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ADMINISTRATION OF RURAL CREDIT
FOR
AGRICULTURAL DEVELOPMENT
IN PAKISTAN

By

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CHAPTER I

I N T R O D U C T I O N

Although much has been written and considerable research has been made in fields like economic growth and agricultural development in relation to the underdeveloped countries of the world, very little thought is given and little has been done on subjects like rural credit, marketing, etc., which are vital to the development of agriculture and thereby to the economic growth and well-being of the people in underdeveloped countries and countries with an agrarian economy like that of Pakistan.

"Credit," as defined by Prof. Galbraith, "is the transfer of assets or wealth, or the right to acquire asset or wealth, from a man who has to a man who hasn't. And this is done against a promise to repay the value of what was borrowed with interest, the rate being fixed beforehand."¹ There are various forms of credit and various purposes for which it is contracted. It involves various processes and formalities for the different types.

This thesis will attempt to evaluate the various aspects of the working of public and semi-public institutions concerned with the administration of rural credit,

¹ John Kenneth Galbraith, "The Role of Credit in Agricultural Development," The Proceedings of the International Conference on Agricultural and Cooperative Credit, August 4 to October 2, 1952 (Berkeley: University of California Press, 1952), p. 29.

and special attention will be given to the structure and the method of their operation.

Before getting into a detailed discussion about the topic, it is quite desirable to give a brief picture of the country about which the thesis is concerned.

Pakistan is a newborn state, coming into existence only in 1947 with the division of the sub-continent of India into two independent countries. But it is an old land where traces of prehistoric hill villages dating from 20,000 to 5,000 B.C. can be seen in the vicinity of the Indus system and in the Baluchistan Hills. The Indus valley contains monuments of an ancient and well developed civilization that flourished at least as early as 2,500 B.C.²

Pakistan is unique in its physical division into two far-flung units, separated at its closest points by over 1,000 miles of Indian territory. West Pakistan stretches from latitudes 24° to 37° N and longitudes 62° to 75° E. East Pakistan lies between the parallels 88° and $92^{\circ}30'$ E and the latitudes $20^{\circ}45'$ and $26^{\circ}30'$ N. West Pakistan consists of the western part of the province of the Punjab, in the undivided India, the North-West Frontier Province and Sind, the centrally administered part of Baluchistan, the federal capital area of Islamabad, and tribal areas of the Frontier, the princely states of Bhawalpur, Khairpur, the Baluchistan States Union and the states in Frontier regions. But now

² S.M. Ikram and T.B.P. Spear (ed.), The Cultural Heritage of Pakistan (Oxford: Oxford University Press, 1955), p. 2.

the whole area of West Pakistan has been brought under a single administrative unit. East Pakistan consists of the eastern part of the province of Bengal, in the undivided India, plus the Sylhet district of Assam. East Pakistan borders chiefly with India, on three sides, although there is a 174 miles long border with Burma, in addition to 445 miles along the Bay of Bengal. West Pakistan borders Iran, Afghanistan, Kashmir and India, with a large frontage on the Arabian Sea.

The basic unit of administration in both wings of the country was the District, headed by the Collector or Deputy Commissioner who has both revenue and magisterial functions. But in the Punjab and East Pakistan the districts were grouped into divisions under commissioners with certain supervisory and appellate powers. In the integrated province of West Pakistan the Divisional Commissioners have been given wide-ranging judicial and executive functions. Within the Districts there were administrative sub-areas known as 'sub-divisions' in East Pakistan, 'talukas' in Sind, and 'tehsils' in other places of West Pakistan. In East Pakistan because the sub-divisions are heavily populated, these had to be further divided into Thanas (Police regions). At the lowest level is the village with the 'patwari' or the 'qanungo' as the official functionary of the revenue collecting authorities. The villages had self governing bodies known as 'panchayats' presided over by village headman. Several villages

might be grouped into districts or Union Boards in the rural areas and municipalities in the urban communities. With the introduction of Basic Democracies in the country, it is the village which is the lowest rung in the tier, the village councils have taken the place of the panchayats.

Pakistan, if viewed from an economic point of view, is essentially an agricultural country. It is a land of contrasts, with a tropical climate in the eastern wing and an irrigated land, with a big desert in the western wing. Pakistan is a country with a population of about 95 million and with very scarce resources. East Pakistan with a population of more than 50 million, is essentially a rice eating area as compared with wheat and other cereals as the main foods in West Pakistan.

"At the time of partition," says the First Five-Year Plan, "Pakistan was an underdeveloped area even relative to some other Asian countries. The system of production, transportation, trade and consumption yielded a very low standard of living -- most of the people living at, or barely above, the level of subsistence with little opportunity for education, or economic advancement. Agricultural methods were for the most part primitive and average yields were among the lowest in the world. Industry was nearly nonexistent and financial institutions to provide credit and to collect the savings and channel them into productive investment were rudimentary."³

³ Government of Pakistan, National Planning Board, The First Five-Year Plan, 1955-60 (Karachi: Government of Pakistan Press, 1958), p. 7.

NEED FOR AGRICULTURAL CREDIT

Pakistan today has over five crore acres (one crore= ten million) of land under cultivation (exclusive of current fallow). According to provisional 1959-60 national income estimates at constant prices, agriculture contributed Rs. 11,600 million out of a total of Rs. 21,897 million (one rupee=21 U.S. cents) and the contribution of the related activities such as cottage industry in the rural areas would increase the figure to Rs. 12,447 million. The minimum ratio of credit to output flow in agriculture was estimated to be 25 per cent so that the rural credit requirement, on this criterion would be in the range of Rs. 3,000 million. On the basis of an estimated population growth to 86.8 million in 1959 and assuming the distribution of the labour be the same as in 1951, the number of employed in the land would be over 20 million at the present time of which 12.3 million would be working on roughly 20 million acres in East Pakistan and 7.75 million on roughly 30 million acres in West Pakistan, thus giving an average of 1.6 acres of sowed area per land worker in the eastern wing and 3.8 acres in the western wing of the country. The number of workers include landless labourers who constituted approximately 10 per cent of the rural labour force in 1951. For reasons that are at least partly connected with the inadequacy of credit, the number of landless labourers must have increased from 1.65 million since the last census not only through the national growth in numbers but also by the continuous disinvestment of assets.

Excluding such labourers the average land area per cultivator would be somewhat higher.⁴

The vast majority of agriculturists carry on a subsistence agriculture and their poverty grows as population adds to the pressure on the land while the productivity of the land itself is either stationery or diminishing owing to waterlogging, salinity, soil erosion, the ingress of saline water, removal of the forest cover leading to floods and finally continuous shrinkage of the unit of cultivation as each succeeding generation operates with smaller and more fragmented holdings of land. Apart from other problems arising from population growth, its effect on the size of the holdings and consequently on credit-worthiness of farmers tend to be most harmful. As holdings become smaller, the average cultivator finds it increasingly difficult to maintain the family out of the produce raised on his land i.e., his holding becomes increasingly uneconomical. He is forced to increase his income by undertaking subsidiary activities. The provision of credit to such a cultivator becomes a highly risky proposition because he is unable to get a surplus from the land itself and the only source of repayment is the uncertain livelihood derived from the casual source of employment. At the same time his need for credit increases because the only means of improv-

⁴ The above statistics are quoted from: Government of Pakistan, Credit Enquiry Commission Report, 1959 (Karachi: Government of Pakistan Press, 1960), p. 7.

ing his lot is through the adoption of more intensive methods of cultivation, requiring application of capital. Not having the ability to save, he is also resourceless against the frequent famines and pestilence, the vagaries of a capricious river, insect damage and drought. Illness or death of livestock, a frequent occurrence, often spells disaster. The supply of credit to such below subsistence land holders demands a preceding effort at total rehabilitation beyond the normal responsibilities of a credit agency. "Agriculture credit," says the Credit Enquiring Commission Report, "must take precedence over other types of credit in Pakistan. The magnitude of the problem in terms of the many millions who live in the rural areas or the contribution of the agricultural sector to national income is vast; in terms of potential or need it is vaster still. The magnitude is only matched by the high degree of complexity that has baffled generations of administrators and public men."⁵

MAJOR PROBLEMS IN THE CREDIT FIELD

1. Inadequate Credit for Primary Producers: The principal problem in the credit field is the absence of an effective credit system designed for the direct benefit of the primary producers. As a consequence, a disproportionate share of the surplus arising from primary agricultural

⁵ Government of Pakistan, Credit Enquiry Commission Report, 1959, p. 7.

production is appropriated by the middle man who commands credit and charges a heavy price for affording it to the producers. In the absence of organized facilities to provide him credit when required at reasonable rates, the cultivator is often forced to sell his crop in advance of the harvest at low prices. If he manages to avoid advance sale, he is in any case forced to sell immediately after harvest because the non-availability of marketing credit weakens his holding power. Similarly cottage industry workers eke out a miserable existence not entirely because of their low productivity but because they have to share a large part of their output with the middle man who supplies the raw materials on credit at high prices and compels them to sell their finished products to him at low prices. The traders' command over credit and its non-availability to the vast majority of primary producers enables him to appropriate a share of the community's surplus out of proportion to the value of functions provided by him. "The inadequacy of credit to small producers," reports the Credit Commission "is a serious problem not only in agriculture but in all sectors of the economy and represents a glaring deficiency in the institutional structure of credit."⁶

2. Concentration of Credit: The second important problem is that within the groups who obtain credit from organized institutional sources, there is a tendency for credit to gravitate towards the more substantial elements

⁶ Ibid., p. 5.

in the community because they can offer adequate security. In the rural areas, the existing credit agencies have been able to lend only to those few who could offer adequate security of land leaving the below subsistence level small farmers at the mercy of the village middle man.

3. Stagnation of Cooperative Credit: The third major problem in the field is that the cooperative movement at the primary level has in many places become more or less stagnant while the higher agencies, viz., the central and provincial banks have neglected their responsibilities to the small farmers. To a large extent, the resources of the cooperative banks have been exploited by men of influence for personal and commercial purposes in complete disregard of the cooperative ideal and objectives. Politically motivated intervention has subverted the movement and led to the use of the cooperative funds as the instruments of political patronage. This has resulted not only in undermining the movement by denying credit to the primary producers but also jeopardized the interest and good faith of the general public who had deposited their savings with cooperative institutions.

4. Lack of Unified Control: The fourth major problem is that institutional credit is not properly coordinated owing to the existence of more than one policy making and regulating agency. The result had been to subject institutions performing almost identical functions to different standards of control. The exclusion on constitutional and

legal grounds of the cooperative banks and some other credit institutions from the control of the central bank is perhaps the most anomalous feature of the whole credit structure.

The problems referred to above can only be overcome in the field of rural credit and thereby contribute towards agricultural development if organizations are build up for providing suitable credit facilities. The magnitude of the problems need a coordinated effort and efficient planning to reorganize and establish new means to provide credit to the primary producers.

But agricultural credit is a more difficult and hazardous proposition than industrial or commercial lending. In the conditions of Pakistan it is extraordinarily complex. The smallness of holdings of agriculturists, absence of modern methods of cultivation, lack of education on the part of the farmer, the propensity to misapply loans due to the marginal nature of existence and poor communications in some parts of the country, all create considerable obstacles. In tackling the problem of rural credit these factors have to be taken into account. "The organization," states the State Bank's report, "that provides credit has to be firstly as close to the borrower as possible so that credit is distributed with the minimum of inconvenience to him and under proper supervision. It should be prepared and be capable of waiting for the return of the money, should it become necessary to do so due to circumstances beyond the control of the borrower. The credit agency should be able

to function at reasonably low costs so that credit is not burdensome for the debtor and the rate of interest should be reasonably low."⁷

The security acceptable against loans has to suit rural conditions and the lending agency must be able to cater to all the requirements of the agriculturist and finally to perform all these the organization must be efficient and have a unified control and good supervision under the State Bank of Pakistan or any other suitable government machinery.

In developed countries, the normal requirements of agriculturists are often looked after by the private banking system and government comes into the picture, in a marginal way, to meet the needs of special areas and sections.

The Indo-Pak private banking system is of comparatively recent origin, and it is almost entirely urban based. Because of the complexities referred to in the previous paragraphs the banks have not ventured into agricultural lending. The burden of devising measures for meeting the credit needs of the rural sector has, therefore, all along fallen on the government and the efforts of government are to be directed at developing special types of institutional agencies capable of meeting the requirements of agriculture as they develop from time to time.

⁷ State Bank of Pakistan, Agricultural Credit in Pakistan. (Karachi: State Bank of Pakistan, Agricultural Credit Department, December 1962), p. 10.

BASIC APPROACH AND THE OBJECTIVE OF THE STUDY

The approach of the study in the chapters to follow will be to present, in general terms, a description of rural credit as a means of financing agricultural development and some of the difficulties involved in underdeveloped areas, a general description of the administrative machinery for agricultural development and a description of the organization for agricultural credit on a government basis and the cooperatives.

The objective of the study will be:-

1. To survey the various sources engaged in administering credit to the farmers, particularly the cooperatives and the public institutions and discuss their administrative setup. To find out ways and means whereby credit must percolate to the primary producers in order to perform its catalytic function of increasing production and agricultural yield.
2. Towards organizing and extending rural credit in such a way that the existing pool of liquid resources are redistributed properly through the coordinated and unified efforts of the various established institutions and other sources under a single public authority.
3. To discuss and suggest various measures, the adoption of which might ease the problem both

administrative and economic in the rural credit field in Pakistan.

After presenting an overall picture of the problems involved and the objective of the study, the second chapter will deal with agriculture and its significance in the economic development of the country. The next chapter will be concerned with the administrative machinery that is involved in the development of agriculture.

The fourth chapter will deal with the basic question of rural credit as a means of financing agriculture in Pakistan, and the fifth and the sixth chapters will deal with the organization of agricultural credit in Pakistan with special reference to the role played by government, various public agencies and the cooperatives.

The study will be concluded in the seventh chapter with a brief conclusion and some suggestions by the writer himself.

CHAPTER II

AGRICULTURE AND ECONOMIC GROWTH IN PAKISTAN

There seems to be but three ways for a nation to acquire wealth. The first is by war, as the Romans did, in plundering their conquered neighbours. This is robbery. The second by commerce, which is by cheating. The third by agriculture, the only honest way, wherein man receives a real increase of the seed thrown into the ground, in a kind of continued miracle, wrought by the hands of God in his favour as a reward for his innocent life and his virtuous industry.¹

Benjamin Franklin, 1796.

The role played by agriculture has often been underestimated not only in Pakistan but throughout the world and this tendency to underrate the essential functions performed by the farmers, fishermen and forest workers has sometimes led to niggardly treatment of the world's largest primary industry.

The purpose of this chapter will be to demonstrate the importance of agriculture in the economy of Pakistan and to prepare the way for the discussion of rural credit and its need in the country. A vivid picture of the role of agriculture in the world economy will be presented along with its role as played in Pakistan with due regard to the recommendations made by the Food and Agriculture Commission in Pakistan.

¹ Benjamin Franklin, as quoted by Jacob Oser, Must Men Starve: The Malthusian Controversy. (London: A.W. Bain & Co., 1956), p. 135.

What is Agriculture? Everybody may know what agriculture is, but the word is used for such a varied range of activities that it is difficult to find a definition to cover what is generally meant by it in different parts of the world. Perhaps the definition coined by the French Rural Economy Society in December 1949 will serve. It says:

Agriculture is work, the purpose of which is to harness the forces of nature in order to produce plants and livestock to meet human needs Now a days, through the application of various sciences, agriculture has all the characteristics of an industry. The essence of farming is that it is systematic cultivation, or atleast implies deliberate preparation.²

World Agriculture: The various types and forms of agriculture such as intensive and extensive, subsistence and vast mechanized commercial farming etc., "all add up to the world's largest primary industry."³ The basic part played by agriculture employing more than half of the world's population, has often been undervalued; its problems which, concern us all, have not always caught the imagination of modern man in the same ways as have those of sciences and technology, commerce and finance. Perhaps agriculture is too easily taken for granted, simply because it is as old as civilization. The demand for change, evolution and adaption is no less imperative in agriculture than any other basic industry.

² Food and Agriculture Organization, Agri- culture in the World Economy (Rome: Food and Agriculture Organization of the United Nations, November, 1955), p. 4.

³ Ibid., p. 5.

"Philosophers and moralists," says Barter, "still question the value of output from factories which the Industrial Revolution started humming. No one has ever questioned the necessity of agricultural production. The basic needs for food, clothes and shelter have existed as long as man. Their satisfaction depends on the adaptability and efficiency of the variety of activities which constitute agriculture."⁴

The recent rapid increase in the rate of population growth has stimulated many prophecies of doom. The current rate of population increase -- more than one per cent annually -- with its cumulative effects represents a serious challenge to world food and agriculture. An estimate defined the immediate, minimum necessity of increase in the world agricultural production as "a well-balanced increase of one to two per cent per annum in world production of basic food and other essential agricultural products in excess of the rate of population growth." "This means," says the same source that for every five plates of food that agriculture provides today, an additional sixth plate will have to be provided by 1975 when according to population estimates the world population will reach the 3,000 million figure."⁵

⁴ P.G.H. Barter, "Fundamental Factors Affecting Stage and States of Agricultural Development," Paper presented to the World Population Conference, organized by the United Nations, held at Food and Agriculture Organization headquarters, (September, 1954), p. 27.

⁵ K.P.N. Rao, and C.J. Amaral, "Population and Food Requirements," Ibid., p. 15.

This population aspect of the expanding world economy shows the need for more capital investment in agriculture as well as industry to provide work for the additional millions, more production of raw materials to keep the new or expanding industries running and more international trade and, above all, more food for the increasing mouths. In the proliferation of man lies agriculture's greatest challenge.

Agriculture adds to the real income and purchasing power of the people of the world. Although agriculture contributes quite handsomely and a major portion to the national economies, a **FAO** report says that almost no where do the farmers receive a share of the national income proportionate to their numbers; that is the average farmer generally earns less than his fellow citizens, and receives the lowest proportionate share of the national income in less developed countries where farm populations are predominant. ⁶

Agriculture not only supplies the manufacturing plants with raw materials and satisfies the basic needs of factory workers and town people; it is also an important outlet for industrial products, and in nine selected European countries, for example, the proportion of gross farm receipts used for industrial expenditures ranges from 20 per cent in Ireland to 54 per cent in the Netherlands. In New Zealand the cost of materials and services from the

⁶ Food and Agriculture Organization, Agriculture in the World Economy, p. 52

manufacturing sector alone has risen from 10 per cent of the value of gross output in 1946-47 to 15 per cent in 1952-53. The world is now using nearly 20 million tons of plant food annually in the form of commercial fertilizer. In 1951, 73 per cent of the world's tractors were used in North America (66 per cent in the United States alone), 19 per cent in Europe and only 8 per cent in the rest of the world.⁷

The growing volume of the gross farm income required to meet the cost of modern mechanized agriculture gives the farmers an even greater stake in the steady expansion of industrial economies at prosperous levels and with the increase in their income and the subsequent rise in their standard of living they would become even more important customers for the products of industry and thereby contribute heavily towards the expansion of the whole economy.

ROLE OF AGRICULTURE IN THE ECONOMY OF PAKISTAN

The part played by agriculture in the economic growth of Pakistan is much more significant than that shown in the world economy. About 87 per cent of the total population lives in rural areas and the livelihood of 85 per cent depends on agriculture. With the exclusion of the foreign markets for the industrial products, the bulk of the demand has to be generated by this sector if industrial development

⁷ Food and Agriculture Organization, Yearbook of Food and Agricultural Statistics, 1953, (Rome: Food and Agriculture Organization of the United Nations, 1953), p. 26.

is to make any significant stride and this can only be done through the expansion and rapid development of the agricultural sector, increasing the income of the farmers and thereby their standard of living. Writing about agriculture, the Second Five-Year Plan mentions that "of great importance is the dominant role of agriculture as a source of national income, employment and raw material for export and domestic use."⁸

Contribution to National Income: The national income estimates of the country 1959/60, indicate that the agricultural sector contributes 12,447 million rupees out of a total of Rs. 21,897 million bringing the contribution to 57 percent of the total. Though agriculture contributes such a large bulk towards the national income, the increase in agricultural income during the last five years was only 1.3 per cent annually as against 3 per cent in the non-agricultural sector.

On the basis of the five years average in the last ten years, the per capita income has risen from Rs. 230 to Rs. 246. The low increase in the per capita income is mainly accounted for by the rapid growth in population. In the absence of detailed information on the size of the farming population, it has been calculated that 75 per cent of the civilian labour force constituted agricultural labour in 1951. If the proportion remains the same, the

⁸ Government of Pakistan, Planning Commission, The Second Five-Year Plan, 1960-65 (Karachi: Government of Pakistan Press, 1960) p. 14.

present population engaged in agriculture will be more than 67 million out of a total population of 93.8 millions. The average income per capita of the total farming population is Rs. 191 as against Rs. 443 for the non-farming population meaning that a man working outside agriculture earns about two and a half times as much as an agriculturist. If the country is to develop, the condition of the agriculturists is to be changed and their standard raised so as to have a balanced growth.

Capital Formation: The relation of agricultural production to capital formation merits special attention as capital formation is essential to economic development. Higher agricultural production depends on a large increase in capital investment. The sources of such capital are primarily domestic savings and public revenue including custom duties, taxation, deficit financing and foreign aid.

Per capital income being so low and earnings so small in the agricultural sector, capital for development cannot come from within the agricultural sector alone. Risks of return being high, discouraging any private investment, government has to take the main burden of capital investment in this sector.

Foreign Exchange : The field in which agriculture contributes heavily to the economic development of the country is the production of commodities that provide the nation with the bulk of the much needed foreign exchange earnings. Export of agricultural raw materials constitute,

on a five years average, 70 per cent of total exports. If manufacturers of cotton and jute are added, export of agricultural origin will constitute 80 per cent of the total. From the figures it is evident that great emphasis should be placed upon the production and expansion of exportable agricultural commodities in any programme of agricultural development. It will ease the heavy demand of the foreign exchange for nation building works and will also provide the farmers with ready cash.

But the expansion of food production cannot be underestimated to the facts that almost 465 million rupees are spent annually for the import of food grains. With an annual population increase at the rate of 1.6 per cent and 1.8 per cent by 1965, the population will be increasing by 1.5 million each year, representing an alarming addition to the already existing heavy pressure on the food producing potential of the nation.⁹ Pakistan, at this stage of development, when it has to pay for the machinery and other developmental tools for the industrial sector, cannot afford to pay for the import of food to meet the deficit.

The food problem and the importance of agriculture were clearly recognized by the economists, planners, administrators and technicians alike in the formulation of the

⁹ The above statistics in this chapter are quoted from: Government of Pakistan, Report of the Food and Agriculture Commission (Karachi: Government of Pakistan Press, 1960), pp. 15, 26-29.

country's First Five-Year Plan; the Second Five-Year Plan calls for even more ambitious programme on the assumption that "until agricultural productivity is vastly increased, the general economic growth will be stunted."¹⁰ In the second plan agriculture has received a direct allocation of Rs. 3,420 million (19.1 per cent of the total), besides Rs. 4,390 million (19.1 per cent) for water and power development. The ultimate objective of the Second Five-Year Plan (1960-65) is:

- i) Self-sufficiency in basic food production, maintaining, as a minimum, the present levels of food-grain consumption for the rapidly growing population.
- ii) Raising of dietary standards through increased supply of fish, fruits, vegetables, sugar and livestock production.
- iii) Expanding the output of jute, cotton, tea and forest products to the maximum possible extent.
- iv) Working towards an export position across the full production front, not excepting food-grains.¹¹

The survey report of the State Bank's Agricultural Credit Department on Agricultural Credit in Pakistan, gives the following figures to show the targets for increase in production fixed for some of the main crops to be achieved

¹⁰ Government of Pakistan, The Second Five-Year Plan, 1960-65, p. 127.

¹¹ Ibid., p. 127.

by 1964-65 and the increase achieved by 1962:

<u>Items</u>	<u>Target by 1964-65</u>	<u>Increase achieved until 1961-62</u>
Food-grains	21%	20.3%
Jute	22%	16.2%
Cotton	38%	10.4%
Sugarcane	35%	20.2%
Tobacco	14%	12.6%

The report further adds that the increase achieved so far, specially in the case of food-grains, has been partly due to favourable weather conditions.¹² But the increase in population demands much more, that can only be achieved through the reorganization of the whole agricultural machinery into a clean, efficient and well coordinated group.

¹² State Bank of Pakistan, Agricultural Credit in Pakistan (Karachi: State Bank of Pakistan, Agricultural Credit Department, December 1962), p. 6.

CHAPTER III

ADMINISTRATIVE MACHINERY FOR AGRICULTURAL DEVELOPMENT

Though important in respect of its contribution to the national economy, agriculture in Pakistan still faces numerous problems which make its development quite dubious. The basic problem is the absence of modern methods of cultivation resulting in one of the lowest land-yields in the world. The farmer is still in the process of being persuaded to adopt methods calculated to improve yields. The government has been grappling with this problem for sometime and their programme includes such items as the increased use of fertilizers and improved varieties of seeds, use of insecticide, better preparation of land, proper utilization of water, etc. Smallness of holdings, specially in East Pakistan, and natural factors such as floods, droughts, shortage of irrigation water, salinity and water-logging are other problems with which agriculture has to contend. The successful handling of these problems depends on the establishment of sound administrative machinery, efficient in its work, to deal with research, planning, coordination, implementation and supervision of these schemes for agricultural development.

If we look back we find that the First Five-Year Plan failed to achieve the target in agricultural production during the plan period. The Second Five-Year plan states:

the failure to achieve major target of the First

Plan was due to several causes, not the least important being the personnel policy in the government agricultural services that militated against attracting and retaining a corps of talented technicians. By and large, the government machinery for implementing a strong development effort in agriculture was not suited to the times, nor to the scale of the problem; sound principles of administration were not consistently observed in the agricultural sector during the First Plan period. ¹

This quotation makes it essential to assess the present government machinery on which depends the success or failure of the development programmes of the most important sector of the economy and to see what improvements have been made or suggested towards the reorganization of the administrative machinery for agriculture.

The following are the departments or agencies responsible for the improvement of agriculture.

1. Agricultural Department including research.
2. Agricultural Credit Institutions.
3. Cooperatives.
4. Irrigation and Water and Power Development Authorities.
5. Revenue and General Administration.
6. Agricultural Development Corporations.

Cooperatives and agricultural credit institutions will be discussed in two separate chapters and in this we will limit ourselves more to a thorough discussion of the Agriculture Department and the Agricultural Development Corporations, and a brief survey of the Water and Power

¹ Government of Pakistan, The Second Five-Year Plan, 1960-65, p. 128.

Development Authority and the Revenue and General Administration. We will also examine the various recommendations given by the Food and Agriculture Commission; which was instituted by the Government of Pakistan in July, 1959, to make a survey of the agricultural sector of the economy and to put forward recommendations for its improvement.

DEPARTMENT OF AGRICULTURE

The Department of Agriculture, mentions the Food and Agriculture Commission's Report,

typically reflects the patch-work way in which the sudden call for increased production has had to be faced. Operating under all the handicaps of a minor provincial service starved of funds and low in public esteem, its original purpose was that of a very attenuated advisory service confined mostly to demonstration to rural leaders and larger land-owners. In no sense it was equipped to account urgently for something being done, with research facilities of negligible nature in East Pakistan and seriously impaired in West Pakistan, a paucity of training institutes, inability to attract good youngsters and totally inadequate personnel in the frontline, it has nevertheless been the first medium to turn to for handling the increasingly complicated claims of development..... While the achievement had been notable when the department's circumstances are taken into account, it inevitably falls far short of the needs, as an instrument for development, it has very many defects. 2

The above remark summarises very well the condition and plight of one of the most important nation building departments and if we go deep inside the department we can have a closer look to the various posts in the hierarchy and their duties and performances. To begin with the lowest in

² Government of Pakistan, Report of the Food and Agriculture Commission, p. 153.

the rung in the vital frontline, the two officials directly in touch with the farmers are, in East Pakistan, the Union Agricultural Assistant and above him the Thana Agricultural Officer and in West Pakistan, the Field Assistant (Mukaddam) and above him the Agricultural Assistant. Posts above these level tend to cover too big an area, and to be weighed down with administration to enable more than an occasional contact with the village level. A great deal therefore depends on the quality and capacity of those in these frontline posts.

In East Pakistan, a unit above a village is called a Union which, on an average, contains 10 villages or approximately 1,500 farming families. The union is the lowest rung of the agriculture department's extension ladder. Its Union Assistant is thus a keyman supposedly able by knowledge, personality and the provision of the services which he can supply to influence a manageable portion of the farming community. However, out of 4,000 Union Assistants, only 1,700 have had a year's training in agriculture and the rest are untrained.³ Facilities to do a good job are almost non-existent. Low in status, the Union Assistants are also very low paid. The Thana Agricultural Officer is supposed to be a graduate in agriculture but, owing to the smaller number of these yet avail-

³ Government of East Pakistan, Statistical Abstracts for East Pakistan (Compiled & issued by the Provincial Statistical Board and Bureau of Commercial and Industrial Intelligence, Government of East Pakistan, Dacca, 1958), p. 234.

able, the majority are promoted Union Assistants. A Thana covers approximately 10 unions and comprises of about 15,000 farms.

Weak as is the frontline position in East Pakistan, it is worse in West Pakistan. The bottom man, the Field Assistant, is supposed to cover roughly the same number of farmers as the Thana Agricultural Officer in East Pakistan. Above every two Field Assistants comes an Agricultural Assistant. He is roughly equivalent to the Thana Agricultural Officer in East Pakistan, although he covers double the number of farmers. He is better trained, being in most case an agricultural graduate. "In East Pakistan," according to the Agriculture Commission's report, "the frontline staff approaches in numbers the minimum requirements for such work but it lacks the knowledge and the facility to do the job; in West Pakistan the staff is too small to make any impact on the farmers." ⁴

Behind the frontline staff, there are, in East Pakistan, the sub-divisional Agricultural Officers each in-charge of about ten Thanas and above them are District Agriculture Officers incharge in each district. In West Pakistan there is no sub-divisional post and the man incharge of the district is called an Extra Assistant Director of Agriculture. Above him in both provinces are the Deputy Directors incharge of a number of districts. Above the

⁴ Government of Pakistan, Report of the Food and Agriculture Commission, p. 155.

Deputy Director in West Pakistan is the Joint Director of Agriculture and the Director of Agriculture and in East Pakistan it is the Director of Agriculture above the Deputy. Above them are the Secretary and Minister of Agriculture.

In the field, the absence of any supply organisation means that the district and field staff get preoccupied with arrangements for receiving, forwarding and storage and their absorption in administration is increased by the absence of any authority to sanction expenditure of more than a nominal nature without reference to provincial headquarters. This makes it impossible for them to put right small matters which are holding up important aspects of production or even to adjust anomalies which are operating very unfairly on their subordinate staffs. The lack of decentralization of authority between field and headquarter specially over expenditure is a universal problem and so also is the unpredictable delays in the ordering of supplies under the present centralized system. Since there is no supply time and storage facilities are grossly inadequate the timely ordering adds to the risk of deterioration in stock and detracts from the confidence of the farmer in the frontline staff.

The Food and Agriculture Commission recommended more decentralization of authority from the headquarters to the field and an adequate cadre of men specializing as a team in the sole job of frontline production and freed to do this by a supporting wing to get the necessary supplies

to them. "It is more than time," says the commission, "to discard the erroneous belief that the country cannot afford the frontline tools for the job of increasing production. What it cannot afford is a well-staffed superstructure in the Department of Agriculture and in all the supporting nation building departments -- whatever their ancillary contribution -- unless the increased production to pay for these is attained."⁵

Research: Basic to any advance in agriculture is satisfactory research. Although useful work has been done in individual cases, unfortunately in its present general state research is full of deficiencies which make it totally unsuited to meet the immense and urgent challenge it is now required to face. "With the low status," says Hussain, "accorded to agriculture this is not surprising, as one of the characteristics of research is its continual greed for money with often only rare and uncertain returns."⁶

A second weakness is the absence of any planned approach to the problem. Research is now the concurrent responsibility of the central and provincial governments. The work at provincial level amounts to nothing and the central support is mostly provided through three semi-autonomous bodies, the Food and Agriculture Council of Pakistan (FACP), the Pakistan Central Cotton Committee

⁵ Ibid., p. 165.

⁶ Akhtar Hussain, "Research and Agricultural Development in Pakistan," The Agricultural Economist (Karachi: The Agricultural Economics Society of Pakistan, 1962), p. 5.

(PCCC) and the Pakistan Central Jute Committee (PCJC). In the field of animal husbandry, fisheries and forestry the Central Ministry of Food and Agriculture conducts research directly through a number of research institutes, scattered over the two wings, most of which are inadequately staffed, equipped and housed to serve the purpose, with the exception of the splendidly equipped Jute Research Institute at Dacca and Forest Products Research Station recently set up at Chittagong in East Pakistan.

The present method of discharging centre's responsibility for agricultural research, through such a multiplicity of organizations, gives no opportunity for adequate overall planning and ends in a dispersal of effort and ineffective results.

IRRIGATION DEPARTMENT AND WATER AND POWER

DEVELOPMENT AUTHORITIES

The Irrigation Department has always been in a different category from that of Agriculture or other related departments. Responsible for the barrages and canals in West Pakistan, it has been associated with the prestige of engineers rather than with the illiterate person's level of agriculture. As far as farmers are concerned, it is a department with powers actively to help or harm. It is not an advisory service. It supplies the water and collects the charges for it. The department is much better furnished to do its job largely because the system of charging for water

by a differential rate for different crops involves recording of every plot of each farmer every season. Unfortunately none of this is contributing to increased production. The engineers are not agriculturists and the agriculturists have not applied themselves sufficiently to the problems of irrigated agriculture. Very little research has been done on the interrelation between crops and irrigation in different parts of the country and no extension service is provided to advise farmers on the subject. To make speedy use of the water resources of the country both for agriculture and power, the Water and Power Development Authority (WAPDA) has been created in each wing of the country. It is responsible for harnessing the water resources into power, providing water for irrigation and curing the problems of salinity and the flood control which is essential for agricultural development.

In East Pakistan, WAPDA has taken over the direction of all irrigation works. In West Pakistan in addition to other big irrigation projects West-Pakistan WAPDA is responsible for the whole Indus Basin project with the association of other foreign technicians. It will help in assessing the crop needs for irrigation water for higher agricultural production in any future project.

REVENUE AND GENERAL ADMINISTRATION SERVICES

This comes under the civil service of the country which is responsible for the collection of the land revenue,

maintenance of land records and preservation of law and order. The Deputy Commissioner and his staff in a district are responsible for these tasks. With the power associated with taxation, magistracy and police, their prestige has naturally been the highest in the land and they have been expected to operate as the senior service representing the government itself, maintaining contact between government and people, dealing with every emergency and, in general, supervising anything affecting government in the district. The Deputy Commissioner and his staff have often been embarrassed by the fact that, although they are responsible for the general effectiveness of any programme, members of the technical departments are not under their direct control but take orders from the head of their departments. In practice, in the field of agriculture a much greater strain in relationship arises. In these circumstances, the Deputy Commissioner is often exasperated by the poor quality of the results while the staff of the technical departments who are frequently older and more experienced in their own profession tend to feel treated more as inferiors than technicians and blamed for circumstances beyond their control. These feelings are accentuated when the Deputy Commissioner can really do little to put right the long-term deficiencies and, above all, has little time to listen because he is already over-burdened with other works.

Various proposals have been made to get over these difficulties by establishing a clearer line of command by

providing additional personnel. In some cases it is suggested that an additional Development Officer be established at the district level and an additional supervisor at the tehsil or thana level, both to be drawn from the general administrative services to coordinate all developments in their respective jurisdiction.

But it is open to doubt whether it is desirable to put so much responsibility upon the Revenue or General Administrative Services for streamlining development. The subordination of technicians and scientists to the general administrator is already thought by some to be a problem in the country.

AGRICULTURAL DEVELOPMENT CORPORATIONS

The Food and Agriculture Commission observed that the present government departments were ill equipped to handle the "five firsts," and rated that there was no machinery at all for tackling the problems of change in the farming patterns. It proposed the creation of two semi-autonomous bodies one in each wing,

because the increasing tempo of development demands better instruments to handle it, instruments which, were people richer and the country more developed, they would themselves create, but which, in the gravity of today's problems of high population, low yield and tiny incomes, the government must provide. There is no reason to confine the solution, to present departmental channels just because they happen to be in existence.....
..... Agriculture in Pakistan today is the nation's most vital industry, the biggest earner of foreign exchange, the most important activity in achieving higher standards of living. Its efficiency

matters to every man in the country.....that organizational and managerial elements must increasingly be brought into the agricultural life as they are vital elements in industrial life. But these are elements foreign in many ways to the traditional outlook of departments dealing with agriculture and ones in which they are conspicuously weak. A corporation has the advantage that it can put efficiency in the forefront of its objectives. A deliberate preference for purely departmental solutions would forfeit this great national need. 7

As per the commission's recommendations, two semi-autonomous bodies were created, one in East Pakistan and the other in West Pakistan on October 16 and September 20, 1961, respectively, known as the East Pakistan Agricultural Development Corporation (EPADC) and West Pakistan Agricultural Development Corporation (WPADC). "In setting up the corporation," says Agrifin, "a new approach towards the introduction of new administrative techniques and establishment of integrated functional agencies without the impediments inherent in government departments was contemplated."⁸ These corporations will undertake many, but not all, of the activities of the agriculture and other allied departments. Agricultural research, education and extension (outside the project areas of the corporation) will continue to be the responsibility of the Agricultural Department. The functions of the corporations will broadly fall in two categories i.e., supply and project implementation.

⁷ Government of Pakistan, Report of the Food and Agriculture Commission, pp. 205-6.

⁸ "East Pakistan Agricultural Development Corporation," Agrifin, (April-May, 1962), Vol. III, No. 1, p. 43.

The Supply Wing: The task of the supply wing is to produce or procure, transport and distribute seeds, fertilizers, plant protection materials and farm implements throughout the country. The corporation has to build suitable depots in each union to accommodate materials and field offices or to give distribution rights to private commercial agencies.

The Field Wing: The need for experimentation, for training personnel and the existence of a number of special problems necessitated a phased programme for the work of the field wing which operates in selected project areas. The size of the project area depends on the circumstances and the nature of the problem or problems to be tackled.

The task of the field wing is to ensure the intensive and coordinated use of the "five firsts" including supervised credit. Its second task is the solution of the special and more complicated problems of land reclamation, range management, soil conservation, irrigation management, organization of agriculture in new colonies, harnessing of hill streams, conservation of catchments and exploitation of potential areas. The third task of this wing is to introduce planned agriculture through suitable crop relations and mixed farming. Organization of marketing and processing and the creation of the cooperatives, as well as, reorganization of small farms through cooperatives or through large blocs for joint planning is the final work of this wing.

Structure of the Corporations

The corporations are set up on the same pattern as recommended by the Food and Agriculture Commission. It has a Board of three full time Directors headed by a Chairman and appointed by government for a specific period of time. Their responsibility is to organize the work of the corporations, to obtain necessary finances, appoint higher staffs, provide facilities for training, produce or procure supplies and maintain liaison with research and experimentation. It is the supreme body of the corporation responsible for all final policy decisions. The Chairman is the chief executive of each corporation. As the final decision is that of the Board, the Chairman exercises his functions on its behalf.

As mentioned before, the operational works of the corporations are organized under a supply wing and field wing. Each wing is headed by a General Manager. The General Managers of these wings have under them separate divisions headed by Divisional or Project Directors.

In the supply wing the following are the divisions:

(i) Farms Division, (ii) Seed Division, (iii) Procurement Division, (iv) Depot and Movement Division, (v) Engineering Division and (vi) Planning and Training Section.

In the field wing there are (i) Planning Division, (ii) Project Division, (iii) Research Division and (iv) Training and Administrative Division.

A detailed chart about the organizational structure

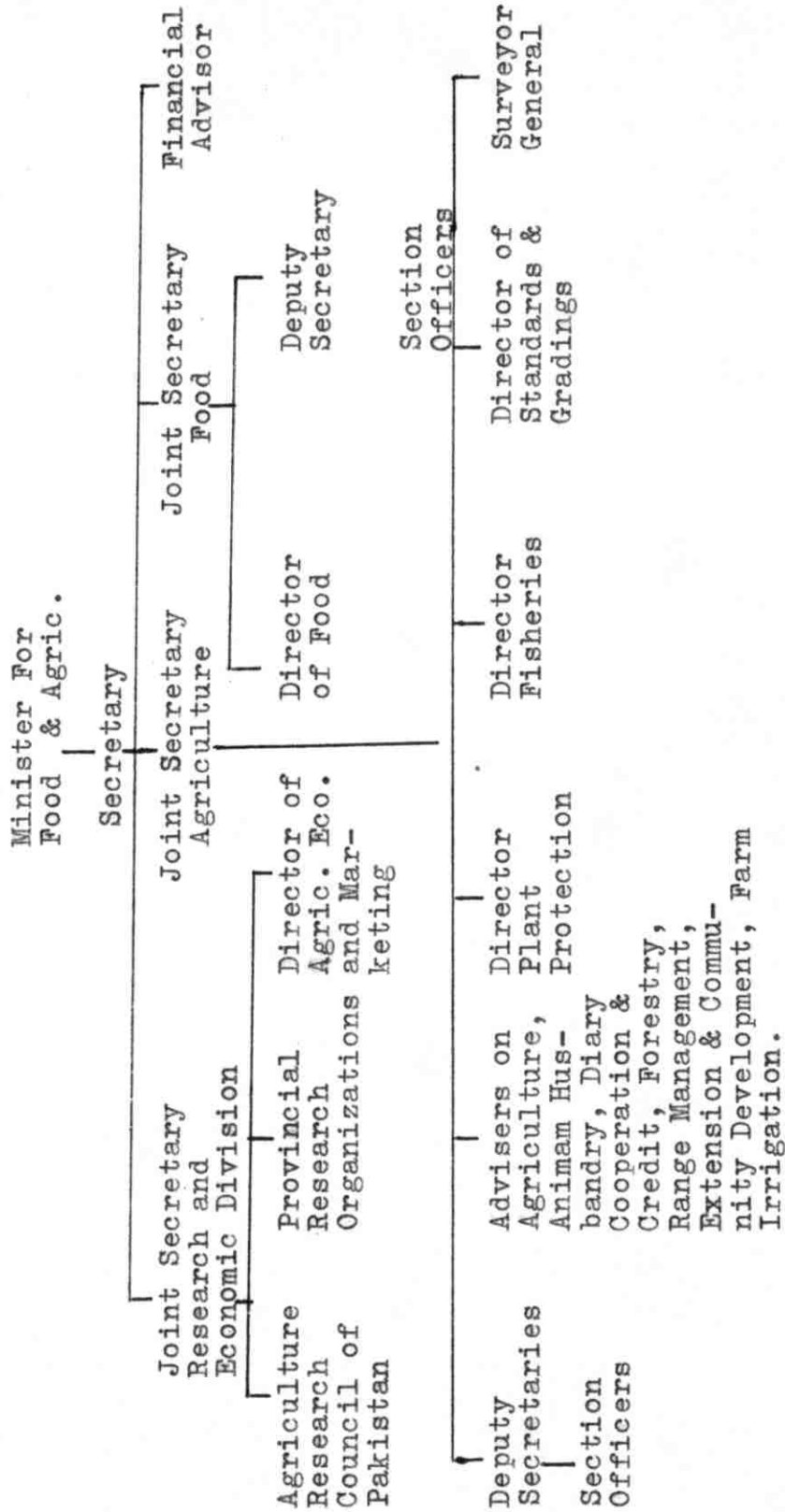
of the Agricultural Development Corporation is given at the end of the chapter along with the setup of the Provincial Agriculture Department and the Central Ministry of Agriculture.

In addition to the above administrative machineries, there are other organizations that helped or are helping in the development of agricultural sector. The most important among them was the Village Agricultural and Industrial Development Organization better known as Village-AID on a community development basis to work through a team of field workers trained in the various phases of the village life, as agriculture, sanitation, cottage industry etc. The main aim of the V-AID was to create the spirit of initiative and leadership among the villagers. Its operation was financed mainly by the U.S. aid and was abolished when U.S. aid was withdrawn from this project and its activities taken over by Agricultural Department's extension staffs, the National Development Organization and the Basic Democracies, which are working on the same lines to educate the villagers and raise the standard of living.

The Village Development Academy at Comilla, East Pakistan, has taken over much of the task of higher training in agricultural administration. It is an in-service training institute, giving courses to the central and provincial civil servants engaged in agriculture.

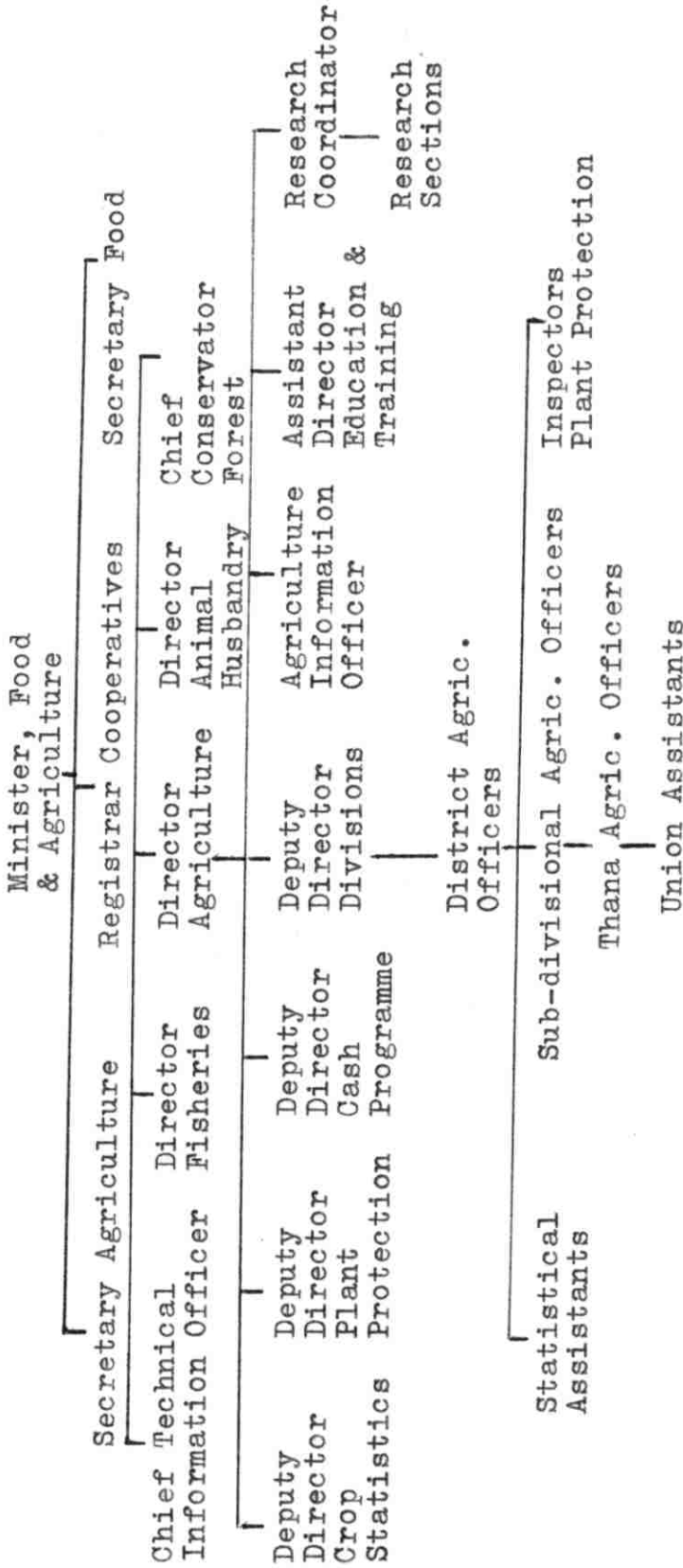
ORGANIZATIONAL SETUP OF THE CENTRAL MINISTRY OF FOOD AND AGRICULTURE

GOVERNMENT OF PAKISTAN*



* Government of Pakistan, Report of the Food and Agriculture Commission, (1960), p. 313.

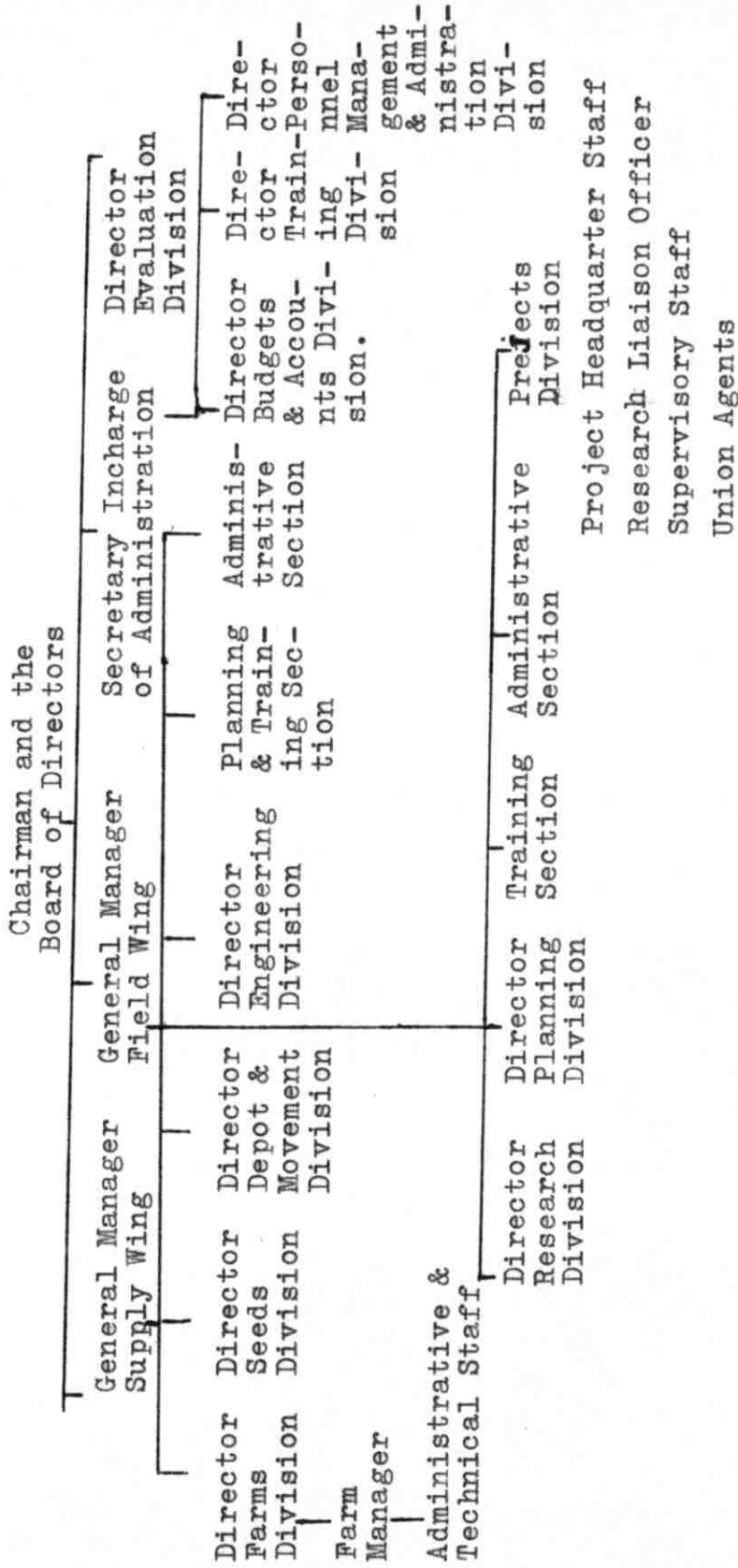
ORGANIZATIONAL SETUP FOR EAST PAKISTAN FOOD AND AGRICULTURE DEPARTMENT*



* Government of East Pakistan, Agriculture Information Officer, Food and Agriculture Department, Dated 15.2.1963

N.B. The arrangement for West Pakistan Agriculture Department is the same with the following exceptions:
 (i) The Extra Assistant Director is responsible for the District as against District Officers in East Pakistan. (ii) There is no post of Sub-divisional Agriculture Officer. (iii) There are Agriculture Assistants and Field Assistants in place of Thana Officers and Union Assistants as exists in East Pakistan.

ORGANIZATIONAL STRUCTURE OF AGRICULTURE DEVELOPMENT CORPORATIONS*



* Government of Pakistan, The Agriculture Development Corporation Ordinance 1960 (Karachi: Government of Pakistan Press, 1960), p. 5.

CHAPTER IV

RURAL CREDIT AS A MEANS OF FINANCING

AGRICULTURAL DEVELOPMENT

There is no reasonable doubt that a static or even a retrogressive condition of agriculture often has as a major cause a simple lack of money in the hands of the farmer. ¹

Sir Bernard O. Binns

"Agricultural finance," says Murray, "is the economic study of the borrowing of funds by farmers; of the organization and the operation of farm lending agencies; and of society's interest in credit for agriculture."² This chapter will be devoted to the discussion of the needs and problems of rural credit for the cultivator welfare and agricultural development.

For achieving the optimum production from agriculture the supply of credit has to be assigned a very important place. Capital is said to be the life blood of industry, it is no less important for agriculture. The ability of the peasantry to make full use of the improved methods of cultivation depends upon the availability of finance.³

¹ Sir Bernard O. Binns, Agricultural Credit for Small Farmers (Rome: Food and Agricultural Organization of the United Nations, 1952), p. ii.

² William J. Murray, Agricultural Finance (Ames, Iowa: The Iowa State College Press, 1956), p. 3.

³ Dr. Abdul Moquit, "The Problem of Agricultural Credit in Pakistan," Credit Rural and Cooperative, Vol. VII, No. 3, July-September, 1958), p. 1.

DIFFICULTIES OF AGRICULTURAL CREDIT IN PAKISTAN

The majority of the farmers in Pakistan, being small scale producers, generally have a small surplus from current production which is just enough to meet the cash obligation of the government, payment of interest or some instalments of loan already taken, some needs of consumer goods, etc. They depend on credit for running their current farm operations to buy seed, manure, etc., and sometimes they have to finance their current food consumption by loans. There is hardly any surplus of income available to them. This is true in the case of an average crop when the farmer just manages in this way. When the crop is poor or below average, he is often not able to produce enough for his needs and of his family and is also unable to pay the share of that produce to the landlord due as rent or to the government and for that he has to borrow. "Poverty," says the Report on Agricultural Finance and Credit for Asia and the Far East, "is the main determinant of small savings.....Such savings as are made may well be liquidated by ceremonial expenditure, or to finance consumption, or repay debt incurred because of losses due to natural hazards or reduced prices."⁴

Needs of financing would, therefore, vary by class of producers and their ability to make use of credit to

⁴ Report of the Center on Agricultural Financing and Credit for Asia and the Far East, Lahore, Pakistan, 1 to 13 October 1956, (Rome: Food and Agricultural Organization of the United Nations, 1957), p. 46.

improve their economic position, kind of security they can offer, etc. On the one hand are the cultivators who own or rent medium-sized holdings large enough to maintain the existing production at a moderate standard of living. Credit helps them to keep the production going, or raise their level of income and being good credit risks, they possess the means of repaying loans that can satisfy the credit agency.

Financing the poor-risk farmers is the real problem. These millions of farmers are scattered in hundreds of thousands of villages and many of these are lacking communication with rest of the country. "Overhead charges in administering supervising, and servicing such small loans acts as a prohibitive problem to any credit agency outside the village."⁵ This, added to the extreme dependence of agriculture on nature, absence of crop insurance, lack of warehouses for storage of agricultural produce, commodity exchanges for hedging against price fluctuations, or any guarantee of minimum income to the producers, has discouraged the private institutional financial agencies, as the commercial banks, from investing in rural agriculture.

The farmer's needs for credit are not only to finance production and marketing but also for consumption between sowing and harvesting because of the lack of capital during this period.

The average farmer in the country has hardly a

⁵ Moquit, op. cit., p. 3.

businessman's outlook and does not distinguish between loans for production and consumption purposes and thereby incurs large unproductive debt.

Writing about the character of the borrowing population in the country, the Credit Enquiry Commission says, "It is an illiterate, apathetic and largely immobile population, easily intimidated by the procedural complexities in raising fund and lacking in business acumen."⁶ The illiteracy of the farmers further means great difficulty to the lending agency, as he is unable to sign his name and read loan conditions or reminders, and, therefore, he requires the personal attention of many supervisors. Their employment involves further expense in that they have to collect personally the interest and principal from the multitude of farmers.

The problem of security for the loan presents further problems. Until recently, the non-agricultural creditors were not willing to accept land as security. Difficulties arise if crops are the security, because of their possible failure due to natural circumstances, also lack of storage facilities and difficulties of handling the agricultural produce are problems for lending agencies.

As in all systems of agricultural finance, especially long-term, mortgage credit plays an important part. It is not possible to finance permanent improvements without offering security of land with alienable property rights.

⁶ Government of Pakistan, Credit Enquiry Commission Report, 1959, p. 8.

But where most of the cultivators are landless peasants without property rights as in Pakistan, they will be seriously handicapped in obtaining land mortgage credit. Hence to evolve a sound machinery of credit, land reform will be necessary to increase the credit-worthiness of the borrowers.

These are thus various difficulties beseting the problem of agricultural finance in Pakistan. It is in this respect that the problem of agricultural credit in Pakistan distinguishes sharply from the organization of agricultural finance in advanced countries. The efficient working of the various credit institutions is handicapped by the aforesaid major defects in Pakistan's agricultural economy.

Needs of Agriculture Credit

The extent of needs of agricultural credit can best be estimated from the composition and the magnitude of the rural debt in the country. Aside from productive debt, agriculturists require the facilities of credit not for only normal agricultural operations but also for the future development of the economy, for greater investment in agriculture, for increasing land yields and development of farm resources.

While any credit utilized properly by the farmer contributes to the growth and development of agriculture, the concept that has grown in Pakistan is that credit operations are divided into the two categories--(i) Seasonal, and (ii) Development. Seasonal loans are for expenses of a recurring nature while development loans cover capital needs. ⁷

⁷ State Bank of Pakistan, Agricultural Credit in Pakistan, p. 13.

In actual operation these financial requirements may be classified as follows:

1. Short-term,
2. Medium-term,
3. Long-term.

Short-Term Credit: Short-term credit is normally given for growing a particular crop or for a particular season. Cultivators usually require money at the time of preparing land and are in a position to repay after the harvest. Usually short-term loans do not exceed period of 12 months. This loan is required by the farmers for a variety of purposes. The basic purposes for which he borrows are preparation of land, purchase of seeds, fertilizers, implements and cattle, employment of labour and other recurring expenses. Not infrequently loans have to be resorted to by the cultivator for maintaining himself during the pre-harvest period and for repayment of government dues such as land revenue and irrigation charges. Loans required for the marketing or processing of crops also come within the category of short-term loans.

Medium-Term Credit: Medium-term loans are becoming increasingly important in the field of Agricultural Credit in Pakistan. They are for periods ranging from two to five years. The farmer requires them for development expenses of a non-recurring type. Purchase of agricultural machinery, installation of tube-well, land improvement and acquisition of plough cattle are some of the important purposes. The

lending agency has to supervise the utilization of these loans because of the substantial amounts involved and the longer period for which they are given. Medium-term loans are largely needed by middle and large-sized farmers in as much as they are able to afford the employment of agricultural machines etc.

Long-Term Credit: Loans for more than 5 years are categorized as long-term loans. They are largely needed for the purchase of land and for development of new land. In other respects the purposes more often over-lap with medium-term loans. For instance, long-term loans are also required for heavy agricultural machinery, for water lifting purposes and for growing of orchards. As a matter of fact, loans for tube-wells and for orchards are more in the nature of long-term than medium-term loans.

A proper system of credit which desires to maximize credit availability to the rural families and to insure the proper use will have to classify the total requirements and judge the propriety of the direction of use and extent of requirement in actual operation. ⁸

Two inquiries were conducted in the Punjab and one in East Pakistan as to the magnitude, need and extent of rural indebtedness. A detailed description of the causes of indebtedness is given in Table 1 at the end of the chapter.

Considering the extent and variety of credit needs in agriculture, the Board of Economic Inquiry, Punjab, in-

⁸ Report of the Committee of Direction, All India Rural Credit Survey, Survey Report, Vol. I, Part 1, 1956 (Bombay: Reserve Bank of India, 1956), p. 146.

licated that "36 per cent of surveyed families were in debt averaging Rs. 414 per indebted family."⁹ The Dacca University Survey indicated that anywhere between 66 per cent and 87 per cent of the surveyed families were in debt and the amount outstanding varied between Rs. 160 and Rs. 358 per indebted family.¹⁰ The Punjab University sample of six villages indicated 54 per cent of families in debt with an average indebtedness of Rs. 452 (Table 1).¹¹ Even if we assume that only one-third of the rural families were indebted and the average debt was only Rs. 250, the total outstanding rural indebtedness according to the Credit Enquiry Report would be in the neighbourhood of Rs. 1,250 million.¹² The figures, as quoted by 'The Observer', a local daily in East Pakistan, collected by the Agricultural Census Commission of Pakistan show that the farming population in East Pakistan only is in a total debt of Rs. 930 million. This means, the paper said, that "every second farmer in east wing cannot make both ends meet and is in debt.....About one in every three is in debt ranging from

⁹ Board of Economic Inquiry, Punjab, Report on the Need and Supply of Credit in the Rural Areas of the Punjab, 1951, Publication No. 101 (Lahore: Board of Economic Inquiry, Punjab, 1951), p. 10.

¹⁰ Dacca University Socio-Economic Survey Board, Rural Credit and Unemployment in East Pakistan, 1956 (Dacca: Dacca University Socio-Economic Research Board, 1956), pp. 46-47.

¹¹ Socio-Economic Research Project, Punjab University, Agricultural Credit Inquiry in Six Villages of Lahore District (Lahore: Punjab University Press, 1956), p. 8.

¹² Government of Pakistan, Credit Enquiry Commission Report, 1959, p. 17.

Rs. 100 to Rs. 250. Every fourth farmer (29 per cent) is in debt of less than Rs. 100."¹³

It can be seen from Table 1 that the greater part of the debt was incurred for unproductive purposes such as family expenditure, etc. While this is substantially correct, the comparison must then be with the potential requirements for productive credit which must surely be even larger. The Credit Enquiry Commission mentioned that on the basis of a minimum ratio of 25 per cent of credit to output flow in agriculture, the rural credit requirement would be in the range of Rs. 3,000 million. There is firstly the short-term need for seasonal finance to purchase fertilizer etc. Even an outlay of Rs. 20 per acre is assumed and that the owners of half the sown acreage are self financing, there is a seasonal need, on the basis of current practices and techniques, for a minimum of Rs. 500 million per year. If the objective is to increase the use of fertilizer, pure seed, green manures, etc., the seasonal requirements for credit would rise correspondingly. Next, there are medium-term credit needs for purchasing more expensive tools, well equipment and livestock. Finally, there are long-term credit needs for the purchase of additional land, the sinking of tube wells, the construction of embankments and other developmental requirements for which no calculation can be hazarded. These are all production uses of credit and their provision is necessary, if not a sufficient condition for

¹³ The Pakistan Observer (Dacca), April, 3, 1963, p. 1.

raising agricultural productivity in the country.¹⁴

Sources of Credit in Pakistan

To fulfil the needs of the agriculturists to a certain extent, the following are the sources of agricultural credit in Pakistan;

1. Relatives and friends;
2. Well-to-do rural people and landlords;
3. Cooperatives;
4. Government;
5. Shop keepers;
6. Beopari, Faria, (village merchants), etc.;
7. Money lenders;
8. Public Credit Agencies.¹⁵

The relative importance of various sources of credit as to their contribution to the rural sector can well be seen in Table 2 at the end of the chapter. The table, however, shows very little contribution and unsatisfactory results so far achieved through organized facilities and the consequent dependence of the primary producers on non-institutional sources for the fulfillment of their credit needs. In other words, "the high proportion of credit deriving from the personal sources may well be disguising a rapid process of disinvestment of assets, a process forced upon

¹⁴ Government of Pakistan, Credit Enquiry Commission Report, 1959, p. 11.

¹⁵ Rana Nasib Khan, "The Role of Cooperative Credit and the Causes of its Slow Growth in Pakistan," The Agricultural Economist (Karachi: The Agricultural Economics Society of Pakistan, 1961), p. 36.

the poorest elements of the rural population by the non-availability of alternative credit facilities on a more organized basis."¹⁶ These private sources are also diminishing because of the mass exodus of the village merchants and money lenders to India after partition of the sub-continent.

The consensus of opinion seems to be for the establishment of institutions and agencies having offices spread over the whole country for administering medium and long-term credit and the revitalizing the cooperative movement in the villages for providing short-term and seasonal credit under the supervision of some public agency concerned with rural credit. According to a report:

A properly devised system of institutional credit should help in promoting the further flow of private savings into agriculture, but to achieve this as well as dispense credit on satisfactory terms, the government must assume responsibility for the establishment of suitable credit institutions and provide funds for them. ¹⁷

¹⁶ Khan Mohammed Bashir Ahmed Kha, "Problems of Rural Credit in Pakistan," Agriculture Economist, Ibid., p. 25

¹⁷ Report of the Center on Agricultural Financing and Credit for Asia and the Far East, Lahore, Pakistan, 1 to 13 October, 1956, op. cit., p. 59.

TABLE I
CAUSES OF INDEBTEDNESS

Purpose	Board of Economic Enquiry ¹				Socio-Economic Board, Dacca University ²		Socio-Economic Research Project, Punjab University ²	
	Board of Economic Enquiry Punjab %	Narayan-ganj %	Rangpur %	Rajbari %	Feni %	Socio-Economic Research Project, Punjab University %		
1. Capital expenditure on farming including purchase of land	29.9	8.08	12.53	8.30	8.38	19.6		
2. Current Expenditure on farming	3.7	9.83	8.54	13.36	12.32	12.0		
3. Non-farm business expenditure	13.5	11.91	3.03	10.11	6.40	1.2		
4. Family Expenditure	51.4	67.38	74.66	63.54	69.62	62.0		
5. Repayment of debt.	1.3	1.76	1.24	4.33	2.79	3.2		
6. Other Miscellaneous expenses	0.2	1.04		0.36	0.49	2.0		
	100.00	100.00	100.00	100.00	100.00	100.00		

- 1 Board of Economic Inquiry, Punjab. Report on the Need and Supply of Credit in the Rural Areas of the Punjab, 1951, Publication No. IOI op. cit., p. 10
- 2 Socio-Economic Research Project, Punjab University. Agriculture Credit Enquiry in Six Villages of Lahore District 1956, op. cit., p. 8.
- 3 Socio-Economic Survey Board, Dacca University. Rural Credit and Unemployment in East Pakistan 1956, op. cit., pp. 46-47

TABLE 2.

DISTRIBUTION OF SOURCES OF CREDIT

Source	Board of Economic Inquiry, Punjab		Socio-Economic Survey Board Dacca University 2		Socio-Economic Survey Board Narayan-Rang-Rajpur bari		Socio-Economic Research Project, Punjab University 3		All-India Rural Survey 4	
	%		%		%		%		%	
1. Relatives & Friends	63.2		59.52	58.64	53.87	41.27	62.8		14.2	
2. Well-to-do rural people and landlords	16.9		17.85	23.26	13.73	31.58	0.2		1.5	
3. Cooperatives	13.2		0.39		1.41	0.42	14.3		3.1	
4. Government	2.9		0.32	5.99	5.28	5.68	13.4		3.3	
5. Shopkeepers	2.5		12.75	4.49	17.26	10.25	0.4		5.5	
6. Beopari; etc:			2.19	5.17	2.11	0.97	4.7			
7. Money-lenders	1.3		3.92	1.36	2.82	8.86	1.1		69.7	
8. Other sources			3.06	1.09	3.52	0.97	3.1		2.7	
	100.00		100.00	100.00	100.00	100.00	100.00		100.00	

1. Board of Economic Inquiry, Punjab: "Report on the Need and Supply of Credit in the Rural Areas of the Punjab" Publication No. IOI, op. cit., p. 15.

2. Socio-Economic Survey Board, Dacca University: Rural Credit and Unemployment in East Pakistan 1956, op. cit., p. 36

3. Socio-Economic Research Project, Punjab University, Agricultural Credit Enquiry in Six Villages of Lahore District, op. cit., p. 18

4. Report of the Committee of Direction, All India Rural Credit Survey, 1954, Vol. II, op. cit; p. 2.

CHAPTER V

ORGANIZATION OF AGRICULTURAL CREDIT IN PAKISTAN:

GOVERNMENT AND PUBLIC AGENCIES

Among the background conditions needed to make agricultural credit an instrument of progress, the Summary Report of the International Conference on Agricultural and Cooperative Credit lists:

A set of agricultural credit agencies so integrated with each other and so geared to the rest of the economy as to facilitate the flow of capital into agriculture and between its parts and to minimize the risk involved.¹

There are other background conditions such as a proper legal basis, a sound system of land-tenure, marketing facilities and transportation system, etc., apart from the basic prerequisite of sufficient capital being available for all the widespread needs of a growing economy.

While a chronic deficiency of capital is one of the essential characteristics of all underdeveloped or insufficiently developed economies, it is also true that for lack of proper facilities it has not been possible to mobilize fully even the very slender financial resources of such economies.²

The bulk of the capital funds utilized in agriculture come mainly from such traditional sources as mentioned in the last chapter.

The expanding needs and importance of agricultural

¹ Summary Proceedings of the International Conference on Agricultural and Cooperative Credit, August 4 to September 12, 1952 (Berkeley, California: University of California, 1952), p. 55.

² Binns, op. cit., p. 14.

development and the extortionist method utilized by the private money-lenders led to an urge in many countries towards the control and regulation of the activities of private and professional money-lenders and towards the establishment and development of institutions and organizations to facilitate the provision of institutional agricultural credit to the farmers. "The attempts," says the FAO report, "are only a beginning and much remains to be done to provide an adequate supply of institutional agricultural credit."³

In considering the organisations for the administration of agricultural credit in Pakistan, we will be concerned with two aspects; the structure and the methods of their operation.

In the rural credit setup of Pakistan, we find three important government and public institutions, in addition to cooperative credit societies, involved directly or indirectly in the administration of credit to farmers. These are as follows:

1. Government in general
2. State Bank of Pakistan
3. The Agricultural Development Bank of Pakistan.

ROLE OF GOVERNMENT

"Ever since the question of rural indebtedness began attracting their attention," mentions the State Bank Report

³ Report of the Centre on Agricultural Financing and Credit for Asia and the Far East, Lahore, Pakistan, 1 to 13 October, 1956, op. cit., p. 119.

on Rural Credit, "government have sought to tackle the problem in three ways:

- (1) Regulation of money-lending operations;
- (2) Giving loans themselves; and
- (3) Promoting institutional agencies."⁴

Regulation of Money-Lending Operations

Several laws existed since pre-partition days in both wings of the country which either regulate money-lending directly or affect credit operations indirectly. They are designed primarily (i) to protect the borrower from extortionate money lending, (ii) to provide relief from the heavy load of indebtedness, and (iii) to prevent transfer of land from cultivators to other classes of persons, specially in satisfaction of debts and for other distress reasons. The laws provide for restrictions on the transfer and mortgage of land and other rural immovable property and the attachment of crops and other movables of agriculturists. In their application, the laws, as a rule, make no distinction with regard to individual money-lenders and the institutional agencies. The effect of some of the provisions of these enactments has been to restrict, at least in some measure, the flow of credit to agriculturists, both from private sources as well as institutional agencies. Provisions, however, exist in some of the laws for grant of exemption by government to banks and other credit bodies.

⁴ State Bank of Pakistan, Agricultural Credit in Pakistan, op. cit., p. 21.

The specialized agencies, namely the Agricultural Development Bank and its predecessors, have been in receipt of several exemptions.

Names of some of the important laws are given below:

- i) The Punjab Alienation of Land Act, 1900
- ii) The Punjab Debtors Protection Act, 1936
- iii) The Punjab Registration of Money-Lenders Act, 1938
- iv) The Punjab Restriction of Mortgage Land Act, 1938
- v) The Bengal Agricultural Debtors Act, 1935
- vi) The Bengal Money-lenders Act, 1939
- vii) The East Bengal State Acquisition and Tenancy Act, 1950
- viii) West Pakistan Land Reforms Act, 1959.⁵

Government As a Lender

Since the end of the 19th century government has been helping agriculturists through grants of loans known as Taccavi in West Pakistan and Agricultural Loans in East Pakistan. Direct government loans have been found to be unavoidable in times of famine and distress and it is in the discharge of these functions that the origin of government as a lender lies. But government have also been providing development and production finance to the agriculturists. Government loans are granted by the provincial governments, and administered through their Revenue Departments, for specific purposes under the Land Improvements Loans Act

⁵ For a detailed information of the above legislations refer to State Bank of Pakistan, Agricultural Credit in Pakistan, pp. 22-30.

of 1883 and the Agriculturists Loans Act of 1884.

The system of government loans has been criticized from time to time on the ground that it is not being administered properly, that the formalities to be observed are cumbersome and time-consuming, that the amount disbursed is very inadequate, and the recoveries are very meagre as compared to the amount advanced, due to the inefficient collecting machinery, small size of the loan and the poverty of the farmers. The provincial budgets show that from 1956-57 to 1961-62, 186,590 thousands of rupees were advanced and only Rs. 168,408 thousand were recovered. The Credit Enquiry Commission has recommended the following measures to deal with government lending operation:

- a) The government should not lend directly except in cases of distress.
- b) Institutional agencies should take over all agricultural credit activities and government may continue to give non-distress loans as a transitional period.
- c) To protect the statutory agricultural credit agencies from unnecessary competition in the areas where the offices of these agencies are established, the revenue head of the district may decide whether any taccavi or agricultural loans are to be extended for non-distress purposes.
- d) Amount advanced must be sufficient for the purpose for which it is intended.

- e) If there is a choice there should be no hesitation in withdrawing the agency of the Revenue Department from the field of agricultural credit.⁶

The above mentioned recommendations have been accepted by the government and it was decided that during the Second Five-Year National Development Plan period (1961-65) government loan will be extended, for purposes other than the relief of distress in the following fields.

- i) Where cooperative societies do not exist and are not likely to be established;
- ii) Where offices of the Agricultural Development Bank do not exist;
- iii) Where colonization is in progress but cooperative societies have not been or are not likely to be established;
- iv) and in special cases in areas Land Reforms are being implemented.⁷

Government as an Indirect Lender.

Taccavi loans and agricultural loans constitute the operation of the government as a direct lender with no intermediate link between it and the agriculturists. But the need for rapid development in agriculture and the importance of proper credit facilities has brought government as an indirect lender in the field, through the establishment of various credit institutions. The whole capital of

⁶ Government of Pakistan, Credit Enquiry Commission Report, 1959, pp. 17-18

⁷ _____, The Second Five-Year Plan 1961-65, p. 180.

the Agricultural Development Bank of Pakistan has been contributed by the Government of Pakistan and the provincial governments. During the year 1961-62 the government also gave a loan of Rs. 5 million to the Agricultural Development Bank for financing the tea crop. The provincial governments are participating in the share capital of cooperative banks and are also financing them. In East Pakistan during 1961-62 the government authorized an expenditure of Rs. 14.40 million by way of loans and advances to the cooperatives and the Government of West Pakistan allocated a sum of Rs. 1.32 million for the above purpose.⁸ The loans given in some cases by the State Bank of Pakistan to specialized institutions and to the cooperative banks have been guaranteed by the central or the provincial government. In order to fulfil obligations under guarantees, the governments have had to make loans to the credit institutions concerned to enable them to repay their borrowings from the State Bank

2. STATE BANK OF PAKISTAN

As the central bank is both the ultimate source and regulator of national credit it is in the best position to ensure that the rural sector generally, and agriculture in particular, obtain their proper share of the credit available. Unless the central bank takes a direct interest in

⁸ The above figures are taken from the Development Budgets of the Governments of East & West Pakistan for the year 1962-63.

regulating the flow of rural credit, it will not be in a position to maintain an adequate supply, or take effective steps to ensure overall economic progress consistent with stability.⁹

As the central bank of the country, the State Bank of Pakistan is entrusted with statutory responsibilities for regulating the monetary and the credit system, "with a view to securing monetary stability and the fuller utilization of the country's productive resources."¹⁰ For achieving these objectives the State Bank lays-down credit policies which it deems to be in the national interest. It also supervises the working of the credit agencies with a view to ensuring sound and efficient lending in the public interest. Apart from regulating credit, it has responsibilities as the reservoir of liquidity and lender of last resort. These are the traditional functions of a central bank, but as the central bank of a developing country, the State Bank of Pakistan has found it necessary to take special measures for the promotion of institutional framework for catering to the needs of different sectors of the economy and play a special role in the field of agricultural credit. It realized the fact that under existing conditions it would have to provide a very substantial portion of the credit

⁹ Report of the Centre on Agricultural Financing and Credit for Asia and the Far East, Lahore, Pakistan, 1 to 13 October, 1956, op. cit., pp. 79-80

¹⁰ Government of Pakistan, Credit Enquiry Commission Report 1959, p. 148.

requirements of the agriculturists. Being a "bankers' bank" and a "lender of the last resort", it does not have field organizations to deal directly with the individuals and has to channelize its operations through other agencies which are intended to deal directly with the public.

The bank was empowered under the law to make loans for seasonal agricultural operations and marketing of crops through provincial cooperative banks. It, therefore, naturally had to turn towards the cooperatives for expansion of rural credit facilities.¹¹

Cooperatives were a provincial subject and the State Bank, therefore, embarked upon ceaseless efforts to bring home to the authorities concerned the need for cooperative banks giving greater attention to agricultural lending "which," in view of the bank, "was their primary function."¹² These efforts were of little avail and for various reasons agricultural lending continued to form a very insignificant part of the operations of the cooperative banks.

Agricultural Credit Department

The year 1953 saw the establishment of a full-fledged Agricultural Credit Department in the State Bank. Prior to that agricultural and cooperative credit matters were looked after by a cell which existed as a part of the Banking Control Department from 1948 to 1951 and within the Research Department of the bank from 1951 to 1953. The

¹¹ State Bank of Pakistan, Agricultural Credit in Pakistan, p. 107.

¹² Ibid., p. 108

second phase of State Bank's efforts in the field of agricultural credit may be said to have lasted from 1953 to 1956. It was a period of intensive study and preparation about strengthening and extending of the agricultural credit base and the part State Bank itself could play in achieving these objectives.

In consideration of the magnitude of the task of rural credit, important changes were made in the State Bank's charter in 1955. Under the State Bank of Pakistan Act, 1956, the importance of agricultural credit was recognized and the bank was assigned special responsibility in that sphere. The maintenance of the Agricultural Credit Department became a statutory obligation and the functions of the department were prescribed as follows:

- a) To maintain an expert staff to study all questions of agricultural credit and be available for consultation by the central government, provincial governments, provincial cooperative banks and other banking organizations.
- b) To coordinate the operations of the bank in connection with agricultural credit and its relations with the provincial cooperative banks and any other organisation engaged in the business of agricultural credit.¹³

¹³ Government of Pakistan, The State Bank of Pakistan Ordinance 1955 (Karachi: Government of Pakistan Press, 1956), p. 1

As the volume of agricultural credit work has increased, the organisation within the State Bank to cope with it has continued to expand. The functions of the Agricultural Credit Department were confined until 1957-58 to the study of the problems; and actual operational work such as examining of loan proposals and inspections were carried out by the Banking Control Department. Since 1958, however, the department has become fully operational and all work pertaining to rural credit is looked after by it. While at the central directorate there was a special department for agricultural credit the work at the branches was conducted through the organization of the Banking Control Departments at Lahore and Dacca. In 1961, the bank decided to establish branches of the Agricultural Credit Department at Lahore and Dacca to cope with the increasing work pertaining to agricultural credit, and cooperative banks in those regions.

Loans to Cooperatives and Specialized Credit Institutions

The State Bank of Pakistan has been making loans to cooperative banks since 1951 but until 1957-58, these loans were almost entirely against government securities and were given without any stipulation as to the purposes to which these could be utilized. It started making loans to specialized credit agencies during 1959-60. Since 1960-61 the bank insisted that loans taken from it by the rural credit agencies, cooperatives and otherwise, be utilized solely for financing agriculture.¹⁴

¹⁴ State Bank of Pakistan, Agricultural Credit in Pakistan, p. 117

The bank's loans to agricultural credit institutions have been continuously rising every year since 1957-58 but the increase has been rapid since July, 1960. At the end of June, 1962 the total amount sanctioned stood at Rs. 175.10 million against Rs. 66.70 million at the end of June, 1960.¹⁵

The agricultural loans of the bank have so far been entirely of a short-term nature which is given at different times in different parts of the country depending upon crop seasons. Usually the attempt is to make credit available at the time of preparation of land and to recover them after harvest. The loans are channelized through provincial cooperative banks and are intended to reach the farmer through primary credit societies.

The bank follows a reasonable interest rate structure which is in accordance with government's decisions following the recommendations of the Credit Enquiry Commission. The rate for cooperatives is one per cent below the Bank Rate and the Agricultural Development Bank is charged $\frac{1}{2}$ per cent less than the Bank Rate (The Bank Rate is 4 per cent). This is done on the basis that the Agricultural Development Bank lends directly to the individuals as against cooperatives where funds have to pass through several intermediate institutions before reaching the farmers.

¹⁵ Agricultural Development Bank of Pakistan, Annual Reports and Statement of Accounts for the Year ended 30th June, 1962 (Karachi: Agricultural Development Bank of Pakistan, 1962) pp. 13-14.

On the recommendation of the Credit Enquiry Commission, a Rural Credit Fund was established in 1960 to provide medium-term loans and advances to cooperative banks repayable after a fixed period not exceeding three years, and for making long-term and medium-term loans to institutional credit agencies.

An important function of the bank is to provide remittance facilities for the general public, government and banks. A Remittance Facilities Scheme is operated by the bank giving most favourable treatment to the cooperatives.

One of the bank's most important measures in the field of agricultural credit has been the efforts to revitalize the cooperative movement in East Pakistan. In 1953 it conducted a special study of the situation to ascertain the extent to which the cooperatives could serve to channelise funds to agriculturists. It came out with the conclusion that more determined efforts had to be made for the revival of the movement and for its own part, the bank was willing to provide the necessary credit facilities and was able to persuade the Provincial Cooperative Bank to take positive steps for the reorganization of the movement.

Under the bank's sponsorship, two surveys dealing with the credit problems and other socio-economic conditions were made by the Dacca University and the Punjab University in 1956.¹⁶

¹⁶ For a detailed information about these surveys see Table 1 & 2 in Chapter IV, pp. 53 and 54.

Although the State Bank had no statutory powers in the past to inspect the cooperative banks, it was, from time to time, called upon to inspect some of these banks, where advice was sought by the banks or the provincial governments concerned and where, the bank, in its capacity as a lender, wished to ascertain the position of a particular bank. But due to the increased volume of business with these banks, the Credit Enquiry Commission recommended that "in the interest of unified control of the credit structure of the country, control of cooperative banks should be vested in the State Bank of Pakistan."¹⁷ This proposal has been accepted by government in 1962 thereby giving the State Bank the statutory control and the right of inspection of the cooperative banks.

Apart from inspection, the State Bank of Pakistan has sought to assist the agricultural credit agencies in other ways also. Advisers were given to cooperative banks in both wings of the country. Since 1959 two senior officers of the banks have been lent to the Cooperative Departments in both wings of the country. The bank also supplied, out of its training scheme, trained personnel to the Agricultural Development Bank and its predecessors. Officials of the bank are nominated to serve as directors and members on the Boards and Technical Advisory Committees of the cooperative banks and specialized agricultural credit institutions.

¹⁷ Government of Pakistan, Credit Enquiry Commission Report, 1959, p. 156.

On the recommendation of the Credity Enquiry Commission, a Rural and Cooperative Credit Advisory Committee was formed by government in July, 1961, under the auspices of the State Bank to provide machinery for consultation and to coordinate activities of rural credit agencies. The Governor of the State Bank acts as its Chairman and the State Bank as its Secretariat.

Training of the Cooperative Personnel: Special attention had been given to the training of the cooperative bank personnel by the State Bank. Cooperative banks borrowing from the bank against government securities were given rebates of one per cent on the interest charged to them subject to the condition that the amount of rebate was utilized on cooperative education. This was intended to cover training and education of the cooperative personnel and in 1955 arrangements were made with commercial banks in East and West Pakistan for training of the employees of the Cooperative Department and the banks at the Bank's expense.

3. THE AGRICULTURAL DEVELOPMENT BANK OF PAKISTAN

A few years after independence, it became clear that the need for credit was too great to be met through the cooperative system alone. The cooperatives had become stagnant and the movement had a severe set-back because of the mass exodus of the non-Muslim financiers to India. Moreover, because of the nature of their liabilities, the cooperatives were not in a position to provide an adequate

development finance of a medium and long-term nature. The lack of leadership, enthusiasm and dearth of technical personnel, made the attempt to revive the movement during the initial period of independence meet with little or no success. The need for more specialized and flexible institutions, like those of Iran and Turkey, were felt badly. As a start, an Agricultural Development Finance Corporation was set up in 1952 by the government for "the purpose of expanding financial facilities and promoting the development and modernization of agriculture in Pakistan."¹⁸ But in the words of the then Finance Minister of Pakistan, "it was not organized as a bank and lacked some of the advantages of a banking institution."¹⁹ So in 1957 the Agricultural Bank of Pakistan was created, to organize credit to agriculturists, cooperative societies and other bodies corporate. Its scope was wider than that of the Agricultural Development Finance Corporation and it was intended to operate as much in the field of seasonal or short-term finances as in medium and long-term finances. The two bodies, which had overlapping functions in many respects, existed separately until February, 18th 1961, when they were amalgamated into one unit on the recommendations of the Credit Enquiry Commission, which after extensive survey of the

¹⁸ Government of Pakistan, The Agricultural Development Finance Corporation Ordinance, 1952 (Karachi: Government of Pakistan Press, 1952), p. 1.

¹⁹ "Finance Minister's Address," Agrifin (Karachi), Vol. III, No. 1, (April-May, 1962).

situation stated that:

It was urged by a succession of witnesses that the present arrangements made for confusion in the public mind and it is our opinion that a merger will be an ideal solution both from the view of the taxpayer who must bear the cost of maintaining two parallel organizations as well as to correct the drawbacks of a territorial division of responsibility. At least some of the organizational difficulties could be avoided by planning for a decentralized institution with regional boards exercising wide powers of execution and depending upon the head office only for policy guidance and control. ²⁰

Thus came into being the Agricultural Development Bank for which recommendation was also made by Mr. Chafic-el-Labban, the President of the Agricultural Cooperative Bank of Egypt, who visited Pakistan on the invitation of the government in 1954, and recommended among other things, the setting up of an Agricultural Bank under the sponsorship of the central government to cover the whole country. The bank was created under the Agricultural Development Bank of Pakistan Ordinance to replace the Agricultural Development Finance Corporation and the Agricultural Bank of Pakistan, and to make better provisions for affording credit facilities to agriculturists and persons engaged in cottage industries in the rural areas, and for matters connected herewith.²¹ The authorized capital of the bank is Rs. 200 million of which at least 51 per cent is to be subscribed by the central government and the remaining shares, if any, are to be offered to provincial governments, cooperative societies,

²⁰ Government of Pakistan, Credit Enquiry Commission Report, 1959, p. 69.

²¹ Government of Pakistan, The Agricultural Development Bank of Pakistan Ordinance, 1961 (Karachi: Government of Pakistan Press, 1961), p. 1.

and the public in such proportions and on such terms and conditions as the central government may determine at the time of each issue.²²

MANAGEMENT

Directions and Superintendence: The general direction and superintendence of the affairs of the bank vest in a Board of Directors,

who in discharging its functions shall act on commercial considerations but with due regard to the interests of agriculture and cottage industries in rural areas and shall be guided in questions of credit and monetary policy by such directions as the State Bank may from time to time give. If there is a difference of opinion between the State Bank and the bank as to whether a particular question is a question of credit and monetary policy, it shall be referred to the central government whose decision thereon shall be final.²³

The Board of Directors: The Board of Directors consists of the Chairman, two central government officers, one each from the ministries of Finance and Agriculture, two officers one each from the provincial governments concerned, two non officials one each from East and West Pakistan to be nominated by the central government in consultation with the provincial government, and such other persons as the central government may consider necessary to give representation to cooperative societies and the public share holders. While the government officials on the Board are ex-officio directors, the term of office of non-officials is three years but

²² State Bank of Pakistan, Agricultural Credit in Pakistan, p. 92.

²³ Government of Pakistan, Agricultural Development Bank of Pakistan Ordinance, 1961, pp. 3-4.

they are eligible for reappointment.

Chairman of the Board: The Chairman of the Board of Directors, who is also the chief executive of the bank, is appointed up to a period of five years by the central government, and directs and controls the whole affairs of the bank on behalf of the Board of Directors.

Executive Committee: There is an executive committee, as envisaged in the ordinance, consisting of the Chairman and the three Directors, of whom at least one is to be a person belonging to East and one to West Pakistan and the members of the executive committee, other than the Chairman, are elected by the Board. The executive committee deals with any matter within the competence of the Board and the minutes of its meetings are laid before the Board at its meeting next following the meeting of the committee.

Head Office, Regional Offices, and Branches: The bank inherited at the time of merger from the Agricultural Development Finance Corporation and Agricultural Bank of Pakistan 47 branches, 5 sub-branches and 22 pay offices out of which 24 branches, 1 sub-branch and 10 pay offices were in East Pakistan. Since then the total number of branches, sub-branches and pay offices has increased from 74 to 96. The existing position is as follows:

	<u>East Pakistan</u>	<u>West Pakistan</u>	<u>Total</u>
Branches	16	28	44
Sub-branches	16	9	25
Pay Offices	10	17	27
	<hr/>	<hr/>	<hr/>
	42	54	96

These are in addition to the Head Office and 7 Chief Regional Offices. The Head Office of the bank is at Karachi. Out of 7 Chief Regional Offices, three are in East Pakistan at Dacca, Khulna and Rajshahi and four in West Pakistan at Lahore, Rawalpindi, Multan and Sukkur.²⁴

The total number of branches, etc., is still very much inadequate to the requirements for disbursing credit. The government has fixed the target of branches to the extent of half the total number of Tehsils and sub-divisions in the country. The total number of Tehsils and sub-divisions being 224 the bank intends to open 112 branches etc., before the end of the plan-period, i.e., by 1964-65.²⁵ The annual report of the bank mentions the programme of upgrading 3 pay offices to sub-branches and starting two new chief regional offices and five new pay offices in 1962-63 in each wing of the country.²⁶ As a step towards decentralization, a high-powered General Manager has been appointed at Dacca to be responsible for the whole province.

The Chief Regional offices are headed by a Regional Manager appointed by the Head Office, and each branch and sub-branch has a manager as its head. Investigation officers

²⁴ The above figures are taken from Agricultural Development Bank of Pakistan, Annual Report and Statement of Accounts for the Year ended 30th June, 1962, p. 2.

²⁵ State Bank of Pakistan, Agricultural Credit in Pakistan, p. 105.

²⁶ Agricultural Development Bank of Pakistan, Annual Report and Statement of Accounts for the Year ended 30th June, 1962, p. 3.

are incharge of the pay offices. There are three categories of investigating staff, the Investigation Officer, the Assistant Investigating Officer and the Investigator, who are attached to the branch, sub-branch or pay offices. This staff on receipt of an application visits the applicant's farm and satisfies itself about the credit requirements in relation to the soundness of the scheme submitted, checks title of the borrower on the property offered as security, assesses its value both on a sale and capitalization basis and makes recommendations to the sanctioning authorities. Investigation officers attached to the branches and incharge of the pay offices in "Cash Programme Areas" (selected by the government for extensive and intensive cultivation where special assistance and credit facilities have been provided to the agriculturists) have sanctioning powers up to Rs. 500. If all the formalities can be completed on the spot, the surety loans are sanctioned by such investigating officers immediately. If security is involved, the application is also seen by the legal adviser of the branch to certify that the title of borrower is clear and loan can be given.²⁷

Technical Advisory Committees: A Technical Advisory Committee consisting of experts in the various fields of agriculture and banking has been appointed in 1961 at the Head Office to give the bank technical advice on schemes to be submitted to it for financial assistance and other matters

²⁷ "A Glimpse of CENTO Conference," Agrifin (Karachi), Vol. III, No. 2 (July-August, 1962), p. 46.

of loan policy and procedure.

In addition to the Technical Advisory Committee at the Head Office, there are Regional Advisory Committees at the Chief Regional Offices of the bank and Local Technical Advisory Committees at branch and sub-branch offices. While the Regional Advisory Committees advise the Chief Regional Managers on matters of policy, such as expansion of the bank's loan operations, determination of the priorities of loans having regard to their purposes, etc., the Local Advisory Committees at branch and sub-branch level advise and assist the branch managers in the disposal of loan applications also.

The Advisory Committees at the Chief Regional Offices, according to the Ordinance of the bank, shall consist of the following members:

- a) Three officers serving under the provincial government concerned and nominated by that government;
- b) three non-officials representing the agricultural interest of the region; and
- c) the Regional Manager, who will act as its Chairman.²⁸

Authorized Business: The bank has been authorized to give credit in cash and kind to agriculturists for the purpose of agriculture and to persons engaged in cottage industries in rural areas for the purpose of such industries. The term 'agriculturist' for the purpose of the bank means:

²⁸ Government of Pakistan, Agricultural Development Bank of Pakistan Ordinance, 1961,
p. 6.

any individual engaged in agriculture or in the development of agriculture or agricultural products or in storage, warehousing, marketing, or processing of agricultural produce, and any public or private company or cooperative society incorporated or registered by or under any law for the time being in force and so engaged, and any person, company or cooperative society incorporated or registered as aforesaid, who satisfies the bank that the loan to be taken shall be spent on agriculture or the development of agriculture or agricultural products or on the storage, warehousing or marketing or processing agricultural products.²⁹

The bank also accepts deposits, borrows for the purpose of its business against the security of its assets, and is authorized to issue and sell bonds and debentures, to accept movable or immovable property as security for its loans, to buy stock and supply on credit, seeds agricultural machinery, implements and fertilizers, to subscribe to debentures maturing 10 years of any body corporate concerned with agriculture, or the financing of agriculture or the financing of cottage industries.

Loan Policy: Loans are granted for meeting the cost of fertilizers, seeds, agricultural implements, development of agriculture through such methods as sinking of tube-wells, improvement of irrigation system, etc.,, cattle and sheep breeding, cottage industries in rural areas and marketing of crops, etc. Loans can be granted against pledge, mortgage, hypothecation or assignment of movable or immovable properties of the borrower or his surety or unconditional bank guarantee of a scheduled bank or by discounting, buying or rediscounting bills of exchange and promissory notes bearing

²⁹ Ibid., p. 1.

two or more good signatures, one of which should be that of a scheduled bank or that of a cooperative bank or other negotiable instrument.

Types of Loans and Security: The bank's regulations provide for three types of loans, (1) short-term, (2) medium-term and (3) long-term. A short-term loan is for periods upto 18 months for financing cost of raising crops/marketing crops while medium-term loans are granted for periods of more than 18 months and not exceeding 5 years for purchasing agricultural implements, livestock, etc. Long-term loans, which are for periods exceeding 5 years, are to finance funds for the development of agriculture, purchase of tractor and other heavy machineries and installation of tube-wells, etc.

While short-term loans upto Rs. 1,000 may be granted against a bond with one or more personal sureties and where considered necessary a charge on the property of the borrower, other loans must be fully secured. Medium-term loans are required to be secured by mortgage of immovable property but the bank can accept gold, government or life insurance policies in suitable cases. Ordinarily loans are granted in kind but cash loans are also given at the discretion of the bank. The cash loans are granted in installments, each installment subsequent to the first, being advanced only after verifying that the borrower has utilized the previous installment for the purpose for which the loan was granted.

Loans Disbursement and Recoveries: The total loans

sanctioned since the establishment of the Agricultural Development Finance Corporation and Agricultural Bank of Pakistan upto 30th June, 1962, amount to Rs. 277,625,066 out of which an amount of Rs. 229,458,707 was disbursed. During 1960-61 the amount of loans sanctioned and disbursed amounted to Rs. 77,578,509 and Rs. 69,089,678 respectively. The corresponding figures for 1961-62 are Rs. 94,954,852 and Rs. 87,456,324 respectively. The total recovery during 1961-62 was 76.40 per cent as compared to 83.00 per cent in 1960-61.³⁰

Sources of Funds: As the capital of the bank is inadequate for its loaning operations, it has been borrowing from the State Bank which amounts to Rs. 78.70 million till October, 1962, and had been seeking to supplement its resources by securing deposits, other than the current account, amounting to Rs. 2,515,933 on the 30th June, 1962.³¹

Training of Staff: The Establishment of new offices posed a number of problems for the bank, the most important of which is to find trained personnel. It, however, takes a long time for a staff to be trained to take up their regular duties and to discharge them efficiently.

Yet in order to meet the pressing demand for opening more and more offices, the bank has been forced to entrust regular work to them before they

³⁰ Agricultural Development Bank of Pakistan, Annual Report and Statement of Accounts for the Year ended 30th June, 1962, p. 6.

³¹ "Agricultural Development Bank of Pakistan," Agrifin (Karachi), Vol. III, No. 4, (September-October, 1962), p. 32.

could qualify themselves for holding these posts.....32

The need for properly trained staff was recognized by the bank as well as its predecessors. The Agricultural Development Finance Corporation had made arrangement for training of field and accounts staff at the National Bank of Pakistan and agricultural colleges. The staff was also required to have a basic knowledge of agriculture, economics, banking law and practice, tenancy laws and accountancy. The Agricultural Bank of Pakistan had started a training centre in 1957. The trainees were also given practical and theoretical training at agriculture colleges and in revenue and settlement work. The Agricultural Development Finance Corporation had established its own institutes at Dacca and Karachi in 1960 that provided training facilities for investigating officers only and these institutes are retained by the bank for the same purpose.

More and rapid increase in the number of the bank's offices is very essential to achieve the objective of maintaining closer contacts with the agriculturists and providing credit as near their homestead as possible. But a successful loan operation can only be achieved when the staff of the bank are fully trained and efficient to shoulder the responsibility of this technical and unusual job.

³² Agricultural Development Bank of Pakistan, Annual Report and Statement of Accounts for the Year ended 30th June, 1962, p. 3.

CHAPTER VI

ORGANIZATION OF AGRICULTURAL CREDIT IN PAKISTAN:

COOPERATIVE CREDIT STRUCTURE

As a means of reaching the last man in the last village (in comparatively less developed countries), cooperative 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.¹

H. Calvert

According to Belshaw:

Cooperative of one form or another is an essential requirement for continuance of a social organization, and in rural areas in underdeveloped countries it ranges all the way from ad hoc group activities in cultivating the field, harvesting or undertaking communal works, to continuing more or less systematic arrangements, expressed, for example, in the structure of the tribe or the local government of the village through its panchayat or council of elders, or through statutory local government authorities more or less on the western model.²

A cooperative is essentially a western form of organization possessing certain well-defined characteristics, designed to promote self-help and mutual help. Its membership is usually voluntary, based on the mutual interest in removing a disadvantage or achieving a desirable objective, and requiring a willingness and ability to conform to the conditions agreed upon.³

¹ H. Calvert, as quoted in Rural Progress Through Cooperatives (New York: United Nations Department of Economic Affairs, 1954), p. 40.

² Horace Belshaw, Agricultural Credit in Economically Underdeveloped Countries (Rome: Food and Agricultural Organization of the United Nations, 1959), p. 145.

³ Roger Thomas, "The Role of Cooperatives in Farm Credit," The Agricultural Economist, op. cit., p. 18

Cooperatives were first developed in Germany by Raiffeisen in 1854 in the form of small local credit associations and village banks and were intended to do more than simply overcome the power of local money-lenders. Its operations were limited to a parish or village, and entry to membership was based on personal character as well as on the need for credit.⁴ This movement quickly spread all over the world. By some it is regarded as a sine qua non that a cooperative emerges out of 'felt needs' as happened in the United States and in many of the European countries. But in underdeveloped countries especially, it seldom operates in this way. According to Belshaw,

In underdeveloped countries, some leadership from outside the group is a normal requirement (and) if cooperatives are to develop on any scale, this must usually be provided by the government.⁵

In Indo-Pak sub-continent, the cooperative movement, according to Food and Agriculture Commission's report,

Owes its origin rather to the individual enthusiasm of certain government officers in former days who wished to encourage people in the rural areas to emancipate themselves from middlemen and money-lenders.....Its main concern has been access to cheap credit so that small men by coming together could help themselves to improve their incomes and establish a better bargaining position.⁶

The cooperative movement was sponsored in the Indo-Pak sub-continent at the turn of the century by the then government

⁴ United Nations, Rural Progress Through Cooperatives, op. cit., p. 41.

⁵ Belshaw, op. cit., p. 146.

⁶ Government of Pakistan, Report of the Food and Agriculture Commission, p. 178

of India with the object of "providing credit at reasonable terms to the rural masses so as to afford relief to them from indebtedness to the money-lender."⁷ The Cooperative Societies Act was passed in 1904 and societies on Raiffeisen pattern were promoted. The Cooperative Societies Act II of 1912 also introduced a three tier system in the cooperative movement: (1) Primary societies at the village level, (2) the Central Banks and the Central Unions at the secondary level, and (3) Provincial Banks at the top. Cooperation was made a provincial subject in 1918 and until 1925, the Central Act of 1912 continued to be in force in all the provinces and still applies in Pakistan.⁸

Position at and after Partition: When Pakistan came into being, the cooperative movement was in an inactive state particularly in East Pakistan so far as the primary level was concerned. On paper some 36,000 agricultural credit societies existed in the country and in East Pakistan alone, there were about 27,000 such societies, the vast majority of which were not really active or operative but were dormant for all practical purposes.

After partition the cooperatives in West Pakistan were called upon to fill the vacuum created in the field of commercial lending which by any means was not an encouraging

⁷ Report of the Committee of Direction, All India Rural Credit Survey, Survey Report, Vol. I, Part 2 (Bombay: Reserve Bank of India, 1957), p. 184.

⁸ State Bank of Pakistan, Agricultural Credit in Pakistan, op. cit., p. 36.

sign. In East Pakistan the first task was to create an apex bank at Dacca as the provincial bank for undivided Bengal had its headquarter in Calcutta (India). Accordingly the East Pakistan Provincial Cooperative bank was established in 1948. Simultaneously the Provincial Cooperative Department took steps to revive the cooperative movement through the establishment of some 4,000 new societies known as the Union Multipurpose Societies and the liquidation of the moribund societies. With a few exceptions, the new societies could not for a long time get off to a start because of the non-availability of funds from the provincial or central banks. The former was not in a position to help as its limited resources were employed in financing other activities and the latter were virtually moribund.⁹

Thus for about a decade after independence the cooperative movement did not make any significant contribution in the sphere of rural credit and the All India Rural Credit Survey Report while discussing the causes for its failure, reserving some of the social and economic causes, stated that

these may be classified as structural and functional, in so far as they relate, respectively to the organization and working of cooperative credit societies and banks; in addition, the level of education generally, and the lack of training of cooperative personnel in particular.....¹⁰

The same was the condition of cooperatives in Pakistan also,

⁹ Ibid., p. 38

¹⁰ The Committee of Direction, All India Rural Credit Survey. The General Report, (Abridged Edition) (Bombay: Reserve Bank of India, 1956), p. 107

but the cooperatives have assumed a new and pressing importance since 1947 in the context of Pakistan's development. The Pakistan Agricultural Enquiry Committee (1951), expressed the view that "the basis for increased production and improved marketing may be agricultural cooperatives."¹¹ The Planning Board observed in the First Five-Year National Development Plan (1955-60), that "in the sphere of credit especially, we see no wholly satisfactory substitute for cooperatives in the ultimate objective."¹² The Credit Enquiry Commission in its recommendations assigned a prominent role to cooperatives in the field of rural credit. The Food and Agriculture Commission called for "a display by government of its conviction that the development of genuine and successful cooperatives is one of the cardinal points of its farm policy."¹³ The Governor of the United States Farm Credit Administration while reading a paper to the CENTO Conference on Agricultural Development Banking stated that

effective agricultural credit services is not an objective or an end in itself; it is only a means to an end. That end is improved incomes and standards of living for farm families and an ample supply of food and other agricultural products for each country (and) credit cooperatives can display

¹¹ Government of Pakistan, Report of the Agricultural Enquiry Committee, 1951 (Karachi: Government of Pakistan Press, 1952), p. 55.

¹² _____, National Planning Board, The First Five-Year Plan 1955-60, op. cit., p. 295.

¹³ _____, Report of the Food and Agriculture Commission, op. cit., pp. 181-82

an important role in attaining this end.¹⁴

While recounting the advantages the above authority lists the following as the potential advantages of credit cooperatives:

- a) It provides training and experiences in the democratic process.
- b) Encourages thrift and attention to financial obligations.
- c) Increases capital accumulation.
- d) Facilitates technical supervision both in the use of credit and in the organization and management of more productive farming operation by the farmer.
- e) It has greater bargaining power in production, marketing and storage of the farmer's produce.¹⁵

Notwithstanding the above, it is only in recent years that signs of regeneration are discernible in the cooperative field. The government in the country now, have a greater consciousness of the role of cooperatives in the service of the agriculturists. Programmes are afoot in both wings of the country for extending the cooperative sector. The steps that are contemplated seek to employ the cooperative agency in the various fields of rural development, but credit continues to occupy a predominant position in the cooperative

¹⁴ R. B. Tootell, "Credit Cooperatives as an Effective Tool in Providing Agricultural Credit," Credit Rural and Cooperative, Vol. X, No. 4, (October-December, 1961), p. 27.

¹⁵ Ibid., pp. 30-31

activity. Credit operations are to be linked with marketing and supply activities. A great deal of thought is being given to genuinely strengthening the primary societies through elaborate education and extension services.¹⁶

COOPERATIVE CREDIT STRUCTURE IN PAKISTAN:

PRIMARY COOPERATIVE CREDIT SOCIETIES

The financial structure of the cooperative movement is, broadly speaking, federal in its conception. The cooperative credit structure comprises of a three tier system with the Provincial Cooperative Bank at the top, the central bank, the central union and the central multipurpose societies at the intermediate level and the primary societies at the base or village level. The whole structure thus can be visualized as a pyramid having three stages.

Primary cooperative credit societies form the base of the cooperative credit structure and constitute its most important link. They occupy a predominant position in the cooperative movement, and as Wolff observed,

It is the local society, the single brick at the bottom layer upon which the intended fabric has to rest which makes for the safety of the organization.¹⁷

Each society is an autonomous body whose supreme authority rests with its members in the general meetings and

¹⁶ State Bank of Pakistan, Agriculture Credit in Pakistan, p. 38.

¹⁷ Wolff, as quoted by Bashir A. Khan in "Problems of Rural Credit in Pakistan," The Agricultural Economist, op. cit., p. 31.

its day to day affairs are generally looked after by a Managing Committee, elected by the general members, and by an Honorary Secretary, elected by the Managing Committee. The honorary post of the Secretary or the Manager has not been a satisfactory arrangement and the difficulties of societies are attributed very largely to the absence of full-time secretaries or managers. According to Mirza,

Generally the Secretary is a person who is not educated, knows little of accounting, has little or no experience in running such agencies, has little time to devote to its business and in most cases has little incentive to do the work.¹⁸

It is the job of the Secretary to see that the loan is advanced to the right party and has to go from member to member to collect the dues of the society at the time of the harvest. These honorary secretaries being busy during the harvesting seasons with their own works, give little attention to the society's job and either do not exert themselves at all, and if they do, it is only for their own benefit. The Credit Enquiry Commission strongly recommended the appointment of a paid manager or a secretary, their salary to be paid by the cooperative banks to which the society is affiliated and these banks may be subsidized indirectly in order to meet their responsibility towards the primary societies by allowing a concessional rate of interest on their borrowing from the State Bank and per-

¹⁸ M. Javid Mirza, "The Role of the Cooperative Credit and the Causes of its Slow Growth in Pakistan," The Agricultural Economist, op. cit., p. 47.

mitting them to retain sufficient margin between their borrowing and lending rates. The Credit Enquiry Commission expects the primary societies to meet an increasing part of the cost of the paid manager, and a gradual shift towards bearing the full cost within a certain period.¹⁹

Nature of Primary Credit Societies: Some of these societies are single purpose and some are grouped as multipurpose credit societies. There are societies which have limited liabilities and others have unlimited. The following is the situation in Pakistan.

Single vrs. Multipurpose Society: The multipurpose society has been advocated on the reasonings that the cooperative must encompass all aspects of the cultivators life and that to restrict the effort to credit can only lead to failure. It is argued that specialization at the primary level is out of question, if only because of the paucity of trained personnel to look after various societies and that the cost of administration will be too high. Mr. Johnson of the United States Operation Mission in Pakistan states that "the multipurpose society is a logical approach to the solution of many problems of farming."²⁰ But the Credit Enquiry Commission in its report stated that

while recognizing that it is not the most desirable course to set up a multiplicity of institutions in small villages, we feel that it is more important

¹⁹ Government of Pakistan, Credit Enquiry Commission Report, 1959, pp. 30-31

²⁰ Edwin C. Johnson, Suggestions for Improving Agriculture Credit in Pakistan (Karachi:USOM/Pakistan, 1960), p. 12. (Mimeographed).

not to venture into transactions of a complexity that is beyond the capacity of the average management committee. The single purpose credit society is necessary to establish clear-cut links with the financing institutions of the cooperative movement and to permit an accurate evaluation of the credit record and standing of the society. We, therefore, recommend that the primary credit society should be a single purpose society. It may be linked in some manner with marketing or supply societies either functioning at its own level or at a higher level, such as the marketing centres at the union headquarters.²¹

Limited vs. Unlimited Liability: The questions as to the nature of liability of the credit societies is quite debatable. The principle of unlimited liability has substance and validity only under conditions of mutual knowledge and trust which have not been much in evidence in the village society and are ruled in the multi-village societies. In spirit, unlimited liability society is essentially of cooperative character and creates a sense of collective responsibility and mutual watchfulness amongst members. Further, since cooperatives are generally organized for persons of small means whose individual credit worthiness is low, the unlimited liability basis enables them to jointly command credit sufficient to satisfy their perspective needs. The Credit Enquiry Commission recommends that

the choice between limited and unlimited liability may be left to the members themselves at the time of their incorporation into new societies and that existing societies which are working successfully on unlimited liability basis should not be converted into or merged with new societies established on limited liability without the consensus of a majority of members.²²

²¹ Government of Pakistan, Credit Enquiry Commission Report 1959, pp. 33-34

²² Ibid., p. 32.

The State Bank Report states that

limited liability is generally accepted as more desirable than unlimited liability and that liability will induce the more affluent sections of the rural community, which in the past have been inclined to stay out of cooperatives, to become members of societies.²³

The government's policy on the above points based upon the recommendations of the Credit Enquiry Commission is now as follows:

- a) At primary level there should be a single-purpose primary credit society. A big village may have more than one primary credit society or conversely two or more small villages may combine to have one primary credit society. This, however, does not rule out the existence of a multipurpose society at the primary level.
- b) A primary credit society should consist of individual producers and should advance loans to only its members. It should be organized on a limited liability basis.²⁴

East Pakistan has favoured large-sized societies with limited liability and multipurpose objectives. In place of the 27,000 primary agricultural credit societies that existed at the time of partition, government promoted the establishment of some 4,000 new societies known as Union Multipurpose Societies and has its area of operation extend-

²³ State Bank of Pakistan, Agricultural Credit in Pakistan, p. 41.

²⁴ Ibid., p. 42.

ing to the boundaries of the union and is much larger in size and scope than village societies. Although the societies were designated as multipurpose, in practice, they have so far remained single-purpose societies undertaking only credit business. To retain the large-size character of the union multipurpose society and to preserve the essentials of cooperation the question of dividing each society into wards is under the consideration of the provincial government.²⁵

The cooperative setup in former Sind, originally comprised of small-size societies with unlimited liability. The movement was severely hit by the depression of 1930's. The present pattern is based on large-size societies amalgamating the small ones, and are generally called central cooperative societies and those of them that are able to build up capital of Rs. 20,000 are designated as Taluka banks. The Taluka banks or the Central Cooperative Society is intended to serve the requirements of middle class farmers. For large-size holdings a separate type of institution known as Zamindari Bank exists, and those members whose land assessments exceed Rs. 300 are eligible for membership of these banks.

In the former Punjab and the Frontier Province the majority of societies are still small-size with unlimited liability. Since 1958-59 a new type of society known as

²⁵ Government of East Pakistan, Agriculture Department, Cooperative Directorate, Annual Departmental Report of the Registrar, East Pakistan Cooperative Societies for the Year 1959-60 (Dacca: East Pakistan Government Press, 1962), p. 14.

Development Society has come into being which is to perform the jobs as done by the multipurpose credit societies and to promote viable societies.

Security for Loans: Loans by cooperative societies are at present given in East Pakistan, Hyderabad and Khairpur Divisions (West Pakistan) against mortgage of land. In East Pakistan a mortgage deed known as 'karbarnama' is executed and is valid for a period of 12 years. In Hyderabad and Khairpur Divisions automatic charge is created against land as soon as a person becomes a member of a society. In the regions of former Punjab and Frontier province, cooperative loans for short-term purposes are mainly given against personal security.

Methods of Loan Recovery: Loans are recoverable in East Pakistan as arrears of land revenue and decrees are executed what is known as the certificate procedure, and the secretary with the assistance of the land revenue field staff is responsible to collect the dues. In Hyderabad and Khairpur Divisions also cooperative dues are recoverable as arrears of land revenue with the added facility that the cooperative departments are empowered to execute decrees for the recovery of dues. In the former Punjab and the Frontier Province, however, the position is somewhat different. While cooperative officials can, as in the rest of the country, deliver awards, execution of decrees has to be accomplished through the normal machinery of courts of law and the decreed amount cannot be recovered as arrears

of land revenue. Because of this procedure the recoveries in these two regions are lower than the other parts.

Rates of Interest: The rate of interest charged on advances varies from 6 per cent to 9 per cent. The rates have been brought down in some areas as a result of government's decision following the recommendation of the Credit Enquiry Commission that "primary agricultural societies shall not charge more than 9 per cent on their loans."²⁶ The rates of interest which the societies have to pay to central financing agencies range from $4\frac{1}{4}$ per cent to 6 per cent.

Land Mortgage Banks: For medium and long-term loans the cooperative credit structure also provides for Land Mortgage Banks at the base. West Pakistan has practically no such banks at present, although a few existed before partition. In East Pakistan, there were eight Land Mortgage Banks at the end of 1959-60 with a membership of 7567 and a share capital of Rs. 271,000. In 1959-60 they advanced Rs. 632,000 to agriculturists for redemption of old debts and permanent improvement of land.²⁷

CENTRAL COOPERATIVE BANKS

In Pakistan Central Cooperative Banks have been an important part of the cooperative structure. The primary societies in a given area, at district or lower levels,

²⁶ Government of Pakistan, Credit Enquiry Commission Report, 1959, p. 57.

²⁷ Government of East Pakistan, Agriculture Department, Coöperative Directorate, Annual Departmental Report of the Registrar, East Pakistan Cooperative Societies for the Year 1959-60, p. 8.

unite to form the stock of this bank. The central banks make loans to their primary societies and these affiliated societies in turn deposit their surplus funds with central banks which could direct them to other societies whose requirements exceed their own funds. These banks were mainly intended to supply credit requirement of farmers through union or primary credit societies that exist in every district of East Pakistan and the former Punjab with some districts having more than one. In 1960, government decided that in the interest of viability, there should not be more than one central bank in a district.

Membership and Management: Membership in central cooperative banks in both the wings of the country comprises of individual and societies. Individual membership 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 bylaws 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 individual domination. The Credit Enquiry Commission was of the view that some of the difficulties experienced by the cooperative banks can be traced to the presence of individual members with little personal stake in the institutions from which they obtain their finances and it stated that,

there is a fundamental contradiction of cooperative principle in having urban, middle class leadership in cooperative banks whose interests are not always in harmony and indeed may be quite inimical to the true cooperative spirit.²⁸

The commission accordingly recommended the removal of the individuals entirely from the membership of the cooperative banks.²⁹

The setup of the central cooperative banks is like that of a commercial bank. The share holders elect a Managing Committee which acts as the Board of Directors with a Chairman appointed from among the members and is responsible for the day to day business of the bank. Writing about the administration and the financial position of the central banks, the Credit Commission remarks that

the financial position of the cooperative banks is one of the index of their condition. It reflects but cannot convey entirely the lack of competence with which many of these institutions are administered.³⁰

So bad is the administrative and financial position of these banks that the Registrar, East Pakistan Cooperative Societies mentioned in his Annual Report (1958-59) that

To tone up general administration and efficiency in the management of central societies, elected committees for 15 mismanaged central societies were superseded and replaced by committees appointed by government and departmental officers were posted as the executive officers of central societies where-

²⁸ Government of Pakistan, Credit Enquiry Commission Report, 1959, pp. 50-51.

²⁹ Ibid., p. 51

³⁰ Ibid., p. 43 .

ever needed.³¹

Commercial Lending: In addition to advancing loans to the primary societies and to individuals engaged in agriculture the central cooperative banks had to shoulder the responsibilities of commercial lending because of the vacuum created by the partition of the Indo-Pak sub-continent. Once having got into commercial lending on large scale these banks have been reluctant to give it up. The Credit Enquiry Commission felt that the cooperative banks "by financing the processing and trading intermediaries in the private sector have done great injury to the cooperative movement," and it called for "a phased withdrawal from commercial lending depending upon the development of the commercial banking facilities and the absorptive capacity of primary societies."³² The State Bank has also consistently supported the view that "in engaging in commercial lending, as a matter of normal business, the central cooperative banks are diverting much needed resources from agricultural sector."³³ The rate of interest charged by the central cooperative banks ranges from 4¼ to 6 per cent.

In addition to the central cooperative banks, there

³¹ Government of East Pakistan, Agriculture Department, Cooperative Directorate, Annual Departmental Report of the Registrar, East Pakistan Cooperative Societies, for the Year 1958-59, p. 8.

³² Government of Pakistan, Credit Enquiry Commission Report 1959, p. 57.

³³ State Bank of Pakistan, Agricultural Credit in Pakistan, p. 57.

are cooperative banking unions and central multipurpose societies in some places. Cooperative banking unions are to be found in smaller towns in former Punjab. Their membership is confined to societies and, unlike cooperative banks, their profits are not divisible. Central multipurpose societies were organized in East Pakistan under a programme of rehabilitation of the cooperative movement. Primarily they are intended to assist primary societies through marketing and other allied activities. According to the State Bank Report,

A number of these societies have, however, become involved in credit business, especially at places where central banks do not function effectively, and are functioning as secondary level credit institutions in these areas.³⁴

By the end of 1959-60 there were 30 central banks, 18 banking unions, 2 industrial banks, 11 industrial unions and 4 other central institutions with 81 branches in all in West Pakistan and in East Pakistan there are 56 central banks and 62 multipurpose societies and according to the scheme approved under the Second Five-Year Plan, 54 central banks will be retained, one in each sub-division of the province.³⁵

PROVINCIAL OR APEX COOPERATIVE BANKS

The apex banks are the highest point of the pyramid which starts with the primary credit societies at the base

³⁴ State Bank of Pakistan, Agricultural Credit in Pakistan, p. 52

³⁵ Ibid., p. 53.

and the central cooperative banks at the secondary stage. At the time of independence there were three apex cooperative banks in Pakistan, one in each former provinces of the Punjab, Sind and in Bahawalpur state. East Pakistan started without an apex bank, but a new provincial cooperative bank was established soon after partition. In 1948 the Frontier Cooperative Bank was established as an apex bank for the region with the merger of a number of central banks. Another bank known as the Regional Cooperative Bank Ltd., was setup with its headquarter at Hyderabad to function as the apex bank for Hyderabad and Khairpur Divisions.

Membership and the Management.

Membership in the Punjab Provincial Cooperative Bank, Regional Cooperative Bank (Hyderabad), and East Pakistan Provincial Cooperative Bank has always been limited to cooperative institutions. The Sind Provincial Cooperative Bank and the Frontier Cooperative Bank were in the past also admitting individuals as members. According to the government's decision not to have individuals as members of the central and apex banks, it is expected that these banks will gradually reduce the holdings of individual members.

The management of the apex banks is usually vested in committees elected from among the share holders. The central banks are the prime share holders in the apex banks.

The management of the Punjab Provincial Cooperative

Bank Ltd., is vested in an Executive Committee which can consist of not more than 21 members. One member is elected from each district of the former Punjab and one member each from the area of operation of former Bahawalpur State and the Frontier Province. The Registrar is authorized to nominate on the committee as member, an experienced non-official cooperator from amongst elected representatives of member banks to the general meeting of the bank. The Banking Adviser to the Cooperative Department, or, in the event of there being no Banking Adviser, any officer of the Cooperative Department nominated by the Registrar shall be ex-officio member of the Executive Committee. The Registrar is ex-officio President of the bank and the Executive Committee and the Working Committee. Provision also exists for a Working Committee of not more than eleven persons to be appointed by the Executive Committee out of its own members. The Working Committee may perform such functions and exercise such powers as may be entrusted to it from time to time by the Executive Committee. There has been no Working Committee and the Executive Committee conducts all the affairs of the bank.

The Sind Regional Cooperative Bank Ltd., which came into existence on 14th October, 1962, as a result of the merger of the Sind Provincial Bank Ltd., and the Regional Cooperative Bank Ltd., is under the direction of an interim Board of Directors and this Board is to continue until such time as an elected board starts functioning. The Registrar,

Cooperative Societies, is the ex-officio Chairman of the Board.

The Central Board of the Frontier Cooperative Banks Ltd., consists of 21 Directors, two elected representatives of the member societies, one representative of individual share holders from each district having a branch of the bank, and two members nominated by the Registrar. The Central Board may appoint from amongst its members a small Working Committee of not more than eight members (excluding the ex-officio President). It is provided that the Registrar, Cooperative Societies, Peshawar or any officer authorized by him shall be ex-officio President of the bank and Chairman of the Central Board and the Working Committee.

The elected Managing Committee of the East Pakistan Provincial Cooperative Bank Ltd., was superseded in March, 1957 and since then the Managing Committee appointed by the provincial government has been incharge of the bank's affairs. The elected Managing Committee used to comprise of 15 members of which nine were to be elected representatives of affiliated societies and the rest to be appointed by the provincial government. The nominated Managing Committee consists of nine members and the Registrar, Cooperative Societies, is the ex-officio Chairman.

Loaning Policy: In common with other cooperative banks, the loaning policies of apex banks have undergone drastic changes in the post-partition period and the loans given to individuals were mostly for marketing of agricul-

tural produce and for other commercial purposes. For many years they were occupied with commercial lending. In recent years, however, under the State Bank's persuasion and as a result of the decision of the government that the cooperative banks should channelize their activities into genuine cooperative activity, there has been a major reduction in advances to individuals. The normal rate of interest charged by the apex banks is from 4½ per cent to 5 per cent and get their funds at an interest rate 1 per cent below the Bank Rate from the State Bank.

Recommendations of Credit Enquiry Commission

The Credit Enquiry Commission took stock of the credit situation in the country in 1959 and recommended that three apex banks should continue to operate in West Pakistan and that all Central Cooperative Banks in their respective regions should be merged into them with the objective of establishing a strong institution in each region. For East Pakistan it was suggested that the province should have at least two apex banks in view of the poor communications.³⁶ The government after considering the recommendations, however, decided that the three-tier system in the cooperative movement should continue and that there should be only two apex banks, one in each province.³⁷

No change in the position in East Pakistan was re-

³⁶ Government of Pakistan, Credit Enquiry Commission Report 1959, pp. 50-51.

³⁷ State Bank of Pakistan, Agricultural Credit in Pakistan, p. 65.

quired but in West Pakistan an apex bank for the whole province, in the implementation of the government's decision, has yet to come formally into being. It has, however, been decided that the Punjab Provincial Cooperative Bank Ltd., would ultimately be converted into the apex bank for the whole of West Pakistan.

PROVINCIAL COOPERATIVE DEPARTMENTS

In each province there is a Cooperative Department, better known as Cooperative Directorate in East Pakistan and headed by a Registrar and a staff supervising the cooperative movement. These departments have important and vital functions to perform in encouraging the establishment of primary societies and the central cooperative banks on a sound basis, supervision of these societies and the banks and to take care of the training and education of the staffs of the departments as well as the personnel of the whole cooperative structure. The departments have considerable power of supervision and control of these societies, central banks and the apex banks, through its participation in their management.

Organization of the Department: The Registrar of the Cooperative Societies is the head of the Cooperative Directorate in East Pakistan and of the Cooperative Department in West Pakistan and is the Chief Officer on whom lies the proper execution of policies and growth of societies. Under the Registrar in East Pakistan is four Deputy Registrars and

a score of Assistant Registrars for audit, industrial matters and for other cooperative matters. In West Pakistan there is one Joint Registrar and 13 Deputy Registrars and a number of Assistant Registrars. The Registrar is represented in most of the apex banks and central banks personally or through his representatives, as the President of the banks and the Chairman of the Managing Committees. The backbone of the department's field staff is the sub-inspector in West Pakistan and Assistant Inspector in East Pakistan. His functions are to educate the villager so that he becomes conscious of the advantages of the cooperative effort, to frame bylaws for societies, to get societies registered, to inspect societies with a view to ensure that they function according to the Cooperative Societies Act and the rules, to audit the accounts of societies, to see that loans are made on sound lines and that requisite steps are taken for recoveries of the loans. The Sub-Inspector or the Assistant Inspector has on an average charge of about fifty cooperative societies and "it is on his efficiency," says the Registrar, West Pakistan Cooperative Societies, "that much of the successful working of the primary societies depends."³⁸ These Sub-Inspectors or the Assistant Inspectors are, therefore, responsible both for the supervision and audit of the primary societies and sometimes there being no Honorary Secretary

³⁸ M.H. Shah, "The Role of Cooperative Credit , and the Causes of its Slow Growth in Pakistan," Agriculture Economist, op. cit., p. 15

forthcoming, acts as the secretary of the societies. A detailed organizational and administrative charts of the departments follow at the end of this chapter.

The Credit Enquiry Commission was very critical about the inefficiency and mal-administration of these cooperative departments and recommended the upgrading of the rank of the Registrar not below that of a Divisional Commissioner, to provide effective leadership to the movement and a corresponding upgrading in the status of Deputy and Assistant Registrars. It suggested a careful selection, proper training and a long tenure at one place and office. It further recommended that the Registrar should be empowered in specific circumstances, to supersede the managing committee of the primary societies, entertain appeals from individuals who have been refused membership by a cooperative society, and that the cooperative dues should be treated as arrears of land revenue in both wings of the country and officials of the Cooperative Department, not below the rank of Assistant Registrars, should have powers to execute decrees. It recommended that audit should be the sole responsibility of the cooperative departments.³⁹

As far as the control of the central cooperative banks and the provincial banks were concerned, the Credit Enquiry Commission stated that

the most important steps needed to rectify the existing state of affairs is to reorganize the

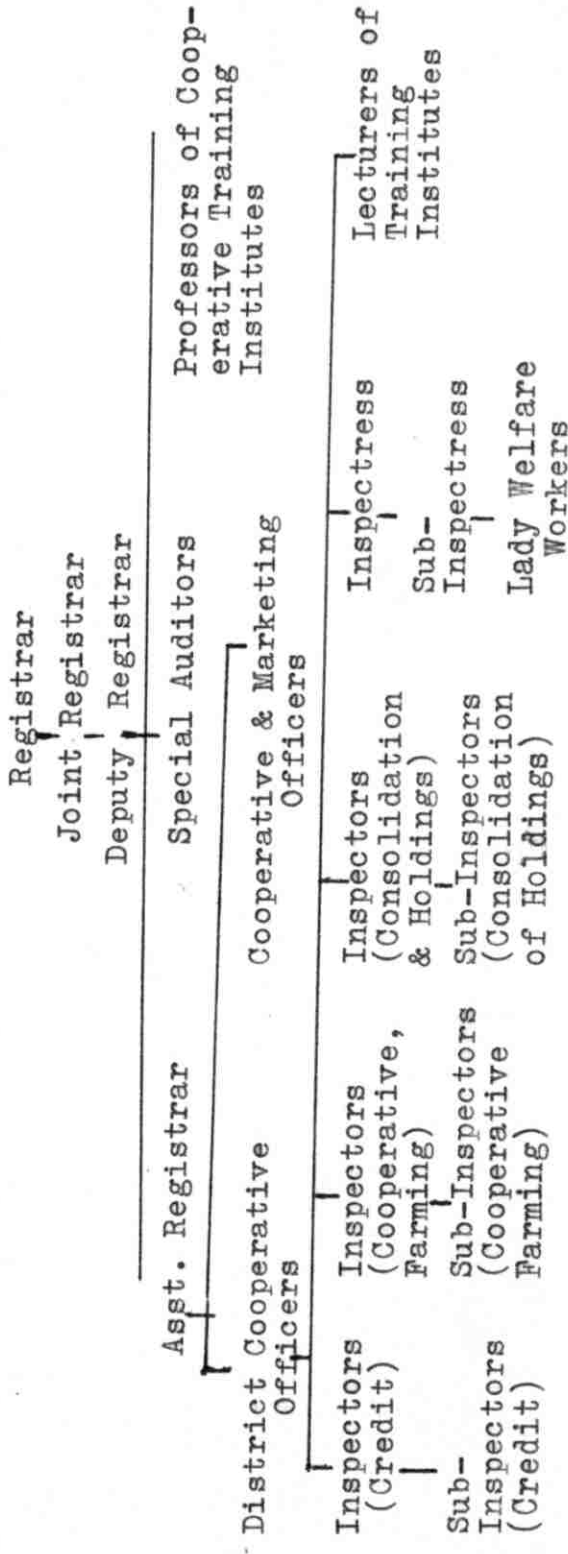
³⁹ Government of Pakistan, Credit Enquiry Commission Report 1959, pp. 37-38

cooperative banks into strong and autonomous institutions, completely independent of the cooperative departments. The existing control of these banks by the Registrar has been found to be ineffective and may have contributed to undermining the financial solvency of the banks. We, therefore, recommend that the reorganized apex banks should be declared scheduled banks and subjected to the control now exercised by the State Bank over all banking companies under existing banking legislation.⁴⁰

⁴⁰ Ibid., pp. 48 and 57.

GOVERNMENT OF WEST PAKISTAN

ADMINISTRATIVE SETUP OF THE COOPERATIVE DEPARTMENT, 1958-59*



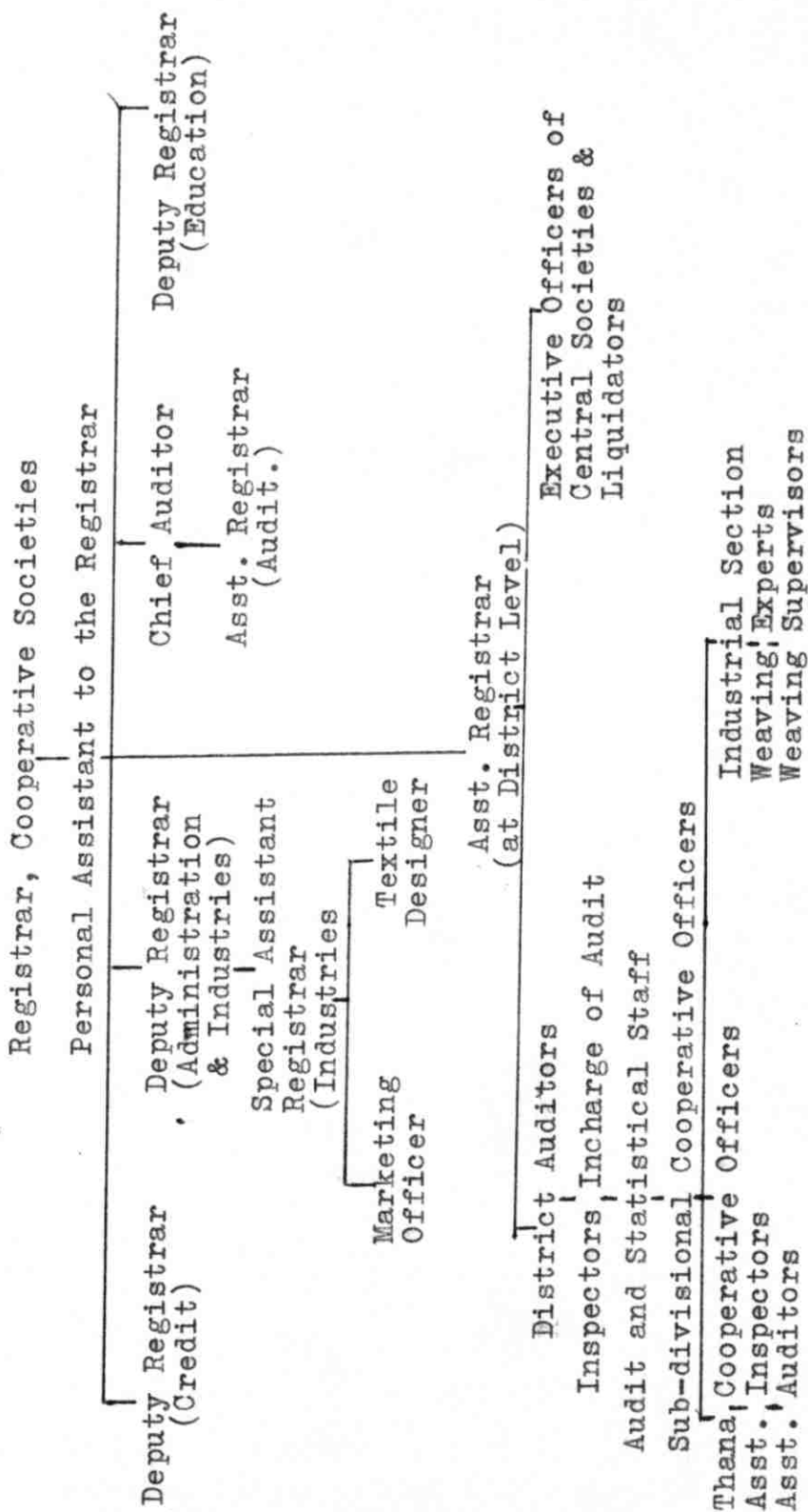
* Report of the Workings of Cooperative Societies in West Pakistan for the Year 1958-59 (Lahore: Government Printing Press, West Pakistan, 1961), p. I.

CHART NO. 5

GOVERNMENT OF EAST PAKISTAN

DEPARTMENT OF FOOD AND AGRICULTURE (Agriculture), COOPERATIVE BRANCH

ADMINISTRATIVE SETUP OF THE COOPERATIVE DIRECTORATE, 1959-60*



* Government of East Pakistan, Agricultural Department, Cooperative Directorate, Annual Departmental Report of the Registrar, East Pakistan Cooperative Societies (Dacca: East Pakistan Government Press, 1961) p. 9.

CHAPTER VII

CONCLUSIONS

Inspite of its major contribution towards the economic development of the country, agriculture still is beset by numerous problems which, if not properly handled, may deter the much needed and the speedy growth of the nation. The yield from the land is one of the lowest in the world (the average yield of wheat per acre in Pakistan is 11.9 bushels as compared to 40.8 bushels in Japan and average yield of rice per acre is 1,457 pounds as against 4,199 pounds in Japan¹). This low yield from land is said due to the illiteracy and ignorance of the farmer who is quite stuck up with the traditional ways of farming and is unaware of the modern methods of cultivation and the advantages it has brought to the cultivators of the other countries of the world. This lack of knowledge as exhibited by the farmer about the modern methods of farming can be attributed to the inefficiency of the departments concerned with educating and guiding the farmers in the field of agriculture and who have failed to carry out the responsibilities with any success. This failure on the part of the departments is said to be because of the lack of adequate and properly trained personnel and because of the ineffective research and extension arm

¹ State Bank of Pakistan, Agricultural Credit in Pakistan, p. 5.

of the Agriculture Department. This problem of lack of education and the ignorance of the farmer about the improved farm practices and other modern methods of cultivation etc., was also recognized by the Food and Agriculture Commission which stated that

it is necessary that any attempt at increasing agricultural production on a large scale must provide for a spread of knowledge, availability of capital and credit and the setting up of organizations to bring this about.....It feels that in agriculture, the problem is less that implementing a policy than one of persuading the farmer to implement such a policy and providing him with means to do so. 2

To free the Agriculture Department from the responsibility of over-all agricultural development, two semi-autonomous corporations were created and the Agriculture Department was left with agricultural research, education and extension services so that proper attention could be given to research and extension services and thereby educate the farmers in the modern methods and practices of farming.

But due to the non-availability and lack of properly trained persons in the country, the Agriculture Department had to sacrifice a large number of its employees who were transferred to the newly established corporations. This reduction in the personnel strength of the Agriculture Department will effect its research and extension work. Moreover, the establishment of the

² Government of Pakistan, Report of the Food and Agriculture Commission, p. 485.

new corporations without accounting for their personnel and other requirements seems to be an addition to the already existing multiplicity of agencies and organizations in the field of agriculture and rural credit. The lack of any unified control and coordination and because of the absence of any concerted effort by these agencies and organizations, especially in the field, towards a common basis to deal with the manifold problems as faced by the farmer, the cultivator is baffled by the multiplicity and variety of advice and guidance provided in different fields of agriculture by different agencies concerned. The farmer faced with different solutions, sometimes to a single problem as suggested by different agencies, loses faith in all and prefers to adhere to his traditional ways.

The effects of land reforms in the country is also not encouraging because of the unplanned distribution of the acquired land to the landless peasants without any provision for credit to buy seeds and implements, proper marketing, irrigation and drainage facilities etc. The absence of these facilities along with the lack of extension services due to the reason mentioned before, the farmer could not utilize his land to the maximum extent and the effect of redistribution of land through the reforms has failed to register any increase in the productivity of land and in alleviating the condition of the small farmer.

Any appreciable increase in the productivity of land and the well being of the farmers can be achieved through a planned and coordinated efforts of the various agencies concerned in the field of agriculture and credit and by influencing the farmers to change their present outlook and guide them towards the utilization of better methods and implements for increased production.

The Agriculture Department which is responsible for research and extension services can very well be logical center through which coordination of the various activities in the field can be achieved and the suggestions of various agencies can be disseminated to the farmers through its extension arm. But the personnel strength of the Agriculture Department both at the center and the field is inadequate to achieve the above end successfully and consequently the writer suggests the increase in the personnel strength of the department with special emphasis to the training and education of the field staff who is supposed to work as a change agent.

The importance of research in agriculture should never be overlooked and more funds and trained staff should be provided both at the center and the provinces. All the research activities carried out by the center should be coordinated and directed through a single authority such as the Agricultural Research Council of Pakistan, under the central Ministry of Agriculture. Similar agencies should also be established in both

the provinces under the direction of the Food and Agriculture Departments so that proper research could be carried out in the field of cash crops like jute, cotton, etc., and for staples like rice and wheat, to find out better varieties and the ways for increasing yield, thereby adding to the farmers' income and enhancing the foreign exchange earnings of the country.

As to the controversy about the generalist or the specialist approach in the administration, the subordination of the specialist to the generalist is already having a bad effect on the progress of the work of the specialists.

The writer recommends more discretion for the specialists and technicians in the field, as well as, at the headquarters, and that increased power should be given to the personnel from specialized agencies such as the Agricultural Development Corporation and the Agricultural Development Bank, who may be made responsible to their superiors in their respective fields and not to the generalist administrator in the district, who should act more as a coordinating than directing head.

Organization for Agricultural Credit

Before giving any suggestion about the type and the working of the organization for procuring and administering rural credit to agriculturists in Pakistan, it is essential to keep in mind the basic characteristics of the farm population. It is poor, ignorant and conservative, sticking

badly to the traditional ways of farming on their subdivided and fragmented tiny holdings. Secondly, the multiplicity of organizations in the credit field, overlapping in functions and lacking coordinated and unified control, further aggravates the situation in the field.

Village cooperatives with efficient managers and staffs to supervise and guide the farmers in the proper utilization of the credit and to advise them on the use of better methods of cultivation and cultural practices, are the only solutions for increasing the production potentials of the low-risk farmers at the lowest level.

The primary credit societies should have an elected committee and a full-time paid secretary or manager to look after the business of the society. Capable managers will be necessary and training programmes by the Registrars of the cooperatives should be expanded and improved to train men for positions as managers for the societies. Cooperative societies should be organized on single purpose -- limited liability -- basis and should be linked with marketing and other societies at a higher union or thana level for the storage and marketing of the agricultural products.

At the secondary and provincial levels, the central banks should be merged with the provincial banks and these apex banks in the two provinces should have their branches in places of the central banks under their direct control and have the primary societies as the members of the branches in their particular territory.

The control of these apex or provincial cooperative banks should be entrusted to the Agricultural Development Bank, instead of the State Bank or the Cooperative Departments, for the sake of a unified control. The Agricultural Development Bank should have the power to inspect the working and finance of the banks and provide financial and technical assistance to them and take special care about the training of their staffs.

The State Bank should try to pull out from giving direct financial help through the cooperative banks and should also leave the power of inspection and control of the apex banks to the Agricultural Development Bank. It should have only the general control of the credit policies of the Agricultural Bank and other institutions and provide all possible technical and financial help to them through the Agricultural Bank.

Instead of establishing pay offices at the union and village levels to provide short-term loans, the Agricultural Development Bank should take care of the medium and long-term credit needs of the farmers through their regional offices, branches and sub-branches at division, district and sub-divisional levels, and finance primary cooperative societies through the apex banks and its branches through administrative and financial advice and by having a strict supervision.

Government should limit its direct loans to distress purposes only and through the cooperatives on the

advice of the district revenue head, and not through the Revenue Department, to overcome the inefficiency, favouritism and the delays attributed to it in its administration of these loans.

The expansion of the Cooperative Departments is essential to perform its task of strengthening the movement, and to supervise and train the managers of the primary credit societies. For an effective leadership of the movement, the Registrar, cooperative societies, should not only be a man of outstanding ability but should also be temperamentally suited for the work of running a movement of this kind. Before he assumes the post of Registrar he should undergo a thorough training and should be promoted from among the ranks of the Joint or Deputy Registrars. In view of the responsible nature of the duties of the Registrar, he should enjoy a higher status than he does at present. The Credit Enquiry Commission recommends "a rank not below that of a Divisional Commissioner."³ He should also have a longer term of office.

Supervised Credit: To increase the yield from the small land holdings and to strengthen the credit worthiness of the poor-risk farmers, supervised credit, that is credit combined with technical guidance, would be an effective means. In organizing such a programme it will be desirable to establish an independent government corporation, with

³ Government of Pakistan, Credit Enquiry Commission Report 1959, p. 184.

adequate capital, under the Ministry of Food and Agriculture, with authority to make loans to farmers who do not have credit from established agencies, give technical guidance to borrowers, to provide farm supplies, and where necessary engage in marketing of farm products. Men should be trained to serve as the local supervisors in the villages and would work closely with borrowers in improving farm operations. When an effective credit society or a multipurpose society is established and is functioning in a particular area, the said corporation would plan to turn its activities over to the society as far as possible. This would help to some extent, to solve the need for credit of the low-risk farmers and provide a chance to improve their lot.

But credit alone is not the open sesame, it is only a necessary key which, however, must be used with others to open the door to a more plentiful future. Accordingly, efforts towards solving the various problems in agriculture must range beyond purely financial considerations, and consider other processes, such as marketing and agricultural extension with which the provision of credit has to be integrated for getting the maximum benefit out of it.

The work presented in this thesis by no means completes the study of the various problems involved in the administration of rural credit in Pakistan. More research and increasing effort will be needed to cope with the many-fold problems arising in the field, and for evolving an integrated scheme for the overall agricultural development.

Improved and efficient schemes perfected through research and by the application of science and technology must be prepared to ameliorate the present condition of the peasant population in particular and the common man in general in Pakistan.

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