Secretary of the Washington State Council of Farmer Co-operatives, "The lasting success of a co-operative depends upon a membership that patronizes it and its activities. A large number of inactive members is a serious handicap to a co-operative society."¹

a) Eligibility for Membership

In all of the 35 credit and thrift societies studied it was found that they followed the principle of open-selective membership. All those who meet the requirements for membership, as laid down in the by-laws of the credit and thrift societies, are eligible. All among the eligibles who apply for membership are admitted.

According to the by-laws of the co-operative thrift and credit societies which were framed by the Co-operative Department, any person shall be eligible for membership who is:²

- (1) Ordinary resident in the village;
- (2) of good character;
- (3) of not less than 18 years of age, except in the case of a minor heir of a deceased member;
- (4) not a member of any other primary credit society, the liability of which is limited or unlimited.

It was found by the writer that besides these four basic requirements, all of the studied co-operatives require their members to:-

- (1) Own some kind of property such as, a piece of land, a shop, or a house or any other asset of capital value;

¹ H.M. Olsen, Some Principles and Practices of Farmer Co-operatives, (Danville, Illinois: The Interstate Printers and Publishers, Inc. 1961), p. 45.

² Pakistan, Co-operative Department, Model By-laws of a Co-operative Thrift and Credit Society, (Lahore: Registrar Co-operative Societies, 5 June, 1950), p. 1.

- (2) pay a membership fee which varies from one rupee to two rupees from society to society, and is non-refundable;
- (3) buy a share or shares of capital in the society. The requirement for the minimum number of shares to be bought also varies from one share to ten shares, the price of each share being Rs. 10. When each member is required to buy 10 shares, he may pay the full value in advance at any time or in installments of one share per six months or per year. The choice is left to the member.

There are some sociological factors which play quite an important role in determining the eligibility for membership. For example, in chak 132, Thesil Lyallpur, there are two credit and thrift societies in the same village. One is for the natives and the other for refugees. The local society is old and was founded in 1915 with a membership of 14 which had increased by 1963 to 111. After partition when the refugees came to this village they were allotted lands by the Government but still their credit needs had to be met. They were glad to find out about the existence of a credit and thrift society in the village. They were, however, refused membership on the grounds that the society had already enough members and intended to admit no new members.

The actual reason, as given by the secretary-treasurer of the refugees society was that the refugees were not accepted by the natives and were considered outsiders. The too large a number of existing members in an un-limited liability society was a mere excuse because during the course of time there were new members admitted who were all local persons. This necessitated the establishing of a refugees credit

and thrift society in 1960. Its membership increased from 44 to 78 in three years. At the time of the writer's visit both societies were in C₁ class.

b) Functions and Responsibilities of Members

The acceptance of membership in a co-operative society carries with it an obligation to study the operations of the organization; to become familiar with its business practices; to attend meetings and to support actively its growth and welfare. "All membership responsibilities revolve around the fundamental principle that members are the joint owners of the co-operative."³

In a farmer co-operative the members have certain rights and responsibilities. The degree or extent to which these are carried out by the members will determine to a great extent the success of the co-operative.

Some of the rights of members are:

1. To choose and remove directors.
2. To change and adapt by-laws.
3. To receive accurate records on his account.
4. To examine the books and property of the association.
5. To challenge the rights of directors.
6. To vote on the affairs of the co-operative.⁴

Just a glance at the above list will bring out the necessity of being literate before the members can practice some of these rights adequately. In the area where the present study was conducted it was found that with the exception of the secretary-treasurer, the chairman of the managing committee and a few other members all of the other members were illiterate. A member who cannot read nor write his own

³ Ibid., p. 38.

⁴ Ibid., p. 37.

name cannot be expected to go and check the accounts with the secretary-treasurer, and is at the latter's mercy. Out of 190 members who were interviewed by the writer only 19 members knew their account number. The rest replied, "Why don't you ask the secretary-treasurer, he knows our accounts. We are illiterate and don't know these things."

One of the rights and the responsibilities of the members is to attend meetings and vote on the policy decisions regarding the functioning of their society. The secretary-treasurer of 35 co-operatives that were studied were asked as to how many of their members attend the general meeting. There was no record about the exact number of members who attend general meetings. However, they were able to tell the usual number of members who attend meetings. According to the by-laws of the credit and thrift societies the presence of at least one-third of the members shall be necessary for a quorum for the transactions of any business at the general meeting, provided that when the total number of members exceeds 100, thirty members shall suffice. The figures showing the average number of members per society, number of members who attend meetings, and percentage of members who attend meetings in different classes of credit and thrift societies, are shown in Table 8.

It is clear from Table 8 that the percentage of members who attend meetings is not high. It ranges from 15 percent to 59 percent. Taking the average for all classes of societies together the percentage is only 43 percent. Excluding D class societies which are

TABLE 8

NUMBER OF MEMBERS WHO ATTEND GENERAL MEETINGS

Class	Average Number of Members	Average Number of Members Who Attend Meetings	Percentage of Members Attending Meetings
A	95	43	45
B	86	40	46
C ₁	55	23	42
C ₂	31	16	52
D	20	3	15
U.C.	46	27	59

functionless, the average for the rest is about 49 percent.

c) Member's Knowledge About Co-operation

The member's questionnaire included several questions to find out about their knowledge concerning the basic principles of co-operation and knowledge about their own co-operative societies. There is no significant difference among the six classes of societies as regards their knowledge, therefore the results for all of the 35 societies are combined together.

(1) Control of Credit Co-operatives

A credit co-operative is like any other co-operative society in the sense that it is controlled by its members in a democratic way. Members, by power of the right to vote, decide as to how they want their society to operate. The board of directors and the secretary-treasurer act as the agents for the members and conduct the business of the society on behalf

of their members. The relationship between members and their association can be seen from the statement of H.M. Olsen who says, "The members are the association, and the officers and directors of the association are simply their agents for conducting the joint enterprize. The members are the 'employer' and the directors and officers are their 'employees' or agents to direct the business; and the agents are subject to the control of their employer."⁵

The 190 members who were interviewed were asked the question, "Who controls, in your opinion, your co-operative society?" There were four alternatives from which to choose their answers. Their answers are compiled in Table 9.

TABLE 9

CONTROL OF CO-OPERATIVES AS REVEALED BY MEMBERS' ANSWERS

Members Thought That Co-op. is Controlled by:	No. of Responses	Percent of 190 Members Interviewed
1. Directors	108	59
2. Secretary-Treasurer	65	34
3. Government	56	29
4. Members	24	13
	<u>253</u>	

It is observed in Table 9 that only 13 percent of the members knew that they controlled their co-operative society. On the other hand 59 percent thought that it was controlled by

⁵ Ibid., p. 39

the directors. The lack of a clear understanding of who controls a co-operative is further shown by the fact that 190 members gave 253 answers to the question as to who controlled their society.

The seriousness of the problem facing the co-operative credit and thrift societies is multiplied many folds when such results as in Table 9 are obtained from the members some of whom joined the co-operative as early as 1907.

(2) Number of Directors

To find out how many of the members knew the correct answer concerning the number of directors on the board of directors of their societies, they were asked the question, "What is the number of the board of directors in your society?" Those who gave the correct answer were further asked to name them, this was done to make sure that they were not simply guessing. Those who did not know this, their answers were considered incorrect. Similarly those who knew some of the members of the board but did not know exactly how many there were, their answers were considered as incorrect, too. There were others who simply said that they did not know.

From the members' answers Table 10 was prepared, which is presented on the following page.

The figures in Table 10 show that only about one-fourth of the members knew the number of their directors while about three-fourth did not.

TABLE 10

MEMBERS' KNOWLEDGE ABOUT THE NUMBER OF DIRECTORS

Members' Answers	No. of Respondents	Percent of Total
1. Correct Answer	48	25.26
2. Incorrect Answers	51	26.84
3. Did not Know	91	47.90
Total	190	100

(3) Political and Religious Neutrality

A co-operative society works in the economic and social fields. "The consensus of opinion among co-operative leaders in most countries is that in all matters outside the co-operative movement the attitude of co-operators should be strictly neutral."⁶

Individual co-operators may belong to different political parties, or religious groups and they may align also with other political parties and religious congregations friendly to co-operation. But as a fundamental principle, co-operatives themselves are advised to remain aloof from politics or religion. Members are expected to leave their views on these matters outside when they attend meetings of their co-operatives.

The opinions of members were taken regarding political and religious neutrality in co-operatives by asking them whether they would like members of other political groups and religion or religious sects to join their co-operative society. It was

⁶ K.R. Kulkarni, Theory and Practice of Co-operation in India and Abroad, (Bombay: Co-operator's Book Depot, 1958), p. 33.

found that a greater number of members favored political neutrality than religious neutrality. This could be attributed to the extreme religious-mindedness and less political awareness of the members. The results are shown in Table 11.

TABLE 11

POLITICAL AND RELIGIOUS NEUTRALITY IN CO-OPERATIVES

Should the Co-operative be Neutral in:	Yes		No	
	Number of Members	Percent of Members	Number of Members	Percent of Members
Politics	166	87	24	13
Religion	123	65	67	35

From the results in Table 11, it can be seen that a high percentage of members favored neutrality in both politics and religion. Political neutrality was approved by 87 percent of the members while 65 percent of the members were in favor of religious neutrality in co-operatives. Among those who were against religious neutrality and believed that only Muslims should be allowed membership in their society, a greater number of members were mainly against Jews and Hindus and not as much against Christians. In case of Hindus, they justified their negative attitude by relating it to the past bitter experiences with Hindu money lenders. While Jews were not liked simply for the reason that Islam's teachings are against Jews and Muslims have been warned never to trust them.

(4) Rate of Interest Charged Members

In a credit society the main business is dealing with the making of loans and when loans are advanced to members, a certain interest rate is charged. It was considered that members should know what rate of interest they paid on their loans. Their knowledge regarding the rate of interest charged by their society was found by asking them the rate they paid on loans. The results obtained by interviewing 190 members are shown in Table 12.

TABLE 12

KNOWLEDGE OF RATE OF INTEREST CHARGED BY THEIR CO-OPERATIVE

Members' Answers	No. of Respondents	Percent of Total
1. Correct Answer	64	33.70
2. Incorrect Answer	72	37.90
3. Did not Know	54	28.40
	<u>190</u>	<u>100.00</u>

The figures in Table 12 indicate that just a little over one-third of the members knew what rate of interest they were charged when they borrowed from their credit and thrift society. About 39 percent answered incorrectly and 28 percent did not know at all and refused to make a guess. This means that about 67 percent of the members lacked the knowledge as to how much interest their society charged. Among the 28 percent of the members, who did not know about the rate of interest

charged, there were some who were completely ignorant and even did not know if there was anything called an interest rate. They did not know if their society charged any interest at all.

(5) Share-holding by Members

All members in the credit and thrift societies are supposed to buy shares of capital in their society. The price of a share is ten rupees and the number of shares each member is expected to buy is ten in most of the societies, and one in few. Before interviewing the members, information regarding the price of each share and the number of shares each member is expected to buy was obtained.

A member's knowledge was judged on the basis of his knowledge as to how many shares he held in the society. The results are shown in Table 13.

TABLE 13

MEMBERS' KNOWLEDGE OF NUMBER OF SHARES HELD

Members' Answers	No. of Respondents	Percent of Total
1. Correct Answers	97	51.0
2. Incorrect Answers	63	33.2
3. Did not Know	30	15.8
	<u>190</u>	<u>100.0</u>

From Table 13 it can be seen that half of the members, that is 51 percent, knew how many shares they held in the society. Those who knew the number of shares held also were aware of the

price of each share. Among the 33.2 percent who answered incorrectly to the question as to the number of shares they held, more than 50 percent did not know the price of a share. 15.8 percent of the members who did not know the number of shares they held were also ignorant regarding the price of each share.

From the results shown in Tables 10, 11 and 13 it can safely be said that members of the studied co-operatives lacked important knowledge about their co-operative society. This is, it seems to the writer, one of the major causes of slow progress of the co-operatives in the area. Knowledge about co-operatives and of the services and the working of their co-operative is essential in order for members to support their society. "It has been shown statistically in studies conducted in Pennsylvania that there is a definite relationship between membership support and member's knowledge of the services and working of their co-operative."⁷

Farmers often become members of co-operatives without adequate knowledge of the duties and responsibilities they are assuming. This was the case of members in most of the co-operatives studied by the writer.

A very large number of the societies in Pakistan were established with the initiative of the government. The co-operative program did not grow from the people as a social

⁷ J.K. Stern and H.F. Doran, Farmer Support of Co-operatives, Agr. Expt. Sta., Bulletin 505, (Pennsylvania: The Pennsylvania State College, School of Agr.), 1948, p. 27.

movement. All this was done without preparing the ground work by educating and training the members. The emphasis has always been on the quantity rather than the quality of the co-operative societies. Table 14 summarizes the answers members and leaders gave when they were asked who took the initiative in forming the society. This tabulation shows clearly that a very large number of societies were established with the initiative of the government.

TABLE 14
INITIATIVE FOR ESTABLISHING THE CO-OPERATIVE

Initiative came from:	Number of Respondents	Percent of Total
1. The people in the village	29	15.20
2. The Mukhtar	15	7.80
3. The School teacher	0	0
4. The Extension Worker	0	0
5. Co-operative Officer	114	60.00
6. Yourself	2	1.00
7. Don't Know	30	16.00

As revealed from the members' answers, 60 percent of the societies were established by the initiative of the government. The 16 percent of members who did not know who started the co-operative were the new members. Actually, this percentage should be added to the 60 percent because these societies

were also initiated by the government. This means that about 75 percent of the societies were established with the initiative from government officers.

d) Members Education and Training

The importance of education and training of members can be seen from the statement given in a paper submitted to the International Conference on Co-operative Education.

If we had occasion to start our movement afresh and if we were given the choice between two possibilities - that of starting without capital but with enlightened membership and staff, or, on the contrary that of starting with a large amount of capital and ill-informed members - our experience would incline us to choose the first course.⁸

These words derive added significance from the fact that they were spoken in an International Co-operative assembly. "It would be difficult to find more striking terms to express the importance that must be attached to the co-operative education of co-operators."⁹

Intelligent participation in the affairs and working of the co-operative society is in itself of educational value for both mind and character. It gives a progressive insight into problems of practical economics, it leads to a deeper practical knowledge of the co-operative machinery and of the principles of equality and equity. But unfortunately, it was found that the members of the co-operatives that were studied by the writer, neither received proper education nor participated actively in the affairs of the societies.

⁸ International Labor Office, Co-operation, A Worker's Education Manual, (Geneva: International Labor Office, 1956), p. 109.

⁹ Ibid., p. 109.

The job of educating the members and training the members of the managing committee and the secretary-treasurer is given to the sub-inspector of the co-operative societies. His other functions are to inspect societies with a view to ensure that they function according to the Co-operative Societies Act and Rules, to frame by-laws for societies, to get societies registered, to audit the accounts of the societies and to see that loans are made on sound lines, that requisite steps are taken for recovery of loans. He has to perform all these services and his salary is only Rst. 60 per month. Usually he has charge of about fifty societies.

During the course of visiting the societies, the writer was always accompanied by a sub-inspector. This was of great help and provided an opportunity to find out how well he performs all of the above mentioned functions.

These officers complained about the lack of facilities provided to them and their extra load of work. Most of them agreed that they were unable and could not under the present set-up and circumstances, perform their job of educating the members and training the personnel properly. It seems that because this job usually does not come under the personal inspection of the inspector and assistant registrar, it is left mostly undone. Most of the book work and straightening of the accounts of the societies are taken care of by the sub-inspector because this kind of work is liable for inspection by their superiors. The end result is that members do not receive the requisite amount of education and personnel the training they badly need.

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1 Rupee = 20 U.S. cents

Some of the sub-inspectors, who requested that their names not be disclosed, explained to the writer about their activities regarding education. They said, "It is not worth doing a good job in educating and training the members anyway, as it is not appreciated by our superiors. What really counts is the number of new societies one establishes in a certain period of time. So our aim is to establish a maximum number of societies regardless of how well started they are. If we want well started societies, that will require at least a few months to prepare the ground work in explaining to the prospective members the benefits, aims and objectives of co-operation and teaching them the principles and practices of co-operatives. So we report in our diary that we visit villages to carry on education of the people but actually we do very little of such work."

The West Pakistan Co-operative Union also boasts of providing education and training of members of the societies and publicity and propaganda for establishing new co-operatives. It claimed to be using a publicity van and other audio-visual aids for informing the villagers about co-operation and its benefits. However, it was a surprise for the writer to find out from interviewing 190 members that they had never heard of the publicity van or other audio-visual aids used by the West Pakistan Co-operative Union.

Lack of educating and training, coupled with high illiteracy of the members, is a big stumbling block in the way of progress and success of the co-operatives. Luther E. Raper has observed that, "The member who is not kept informed soon loses contact with his organization. Then he loses interest. Disinterest leads to mis-

understanding and misunderstanding to downright neglect."¹⁰

The responsibility of keeping the members well informed rests with the secretary-treasurer and the managing committee. It is the secretary-treasurer who must inform the members as to how much interest they are being charged and the other operations of the society. Besides the other reasons for the lack of knowledge on the part of members there can be a sociological one in that the members as a result of tradition accept things without questioning. This, however, needs further sociological investigation.

2. Managing Committee - Board of Directors

The board of directors is referred to in all co-operative credit and thrift societies in West Pakistan as the managing committee. The managing committee, according to by-laws, has the responsibility of managing the affairs of an association. Usually this is done in accordance with the general policies and decisions voted by the membership. The managing committee is given the authority by membership to operate within the limits set forth by the by-laws.

According to the model by-laws of West Pakistan co-operative societies, the managing committee in their conduct of the affairs of the society shall exercise the prudence and diligence of ordinary men of business and shall be responsible personally for any loss sustained through acts contrary to the law, the notified rules and the by-laws.

The model by-laws contain a comprehensive list of 23 items indicating the powers and duties of the managing committee. The most important

¹⁰ Luther E. Raper, Stepping Stones to Good Member Relations, F.C.S., Information Bulletin 29, Washington, D.C.: U.S.D.A. no date, p. 5.

ones and those that are relevant to the scope of this study are as follows:¹¹

1. To observe in all their transactions the Act, the notified rules and the by-laws.
2. To maintain true and accurate records of all transactions.
3. To keep a register of members correct and up to date.
4. To keep a true account of the assefs and liabilities of the society.
5. To examine the accounts, sanction contingent expenditures and supervise the maintenance of the prescribed registers.
6. To consider the inspection notes of the Registrar and the Inspector and take necessary action.
7. To elect new members, to issue new and transfer old shares, subject to the confirmation of a general meeting.
8. To summon general meetings in accordance with the by-laws.
9. To contract loans, subject to any restrictions imposed by the general meeting or by the Registrar.
10. To decide the terms on, and the periods for which loans are to be given, to approve or reject the security, to arrange for the recovery of loans and to sanction renewals when necessary.
11. To decide the terms, the period for, and the rates of interest at which deposits are to be received, and to arrange for the payment or return of deposits.
12. To watch that loans are applied to the approved purposes for which they were made.
13. To assist the inspection of the books by any person authorized to see them.
14. To appoint, suspend and dismiss employees.
15. To acquire on behalf of the society shares in other registered co-operative societies.
16. To carry on the business of the society.

a) Election Procedure and Term of Office

According to the model by-laws of the co-operative credit and thrift societies, the managing committee shall consist of at least five members of the society over the age of 21, including a president and one or more vice-presidents. The members shall be elected for one year and shall be eligible for re-election.

Though the managing committee is elected by the members in the general meeting, yet the election can hardly be called "election"

¹¹ Model By-laws, op. cit., pp. 4-5.

in the real sense. The number of members nominated by the members does not exceed the number required for the managing committee. This could be due to the lack of people with leadership qualities and who are willing to assume the responsibilities.

It must be mentioned here, that proxy voting is not allowed and each member has only one vote regardless of number of shares held by him. The method of voting is by show of hands and not by the secret ballot system.

In most of the 35 studied co-operatives the number of members of the managing committee was 5. They can continue to serve more than one term of office. When the members were asked whether they would elect the same managing committee at the next election, a great majority answered in the affirmative. The reasons given for re-electing the same committee were:

- (1) We are satisfied with their services.
- (2) They have experience in dealing with the affairs of the society.
- (3) There are no other members who could replace them.

b) Functions and Responsibilities

The directors of co-operatives must see that the association is operated in a sound business manner. The managing committee should not favor one group of members to the detriment of others and should not use the office for any personal benefit.

The managing committee decides on the size of the loan each applying member should get, and in case of delinquencies, what measures the society should take to collect. It is the responsibility of the managing committee to see that the loans are utilized properly by the members for the purposes for which they were made.

c) Co-operative Leadership

Interested and sincere leadership is a very essential element in the success of any co-operative. This fact was observed in the co-operatives that were studied. The leaders of the successful societies were found to be honest, capable and devoted to the cause of the betterment of the society. On the other hand, most of the societies that were unsuccessful lacked adequate leadership.

The question of leadership takes new discussions and becomes more important when members do not take active part in the affairs of the society and do not realize their rights and responsibilities. This was found to be the case in many societies. When both the members and the managing committee fail to assume their respective duties and responsibilities, the success of the society becomes a questionable proposition.

The leaders of the studied co-operatives were of various professions, like school teachers, retired military and civil officials, farmers and businessmen. In most of the cases, however, they were found to be successful farmers and influential persons in the village.

A good example of good leadership and how it affects the success of the society is that the chak 258 credit and thrift society, in Lambapuid village. The society was established in 1954 with the initiative of its president who is a retired Brigadier. In a period of nine years its membership has risen from 29 to 193. During the year 1963 the society advanced loans to its members amounting to Rs. 76,143 and has a good record of repayment of loans. All this show a great success for the society and can be attributed to the good leadership of the president.

An example of a poor leadership and its results is the co-operative society of chak 147 in the village of Thok Daloo. The society was started in 1928 with a membership of 15 which stood at 25 at the time the writer visited it in 1963. The society is controlled by the president and his relatives. The managing committee is comprised of the president and his two sons and two other family relations.

The president and his two sons are defaulters and owed, as on 9th June 1963, Rs. 2,200 to the society. As regards surety for the loans, the father and one son are sureties for the other, and vice-versa. At present the society is functionless and no loan has been issued since 1957. The society owed to the Central Bank an amount of Rs. 1,565. This society is a clear example of how poor and selfish leadership can lead the co-operative straight to ruin.

The interviewed members were asked for their opinion regarding leadership of their co-operative. The results are summarized in Table 15.

TABLE 15

OPINIONS ABOUT CO-OPERATIVE LEADERSHIP HELD BY MEMBERS

Members Thought that the Leadership of Their co-op is:	Number of Respondents	Percent of Total
1. Very Good	86	45.30
2. Fairly Good	54	28.40
3. Poor	50	26.30
	<u>190</u>	<u>100.00</u>

From Table 15 it is clear that about 74 percent of the interviewed members thought that leadership of their society is good while 26 percent held the opposite views.

These results, however, do not definitely show that the leadership of the societies is very good. According to the members' framework of knowledge, any leader who is fair and honest is a good leader. But this is only a part of the qualifications for a good leader. The other qualifications such as wisdom, ambition, experience, knowledge and education, which are important characteristics for good leadership, were not considered by the members.

Another probable reason for such results could be a sociological one. The members identified themselves with their co-operatives, the leaders being part of it. They did not like to speak to the writer against their leaders. Moreover, the writer was an outsider to them and they thought, it is assumed, it was not proper to tell him something against their leaders. This is merely an hypothesis and needs to be verified with further research in this field.

3. Secretary-Treasurer

The secretary-treasurer in a co-operative credit and thrift society works as the manager. Generally in many other countries where societies are large and have large volume of business, he is not a member of the society and is a hired employee. In the studied co-operatives, however, it was found that the secretary-treasurer was also a member of the society. The only exception was chak 200 co-operative credit and thrift society in Lathianwala village.

a) Appointment

The secretary-treasurer is appointed by the managing-committee and is approved by the members in the general meeting. According to the model by-laws of the co-operative societies, the managing committee has the power to appoint the secretary-treasurer. The appointed secretary-treasurer has to be approved by the members in the general meeting.

It was found that due to the lack of qualified and educated persons, the managing committee does not have much choice. In most of the studied co-operatives the only person who could handle the job of secretary-treasurer was appointed.

The educational level of the secretary-treasurers varied from 6th elementary to matriculation. None of them were found to have had college education. Five had some training for secretaryship.

Most of the studied societies were found to rely mainly on unpaid honorary secretary-treasurers who work part time as secretary-treasurer and pursue, at the same time other occupations to earn their living.

b) Functions and Responsibilities

The secretary-treasurer performs various functions such as book keeping, correspondence, writing the minutes of the meetings, preparing the annual statements, etc. According to the model by-laws of the co-operative credit and thrift societies, the secretary-treasurer has the following duties and powers:¹²

1. To maintain correctly and up to date the prescribed papers and registers.

¹² Ibid., p. 6.

2. To procure from borrowers the due execution of bonds with security.
3. To prepare all receipts, vouchers and documents required by the notified rules or the by-laws or called for by the managing committee.
4. To sign on behalf of the society and conduct its correspondence.
5. To summon and attend general meetings and meetings of the managing committee.
6. To record the proceedings of such meetings and have them duly signed.
7. To prepare the annual statements regarding income and expenses and financial condition.
8. To certify copies of entries in books.

The work of the secretary-treasurer is audited and inspected by the Sub-Inspector two or three times a year and by the Inspector once a year. The Assistant Registrar may inspect the work of the secretary-treasurer at any time.

c) Salary of the Secretary-Treasurer

The secretary-treasurer of the studied co-operatives work mainly on an honorary basis. In some societies they receive a very small amount of the compensation. Table 16 shows the amount of salary received by secretary-treasurers in 35 studied societies at the time of writer's visit.

TABLE 16

SECRETARY-TREASURER'S SALARY IN STUDIED CO-OPERATIVES

Society Number	1	2	3	4	5	6	7
Class	Monthly Salary in Rupees						
A	50	30	20	10	10	7	-
B	50	20	20	20	nil	nil	nil
C ₁	22	10	5	nil	nil	nil	nil
C ₂	4	3	2	nil	nil	-	-
D	nil	nil	nil	nil	nil	nil	-
U.C.	3	nil	nil	nil	-	-	-

+ 1 Rupee = 20 U.S. cents

It can be seen from Table 16 that 17 societies out of 35 pay no salary to the secretary-treasurer, while among the other 18 societies the highest salary paid is Rs. 50 in only two societies. These two societies who were paying Rs. 50 per month salary to their secretary-treasurers were larger than average societies. One had 193 members and the other 102.

To hire a full-time secretary-treasurer who is well qualified and trained, the societies have to increase the volume of their business and enlarge their membership. With the increase in volume of business, the income of the societies will increase and allow for hiring a full time paid secretary.

The presence of a full-time hired secretary-treasurer may contribute towards developing confidence and trust among members. This is necessary to attract more savings and deposits by members and non-members. The greater amount of deposits will, in turn, increase the working capital of the society and will make possible issuance of a greater number of loans to the members at even a lower rate of interest than what presently is charged by the co-operatives when they have to borrow from the Central Co-operative Bank at 7 percent.

C. Operations of Credit Co-operatives

1. Purposes for Which Loans are Extended

The loans extended to the members of studied credit co-operatives were both for productive and non-productive purposes. According to the model by-laws of the credit societies, the purposes for which loans may

be issued include the following:¹³

1. Purchase of seed, fodder or manure.
2. Purchase of cattle, agricultural implements, or machinery.
3. Payment of revenue taxes.
4. Improvement of land and digging and repairs of wells.
5. Payment of old debts.
6. Purchase of land.
7. Household and ceremonial expenses.
8. Trade.

All of the studied societies were found to have issued loans for such purposes as mentioned above, according to the secretary-treasurers of the societies. The preference is given, however, to the loans for productive purposes which include items such as purchase of seed, fodder, or manure; purchase of cattle, payment of revenue taxes.

Out of 190 interviewed members, 158 stated that they have had, at one or another, borrowed to meet ceremonial expenses. Out of 190 members, ten had never borrowed, so the percentage of members who had borrowed for ceremonial expenses was about 88 percent. The various ceremonies requiring lavish expenditure are circumcision ceremony, engagement ceremony, marriage ceremony, and death rituals.

2. Credit Limit

The maximum credit limit for any member, which is fixed by the co-operative department, is Rs. 1,000⁺. No member of any primary credit and thrift society is issued a loan exceeding this limit.

The maximum credit limit for each individual member is fixed in the general meeting by the managing committee, which in any case does not exceed Rs. 1,000. Individual credit limits are fixed on the basis of the repaying capacity of the member, and is registered in a special registrar

¹³ Ibid., p. 7.

+

1 Rupee = 20 U.S. cents

called "Had-i-qarza"⁺ register. A member is not extended any loan exceeding his maximum credit limit. This maximum limit may, however, be increased in the following general meeting provided the financial position of the member has improved.

3. Loan Procedures

a) Loan Committee

The managing committee members act as the loan committee.

Each loan that is extended must be approved by the managing committee.

The borrower files his application with the secretary-treasurer. Because most of the members are illiterate they cannot make a written application. But what the borrower does is that he goes to the secretary-treasurer and informs him about the amount of loan desired and the purpose for which the loan will be used. The secretary-treasurer then fills out the application form accordingly.

The secretary-treasurer then informs the managing committee who appraise the application and decide as to how much should be extended. Sometimes the member who wants to borrow talks directly to the president who then asks the secretary to make the necessary entries in the various registers. This procedure may vary to some extent from society to society but the important point is that it is the managing committee who decides as to the amount of loan granted and the job of the secretary is to make the necessary entries in various books.

b) Length of Term of Loans

In all of the studied societies only short-term loans were

⁺ Had-i-qarza, literally means the limit of the loan.

made. No loan was issued for more than two years. According to the model by-laws of the credit and thrift co-operatives, the maximum period for various loans will be as follows:¹⁴

1. Loans to enable cultivators to secure reasonable prices for their produce three months.
2. Loans for trade, seed, food, cultivation expenses or cattle fodder. six months.
3. Loans for purchase of carts or cattle, liquidation of small debts, and for house building two years.
4. Loans for liquidation of large debts, purchase or redemption of land, or for expensive improvement of land three years.
5. Loans for unproductive purposes two years.

It can be seen from these by-laws that though there is provision for loans of three years period, yet none of the studied co-operatives ever made a loan for this length of time. This can be attributed to two reasons. One is that because a greater number of loans are made for unproductive purposes and the maximum term for such loans is only two years. The second reason, as given by most of the secretary-treasurers who were interviewed, is lack of sufficient loanable funds.

4. Rate of Interest

In 35 studied co-operatives the rate of interest varied from 3 percent to 9 percent. In a majority of the societies, however, it was 9 percent. Table 17 shows the rate of interest charged by the co-operatives at the time they were visited by the writer.

The fact that in a large number of societies the prevalent rate of interest is 9 percent because they borrow from the Central Co-operative Bank at the rate of 7 percent and have a margin of 2 percent to meet the

¹⁴ Ibid., p. 7.

TABLE 17

RATE OF INTEREST CHARGED BY CO-OPERATIVES

Rate of Interest	Number of Societies	Percent of Total
9%	29	82.80
8%	2	5.70
7%	1	2.90
5%	1	2.90
3%	2	5.70
	35	100.00

the expenses involved in administering the loans. The co-operatives, moreover, are not allowed to charge more than 9 percent by the Co-operative Department. They may charge lower than 9 percent if the members agree in the general meeting.

The societies charging less than 9 percent are very old societies who have over a period of time accumulated their own funds and do not borrow from the Central Bank. For example, among the two societies where interest rate is as low as 3 percent are very old societies. One is in 'B' class and was established in 1914 and the other is in 'C₁' class and was established in 1908. 'C₁' class society of Nathupura village charges 3 percent interest rate for loans from owned funds but when the demand for loans is greater it borrows from the Central Bank which is loaned to members at the rate of interest of 9 percent.

Among societies charging less than 9 percent interest rate, some of them were found to be following a special practice of offering a certain percentage of rebate to those borrowers who return the loan within the

specified time. For example, chak 189 credit and thrift society charges 3 percent interest rate if repayment is made in time. But if it is delayed, then the interest rate charged is 5 percent. Only five societies were found to be following such a practice. Such a practice is quite effective in reducing the delinquency rate and members try to repay the loan promptly to take advantage of the rebate.

Members opinion was asked during the interview regarding the rate of interest they are charged. They were asked about their feelings as to the rate of interest charged by their co-operative. The results, as revealed by members' answers, are shown in Table 18.

TABLE 18

MEMBERS' OPINION ABOUT RATE OF INTEREST CHARGED BY CO-OPERATIVES

Interest Rate	9 Percent		8 Percent		7 Percent		5 Percent		3 Percent	
	No.	Per- cent	No.	Per- cent	No.	Per- cent	No.	Per- cent	No.	Per- cent
1. High	90	59	5	31	-	-	-	-	-	-
2. Medium	62	41	11	69	7	100	6	100	2	22
3. Low	-	-	-	-	-	-	-	-	7	78
Total	152	100	16	100	7	100	6	100	9	100

If it is left to the members they would always prefer to have loans extended to them at the cheapest possible price. The rate can be less than 9 percent only if societies have large enough owned funds to meet the demands of the members and those who own shares and have made deposits are satisfied with low returns.

The members' feelings regarding the rate of interest charged by their societies, as summarized in Table 18 indicate that 9 percent rate was considered high by 59 percent of the members. While 41 percent of them considered that it was reasonable and just. Even 8 percent rate was considered as high by 31 percent of the members.

All those members who were charged 7 percent and 5 percent rate had a favorable attitude towards it and considered it very fair and just. While 78 percent of the members who were charged 3 percent rate agreed that it was quite low.

Under the existing conditions where the societies obtain most of the loanable funds from the Central Co-operative Bank at Lyallpur at the rate of 7 percent, it does not seem possible that they can extend loans at less than 9 percent rate of interest. This is much less than the charges of money lenders which range from 15 percent to 30 percent. It is, however, higher than the charges of Agricultural Development Bank which issues loans at 5 percent rate of interest.

5. Security for Loans

Because the use of credit involves a certain degree of risk, all credit agencies to safeguard their interest require some kind of security from the borrower. When the borrower fails to fulfill his promise to repay the loan, the agency can protect itself from the loss by selling the security at public auction.

In all of the studied co-operatives, the only security required for loans made to any member is the surety of two members of the society. No loan is extended to a member who cannot provide the guarantee or surety of two other members.

The fact that all loans are advanced for only short-term and the amount does not exceed Rs. 1,000. It is not necessary that loans be made against some tangible security such as land mortgage. It was due to the unpopularity of land mortgage as security among members that led the Credit Enquiry Commission to recommend that loans by co-operative credit and thrift societies be made against personal surety.

It is not the security which pays the loan but the repayment capacity of the borrower. Regarding production loans Qureshi observed that, "No specific physical security collateral should be required from the farmer because experience in the United States, the Philippines and India has demonstrated that such loans usually are repaid without it."¹⁵

6. Supervision of Loans

The loans are made for specific purposes. It is, therefore, necessary that loans be utilized for the purposes indicated by the borrower at the time he applies for the loan. Article 41 of the model by-laws of the credit and thrift societies reads, "Loan shall be given for specific purposes and shall be applied solely to that purpose. If a loan is not so applied it shall be immediately recalled in its entirety by the committee."

The secretary-treasurers of the studied co-operatives revealed that there is no special committee to supervise the proper use of loans but the members of the managing committee perform this job. When asked how the supervision is carried out most of them replied, "Because the

¹⁵ Mohammad T. Qureshi, "Economic Appraisal of Applications For Production Loans," (Unpublished Master's Thesis, School of Agriculture, A.U.B., 1962), p. 125.

membership is not so large we know each other well, and it is not difficult for the committee to see if the borrower utilizes the loan properly or not."

In none of the co-operatives had any loan ever been recalled for improper utilization. This indicates that either there has never been any loan improperly utilized or that the managing committee failed to carry out the supervision. The latter, to the writer, seems more plausible for two main reasons:

- (1) The sub-inspectors, with whom the writer had an opportunity to discuss this matter, were of the same opinion that there was little actual supervision by the managing committee.
- (2) In many societies preference is given to the loans for productive purposes while the majority of the members do use for these purposes or they require loans for un-productive purposes, which do not require supervision.

To be more sure that the loan will be granted, a member will apply for a loan giving a reason which shows that it will be used for productive purposes. Having obtained the loan, it is then utilized for non-productive purposes. When a farmer carries on his normal farming operations, it is difficult for the committee members to determine that the borrower did not use the loan for the productive purposes for which it was granted as long as he produces enough to repay the loan.

7. The Forms in Which Loans are Extended

All of the studied co-operative societies provide loans only in cash. Actually, none of the co-operative thrift and credit societies in the district of Lyallpur advance loans to their members in kind. Because all primary societies extend credit only in cash, there is no link between

credit co-operatives and supply and marketing co-operatives.

Linking of credit with agricultural supplies and consumer goods and with marketing cooperatives can be effected either by having three different societies in one and in the same place or having only one society performing these functions. At present, both of these alternatives are not found at the village level. In the past a single-purpose society has been preferred on considerations of homogeneity and simplicity.

Linking credit with supply and marketing of co-operatives provides a better means of effective use of credit by borrowers, when credit is extended in kind. At the same time it makes possible the recovery of the loan when produce is marketed through the marketing co-operative. "Attempts to perform these functions in the village are full of complications and have not been found successful in the past."¹⁶ In the case of marketing, the grading and storage of agricultural produce has been the main hurdle. In the case of consumer goods, there have been difficulties of stocking and a limited choice of articles which can be offered to the purchaser members.

8. Working Capital of the Co-operatives

The working capital of the studied co-operatives is composed of paid in share capital, accumulated reserve funds and current earnings, deposits by the members and non-members, and outside borrowings from the Central Co-operative Bank. Table 19 shows the composition of working capital for an average society in each class.

¹⁶ The Govt. of West Pakistan, The Co-operative Inquiry Committee Report, (Lahore: Superintendent Govt. Printing Press, 1956), p. 53.

TABLE 19

COMPOSITION OF WORKING CAPITAL OF AN AVERAGE CO-OPERATIVE IN EACH CLASS

Class	Paid in Share Capital	Net Earnings and Reserves	Members' Deposits	Non Members' Deposits	Central Bank Loans	Total Working Capital	Working Capital Per Member
A	7183.80	6675.30	6622.30	1,110.80	7577.60	29,169.80	307.05
B	4609.40	4761.90	2564.30	642.85	3159.70	15,738.20	183.00
C ₁	3301.60	8585.80	1747.30	1,953.40	2744.70	18,332.80	333.30
C ₂	5094.00	2102.40	74.20	-	1614.80	8,884.40	286.60
U.C.	1022.50	82.00	225.25	-	3480.20	4,809.95	104.60
D	94.50	814.40	39.50	-	1014.50	1,962.90	98.15

Table 19 is presented to show the composition of working capital for each class of society. All these data are average figures for each class; actually there are wide variations within a class. For example, the total working capital in the six 'A' class studied co-operatives varied from Rs. 3,226 in chak 102 society to Rs. 64,302 in chak 258 society.

It should be noted from Table 19 that an 'A' class society is not necessarily better than a 'B' class society or 'C₁' is better than 'C₂' class society as regards the paid share capital, net earnings and reserves, deposits and working capital per member. This is so, because the basis of classification of societies into such classes does not depend on the amount of working capital or amount of earnings.

The working capital can be divided into two broad classes namely (a) owned capital, and (b) borrowed capital, or outside capital, for the purpose of analysis.

a) Owned Capital

The owned capital of the studied co-operative credit and thrift societies was comprised of paid in share capital and reserves plus net earnings.

(1) Paid-in Share Capital

The price of each share is Rs. 10 and each member is expected to buy ten shares in the society. The members have the choice of buying the shares in installments.

All of the studied societies and most of the other credit and thrift societies in Lyallpur district are of un-limited liability. Share capital in these societies therefore has a secondary position because financial liability is attached to it. Moreover, because the members do not receive any returns on the shares they are not interested in buying more than the required number.

The only way for a society to increase its share capital is either by increasing the number of members or by increasing the number of shares that each member has to buy, or a combination of both. Another possible alternative would be to limit loans to a ratio to shares held. The members will buy more shares, it seems to the writer, only if dividends are paid on the share capital. At present no dividends are paid to members in the primary credit and thrift societies.

The average share capital in each class of co-operative is shown in Table 19 while in Table 20 the average share capital of all societies, excluding 'D' class societies, is shown amount to Rs. 3,624.70. In Table 20 'D' class societies are excluded

to get a better picture of an average society because the 'D' class societies are almost defunct and are on the verge of liquidation. The share capital as shown in Table 20 amounts to 23.14 percent of total working capital, which is about the same as the borrowings from the Central Bank.

(2) Net Earnings and Accumulated Reserves

The net earnings and reserve funds are shown in both Table 19 and Table 20 together because the allocation of net earnings is not made at the end of every year. The disposal of net earnings generally depends upon the by-laws which are framed in accordance with the policy of the co-operative department.

The net savings or earning continue to accumulate for the first ten years of every society. The period of ten years is to be counted from the date of registration to the end of the 10th co-operative year. In the eleventh year, the audited balance sheet is used as the basis to decide the disposal of the ten years accounts.

According to the Co-operative Societies, Act II of 1912, 1/4th of the net earnings of any society has to be allocated to the reserve fund. In societies with un-limited liability any savings after allocation to reserve funds are carried to the next year's gross earnings or income. Members do not receive any patronage refund at all from the net savings of the society.

The net savings and the reserves, as shown in Table 20 amount to 31.76 percent of the working capital. This item comprises a greater portion of the owned funds of the societies

TABLE 20
COMPOSITION OF AVERAGE WORKING CAPITAL FOR 29
CO-OPERATIVES. (EXCLUDING 6'D' CLASS SOCIETIES)

Item	Amount Rs	Percent of Total Working Capital
1. Paid in Share Capital	3,624.70	23.14%
2. Earnings + Reserves	4,974.80	31.76%
Owned Capital	8,599.50	54.90%
3. Members' Deposits	2,454.70	15.68%
4. Non-Members' "	856.50	5.47%
5. Central Bank Loan	3,751.40	23.95%
Non-owned Capital	7,062.60	45.10%
6. Total Working Capital	15,662.10	100.00

than does the member capital. This is so, because about 50 percent of the studied societies, excluding 'D' class societies, are very old and were established during the period of 1908 to 1928. Because they have been working for such a long period of time, even though their volume of business has been small, and they had to charge off as uncollectable loans owed by members who went to India following partition in 1947, they have accumulated net savings and reserve funds.

The owned capital taken together constitutes 54.90 percent of the total working capital. This shows that a greater

percentage of the working capital is owned by the societies. Which, however, may not be the case because the figures in both Tables 19 and 20 correspond to the summer of 1963 when the writer visited these societies. At the time some of the borrowed funds from the Central Bank had already been returned. The figure of 23.95 percent showing the loans from the Central Bank indicates only the amount of the borrowed capital still with the society at the time of the writer's visit.

To appraise the financial position in relation to the total loans advanced, an analysis will be presented in section 'C' of the present chapter. The analysis will show the soundness of the financial structure of the societies.

b) Non-owned Capital

The non-owned capital of the studied societies is composed of members' and non-members' deposits and borrowings from the Central Co-operative Banks.

(1) Members' Deposits

The extent of members' deposits can be seen in Table 19. The members' deposits in 'A' class societies are largest, the average amounts to Rs. 6,622.30. While actually within the six 'A' class societies the range of members' deposits was from Rs. 6 to Rs. 35,000. The highest amount of Rs. 35,000 was in chak 258 credit and thrift society in the village of Lambapind. This society is managed by a full-time working secretary-treasurer who is a qualified secretary and had experience in such a post in India.

We can see from Table 20 that the members' deposits on

average, excluding the six 'D' class societies, amounted to 15.68 percent of the total working capital. The following are the main reasons for small amount of members' deposits with the co-operatives:

- (a) Absence of full time paid secretary who is well qualified to handle the members' accounts.
- (b) Members do not have the habit of thrift.
- (c) Due to insufficient income of the members, there is not much money from which to save.
- (d) Application of whatever small savings a member may make to ceremonial expenses instead of depositing with the society.

(2) Non-Members' Deposits

The non-members' deposits constitute a very small percent of the working capital of the societies. Out of the 35 co-operatives studied, only in five were a small amount of non-members' deposits found. No non-members' deposits were recorded in C₂, D, and un-classified societies. While three out of six 'A' class, one out of seven 'B' class and one out of seven 'C₁' class societies had received deposits from non-members.

Table 19 shows the average non-member deposits in each class. The average of 'C₁' class societies is highest, which amounts to Rs. 1,953.40. Actually only in one 'C₁' society, namely chak 132 credit and thrift co-operative, were non-members' deposits found and these amounted to Rs. 13,674. This could be explained by the presence of some big farmers in the village who

have adequate income and savings. They do not want to take the responsibility of becoming members but realize that their savings when deposited in the society will be safer and at the same time they could get returns at the rate of 2 percent per year.

(3) Loans from the Central Co-operative Bank

Borrowings from the Central Co-operative Bank constitute the major portion of the outside capital of the co-operatives studied. As shown in Table 20, out of 45 percent total outside capital, 24 percent was from the Central Co-operative Bank. Generally, the amount borrowed is more than what the figures show, as mentioned before, because when the data were collected some of the societies had already repaid part of their loans of the Central Bank.

There are two Central Co-operative Banks in the Lyallpur District. One is the Lyallpur Central Co-operative Bank, limited with its eight branches all over the district, the other is the Jaranwala Central Co-operative Bank which works exclusively in Jaranwala Thesil. The writer visited the former at Lyallpur and collected the necessary data and information concerning its operations and its terms and conditions for extending loans.

(a) The Lyallpur Central Co-operative Bank, Ltd.

The Lyallpur Central Co-operative Bank was established in 1913. At present it has 8 branches in the district. On 30 June, 1961 it had a total membership of 982. Out of this 716 were co-operative societies and 266 were individuals.

The bank receives deposits from members as well as non-members but advances loans only to members. It advances loans to non-members only against security of gold. The rate of interest charged by the bank from both individuals and societies, at the time of the writer's visit, was 7 percent. It pays no interest on demand deposits, and pays 2.5 percent on time deposits of less than a year, and 2 3/4 percent for deposits for one year. A maximum of 4 1/4 percent interest is paid for time deposits only if the amount is in lacs and is deposited for longer periods of time.

The lending operations of the bank can be seen from Table 21. The figures shown in this Table 21 were collected by the writer from the head office of the bank at Lyallpur.

TABLE 21

LENDING OPERATIONS OF THE CENTRAL CO-OPERATIVE BANK, LYALLPUR 1962-1963

Item	Societies	Individuals
	Rs	Rs
1. Loans Advanced	4,730,528	90,021,656
2. Repayments	4,431,306	88,190,599
3. Loans Outstanding (On 30.6.1963)	2,550,930	11,010,905

It is clear from Table 21 that a much larger amount was loaned to the individuals than to the societies. The main reason for this was that a greater amount of funds come from individuals. On June 30, 1963, Rs. 20.40 million

were the deposits from individuals while only Rs. 2.32 million came from the societies. This shows that a greater amount of the funds of the bank comes from individuals.

The writer asked the opinion of the manager of the bank concerning the new policy of the co-operative department that the co-operative banks should stop dealing with individuals. The manager of the bank expressed his views that such a measure may prove harmful for the co-operatives, because by stopping the business with individuals the bank's earnings will be reduced and at the same time the capital will be reduced. He said that the demand for credit by the co-operative societies is not enough and the surplus over and above this demand must be loaned to individuals to make use of the funds of the bank.

The bad debts of the co-operative societies since 1953 amounted to Rs. 876,842 while for the individuals the amount stood at Rs. 78,335 since 1951. This shows that the bank suffered a greater loss from lending to societies than it did from the individuals. It must be mentioned, however, that the figures showing bad debts for societies relate to all kinds of co-operative societies in the district, including urban societies, and not only credit and thrift societies. Moreover, a very little amount of the loss was due to lending to the credit and thrift societies and a greater portion of the loss was a result of lending to other types of co-operative societies, particularly multipurpose and service societies.

D. Record of Performance

1. Increase in the Volume of Business

The data for the last five years were collected from the 35 studied co-operatives concerning their lending operations. Table 22 and 23 are constructed to show the number of loans made, amount loaned, percent repaid,

TABLE 22
LENDING OPERATIONS OF 29 CREDIT CO-OPERATIVES, 1959-1963
(EXCLUDING 6 'D' CLASS SOCIETIES)

Year	No. of Loans Made	Total Amount of Loans Rs.	Av. Amount Per Loan Rs.	No. of Delinquent Loans	Percent of Loans That Were Delinquent
1959	540	171,246	317.12	75	13.89%
1960	603	163,058	270.41	84	13.93%
1961	669	253,994	379.66	87	13.00%
1962	892	301,143	337.60	104	11.66%
1963	793	286,695	361.53	125 ⁺	15.76%
Average	669	235,227	333.26	95	13.65

⁺ One month before due time, subject to revision.

and percent of delinquent loans. Table 23 shows the lending operations of each class of society, while in Table 22 lending operations of all but 'D' class societies are combined to get an idea of an average amount per loan.

The number of loans made increased (Table 22) from 540 in 1959 to 793 in 1963, with a gradual increase over the four years period until 1962 when the number was 892.

The total amount loaned over the five years increased from Rs.

TABLE 23

LENDING OPERATIONS OVER THE PAST FIVE YEARS 1959-1963

Class	Amount Loaned	Outstanding Receivable Loan	Percent Re- ceivable Loan	Percent Recovery
A (6)	659,726	131,797	20%	80%
B (7)	246,032	88,881	36%	64%
C ₁ (7)	202,806	111,571	55%	45%
C ₂ (5)	21,965	12,551	57%	43%
⁺ U.C. (4)	35,615	16,800	47%	53%
D (6)	943	N.A.	N.A.	N.A.

⁺ Un-classified; For only two years (1962 and 1963).
N.A. Data not available.

171,246 in 1959 to Rs. 286,695 in 1963 while in 1960 the amount was reduced to Rs. 163,058 which increased in 1961 and in 1962 was at its maximum at Rs. 301,143. This shows that there was not a definite and gradual increase over the period. However, from 1961 to 1963 the amount was more than the average of five years.

The average amount per loan for the five years was Rs. 333.26.⁺ The average amount per loan was more than this amount in the years 1961, 1962 and 1963, indicating a trend toward slightly larger loans. The maximum amount per loan, however, was in 1961 which stood at Rs. 379.66. From the figures in Table 22, it can be seen that there is not a definite relationship between the number of loans made, total amount of loans and average amount per loan. The greatest number of loans were made in 1962, the maximum amount loaned was also in 1962 but the highest amount of average loan was in 1961.

⁺ 1 Rupee = 20 U.S. cents

The percent of the loans that were delinquent shows, more or less, a downward trend as there is a reduction from 13.89 percent in 1959 to 11.66 percent in 1962. The figure 15.76 percent for 1963 is subject to revision because at the time the data were collected, some farmers had not yet paid the last installment which was not actually due until September. Therefore, it can be assumed that most probably after the due time this percent would have been around 10 or 11 percent. Thus the record of repayment of loans was improving.

From Table 23 we can see the differences between classes of societies especially concerning the total amount loaned and percent recovery. Class A societies stand highest as regards amount loaned and percent recovery, which was at Rs. 659,726 and 80 percent, respectively. Class B societies come next in the order. Amount loaned in C₁ class societies stood higher than C₂, D, and U.C. class societies but the percent recovery was higher in U.C. class societies.

Members' opinion was taken concerning adequacy of the loans they were granted by their co-operatives. They were asked whether the amount they had received was sufficient, somewhat sufficient or not sufficient. The results are summarized in Table 24.

TABLE 24
ADEQUACY OF THE AMOUNT LOANED MEMBERS

Item	No. of Respondents	Percent of Total
1. Sufficient	113	62.80
2. Somewhat Sufficient	63	35.00
3. Not Sufficient	4	2.20
Total	180	100.00

The figures in Table 24 indicate that a greater number of the interviewed members considered the amount of loans received as sufficient. To 37 percent the loans were not adequate enough. As indicated before in Table 22 the average loan amounted to about Rs. 333, the writer questions it's adequacy for the productive purposes. It seems that those who considered it to be sufficient might have utilized it to meet their consumption needs and for ceremonial expenses.

2. Analysis of Financial Position

The financial position of a co-operative can serve as a good index of its success and progress. To judge the financial strength of a co-operative credit and and thrift society, an analysis is needed which should indicate how much of its loanable funds come from members' equity and savings and how much are borrowed from outside to finance the business of supplying loans to its members.

The assets and liabilities of 29 studied co-operatives are shown in Table 25. The data of 6 'D' class societies are not included as they are non-functioning and are of no consequence in meeting the credit needs of their members.

The figures in Table 25 indicate only the general financial position of the studied societies. They show that as the societies approached the low point of the year, members' equity equaled 55 percent^a of assets, indicating that they owned over half of the resources of their societies. With loans receivable amounting to 177 percent^b of the liabilities owed

$$^a \frac{249,444 \times 100}{454,262} = 54.91 = 55 \text{ percent}$$

$$^b \frac{361,600 \times 100}{204,818} = 176.54 = 177 \text{ percent}$$

TABLE 25

COMPOSITE BALANCE SHEET OF 29 CO-OPERATIVES

<u>1. Assets</u>	<u>Rupees</u>
a) Outstanding Receivable Loans	
(Variouly between July 15-Aug. 15, 1963)	361,600.00
b) Less Reserve for Uncollectable Loans (N.A.) ⁺	
c) Cash Deposited in the Central Bank	92,662.00
Total Assets	<u>454,262.00</u>
<u>2. Liabilities and Members' Equity</u>	
(As on June 30, 1963)	
a) Liabilities:	
(1) Members' Deposits	71,187.00
(2) Non-Members' Deposits	24,839.00
(3) Loans Owed to Central Co-op. Bank	108,792.00
Total Liabilities	204,818.00
b) Membership Equity:	
(1) Share Capital	105,117.00
(2) Reserves	144,327.00
Total Members' Equity	249,444.00
Total Liabilities and	
Members' Equity	<u>454,262.00</u>

⁺ Data Not Available.

to the Central Co-operative Bank and depositors, the societies should be able to repay their borrowings from the bank and meet the requirements for withdrawal of deposits with facility. Thus, in the aggregate the societies have sufficient financial resources to qualify for borrowings to meet the credit needs of their members.

To know further the strength of the financial position, a comparison between the members' equity and amount loaned, and members' equity and outstanding receivable loans is presented in Table 26.

TABLE 26
ANALYSIS OF FINANCIAL POSITION OF 29 CO-OPERATIVES

Item	Based on Members' Equity	Based on Members' Funds
1. Total Members' Equity	244,444.00	249,444.00
2. Members' Deposits	-	71,187.00
3. Member Supplied Funds	-	320,631.00
4. Total Amount Loaned	1,166,144.00	1,166,144.00
5. Percent Equity and Member Funds Are of Amount Loaned	21.39	27.49
6. Total Receivable Loans	361,600.00	361,600.00
7. Percent Equity and Member Funds Are of Receivable Loans	68.98	88.67

A glance at the figures in Table 26 indicates the inadequacy of the members' equity in meeting the needs of members for loans. Members' equity amounts to only about 21 percent of the total amount, loaned to

members. When members' deposits are added to the members' equity, still the percentage is only little over 27. These two figures indicate clearly that most of the loanable funds come from outside borrowings and the members' share holdings, savings, and deposits are inadequate. For the co-operatives to be successful and have a strong financial position, the percentage of members' equity to the amount advanced as loans must be at least above 50 percent at the low point of annual borrowings from the Central Co-operative Bank.

The percent of members' equity to receivable loans at the low point of the year amounts to 69 percent and 89 percent in analysis based on members' equity and the analysis based on member funds, respectively. With reserves amounting to 25 percent, from the figures in Table 25, of outstanding loans they should be more than sufficient to cover any losses from uncollectable loans. The figures, however, indicate the great need to increase member investment in shares and also deposits to build up funds to loan members to increase the output of their farms.

3. Increase in Membership

Although a great majority of the societies in the district were established many years ago, yet the increase in membership is not appreciable. Out of 35 co-operative societies studied, 20 were established before 1940, 11 in the 1950s and only four after 1961. The societies are very small and the maximum average membership is 95 per society. The figures in Table 27 show the average membership in each class of studied societies and the yearly increase in membership.

The percentage yearly increase for each society was calculated by using the following formula.

$$\frac{\text{Present Number of Members}}{\text{Number of Members When Started}} = (1 + r)^{\text{Number of year}}$$

TABLE 27
AVERAGE NUMBER OF MEMBERS AND YEARLY
INCREASE IN MEMBERSHIP OF CO-OPERATIVES

Class	Number of Societies	Average Number of Members	Average Yearly Percent Increase in Membership	Percent of Farmers in the Village Who are Members
A	6	95	11.00	34.80
B	7	86	12.50	26.20
C ₁	7	55	4.66	22.10
C ₂	5	31	3.76	22.74
U.C	4	46	23.10	11.70
D	6	20	-2.1	14.43

For example, credit society in chak 3 had 25 members when it was started in 1908 and had increased to 116 members in 1963, the percentage of yearly increase in membership would be = $\frac{116}{25} = (1 + r)^{55}$

or $55 \log (1 + r) = \log \frac{116}{25}$. By calculating r we can find the yearly increase which, if multiplied by 100, will give the percentage yearly increase. In the above calculation it was 2.8 percent.

The figures in Table 27 indicate that the highest percentage yearly increase was 23 percent in the unclassified (U.C.) class societies. For all classes of societies except 'D' class the average increase was only 11 percent.

The analysis reported in Table 27 further shows that the co-operatives do not have a majority of farmers in the village as members. 'A' class societies, however, serve roughly one-third of the villagers, a relatively larger percentage of farmers in the village than the other classes of societies. This could be because the 'A' class societies have better management which contributes to the confidence of members in the society and attracts new members. On average only 23.5 percent of the farmers in a village are members of the co-operative. This figure, however, does not include 'D' class societies. Thus, the societies have the opportunity to increase their volume of loaning substantially by attracting more members.

From the results in Table 27, it can be concluded that the increase in membership of the co-operatives studied was not appreciable and the co-operative societies do not include a large proportion of farmers. The data in Table 27 also show that the average size of the societies is small. If 'D' class societies are excluded, the average membership per society is only 63. In other countries, it has been found that 300 to 400 farmer members are required to assure a large enough volume of lending business to cover the expenses of a well trained full time secretary-treasurer.

CHAPTER V

CONCLUSIONS AND RECOMMENDATIONS

CONCLUSIONS

The co-operative credit and thrift societies in Lyallpur district are considered to be more successful than the average credit and thrift society in West Pakistan. From the analysis of the data collected in the present study, it was confirmed that an average society in Lyallpur district had larger membership, higher working capital per member, a higher ratio of owned capital to total assets and had advanced a larger amount per loan to its members when compared with the average figures for all such societies in West Pakistan. The writer, however, wishes to make it clear that the situation of co-operative credit and thrift societies in West Pakistan is not so commendable that it can be used as a useful criteria for comparison. Even though they were found to be above average, the societies studied showed real need for improvement in a number of important aspects.

One of the main, if not the only significant achievement, no matter how inadequate it may be, of the co-operative credit societies in general, and the studied co-operatives in particular, was the provision of credit to their members at much lower interest rates than these individuals could get from other sources in the village. Another point in favor of the studied co-operatives is that over the period of the last five years very few societies had experienced any bad debts, and if some did the amount involved was not significant. This, however, does not apply to the 'D'

class societies and some of the 'C₂' class societies. Besides these two points, the writer failed to observe any other significant achievements of the co-operative credit and thrift societies.

On the other hand, many weaknesses were observed both in the organization and operations of the societies. Some of the major conclusions drawn from the study concerning these weaknesses are the following.

1. Members are ignorant regarding co-operative principles and practices and hence fail to understand their responsibilities as members.

The fact that the co-operative program in the country laid primary emphasis on increasing the number of registered co-operatives and failed to prepare adequate ground work in members' education about co-operative principles, resulted in ignorant members who lack knowledge as to what co-operation is and how they can benefit from participating in co-operatives. It was found that many members thought that co-operatives were agencies run and controlled by the government. In a co-operative society when the members lack adequate knowledge about its principles, practices, aims, objects, and functioning they do not participate in its affairs actively and as a result they cannot contribute much towards its success. It is the firm belief of the writer this factor, lack of members' knowledge, alone could have been a major cause of the slow progress of co-operative societies in the country.

2. Management is inefficient due to honorary services by the untrained secretary-treasurers.

The co-operative societies are mostly run by untrained and unqualified secretary-treasurers who perform their services on an honorary basis and work only part time. A co-operative society being a business

organization which performs important economic services to its members must be managed efficiently to be successful. Due to the inefficient management by these part time honorary secretary-treasurers, the sub-inspectors have to devote more time in helping them to keep the accounts and records of the society straight. This time could have been utilized more efficiently in educating the members and training the directors and officers regarding their responsibilities and the performance of their duties. Moreover, the absence of a full-time paid secretary-treasurer has been responsible for the lack of members' confidence in the society as a safe place to deposit their savings.

3. Members' equity capital is inadequate to meet their basic credit needs for farming operations.

The co-operative societies were found to depend mainly on funds borrowed from central co-operative banks to finance their lending operations. The percentage of member equity capital to the total amount loaned was found to be very low, only 21 percent. In this respect, co-operative societies could be said in reality to be serving as agents of the bank. If the societies are to succeed and stand on their own feet, by having their own capital a major part of their loan funds, the members' equity must be increased mainly through greatly increased member investment in shares.

4. Loans advanced to members are too small to be used for production operations and do not contribute to increasing farm output.

The average size of loan advanced to members by the societies was small and amounted to only Rs. 333. This amount is not adequate for financing any substantial farm production enterprises. In a study conducted in Peshawar area, West Pakistan, the average amount of production credit

required for holdings of 5-10 acres was Rs. 407, for holdings of 10-15 acres it amounted to Rs. 592, for holdings of 15-25 acres it was Rs. 667, and for holdings of over 25 acres it amounted to Rs. 1130.¹ In Lyallpur where the typical land holding is 15-25 acres, or more, the production credit requirement must be about Rs. 700-800. This amount is more than twice the average size of loan made by the societies.

The main reasons for small size loans were inadequate loan funds and low maximum credit limits for individual members based thereon. The maximum credit limit for any member was Rs. 1,000. But due to shortage of loan funds, most of the loans were always below this maximum limit. A certain limit is fixed by the Assistant Registrar over which a society cannot borrow from the Central Co-operative Bank. Since this bank is the only source of outside borrowings for the societies which require more funds to meet the credit needs of their members, they are helpless and have to apportion the available funds among the members. Thus, the amount of loan advanced to the various members is limited by the total amount the society is permitted to borrow.

5. Co-operative thrift and credit societies have not developed the habit of thrift among co-operative members.

Although the societies bear the name "co-operative thrift and credit society", yet the thrift side has been ignored up until the present time by all but a very few, and co-operatives have failed to mobilize members' savings and in developing the habit of thrift among their members.

¹ Barkat A. Qureshi, "Agricultural Credit Requirements and Credit Worthiness of Agriculturists in Peshawar Thesil," Agricultural Economist, (Karachi: The Agricultural Economic Society of Pakistan, 1962), p. 105.

No member-voted obligatory savings programs are carried out by the co-operatives and no definite measures had been taken, either by the co-operative societies or the Co-operative Department, to stimulate greater members' savings and attract more deposits. Most members considered their society only as a lending institution from which they could borrow. They were unaware of the benefits derived from depositing their savings with the society.

6. Loans to members are not properly supervised to be productively used for increasing farmer members' income.

There were no special committees in the societies studied, to perform the services of supervision of loans. Almost all of the loans advanced were not made on a farm plan and were not budgeted as to the various used for carrying out such a plan. Due to lack of proper and adequate supervision of loans combined with too small amount relative to financing crop production, the members generally utilized the loans for unproductive purposes which rendered the repayment of loans more difficult and did not contribute towards increasing the farmers' income. The difficulty in repaying the un-productive loans from the regular income of the farmer, which generally is not even sufficient for usual family expenditure, leads the borrower to develop a negative attitude towards the idea that borrowing was a curse and must be avoided.

7. The staff of the co-operative department virtually run credit societies so that many members consider that co-operatives are government run credit institutions.

The writer observed that the interference by the Co-operative Department in the affairs of the societies was more than necessary. It

was to such an extent that a great majority of the members thought that their societies were run by the government. Such an attitude had a bad effect on the development of the societies because they relied more and more on the officials of the Co-operative Department who could not provide the requisite degree of technical advice and guidance. The official control and interference killed initiative on the part of the members in taking active part in the affairs of their societies, and in making decisions as well as relieving the members of the managing committee from much of their proper work.

8. Salaries and facilities provided to sub-inspectors are not adequate enough to enable them to do their work properly.

The duties and functions a sub-inspector has to perform are quite important for the success of the co-operative societies. The salaries of these employees of the Co-operative Department, however, are extremely low and not in accordance with the amount of work required of them. One sub-inspector was, on the average, in charge of about fifty societies. This is too large a number to be properly guided and supervised by one person. The sub-inspectors were not provided with proper travelling facilities and living quarters and were not given extra travelling allowances. Due to lack of such facilities and financial worries, it was observed, they could not perform their duties properly and hence the co-operative societies had to suffer. Moreover, due to low salaries and inadequate facilities, it is difficult to attract capable persons to the co-operative program.

RECOMMENDATIONS

Through co-operative credit, the farmers can raise their standard of living by wise and efficient utilization of credit and making periodic deposits of savings with their society. But this could only be achieved if the co-operative societies are efficient and successful in providing the needed services to their members. The co-operative thrift and credit societies of Lyallpur district have to overcome a number of problems and difficulties to be successful.

To overcome the previously mentioned difficulties and weaknesses the writer's recommendations and suggestions are presented in the same order as the conclusions were stated in the previous section.

1. An effective program of member education regarding co-operatives should be developed.

It is high time that the Government of Pakistan should realize the importance of member education and training the members of managing committees and officers of co-operatives. An effective program for educating members and prospective members of co-operatives should be developed through the following measures:

- a) Setting the normal number of societies to be supervised and guided by a sub-inspector at a maximum of 25, and increasing the number of sub-inspectors accordingly, to allow them to do more educational work.
- b) Using regular radio broadcast programs and showing motion picture films that will attract and hold the interest of farm people regarding co-operatives.
- c) Teaching of units about co-operatives, co-operative principles and practices in secondary schools.

At present the task of member education and training of co-operative personnel is assigned to sub-inspectors who are overloaded with so many other responsibilities that this important task is mostly overlooked. By increasing the number of sub-inspectors so that no one will have charge of no more than 25 societies, will enable him to give more time in member education regarding co-operative principles and practices. Quite a number of farmers own radios and transistors in the villages and those who do not own such, usually gather around in "huzras"⁺ in the evenings to listen to radio programs. The writer believes that if good programs are broadcast either by the West Pakistan Co-operative Union or the Co-operative Department regularly at least three times a week, the farmers could benefit a lot from them. Motion picture films about farmer co-operatives can be used effectively in developing member's understanding about co-operation, and informing them as to how co-operatives function in other countries.

Special courses in the high schools should be taught about co-operation. This will facilitate the future members of the co-operative societies in understanding the principles, practices, and advantages of co-operatives. In some countries such programs are already existing and have proved quite successful. For example, in Canada the elementary and junior high school syllabus, approved for use in Catholic schools in the province of Quebec, authorizes the teaching of co-operation in the senior grades. Some idea of the co-operative movement is given to pupils of

⁺ "Huzra" is a place where the villagers gather in groups during their leisure hours to pass time and gossip. There are always a number of such places in each village.

elementary schools in Manitoba and in Saskatchewan². In Nova Scotia, the course of studies of senior grades of the secondary schools includes "adequate information on the philosophy, progress, methods of co-operation and its place in the program of social reconstruction."³

2. Qualified secretary-treasurers should be employed to improve the management of the societies.

Every effort should be made by the societies and the Co-operative Department to hire well-trained and qualified secretary-treasurers who will work full time in managing the affairs of the societies. In this regard, the writer suggests the following measures:

- a) Government should encourage development of large size societies serving more than one village where possible, so that they will have large enough volume of business to employ a paid secretary-treasurer.
- b) The existing co-operative training institute at Lyallpur, and West Pakistan Agricultural University at Lyallpur should provide six months training courses to prospective secretary-treasurers, who must hold a matriculation diploma.
- c) The secretary-treasurer should not be a member of society to ensure efficient management and to hold him responsible for any mismanagement.
- d) The salary of the employed secretary-treasurers, with the above mentioned qualifications, should be paid at least Rs. 100 per month, which could at early stages be subsidized partly by the Government and partly by the Central Co-operative Bank.

² International Labor Office, The Co-operative Movement and Present Day Problems, (Geneva: I.L.O., 1955), p. 181.

³ Ibid.

To be able to hire qualified and trained secretary-treasurers, the societies have to enlarge their lending business to increase their income which would pay for the salary of sub-inspectors, cover the expenses and add to the reserve funds. At present, the societies borrow from the Central Co-operative Bank at 7 percent and loan to members at 9 percent rate of interest having a margin of 2 percent. If the salary of the secretary-treasurer and other miscellaneous expenses amount to Rs. 150 per month, then a sum of Rs. 90,000 needs to be loaned to generate income which would cover such expenses.

At present the secretary-treasurer works on honorary basis and, therefore, cannot be held responsible for any mismanagement. But when the societies are managed by well qualified secretary-treasurers, the member confidence in their society will increase. Such qualified secretary-treasurers will also be able to impart education to the members regarding co-operatives which will help members understand their co-operatives better and will enable them to take active part in the affairs of their society. Moreover, the presence of trained secretary-treasurers will reduce the work of sub-inspectors and they will have more time to devote for member education and personnel training.

3. Member equity capital should be increased to provide for a greater portion of loanable funds.

Definite measures should be taken to raise member equity mainly through greatly increased member investment in shares. The suggested measures to achieve this are the following:

- a) The minimum number of shares bought by any member must be raised to 15, and members should not be restrained from buying more shares if

they want to do and can afford within the general limit of Rs. 1,000 set by the Co-operative Department.

- b) Each member should be expected to buy at least one share of Rs. 10 on a loan up to Rs. 200, two shares on a loan of Rs. 200-400 and so on at the rate of 5 percent, up to Rs. 1,000. The maximum number of shares bought this way does not need to exceed five shares per loan.
- c) Member should be paid a return of about 3-4 percent on share capital, enough more than savings draw in banks in order to stimulate member investment in co-operative shares. This serves as an inducement to buy more shares.

At present in most of the societies, the required number of shares to be bought by every member is ten, which could easily be fixed at fifteen. The main problem, at present, is that most of the societies limit the number of shares to be bought at ten which is not a right policy. The writer believes if this restriction is removed and if members are paid a return on their share capital they would buy more shares. These measures coupled with the compulsory buying of shares in proportion to the amount borrowed will increase the member equity and reduce the dependence of the societies on their financing institutions. With increased member investment, they will have a stake in their society and will take more interest in its affairs and which will help improve also the general financial condition of the societies.

4. Size of loans should be adequate for production purposes to increase borrowers' income.

Loans advanced to members must be adequate to be used for production

operations to contribute towards increasing farm output and farmers' income. In this regard the writer makes the following suggestions:

- a) Maximum credit limit, which is related to the capital paid in by the members, over which a society cannot borrow from the Central Co-operative Bank should also be based on both the record of repayment and number of members in the society, so that a society could borrow up to Rs. 200-250 per member.
- b) Efforts should be directed to raise the member equity and deposits to enlarge the loanable funds.
- c) Maximum credit limit for an individual member should be based on his repayment capacity instead of the extent of his property ownership.

When the loanable funds of the societies increase, they will be in a position to loan more per member and hence the size of each loan will be increased. In the past, due to inadequate size of loans, they were not utilized for productive purposes to increase the borrower's income. This made it difficult for borrowers to repay the loans. It is hoped that when adequate size loans will be made to members, they will help the farmer to increase farm output and income so that after repaying the loans, farmers can both increase their savings and raise the level of living for their families.

5. Habit of thrift among co-operative members should be encouraged.

There should be an intensive program for developing the habit of thrift in the co-operative members and convincing them as to the merits of saving deposits in their societies so that their various needs may be met more fully and efficiently. The following measures to increase saving and deposits in the societies are suggested:

- a) The Co-operative Department, with the co-operation of the West Pakistan Co-operative Union, should launch a thrift education program for co-operative members.
- b) Each and every member must be required to deposit with his society one rupee per month which could be refundable only after ten years.
- c) A compulsory deposit of Rs. 10 should be collected every year from each member. Members could withdraw from this account only after ten years with due interest.
- d) A convenient system of attracting and mobilizing member savings would be issuance of savings chits of one, five, and ten rupees by the Central Co-operative Bank to the societies to be sold to members. Whenever members need cash, they could return the chits to the society and get their money. The total amount of money collected by each society should be deposited with the Bank in the name of the society.
- e) School savings program such as are in existence in Cyprus and Jordan should be started in some areas, and if encouraging results are obtained then the program should be extended to other areas.

The writer believes that it is not true that farmers are so poor that they cannot save. This is verified when one sees lavish expenditure on various ceremonies and other non-productive uses. The main problem is that farmers do not have the habit of thrift and the co-operative societies neither have any compulsory savings programs, nor do they have any convenient system where the farmers could deposit and withdraw small amounts of money. It is hoped that with the effective thrift education program the farmers will realize the merits of thrift and when there is a convenient system of deposits, such as suggested in d), there will be increasing

amounts of member savings coming in the societies. This will help build up the owned capital of the societies and reduce their dependence on outside borrowings. Above all, the members themselves will gain by improving their economic condition. The increased amounts of member deposits will help develop in the members a sense of ownership which is so vital to the success of the societies by developing their interest in protecting their investment.

6. Loans should be supervised adequately to ensure productive utilization by the borrower which will increase his income and repayment capacity.

Efforts should be made to provide adequate supervision of all loans made to the members through the following measures:

- a) A special loan supervision committee consisting of three members must be selected by the members of the managing committee.
- b) The sub-inspector should provide additional supervision to check whether the loans made are utilized for the proper purpose.
- c) Loans advanced to the members should be based on a farm plan and the loan budgeted as to its various uses and the time needed to pay for items essential for a large harvest.

At present, supposedly the supervision of loans is carried out by the managing committee. But no one of the members of the managing committee take the responsibility of supervising the loans. With the presence of a special committee of three members, whose job will be only to supervise and see if the loans made are being utilized for the proper purpose, the loans will be utilized for the purposes for which they were issued. If the committee finds a borrower not using the loan for the purpose it was asked for, they should report to the managing committee who will call

back the loan. The sub-inspector at his visit could select some of the borrowers at random and check whether the loans are properly utilized or not. This will serve as a check on the working of the loan supervision committee.

The loan based on a farm plan and budgeted as to its various uses will help reduce the problem of misuse of the loan. This might not be very easy to accomplish due to illiteracy of both the farmers and most of the members of the managing committee. But it is hoped that with the presence of a qualified and trained secretary-treasurer this job could be done adequately. It requires careful training of the sub-inspectors as well as the members of the supervision committee.

7. The official control of the societies should be reduced as the elected officials are trained and guided in doing their work properly.

The Co-operative Department should withdraw from direct interference in the affairs of the society and its main concern should be provision of technical guidance, supervision, and audit facilities to the societies. In this regard the following suggestions are made:

- a) Sub-inspectors, inspectors, and other officers of the Co-operative Department on their visit to the societies should not act and behave as officers and superiors of the society.
- b) Sub-inspectors should spend more time in educating the members and should not restrict their visit to the secretary-treasurers and the managing committees.
- c) The employees of the Co-operative Department should not take an authoritarian role, but should serve as guides and may make suggestions to the society but the decision making should be left to the members of

the society.

The sub-inspectors and inspectors are the employees of the Co-operative Department who most frequently come in contact with the societies. It is their behavior and acts which makes the members feel as if these officials are the controllers of their society. A great majority of the members are illiterate and lack adequate knowledge of co-operatives. They tend to believe whatever is told to them by these officials. Therefore, it can be accepted that these officials can be extremely helpful, if they want to, by explaining to the members their role and duties instead of imposing on them as mere superiors.

8. Decent salaries and adequate facilities should be provided to sub-inspectors.

The sub-inspectors who are expected to play a very important role in co-operative programs should be provided with decent salaries and adequate facilities through the following measures:

- a) The salary of a sub-inspector should start from Rs. 120⁺ per month with usual allowances and increments.
- b) Provision of living quarters in their circle or payment of Rs. 20 per month as house rent.
- c) Provision of a bicycle to each sub-inspector for village to village travel.
- d) Provision of travelling allowances for long distance travels by bus or train with at least two rupees per day for meals.

With higher salaries and better facilities they will be able to do a better job of supervision, guidance and education work of the societies. Moreover, with the above mentioned facilities, it will be possible to

⁺ 1 Rupee = 20 U.S. cents

attract better qualified and capable persons for these posts. The writer firmly believes that the success of the co-operate program in the country depends greatly on the sub-inspectors. No matter how well planning is done and policies are prepared at the higher levels, they may never be executed and the co-operative societies may never benefit unless these policies are carried to them by the sub-inspector who comes in direct contact with the societies and members. He will not do a good job unless his financial and domestic worries are gone. It is only logical that if he has to pay from his meagre salary of about Rs. 60 per month, to travel to visit a society, he will always hesitate to do so. Under existing conditions, he should not be blamed.

Future Prospect of Credit and Thrift

Societies in Lyallpur District

The writer believes that if the previously mentioned recommendations are carried out properly the situation of the credit and thrift societies in Lyallpur district will be improved considerably. It must be realized, however, that the improvement cannot be brought about overnight simply by applying these recommendations, or for that matter any other recommendations. To improve both the organization and operation of the societies we have to look in to the present situation of the members of these societies and of the villages in which they work and live, keeping in mind long range goals and objectives.

None of the recommendations individually and alone could bear fruitful results, unless an integrated program involving all or most of the suggested measures is carried out. For example, hiring an efficient and qualified secretary-treasurer to manage a credit society without at

the same time carrying on a sound member education and personnel training program, and without a program for developing the habit of thrift among the members would not lead to the degree of improvement in the functioning of the societies necessary for achieving the objective of meeting the needs of the members for production credit.

The credit societies working efficiently would be able to provide much, if not all of the production credit needed by the members at reasonable cost. But it must be remembered that credit is not a panacea and will not cure all socio-economic ills. Credit may be one of the most needed tools to hasten the coming of better living standards in developing areas but to be an effective instrument of progress it requires certain background conditions, in the absence of which it may be as sterile as seeds thrown on the dry sands of the desert. After all, credit is a good thing only if used so productively that it produces a surplus of income after interest and principal are paid with which better living can be supported. For credit to be an effective tool for expanding from production, other measures such as knowledge of improved farming practices and interest in using them, an efficient marketing system, improved transportation facilities, and general education, are all necessary. Thus, the extent to which improving the functioning of credit societies can contribute to raising the level of living of farm people is directly related to the general improvement of the rural economy and the educational level of villagers.

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APPENDICES

A STUDY OF CREDIT CO-OPS IN LYALLPUR DISTRICT, W. PAKISTAN

QUESTIONNAIRE FOR CO-OPERATIVES

1. Name of the co-op _____
Name of the village _____
2. Date founded _____ Date registered _____
3. Number of members when founded _____
4. Present number of members _____
Present number of non-member patrons _____
Number of farmers in the village _____
5. Is membership open _____
6. What are the qualifications for membership?
 - a. Farming as an occupation _____
 - b. Residence in the area _____
 - c. Number of shares bought _____
 - d. Others _____
7. How much is the membership fee ? _____ Annual dues ? _____
8. Do you have a general meeting ?
Once a year _____ Each season _____ Not at all _____
9. What is the number of members who attend meetings _____
10. Who educates the members about co-operatives ? _____
11. What is the method of voting in meeting of the members ?
 - a. One man vote _____
 - b. According to number of shares _____
 - c. According to volume of business _____
12. Do you have proxy voting ? _____ any limit ? _____
13. Who manages the co-op ? _____
14. What is his level of education ? _____

15. What did he do before he became the secretary-treasurer (Manager) ?

16. Is he from the village ? _____

17. Who appoints him ? _____

18. Is he related to members of the Board ? _____

19. How much is he paid ? _____

20. Is he satisfied with his salary ?

Very much _____ Fairly _____ Little _____ Not at all _____

21. What part of his time is required for the work of the co-op ? _____

22. What are his responsibilities ? _____

23. What accounts and records does the co-op keep ? _____

24. a. Who audits the accounts ? _____

b. Who inspects the work of the co-op ? _____ How often? _____

25. What are the membership difficulties of the co-op ?

a. Lack of necessary information among members _____

b. Inexperience of farmers in cooperatives _____

c. Number of members too small _____

d. Un-limited liability for the debts of the society ? _____

e. Others _____

26. Who determines the business policies ? Directors _____ Secretary-

Treasurer _____ Members _____ All _____

27. What difficulties in management did you have ?

a. Inadequate accounting records _____

- b. High expenses _____
 - c. Friction among board members _____
 - d. Lack of interested directors _____
 - e. Lack of interested managers _____
 - f. Others _____
-
28. On what do you depend, largely, in financing the co-op ?
- a. On share capital ? _____
 - b. Members savings placed in the co-op ? _____
 - c. Loans borrowed ? _____
 - d. Reserves of the co-operatives ? _____
 - e. Grants from the government and/or other agencies ? _____
29. At present how much of the funds of the co-op is
- a. Share capital paid by members ? Rs. _____
 - b. Deposits by the members ? Rs. _____
 - c. Grants from government ? _____
 - d. Accumulated reserves ? Rs. _____
 - e. Other sources ? _____

- OPERATION -

30. a. Are loans extended only for production purposes ? Yes ___ No ___
b. If not, what other purposes you extend loans ? _____
-
31. Are loans granted to non-members ? _____
32. Is there any limit on the amount loaned for various purposes? Yes ___ NO ___
33. If yes, what is the maximum limit in rupees ? _____

34. a. Is a credit limit set for individual members ? _____
b. What determines the credit limit for individual members ?

35. Length of term loans extended ? Short term _____, medium term _____ long term _____.
36. What interest rate is charged for each term of loans ? Short term _____ medium term _____ long term _____.
37. Is the rate of interest charged on loans for, full years ? _____
Time from advance to repayment ? _____
Payment of installment ? _____
38. What security is required by the society ?
a. Land mortgage _____ b. Chattel Mortgage _____
c. Guarantee by wealthy persons _____ d. Guarantee by other members (no. of members) _____ e. Croplien _____
f. Products in storage _____.
39. In what forms are the loans extended ? a. cash _____ b. supplies advanced by credit society ? _____ c. supplies advanced by other co-operatives _____ d. merchants _____.
40. How is your co-op related with other co-operatives in the area ?
Purchasing co-op ? _____

Marketing co-op ? _____

41. What is the number of loans to members in the past five years ?
1959 _____ 60 _____ 61 _____ 62 _____ 63 _____.

42. What was total amount of loans to members in: 1959 _____ 60 _____
61 _____ 62 _____ 63 _____.
43. How many delinquent debts did the co-op experience in: 1959 _____
60 _____ 61 _____ 62 _____ 63 _____.
44. What is the amount of outstanding receivable loans today ? _____
45. What plans do you follow in collecting delinquent loans ? _____

46. What were some of the reasons for delinquency ?
- a. Negligence of borrowing members _____
 - b. Natural hazards and poor crops _____
 - c. Low returns from marketing _____
 - d. Other reasons _____
47. What do you think are the main problems of your co-op ?
- a. Lack of capital _____
 - b. Inefficient management _____
 - c. Too many delinquencies _____
 - d. Small volume of business _____
- _____ Others _____
- _____
48. On what basis does the loan committee decide how much to loan a member?
49. Do you require applicants for loans to submit:
- a. Farm production plan for the year ? _____
 - b. Financial statement of assets and liabilities ? _____
50. In what ways does the co-operative supervise the ways the borrower
used the money ? _____
carries out his production plan ? _____
pays money from marketing of products to repay his loan ? _____

CREDIT CO-OPERATION IN LYALLPUR DISTRICT, WEST PAKISTAN

QUESTIONNAIRE FOR MEMBERS

1. Name of the co-op _____ member's name _____
name of the village _____ member's account No. _____
2. When did you join the co-operative ? _____
3. Who encouraged you to join the co-op ? _____
4. Who initiated the idea of establishing the co-op ?
 - a. The people in the village ? _____ b. The Mukhtar ? _____
 - c. The school teacher ? _____ d. Extension worker ? _____
 - _____ e. Co-operative officer ? _____
 - f. other ? _____ g. Yourself ? _____ h. Don't know _____
5. What as you know was the main purpose or purposes for establishing the co-op ? _____

6. When you needed a loan to whom did you go previously ? _____

7. Why did you prefer this source ? a. Easy to get _____ b. Charges less than other _____ c. Convenient _____ d. No security was needed _____ e. Others _____
8. What was the rate of interest you paid ? _____
9. What were the difficulties you faced in getting the loan ? _____

10. What was the period you were given to repay the loan ? _____

11. What security was required ? _____

12. Would you say that the loan you got from this source satisfied your need?
- a. Sufficient _____ b. Somewhat sufficient _____ c. Not sufficient _____
13. How many shares do you own in the co-op? _____ Price of a share is _____
14. What is the minimum number of shares required for membership? _____
15. Why don't you buy more shares?
- a. Lack of money _____ b. Lack of interest _____ c. Fear of loss _____ d. Number that one can buy is limited _____ e. Others _____
16. What is the rate of interest that you pay? For short term loan _____ Medium term loan (2-5 years) _____ Long term loan (over 5 years) _____
17. Do you find it: High? _____ Medium? _____ Low? _____
18. Have you been able to repay the co-op loan on time? a. Always _____ b. Often _____ c. Sometimes _____ d. Never _____
- Why? _____
19. Would you say that the loan you get from the co-op satisfied your need?
- a. Sufficient _____ b. Somewhat sufficient _____ c. Not sufficient _____
20. What is the annual amount of money you consider sufficient to satisfy your need? Production purposes _____, subsistence _____ Total _____
21. Do you prefer to get a loan from the co-op instead of from other sources? Yes _____, No _____. Why? _____
22. Would you say that borrowing from the co-operative satisfies your credit

- need better than the old way you used to get a loan? _____

23. What difficulties and problems do you find in borrowing from the co-op ?
- a. Too many formalities _____ b. Much tangible security required _____
_____ c. Loans not large enough for farm operation _____
d. Money comes too late _____ e. Loans not available at all when
greatly needed _____ f. Others _____
24. Do you keep your savings in the co-op ? All _____ Most of the
savings _____ Very little _____ Not at all _____
25. Why don't you deposit some more of your savings in the co-op?
- a. No money to save _____, b. Not convenient to deposit small amount
of savings _____ c. May need money quickly _____ d. May
not be able to get money back when you need it _____
e. Other reasons _____
26. Are you satisfied with the services of the co-op? Very much _____
Fairly well _____ Not _____.
Why? _____

27. As a member would you say that the leadership of the co-op is a. Very
good _____ Fairly good _____ Poor _____ Why? _____
28. Is your co-op run democratically? Yes _____ No _____ Don't know _____
29. What do you understand by democratic control ?
- a. All members have equal rights _____ b. Voting is according to No.
of shares each members owns _____ c. Each member has one
vote _____ d. Members decide the main things _____
30. What is the number of members of the Board of Directors? _____

31. How are the candidates, for Board of Directors, nominated?
- a. By the president _____ b. By the old Board _____
- c. By the members in the election meeting _____ d. A committee
of members _____ e. Other ways _____
-
32. Whom do you tend to vote for when the board of directors is elected?
- a. Big farmers _____ b. Successful farmers _____
- c. Farmers with good leadership _____ d. Those who own more
shares _____ e. A relative when nominated _____
- f. Others _____
33. If you had a choice to elect new board members, would you elect
- a. The same board members ? _____ b. New members ? _____
- Why ? _____
34. Who controls the co-operative ? a. Government ? _____ b. Directors
_____ c. Secretary ? _____ d. Members ? _____ Others ? _____
- Don't know _____
35. Do you think that a co-operative should be separate from politics and
religion ? Politics, Yes ___ No ___; Religion, Yes ___ No ___.
36. Would you mind if there were people of other religions as member in your
co-op? Christians _____, b. Hindus _____ c. Jews _____
37. Would you encourage your fellow villagers to join the co-op society ?

38. Would you encourage other farmers in nearby villages to establish a
credit co-operative society ? Yes ___ No ___ Why ? _____
-
39. Do you believe that your co-operative should a. Increase its member-
ship ? _____ b. Decrease its membership ? _____ c. Remain the
same ? _____ Why ? _____

40. Would you depend on the co-operative for your credit in the future?

a. Yes _____ b. No _____ Why? _____
