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**PROVISION OF AGRICULTURAL CREDIT IN EAST PAKISTAN**

by

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AGRICULTURAL CREDIT IN EAST PAKISTAN

S.U. Ahmed

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Shafiuddin Ahmed

## ABSTRACT

The basic objectives of this thesis are to make a study of the various methods and agencies extending production credit to farmers in East Pakistan at present; to evaluate the programs and working of the various agencies; to draw conclusions about the major weaknesses in the methods of extending agricultural credit by various institutional credit agencies; then on the basis of successful experiences in various countries suggest measures to overcome the present weaknesses.

The agricultural credit program has been inadequate to meet the needs of the farmers in East Pakistan. The cooperatives failed to succeed because of the low credit limit, honorary management, shortage of trained personnel, dependence on land as security, the unlimited liability basis of organization and small size of societies, failure to foster thrift and savings in members, absence of provision for meeting the marketing and purchasing needs of the farmers, no supervision of the use of loans, and member ignorance about cooperative principles and practices. The semi-government agricultural credit institutions did not make much progress because of lack of trained staff, duplication of functions between institutions, lack of proper supervision of the use of loans, complex procedures for obtaining loans, and farmers' non-familiarity with the services of these institutions.

Since the small size unlimited liability cooperative credit

societies have failed in supplying loans to farmers in East Pakistan, big multi-purpose limited liability societies have been recommended. This will serve to ensure all the needs of farmers for credit, marketing, and purchasing services. Crop liens, a member's reputation for honesty and his repayment capacity should be the primary security for loans from all credit institutions including cooperatives. Loans should be extended on a budgeted and supervised basis and be repaid in suitable instalments. Loans should be advanced in kind as far as possible to assure use of money for carrying out the purposes stated in the application. Repayment schedule should be convenient to the farmer so that he can repay at times he receives income. The schedule should also be flexible enough so that farmers can delay repayment of instalments when natural calamities reduce their incomes drastically.

The loan funds of the societies should be accumulated through continuing member investment in capital, acceptance of deposits, and accumulation of reserves. The government investment in capital should be retired as early as the growth of member supplied funds makes it possible. Savings programs should be carried out by such methods as periodic deposits, school savings programs, and authorized deductions from marketing proceeds.

The Agricultural Development Bank should have more branches, exercise more supervision of loan use through cooperation with the extension service, and more training facilities for its staff. The ADB

should give loans to the apex or central cooperative banks at low rates of interest when they need them. The primary cooperatives' functions should be coordinated and technical guidance provided by the apex and central cooperative banks.

Member education and training of cooperative personnel such as directors, committee members and secretary-treasurers should be started in collaboration with the Provincial Cooperative Union. When members realize that they own the cooperative they will take increased interest in its well-being. The Agricultural Development Bank should also have a program to familiarize farmers with its loan services. This will remove the distrust of farmers towards such town-based institutions and make them take advantage of the credit facilities provided at an increased pace.

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## CHAPTER I

### INTRODUCTION.

#### Nature of Agricultural Credit

Agricultural credit has long been recognized as a key tool for increasing farm output and income but the magnitude of its importance has come to be recognized only recently. This growing realization of the importance of agricultural credit is evidenced by the numerous reports, conferences, seminars and workshops on agricultural credit that are organized every year throughout the world.

The word "credit" is derived from the Latin "credo" meaning "to trust". The lender trusts the borrower with funds to purchase various things to use in his business, or for consumptive purposes, to be repaid at a later date.<sup>1</sup>

Credit has acquired many other shades of meaning than the one explained above. But it is in this sense that the word is used in agricultural credit.

Credit has been defined by many writers in many ways. In his Political Economy, John Stuart Mill defined credit "as the permission

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<sup>1</sup> L.J. Norton, Financing Agriculture (Danville, Illinois: The Interstate, 1948), p. 45.

to use another's capital."<sup>2</sup> This definition, however, does not mention the two important parts of credit, namely, the time of repayment and the rate of interest. Murray and Nelson defined credit as the "ability to command the capital of another in return for a promise to pay at some specified time in the future."<sup>3</sup> This definition mentions time of repayment but fails to take into account the rate of interest. A comprehensive definition would be that credit is the transfer of assets or wealth, or the rights to acquire assets or wealth, from one who has to one who hasn't against a promise to repay, after a specified period of time, the value of what was borrowed with interest, the rate being fixed beforehand.

#### Objective of the Present Study

East Pakistan is a predominantly agricultural and underdeveloped area and with all the evils and disadvantages of these conditions there is the problem of extending adequate agricultural production credit which will be used productively and repaid when due. At present the situation is not very satisfactory and because of this the present study was undertaken. The following broad objectives are to be kept in view throughout this paper:

1. Examine and appraise the present agricultural production credit situation in East Pakistan, including the specific aspects of

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<sup>2</sup> Richard P. Ettinger and David E. Golieb, Credit and Collections (N.J.: Prentice-Hall, 1962), p. 2.

<sup>3</sup> William G. Murray and Aaron G. Nelson, Agricultural Finance (4th ed.; Ames, Iowa: The Iowa State University Press, 1961), p. 36.

the amount and sources of credit available to the farmers, the terms under which this credit is available, and the agencies that are advancing the required credit to farmers.

2. Draw conclusions regarding the weak and strong features of the credit systems functioning at present.
3. Make recommendations for meeting the weaknesses in the existing farm credit program and for improvements based on successful experiences in credit programs in other countries with conditions more or less similar to those in East Pakistan.

#### The Setting of the Problems

Pakistan came into being in 1947 as a result of the partition of British India. It consists of two provinces - West Pakistan and East Pakistan - separated by a distance of over one thousand miles of Indian territory. East Pakistan lies between the parallels  $88^{\circ}$  and  $92^{\circ}30'$  E and the latitudes  $20^{\circ}45'$  and  $26^{\circ}30'$  N.

The area of East Pakistan is 55,126 square miles or 15.1 per cent of the total area of Pakistan. The population of the province, according to the 1961 census is 50.8 million or 54.2 per cent of the total population of the country which in 1961 was 93.7 million (excluding foreigners).<sup>4</sup> The density of population in East Pakistan is

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<sup>4</sup> U.N. Statistical Yearbook, 1962 (New York: U.N. Economic Affairs Division, 1962), p. 31.

922 persons per square mile - one of the highest in the world. About 95 per cent of the total population live in rural areas.

Being situated in the deltas of the Ganges and the Brahmaputra rivers, "the greater part, or over nine-tenths of the province is essentially low, flat country with cultivated fields stretching for hundreds of miles."<sup>5</sup> The entire plain is covered by thick alluvial deposits which have accumulated as a result of the active aggradation-al work of the numerous streams that travers it and as a result of this the land is very fertile.

Agriculture in East Pakistan is highly dependent on rainfall - 75 per cent of the total cultivated area being dryland farms.<sup>6</sup> The rainfall is abundant during the summer monsoon from May to September. The total annual rainfall ranges from 55 to 200 inches with an average of 75 inches for the whole province. This concentration of rainfall in only a part of the year and its highly irregular distribution make irrigation highly desirable. At present only 7 per cent of the total cultivated area is irrigated.<sup>7</sup>

A short explanation of the government administrative units and systems in East Pakistan may not be out of place here as the agri-

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<sup>5</sup> J. Russel Andrus and Azizali F. Mohammed, The Economy of Pakistan (London: Oxford University Press, 1958), p. 14.

<sup>6</sup> Government of Pakistan, Ministry of Food and Agriculture, Census of Agriculture, 1960, East Pakistan, (Karachi: Manager of Publications, 1962), p. 144.

<sup>7</sup> Ibid.

cultural credit institutions also follow, in most cases. the same units and systems in their organizational setup.

The province of East Pakistan is divided into 17 districts each with a deputy commissioner as the executive head who is responsible for all the government activities in the district. Each district is divided into one or more subdivisions which in turn are divided into thanas (police stations). Each thana is composed of several unions each of which has 10 to 20 villages. There are 58,477 villages in the province grouped into 4000 unions.

#### Need for Credit

The effective functioning of appropriate credit facilities is of vital importance for the successful development of agricultural resources of the country and for the well-being of farmers. "Credit allows an enterprising person in a large way to extend his enterprise, or to effect the improvements required, thus deriving greater benefits from the enterprise as a whole. To the agriculturist in a smaller way it affords the capital absolutely necessary for stabilising and gradually advancing his business."<sup>8</sup> It is of vital importance for low income farmers with little or no capital resource of their own.

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<sup>8</sup> A. J. Boyazoglu, Agricultural Credit (London: P. S. King & Son Ltd., 1932), p. 9.

East Pakistan is a predominantly agricultural area "where six men out of seven live on the land."<sup>9</sup> But agriculture did not receive the attention it deserves until recently. Farmers are following the century-old production practices and therefore the productivity of land and labor has been very low. The fertility of land is depleting because little is returned to the soil to restore it. The farmer's income is getting lower and lower because of lower productivity and decrease in the size of holdings due to subdivision and fragmentation of land. 90 per cent of the farms in the province have fragmented holdings. The population pressure is making the situation even worse. "In fact population and resources seem to have attained a balance at the level of subsistence."<sup>10</sup> Due to this largely subsistence nature of farming the farmers have very little or no accumulated capital. Therefore, they do not have the financial ability to follow improved production practices to raise the productivity of their land even if they know of the improved methods of production and have the desire to adopt them. This situation can only be remedied if there is adequate credit available to them from outside to raise their output to where saving is possible.

Because of this great need for credit the farmer often gets loan from moneylenders at usurious rates of interest and "he is often

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<sup>9</sup> Editorial in Agri-fin - Journal of the Agricultural Development Bank of Pakistan, (Jan. 1961), p.4

<sup>10</sup> N.A. Khan, Problems of Growth of an Underdeveloped Economy - India (London: Asia Publishing House, 1961), p. 1.



unable to clear his debt after having contracted it and consequently he becomes perpetually indebted."<sup>1</sup>

As the subsistence farmers have little or no savings and they do not have the proper security to give for obtaining loans, the provision of credit for them becomes a highly risky proposition. To this can be added the natural hazards, uncertain income, great price fluctuations, etc. Another feature of subsistence farming is that most of the produce of the farm is consumed by the farm family and even in most cases they do not have enough for their own consumption. Therefore, their need for consumption credit becomes very important. If a farmer uses credit for consumption purposes he has very little prospect of paying it back and this adds to the already high risk of advancing credit to him.

#### Major Problems in Credit

1. Inadequate Credit for Farmers: There are a number of important problems encountered in the endeavor to meet the credit needs of farmers in East Pakistan. One of the most important is the inadequacy of credit for farmers. In spite of all the efforts of the government and other agencies, the principal problems in the credit field remain far from solved. "An effective credit system designed for the direct

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<sup>11</sup> Credit Problems of Small Farmers in Asia and the Far East, (Bangkok: FAO of the UN, 1957), p. 7.

benefit of the primary producers has yet to be developed."<sup>12</sup> Still a disproportionate share of the profit that arises from the farm production is appropriate by the middlemen who command credit and charge an exorbitant price for affording it to the primary producers. In the absence of properly organized facilities to provide him credit when he needs it and at reasonable rates, the farmer is frequently forced to dispose of his produce in advance of the harvest at a low price. If by any chance he avoids this, he is in any case forced to sell immediately after harvest because he is on the verge of starvation at that time. Furthermore, he does not have the storage facilities to withhold his crops from immediate sale at low prices. "The trader's command over credit and its nonavailability to the vast majority of primary producers enables him to appropriate a share of the communities surplus out of proportion to the value of the functions performed by him."<sup>13</sup>

The credit that is available is also inadequate from an absolute point of view i.e. the total amount needed is far more than the total amount available at present. The Credit Enquiry Commission estimated that a sum of Rs. 3 billion is needed to meet the total credit requirements of the country.<sup>14</sup> From this it can be said, on the basis that there are more farmers and more land under cultivation in East Pakistan

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<sup>12</sup> Government of Pakistan, Credit Enquiry Commission Report (Karachi: Manager of Publications, 1959), p. 4.

<sup>13</sup> Ibid. pp. 4-5.

<sup>14</sup> Ibid. p. 7.

than in West Pakistan, that the total requirement of East Pakistan will be about Rs. 1.75 billion. The State Bank of Pakistan estimated this requirement to be much less - Rs. 400 million for short-term loans and Rs. 100 million for medium-term loans.<sup>15</sup> Even if these latter figures were true, the total available at present is far below these figures, being less than 10 per cent of the total requirements.

Another factor that adds to the difficulty of the inadequacy is that the amount available does not reach the farmer in time i.e. at the time when he needs it. The process of innumerable official formalities moving at a snail-pace and official corruption make it impossible for the farmer to get the credit he applies for in time. Therefore, the credit that he receives often cannot be utilized for the purpose for which he originally intended to use it.

Another aspect of the situation is that the amount of credit that a farmer gets after all this delay is in most cases not adequate for the purpose it was obtained. This is due to the invariable scaling down of the amount of loan asked for by the sanctioning authority without any appraisal of the situation. Another reason may be the natural tendency of farmers to be over-optimistic and therefore underestimate the actual need for credit.

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<sup>15</sup> State Bank of Pakistan, Agricultural Credit Department, Agricultural Credit in Pakistan (Karachi: Dec. 1962), p. 133.

2. Concentration of Credit: It has been observed that within the groups who obtain credit from institutional sources there is a tendency for credit to gravitate towards the more substantial people in the community for the single reason that they can offer the type of security acceptable to lending institutions. In the rural areas, according to the Credit Enquiry Commission, "the existing credit agencies have been able to lend only to those who could offer the security of land."<sup>16</sup> As a result of this only the big landowners and middlemen have been able to get loan from these sources. But their need of credit is, however, not as pressing as those of the small and medium-scale farmers. The Credit Enquiry Commission feels that, "the inadequacy of credit to the small man is a serious problem in all sectors of the economy and represents a glaring deficiency in the institutional structure of credit."<sup>17</sup>

3. Government Very Important: Government has a much larger role to play in all economic activities in an underdeveloped territory like East Pakistan than in any developed area. Too much dependence is placed upon the government which the government in many cases cannot fulfil. But in an economy like East Pakistan, "if the provision of agricultural credit is to be effective, governments must assume a great deal of responsibility

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<sup>16</sup> Credit Enquiry Commission Report, op. cit., p. 5.

<sup>17</sup> Ibid.

for it."<sup>18</sup> Government of the province helps in the provision of agricultural credit in two ways. First, it gives direct loans called "taccavi" through its revenue department and, second, it helps other semi-governmental or private agencies in various ways such as participating in share capital, providing experts, subsidising their operations and the like. But these helps have not been adequate up to the present time.

4. Urban Oriented Banking System: Since the beginning of the banking system it was urban oriented having its offices and activities mostly in towns and cities. As a result of this, some credit facilities were available to the people living in towns but the people living in the rural areas never received the benefit of the banking system. Still today the commercial banks<sup>\*</sup> share in agricultural credit is almost insignificant.

Central cooperative banks were established in towns as the secondary stage in the cooperative structure but they never could play the role of providing the village credit societies and their members with agricultural credit as they were originally supposed to do. The reason for this are many but their overall inefficiency can be pointed out to be the main cause.

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<sup>15</sup> Horace Belshaw, Agricultural Credit in Economically Underdeveloped Countries, FAO Development Paper No. 46 (Rome: FAO of the UN, 1958), p. vii.

5. Failure and Stagnation of Cooperative Credit: Another major problem in the field of agricultural credit is that the cooperative credit movement in the province has failed miserably. At the primary level it has become more or less stagnant while the higher agencies i.e. the central and provincial banks have neglected their duties and responsibilities and have failed to serve the small people for which they were created in the first place.

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 cooperative ideals and objectives. Politically motivated intervention has subverted the movement and led to the use of cooperative funds as instruments of political patronage. This has resulted not only in undermining the movement by denying credit to the primary producer but also in jeopardising the interests of the general public who deposited their savings with cooperative institutions.<sup>19</sup>

6. Lack of Unified Control: There is a great inefficiency in the proper control of the institutional sources of credit because of the existence of more than one policymaking and regulating authority. As a result, there has been a great deal of duplication of functions by different credit giving agencies under different standards of control. As an example, the Credit Enquiry Commission's comment may be cited - the exclusion on constitutional and legal grounds of the cooperative banks and some other credit institutions from the control of the central bank (State Bank of Pakistan) is perhaps the most anomalous feature of the credit structure."<sup>20</sup>

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<sup>19</sup> Credit Enquiry Commission Report, op. cit. p. 5.

<sup>20</sup> Ibid.

7. Difficulties of Providing Proper Security for Loans: As already mentioned, farmers in East Pakistan are mostly at subsistence, or below subsistence level, and they do not have the proper kinds of security against which they can obtain credit from organized institutional sources. This has forced them borrow from the moneylenders or friends and relatives who do not want any tangible security such as land but charge an exorbitant price for bearing this high risk for their capital. This is why the Food and Agriculture Commission commented that "finding any alternative security to land is the central difficulty of the credit problem."<sup>21</sup>

8. Problems of Supervision and Recovery: There has been very little supervision of the proper utilization of loans obtained from different institutional sources up to the present time. As a direct consequence of this there has been a great deal of mis-use of the loans. Therefore, repayment has been very low. This does not, of course, mean that there are no other reasons for poor recovery of loans - high consumptive needs for various purposes, natural hazards causing poor income to farmers, and other reasons like these all have their contribution towards low recovery of loans. Nevertheless, proper use of the loan is the key to high repayment record. If the farmer does not use the loan for the purpose it was obtained, then there is very little

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<sup>21</sup> Government of Pakistan, Ministry of Food and Agriculture, Report of the Food and Agriculture Commission (Karachi: Manager of Publications, 1960), p. 85.

chance of its being repaid. Therefore, there is an urgent need for close supervision of the proper utilization of loans which will increase the possibility of the loans being used for the purpose intended and this will increase the output and income of the farm and the farmer. This will assure the repayment of the loans at the time when they fall due.

### Basic Approach

In the following pages explanation and illustration will be given of the main problems enumerated above. The following basic points will also be kept in view in the discussions throughout the thesis:

- (1) Credit must percolate to the primary productive sectors of the economy in order to perform its catalytic function of increasing production;
- (2) Credit policy must work in the direction of evolving a society in which small and medium-scale enterprises can function and grow;
- (3) The extension of credit facilities should take place both through redistributing the existing pool of liquid resources and through the establishment of new institutions under government sponsorship, if necessary;
- (4) Savings are essential for credit expansion.<sup>22</sup>

### IMPORTANCE OF AGRICULTURE IN THE ECONOMY

Agriculture has been the chief occupation of mankind since time immemorial, even now it engages more than half the world's labor force. Including persons who divide their time between farming and

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<sup>22</sup> Credit Enquiry Commission Report, op. cit. p. 6.



other pursuits, nearly three fifths of the world's people get their living from tilling the soil, raising livestock or carrying on forestry or fishing.<sup>23</sup>

If this is so important in the world as a whole, it is much more important in East Pakistan with its dense population. It is an area of extremely small farms. What has been said about Pakistan as a whole by the National Planning Board is equally true about East Pakistan.

Agriculture, along with its branches of animal husbandry, forestry, fisheries and horticulture is the largest segment of the economy... About 60 per cent of the total national income is derived from agriculture. Nearly 75 per cent of the civilian labour force is engaged in agriculture and 90 per cent of the people living in the villages are dependent directly or indirectly on agriculture. Nearly 95 per cent of the total foreign exchange earning is contributed by agriculture. It constitutes the base of our national economy.<sup>24</sup>

The national income estimates at constant prices for 1962-63 show that agriculture alone contributed Rs. 12,735 million out of a total of Rs. 25,231 million<sup>25</sup> and if the contribution of related activities such as cottage industries in the rural areas are included the share of agriculture would be even higher. "According to official statistics the share of agricultural sector which stood at 61 per cent of the national income has gone down to 51 per cent in 1962-63 although in absolute term the agricultural income has advanced from Rs.

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<sup>23</sup> W.S. Woytinsky and E. S. Woytinsky, World Population and Production (New York: The Twentieth Century Fund, 1953), p. 451.

<sup>24</sup> Government of Pakistan, National Planning Board, First Five Year Plan, 1955-60 (Karachi: Manager of Publications, 1957), p. 213.

<sup>25</sup> State Bank of Pakistan, Bulletin No. 10/63, Oct. 1963, p. 80.

10,930 million to Rs. 12,730 million.<sup>26</sup> This decrease is to be expected, for as Earl O. Heady says, "the decline in share of agriculture in national income is universal."<sup>27</sup> But agriculture will remain the most important single industry in Pakistan, and for that matter in East Pakistan, for quite a long time to come. Since this is so, then agriculture must play a great role in the development of the province.

Higher agricultural productivity is a key element in economic development. Higher productivity of land is necessary in all but most sparsely populated countries to provide an adequate diet for the rapidly growing population and to meet its requirements of fibres and other agricultural raw materials. Higher productivity of labor is necessary if manpower is to be released from agriculture to industry and other occupations, an essential feature of economic development; it is also necessary to raise farm incomes and to remedy the abject poverty of most rural people in developing countries. A more prosperous agriculture in turn can be a powerful stimulus to general economic development by providing an expanding market for the newly established industries.<sup>28</sup>

Agriculture must supply three things to the economy if rapid economic progress is to be achieved. "Agriculture must supply expanded food, expanded markets, and an expanded supply of loanable funds to the modern sector."<sup>29</sup>

But important as it is, agriculture did not receive due attention from the people and the government until recently. Agricultural

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<sup>26</sup> The Pakistan Observer (Dacca), Feb. 11, 1964.

<sup>27</sup> Earl O. Heady, Agricultural Policy (Ames, Iowa: The Iowa State University Press, 1963), p. 96.

<sup>28</sup> State of Food and Agriculture (Rome: FAO of the UN, 1963), p. 10.

<sup>29</sup> W.W. Rostow, The Stages of Economic Growth (Cambridge: Cambridge University Press, 1962), p. 24.

development has been very tardy indeed. Many causes have been responsible for this state of affairs. Some of the reasons are, the extremely small unit of cultivation which is uneconomic to operate; primitive agricultural techniques; indifferent selection of seed; inadequate fertilizing; irregularity of rainfall; widespread diseases and pests; defective marketing system, and above all, inadequate credit facilities. To these may be added the general plague of illiteracy, ignorance and improvidence of the farmer himself.

The realization of the importance of agriculture is manifest in the First Five Year Plan. But the Second Five Year Plan emphasized this importance in a more forceful way - "until agricultural productivity is vastly increased, general economic growth will be stunted."<sup>30</sup> The relative share of agriculture has been increased from 13 per cent in the First Five Year Plan to 15 per cent in the Second Five Year Plan and the planned acceleration in development outlays in agriculture has been increased by 150 per cent over actual First Plan expenditure.

#### Problem of Population

A high and rapidly increasing population pressure is one of the foremost difficulties which is retarding the development of the economy. In East Pakistan the density of population is 922 persons

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<sup>30</sup> Govt. of Pakistan, National Planning Commission, Second Five Year Plan, 1960-65 (Karachi: Manager of Publications, 1960), p. 127.

per square mile which is among the highest in the world. Therefore, the problem of agricultural production is not only to increase output absolutely but also to increase it at a faster rate than the rate of population growth. The slow increase in output rate is partly due to the fact that a large part of the increased production is balanced by the increased number of mouths to be fed. The problem is aggravated by the fact that agricultural and underdeveloped areas have higher birth rates than urbanized and richer countries. In East Pakistan the population increase from 1951 to 1961 averaged an annual 2.06 per cent.<sup>31</sup> This heavy and growing pressure of population on a limited and underdeveloped resource-base has been ascribed by many to be the root cause of the abysmal poverty in East Pakistan. Oser says that "there is no significant correlation between population density and poverty."<sup>32</sup> However, inspite of the above observation it is true that a rapidly growing population does make the problem of rapid development more difficult than it would be with a lower population simply because of the necessity to provide at least elementary housing and public services for the increasing number of children.

#### Increase in Agricultural Production

The total area under crops in East Pakistan has increased to

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<sup>31</sup> S.M. Akhtar, Economics of Pakistan (Lahore, Publishers United, 1963), I, p. 15.

<sup>32</sup> Jacob Oser, Must Men Starve? (London: Jonathan Cape, 1956), p. 47.

some extent between 1947 and 1960. In 1947 the total cropped area was 22 million acres whereas in 1960 it had increased to 27.9 million acres. But even though per acre yield increased slightly in rice and some other crops along with increase in total cropped area, the increase in the rate of production has been very slow. Akhtar calculated that for the whole of Pakistan per capita production fell by 14.5 per cent from the 1948-49 - 1950-51 period to the 1954-55 - 1956-57 period. However, after that there has been an increase of 3.1 per cent up to 1959-60.<sup>33</sup> The situation is surely worse in East Pakistan as natural hazards have been destroying large amount of crops over the last few years. Therefore, it seems that in East Pakistan the increase in agricultural production could not even keep pace with the increase in population, let alone increasing at a faster rate than population increase.

#### Food Crop Production

Food production in East Pakistan has deteriorated more than any other crop production because of the fact that 76 per cent of the total cropped area in the province is planted to rice alone,<sup>34</sup> and any reduction in the output of crops is largely a reduction in the output of rice, the staple food of East Pakistan. Another tendency, which has

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<sup>33</sup> S.M. Akhtar, op. cit. p. 85.

<sup>34</sup> East Pakistan Agricultural Census, 1960, op. cit. p. 173.

accentuated the problem, is the shifting of land from food production to cash crop production by many farmers. As a result of all these factors, the area which "was formerly a substantial producer of food",<sup>35</sup> now seldom produces enough to feed its own people and the problem has grown into one of chronic and high magnitude, necessitating a large volume of food grain imports from West Pakistan and abroad.

#### Government Policy on Food Grain Production

The government has been trying to improve the food deficit situation by implementing various plans and programs the most important of which are the Five Year Plans. The agricultural program of the Second Five Year Plan aimed at "self-sufficiency in basic food production, maintaining, as a minimum the present level of foodgrain consumption for the rapidly growing population."<sup>36</sup> In justifying the above aim the plan goes on to say that

While this policy is justifiable on such non-economic grounds as national self-respect, it also has solid economic motivations. Yields of foodgrains in the country are among the lowest in the world; and yet comparatively simple practices as well as higher technology for raising productivity are well established and only waiting for application in the field. Few investments offer so rich a return as does the increase in foodgrain production. All available means will need to be employed to increase output and improve quality, but the principal need is to achieve higher yields through effective combinations of management, labour and material inputs.<sup>37</sup>

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<sup>35</sup> May, J. M., The Ecology of Malnutrition in the Far and Near East, (New York: Hafner Publishing Co., 1961), p. 304.

<sup>36</sup> Second Five Year Plan, 1960-65, *op. cit.* p. 127.

<sup>37</sup> Ibid.

The target for foodgrain production in the First Five Year Plan was not realized in actual performance. In fact there was a decrease of 2 per cent in rice production during the Plan period. The Planning Commission attributed the short fall in production to "distinctly worse than normal weather conditions, continued deterioration of agricultural lands... and slow rate of implementation of the agricultural development programme."<sup>38</sup>

The Second Plan's target for foodgrains output increase for East Pakistan is 19 per cent.<sup>39</sup> To achieve this goal a vigorous effort must be made and in this respect provision of adequate credit will go a long way.

In spite of the poor achievements so far, the fact remains that the food production and agricultural production in general can be greatly increased by following recommended methods. An FAO study of the Lower Ganges-Brahmaputra basin (area covering East Pakistan) and a "careful examination of resource potentialities led to the tentative conclusion that production could be increased about fourfold in this area."<sup>40</sup> These potentialities must be exploited as soon as possible if the farmers of East Pakistan are to be liberated from the bonds of abject poverty and if they are to live instead of just exist.

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<sup>38</sup> Planning Commission, Preliminary Evaluation Report (Karachi: Manager of Publications, 1961), p. 20.

<sup>39</sup> Second Five Year Plan, 1960-65, op. cit. p. 134.

<sup>40</sup> W.H. Pawley, Possibilities of Increasing World Food Production, (FFHe Basic Study No. 10, Rome: FAO of the UN, 1963), p. 222.

## CHAPTER II

### IMPORTANCE OF CREDIT IN AGRICULTURE

Finance is needed by the people living in rural areas for agriculture, occupations allied to agriculture, and rural industries. It is needed for production, marketing, and consumption even when no development is in progress. It would be almost impossible to accomplish any development without making provision for adequate volume of credit. The introduction of better livestock, fertilizers, improved seeds, new implements, etc. on a satisfactory scale is impossible without proper credit facilities. A rural credit programme is an essential part of rural development and of agricultural development in particular.<sup>1</sup>

The delegates attending the F.A.O. Technical Meeting on Agricultural Credit held in Beirut concluded that "agricultural credit is the key not only to rural improvement but to the overall process of total economic development;" and that "it should aim at the economic and financial liberation of the small farm until so that it becomes a self-supporting business operation."<sup>2</sup>

The above statements clearly indicate the importance that is placed on agricultural credit as a tool in the growth of the economy in Pakistan and in other similar countries. These reports, however, consider the need for agricultural credit in general. Agricultural credit includes credit for production, essential consumption needs, and market-

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<sup>1</sup> Government of Pakistan, First Five Year Plan, 1955-60 (Karachi: Manager of Publications, 1957), p. 281.

<sup>2</sup> Report of the Technical Meeting on Agricultural Credit for the Arab States of the Near East held in Beirut, Nov. 15-30, 1954 (Rome: FAO of the UN), p. 9.



ing. While all of these aspects are very important, in this paper main consideration will be given to provision of production credit while the other aspects will also be touched upon from time to time.

### Importance of Credit in Financing Agriculture

Like any other business, the key to satisfactory income in agriculture, is a proper combination of productive inputs. A farmer uses in his production process—land, livestock, implements together with labor and management ability. Capital is needed to acquire any of the above. The amount of capital that a farm family controls determines to a large extent its level of income. This capital can come from three main sources, inheritance, family savings, and borrowing. As mentioned in the previous chapter, farmers in East Pakistan are mainly subsistence farmers and, therefore, there is very little, if any, savings by farm families. Farmers usually get their land by inheritance but the inheritance has to be shared with many others. Therefore, the amount of land and other things that a farmer inherits is really very small. Those who do not inherit any land usually rents land or share-crops. For each production process, under a given set of conditions, there is an \*optimum\* input of each of the factors. Those farmers who cannot put in the \*optimum\* amount of capital in this production process from their own savings, find it profitable to borrow at reasonable rate of interest. As most farmers have little savings, they depend heavily on borrowed capital.

Borrowed capital is, however, not an unmixed blessing. It is a double-edged sword. It can be very useful or it can be terrible burden. Advanced on the basis of sound economic appraisal of the farm and the farmer's circumstances and used intelligently for productive purposes, credit can be a very powerful item in expanding and increasing the farmer's income, and thus improving his economic and social condition. On the other hand, if credit is advanced indiscriminately without any economic appraisal of the farmer's needs and used unwisely, it may lead to a heavy burden of financial responsibilities on the farmer and thus ruin the farmer instead of making his situation better.

### Socio-Economic Conditions in Villages of East Pakistan

#### Composite Nature of Farming

Of predominant importance in affecting the farmer's credit requirements is the fact that the usual farm enterprise in East Pakistan is more of a social and economic unit and less of a business. Farming is a way of life and not merely a means of earning a livelihood. It is a focus for almost all the interests and activities of the family and not merely economic interests or activities; the means by which the security and perpetuation of the family may be assured, as well as its current needs satisfied. Involved in the prestige of the family are ceremonial expenditures determined by social compulsion.<sup>3</sup>

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<sup>3</sup> Report of the Center on Agricultural Financing and Credit for Asia and the Far East held at Lahore, 1-13 Oct. 1956, FAO Report No. 631 (Rome: FAO of the UN, 1957), p. 16.

### Small Size of Farms

The typical farm in East Pakistan is very small, whether in terms of acreage or total output, with a relatively high proportion of income in the form of the subsistence for the family and a small amount in cash. The average size of farm in the province is 3.5 acres, according to the Agricultural Census of 1960. About 75 per cent of the farms fall below this average size. On such a small farm which also is fragmented, there is very little scope for mechanization. Hence agriculture is labor intensive. The value of output per head is very small.

Apart from general measures drawing people off the land and improving related services, an approach must be sought by improvements in technology which takes account of the labor intensive character of peasant farming, and by simple investments which have a high ratio of output to capital.

### Subsistence and Working Expenses

Production for subsistence and a high proportion of unpaid family labor imply that a large proportion of working expenses are for consumption. If all of the farm expenses were to pay wages, there would be no difficulty in regarding the finances required as "production credit." But this is not so when the expenses are for unpaid family labor. The farm family cannot be artificially separated into producers and consumers, the same people being both, and the same credit being

used for both. In fact, there is a gradation from expenditure on family living necessary to sustain the labor force, which should properly be regarded as production expense, to conventional ceremonial expenditures which are not part of production expenditure. In practice, therefore, there is no clear distinction between expenses for production and for living. But even where the expenditure, as for ceremonies, makes no contribution to production, it may often be a disservice to exclude it from the purview of institutional agricultural credit.

If credit institutions austerely limit credit to production needs, imperative demands to maintain consumption including those determined by prestige and status, may prejudice attempts to improve the credit situation by encouraging rather than discouraging resort to moneylenders and merchants.<sup>4</sup>

In principle, and as emphasized by many writers, there are objections to farm credit agencies granting loans for consumption purposes. However, in practice it is not easy to ensure that loans for production are so used by low income farmers. The effects of such borrowers resorting to moneylenders to meet their needs for credit for non-productive purposes must be assessed in relation to the effect of such borrowing upon the ability of farmers to repay loans for financing production. As Horace Belshaw says

it is quite likely that a properly balanced loan program would increase the relative importance of medium-term credit... but, in the circumstances of peasant farming, credit for working expenses and to sustain the family as it applies to labor to farm improvements, will always loom large.<sup>5</sup>

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<sup>4</sup> Ibid . p. 20.

<sup>5</sup> Belshaw, op. cit. p. 24.

Because the bulk of the working expenses needed by low income farmers are not expressed in money terms, it becomes very difficult to assess income, expenditures for production versus subsistence, productive capacity and the capacity for repayment. Nevertheless, it is essential that small scale farmers be advanced enough credit to carry on production on a scale large enough to yield sufficient output to repay the advances and sustain the family.

#### Seasonal Income

The income from farming is mostly seasonal. Therefore, it is necessary that farmers with seasonal income should build up enough capital resources to cover their ordinary living expenses from one season to the next. Low income farmers often do not do this due to insufficient income, emergencies that make them use up all their savings, etc. Very few farmers in East Pakistan have accumulated enough savings to pay all their seasonal crop production expenses - hence the need for production credit of various kinds. The importance of continuity in income has been illustrated in a paper presented to the Lahore Conference on Agricultural Credit by the Malayan delegate.<sup>6</sup> The rubber shareholder is in receipt of regular income throughout the year. He, therefore, demands only medium-term credit for such purposes as increasing his land

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<sup>6</sup> Agricultural Financing and Credit for Asia and the Far East, op. cit.  
pp. 18-19.

holding, repairing his house or paying off debts incurred for ceremonials. The paddy cultivator on the other hand, has always been in financial difficulties. He needs short-term credit for production expenses and family living between harvests because when the income is seasonal he uses up the money for different non-productive expenses.

This suggests the importance to the credit problem not merely of increasing production, but also of promoting continuity of income. Where promoting greater continuity of income is not feasible, it represents an additional argument for the encouragement of savings with which the family can pay its essential living expenses until the next harvest is sold.

#### Static Nature of Credit in East Pakistan

Credit that has been advanced to farmers in East Pakistan has done little to improve the condition of the farmers. In the Lahore Conference it was noted that "the credit provided is mainly static or neutral, demanded primarily to maintain assets, output and consumption level"<sup>7</sup> (underline in the original). This means that the farmer's condition has not improved through the use of credit. Speaking about the conversion of static credit to dynamic credit, Belshaw says that "credit will only be dynamic when confined to those farmers who have actual or

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<sup>7</sup> Ibid. p. 20.

potential capacity to produce beyond the amount needed to sustain the minimal levels of consumption required for health and efficiency, meet charges and repay the loans."<sup>8</sup>

This is, of course, the ideal solution. But this will mean the denying of the credit facilities to the millions of small farmers who are marginal or sub-marginal in their operations. As S. R. Sen pointed out in the California Conference on Agricultural and Cooperative Credit, "no plan for the agricultural development of a country (like East Pakistan) would be a political (and economic) success unless adequate provision is made for the rehabilitation of sub-marginal farmers."<sup>9</sup> This type of farmers cannot, however, be given credit through the usual credit institutions. They will, therefore, require to be served by a special institution or agency more or less like the Farmer's Home Administration in the USA, with close supervision in all their operations. But,

even if the large number of uneconomic holders, together with landless labourers are excluded, there still remains a residual borrowing population which must run into millions. It is an illiterate, apathetic, and largely immobile population easily intimidated by procedural complexities in raising funds and lacking in business acumen.<sup>10</sup>

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<sup>8</sup> Belsahw, op. cit. p. 47.

<sup>9</sup> S.R. Sen, "Summary of Organization and Functions of Agricultural Credit Institutions and Credit Problems in India", Proceedings of the International Conference on Cooperative and Agricultural Credit, ed. Elizabeth Bauer (Berkeley: University of California, 1952), II, p. 736.

<sup>10</sup> Credit Enquiry Commission Report, op. cit. p. 8.

Therefore, they need adequate credit to carry on farming operations to the capacity of the farmer as a manager, available in the village on easily understood terms with enough guidance and supervision to assure increased output to insure repayment of the loan.

### Classification of Credit

Credit may be classified in many ways. Usually three types of classification are used. These are on the basis of purpose, security and time period. The main points under each of these classifications are given below:

#### 1. Purpose

This classification is according to the purpose for which the loan is obtained or granted. These will include loans for:

- a. Production.
- b. Marketing of Products.
- c. Consumption.
- d. Purchase of land.
- e. Improvement on land.
- f. Purchase or repair of machinery and buildings.
- g. Purchase of livestock.
- h. Repayment of previous debts.

#### 2. Security

This is according to the type of security that the borrower is



required to give the lender against which a loan is obtained.

The different kinds of securities that may be given are:

- a. Unsecured written promise to pay the sum at a stated time with specified interest.
- b. Personal bond and sureties.
- c. Crop lien.
- d. Chattel mortgage.
- e. Land mortgage.
- f. Marketing agreements.
- g. Insurance policies.
- h. Ornaments and jeweleries.

### 3. Period

This is according to the length of time for which the loan is obtained. Usually this classification has three categories:

- a. Short-term or seasonal.
- b. Medium or intermediate-term.
- c. Long-term.

#### Short-term Credit

Short-term credit is normally given for growing a particular crop or for a particular season. This will normally be for a period of not exceeding 12 months. but for crops such as sugarcane this period is extended to 18 months in East Pakistan.

Short-term credit is required by farmers for a variety of purposes. The basic purpose for obtaining short-term loans are preparation of land, purchase seeds, fertilizers, implements, employment of labor and other recurring expenses. Not infrequently, however, loans have to be resorted to by the farmers for maintaining himself and his family during pre-harvest period and for payment of the land revenue tax which has to be paid every year. Loans for marketing and processing of crops also come under this category of loans. Most of the loans contracted by farmers in East Pakistan at present are short-term loans.

#### Medium-term Loans

Medium-term loans are becoming increasingly important in East Pakistan. These loans are usually for a period up to 5 years. The farmer requires them for meeting developmental expenses for works which do not have to be done every year. Purchase of agricultural implements, making of tube-wells or dug wells, clearance of jungle, construction of irrigation ditches and acquisition of plough cattle are some of the important purposes for which medium-term loans are required.

Repayment of these loans usually commences during the second or third year and is effected in instalments over the rest of the period. Loans may be obtained in a lumpsum or in instalments according to the need of the borrower and the policy of the lending agency. The lending

close supervision over the utilization of these loans  
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ten.

more than 5 years are categorized as long-term loans.  
is usually not specified in the by-laws of the lending  
institution but left to the discretion of the high officials.  
needed for the purchase of land, building houses,  
permanent improvements on the farm. Purchase of com-  
mune implements and sinking of tube-wells, etc. may  
fall in this category.

#### Long Short, Medium and Long-term Credit

urgent needs of production are those for an agricul-  
tural season, from preparation of the field to harvesting.  
The period for which these are required, consists, to a much  
greater extent than in developed countries, of the requirements for con-  
sumption during the season. But, of course, there is the need for credit  
for production supplies.

The objective is to increase production, but if "non-product-  
ive" consumption are not covered by institutional sources,  
they turn to private lenders and this may lower the benefit

agency has to exercise supervision over the utilization of these loans because of the substantial amounts involved and the longer period for which they are given.

#### Long-term Loans

Loans for more than 5 years are categorized as long-term loans. The maximum limit is usually not specified in the by-laws of the lending agencies in Pakistan but left to the discretion of the high officials. They are largely needed for the purchase of land, building houses, cattlesheds and permanent improvements on the farm. Purchase of comparatively expensive implements and sinking of tube-wells, etc. may also be included in this category.

#### Inter-relation Among Short, Medium and Long-term Credit

The most urgent needs of production are those for an agricultural production season, from preparation of the field to harvesting. The working capital for which these are required, consists, to a much greater degree than in developed countries, of the requirements for consumption during the season. But, of course, there is the need for credit for seeds and other production supplies.

The objective is to increase production, but if "non-productive" types of consumption are not covered by institutional sources, farmers will resort to private lenders and this may lower the benefit

derived from institutional credit for production. In addition to charging a high interest rate, money lenders generally require delivery of the farmers crops for which payment is made at a very low price at harvest time.

In developing countries medium and long-term capital investment is less than in developed countries and less than for short-term capital investment. This is because of the fact that the great majority of farms are of small size and labor intensity is high in these countries. Hence, in amount, on the average over the years, short-term credit is likely to be proportionately more important than medium and long-term credit, especially if labor can be used directly to make fixed improvements. By the extent to which short-term credit helps in the adoption of improved methods of cultivation, it paves the way for an efficient system of medium and long-term credit by increasing the effectiveness of seasonal operations; increasing income and repayment capacity. Correspondingly, investments in pumping sets, tube-wells, bullocks, farm improvements, and the like, increase the scope for improved methods of cultivation, and so for the economic use of short-term credit.

Hence, it is clear that short-term, medium-term and long-term credit are related to each other and therefore, should be integrated. However, the provision of short-term credit is more important to small farmers than for large-scale farmers. But "the small farmer has no

(institutional) credit because he has no \*security\* and he cannot enhance his security because he has not credit."<sup>11</sup> The only way out of this dilemma is to evolve a workable program to furnish small scale farmers adequate production credit on the basis of the security they can offer and the favorable prospect for repayment.

### Sources of Credit

The sources from which the farmers in East Pakistan get their needed credit are many but the main sources may be listed as under:

1. Private money lenders.
2. Friends and relatives.
3. Well-to-do rural people.
4. Marketing intermediaries.
5. Agricultural Development Corporation.
6. Agricultural Development Bank
7. Government.
8. Co-operative societies.

The first four constitute the private non-institutional credit sources and the last four constitute the government and private institutional credit sources for farmers. In this chapter the private non-

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<sup>11</sup> D. G. Karve, "Short Term Credit," Report of the Center on Agricultural Financing and Credit for Asia and the Far East, Lahore, Pakistan, Oct. 1956, FAO Report No. 631 (Rome: 1957), p. 70.

institutional credit sources only will be discussed. The institutional credit sources will be discussed in later chapters.

The relative importance of all the credit sources are presented in Table 1.

### Private Moneylenders

Until 1947 the village moneylender was the main source of agricultural credit in East Pakistan (before partition it was East Bengal). He enjoyed an entrenched position in this field. Apart from being traditionally the supplier of credit to farmers there were many other reasons for his dominance. He was located in the village itself, had intimate knowledge of borrowers and would be borrowers, was easily accessible to them, and above all his services were swift and with the minimum of formality. He was often also a trader and played an important part in the movement and disposal of agricultural produce of the farmers. He usually did not question the purpose of borrowing and was content to give money for any need, whether productive or not. The sole criterion was the pledge of enough collateral against the loan. The terms and conditions of loans were, generally speaking, severe. According to the Report of the Provincial Banking Enquiry Committee of 1930, mentioned by Shahjahan Mirza,<sup>12</sup> the common rate on secured loans was 37.5 per cent

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<sup>12</sup> Shahjahan Mirza, "Problems of Agricultural Credit in Pakistan", Agrifin (Karachi: Agricultural Development Bank of Pakistan, July-Aug. 1962), p. 10.

TABLE I

## RELATIVE IMPORTANCE OF VARIOUS SOURCES OF CREDIT

Source	Punjab Board of Economic Inquiry <sup>a</sup>	All-India Rural Credit Summary <sup>b</sup>	Socio-Economic Survey Board, Dacca University <sup>c</sup>					Average of this Survey %
	1950 %	1953 %	1956					
			Narayanganj %	Rangpur %	Rajbari %	Feni %		
1. Friends and Relatives	63.2	14.2	59.5	58.6	53.9	41.3	53.3	
2. Well-to-do Rural People	16.9	1.5	17.8	23.3	13.7	31.6	21.6	
3. Shopkeepers	2.5	5.5	12.8	4.5	17.3	10.2	11.2	
4. Government	2.9	3.3	0.3	6.0	5.3	5.7	4.3	
5. Moneylenders	"	69.7	3.9	1.4	2.8	8.9	4.2	
6. Marketing Intermediaries	"	"	2.2	5.2	2.1	1.0	2.6	
7. Cooperatives	13.2	3.1	0.4	"	1.4	0.4	0.6	
8. Other Sources	"	2.7	3.1	1.1	3.5	1.0	2.2	
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	

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

<sup>b</sup> Committee of Direction, All-India Rural Credit Survey, II (Bombay: Reserve Bank of India, 1954), p. 167.

<sup>c</sup> Dacca University Socio-Economic Survey Board, Rural Credit and Unemployment in East Pakistan, 1956 (Dacca: Dacca University Socio-Economic Research Board, 1958), p. 57.



per year and loans given without security often bore much higher rate going up to 300 per cent. Very often before a loan could be said to have been finally redeemed a borrower had to repay many times the amount of capital originally obtained. Credit obtained in this manner, though satisfying the immediate need of the farmer, could not really promote sound credit or the well-being of the farmers. Loss of land through foreclosures was not an uncommon feature in many areas. Generation after generation of farming families found themselves indebted to moneylenders, often children inheriting the father's debt.

The moneylender provided not only credit but also needed supplies (though at higher than market prices) and bought the farmer's produce (at lower than market prices). The latter activity had the incidental advantage of ensuring recovery of loans immediately after harvest.

After partition, moneylenders, being mostly Hindu, left East Pakistan. As a result, the importance of moneylenders in the field of rural credit supply diminished greatly. From the formidable position of supplying about 70 per cent of the total rural credit (as can be seen in Table 1 for Indian figure which was also applicable to East Pakistan before partition) he had been reduced to a minor position of supplying only 4.2 per cent.

"The departure of the moneylender from the scene was a challenge as well as an opportunity to modern institutional agencies to organize

themselves to fulfil the needs of the rural economy. There is no evidence that the opportunity has been utilized to any extent."<sup>13</sup> It is only recently that steps have been taken to organize some institutional agencies to fill in the gap left by the moneylenders.

#### Friends and Relatives and Well-to-do Rural Persons

At present the most important single source of rural credit in East Pakistan are the friends and relatives and this "reflects the community's spasmodic effort to replace an extinct agency by pooling together the limited surpluses of the rural population."<sup>14</sup> Along with them a category of well-to-do rural people have also become an important source of rural credit.

The distinction between some of these groups is not clear cut, for instance, between "friends and relatives" of a borrower and "well-to-do persons" in the rural areas. Again, a marketing intermediary and a "professional moneylender" may be the same person in some cases. The Dacca University Socio-Economic Survey Board distinguishes them on the basis of such considerations as the principal occupation of the lender, his relationship with the borrower and the terms of lending.

The role of "friends and relatives" and the "well-to-do persons"

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<sup>13</sup> First Five Year Plan, 1955-60, op. cit. p. 289.

<sup>14</sup> Credit Enquiry Commission Report, op. cit. p. 8.

may, however, be more insidious than was the moneylender's credit. Since many of them are not primarily concerned with moneylending but with accumulation of land, they insist upon different variants of land mortgage and of conditional sales as security for their apparently interest-free loans. If the borrower defaults the land is transferred to the creditors, who might originally have been sympathetic to the needs of their friends and relatives but ultimately dispossess the borrower of his land. Being interest-free such loans are highly attractive, "a serious problem, however, is bound to arise if these become common and ultimately result in the small farmer losing his agricultural holding and becoming a landless peasant."<sup>15</sup>

#### Marketing Intermediaries

After the migration of moneylenders, the farmers have become increasingly dependent on shopkeepers, commission agents and other marketing agents for their credit requirements. The credit is extended to the farmer by either the grain-dealers, traders, farias<sup>16</sup> or beparies<sup>17</sup> of cash crops like sugarcane, tobacco, jute and vegetables. Interest is not usually charged but the terms of purchase are such as to represent a high rate of interest. The borrower promises to sell his produce only

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<sup>15</sup> "Agricultural Credit in Pakistan", Agrifin, February, 1962, p. 6.

<sup>16</sup> Faria is a person who buys farm products from the farm itself.

<sup>17</sup> Bepari is a wholesale buyer or seller at the village markets.

to the lender who purchases it at prices much lower than the market price. The cost of these loans, in many cases exceeds 100 per cent. Loans are normally given before sowing and realized immediately after harvest.

Thus, while the moneylender has disappeared those who have replaced him (though present from a long time but never so important as after the exit of the moneylenders) cannot be said to be operating along substantially different lines. The prices for loans are still extortionate and their contribution to the progress of agriculture and the well-being of the farmers is in no way better than that of the departed moneylender.

#### Small Share of Institutional Credit

It is evident from Table 1 showing the sources of credit to farmers that the government and other institutions (though some of them have operated in the credit field for a long time) still constitute a small portion in the whole rural credit field. The farmers still borrow mostly from the village moneylenders and other village people at exorbitant rates of interest. The Agricultural Census of 1960 revealed that only 13 per cent of the farmers in East Pakistan borrowed from the government sources.<sup>18</sup> The reasons for such a small share of the institutional sources of credit are many. The main reasons are listed below:

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<sup>18</sup> Agricultural Census 1960, East Pakistan, op. cit. p. 251.

1. The private non-institutional sources are preferred because of the following reasons:
  - a. They are near the farmer.
  - b. Security requirements are not rigid.
  - c. Credit is given for any purpose.
  - d. Procedures for obtaining loans are simple.
  - e. Farmers do not have to go to town to obtain loans.
  - f. Farmers know the lender the latter know the farmers.
  
2. The institutional sources are not preferred by the farmers because of the following reasons:
  - a. They are situated in towns requiring much time and expense for the farmer in obtaining loans.
  - b. Security requirements are rigid.
  - c. Credit is not given for consumption.
  - d. Procedures for obtaining loans are complicated.
  - e. They require interest on loans which is not liked by many farmers on religious grounds.

#### Causes of Indebtedness of Farmers

Farmers borrow money for different purposes. It is of interest to see in some detail how they spend the borrowed money in meeting their various requirements. The main items of expenditure with their percentage share of the borrowed capital are shown in Table 2. These main items include:

1. Capital expenditure on farming.
2. Current expenditure on farming.
3. Non-farm business expenditure.
4. Family expenditure.
5. Repayment of debts.
6. Other miscellaneous purposes.

It is clear from Table 2 that almost 70 per cent of the total borrowed capital is for family expenditure which is considered unproductive. The productive purposes get only 20 per cent of the total borrowings. A Taiwan Survey revealed that in Taiwan about 50 per cent of total borrowed money is spent for consumption purposes.<sup>19</sup> An ECAFE paper mentioned in the Lahore Conference on Agricultural Credit noted that about 55 per cent of total borrowed money is spent for unproductive purposes in India.<sup>20</sup>

The purposes for which a farm family spends its borrowed capital may further be broken down. Borrowed capital for capital expenditure on farming may be used in any one or more of the following ways:

1. Purchase of land.
2. Purchase of farm equipment.
3. Purchase of livestock.

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<sup>19</sup> Report of the Center on Agricultural Financing and Credit for Asia and the Far East, Footnote, op. cit. p. 19.

<sup>20</sup> Ibid. p. 19.

TABLE 2

## CAUSES OF INDEBTEDNESS OF RURAL PEOPLE

Items	Punjab of Economic Inquiry 1950 %	Dacca University Socio-Economic Survey Board <sup>b</sup> 1956			
		Narayanganj	Rangpur	Rajbari	Feni
	%	%	%	%	%
1. Capital Expenditure on Farming	29.9	8.1	12.5	8.3	8.4
2. Current Expenditure on Farming	3.7	9.8	8.5	13.4	12.3
3. Non-Farm Business Expenditure	13.5	11.9	3.0	10.1	6.4
4. Family Expenditure	51.4	67.4	74.7	63.5	69.6
5. Repayment of Debts	1.3	1.8	1.2	4.3	2.8
6. Other Purposes	0.2	1.0	-	0.4	0.5
	100	100	100	100	100

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

b Adapted from Dacca University Socio-Economic Survey Board, Rural Credit and Unemployment in East Pakistan, 1956 (Dacca: Dacca University Socio-Economic Research Board, 1958), p. 61.

4. Construction or fencing for farm.
5. Other capital expenditure on farming.

Similarly a loan incurred for current expenditure on farming may actually be used for anyone or more of the following ways:

1. Purchase of seed and manure.
2. Hire of labor and equipment.
3. Payment of rent.
4. Other current expenditure on farming.

A loan used for family expenditure again may be used for the following purposes:

1. Family consumption.
2. Residential construction or repair.
3. Social ceremony.
4. Litigation.
5. Medical expenses.
6. Education of children.
7. Other family expenditures.

The Dacca University Socio-Economic Survey Board collected information on the causes of indebtedness according to the above detailed groupings for four areas in East Pakistan. The average for these four areas for each item has been calculated and presented in Table 3 as percentages of total borrowed capital.

It is evident that by far the largest item of expenditure is on



TABLE 3

DETAILS OF EXPENDITURE OF AVERAGE FARM FAMILY IN EAST PAKISTAN<sup>a</sup>

Item	Percentage
<b>A. Capital expenditure on farming:</b>	
1. Purchase of land	2.60
2. Purchase of farm equipment	0.46
3. Purchase of livestock	5.70
4. Others	<u>0.46</u>
Sub-total	9.32
<b>B. Current expenditure on farming:</b>	
1. Purchase of seeds and manure	2.17
2. Hire of labor and equipment	5.40
3. Payment of rents	3.24
4. Others	<u>0.20</u>
Sub-total	11.01
<b>C. Non-farm business expenditure</b>	7.86
<b>D. Family expenditure:</b>	
1. Family consumption	55.47
2. Residential construction and repair	2.87
3. Social ceremonies	3.89
4. Litigation	0.45
5. Others	<u>6.13</u>
Sub-total	68.80
<b>E. Repayment of debts</b>	2.53
<b>F. Miscellaneous purposes</b>	<u>0.47</u>
Total	100.00

<sup>a</sup> Calculated from data in Dacca University Socio-Economic Survey Board, Rural Credit and Unemployment in East Pakistan, 1956 (Dacca: Dacca University Socio-Economic Research Board, 1958), pp. 61, 66-68.

family consumption. The various individual items of expenditure under each group are each very low. One interesting item that should be mentioned is the expenditure on social ceremonies. Dacca University Socio-Economic Survey Board concluded from its data that "social ceremonies and litigation are only minor causes of rural indebtedness."<sup>21</sup>

There is a long established belief in the Indo-Pakistan sub-continent that litigation, social and religious ceremonies are important causes of rural indebtedness. Although the Bengal Provincial Banking Enquiry Committee of 1930 had refuted the belief it seems to survive still today. From the days of Malcolm Darling (1913) writers on farm debt in India blamed the peasant for his extravagance and improvidence. P. G. K. Panikar in a study in India found that expenditures on social ceremonies in rural households constitute only about 5 per cent of the total family expenditure (borrowed plus owned).<sup>22</sup> Therefore, it can be safely concluded that the blame on farmers that they spend a substantial part of their borrowed capital on social ceremonies is totally undeserved.

#### Average Size of Debt per Family

According to recent investigations mentioned by Shahjahan Mirza<sup>23</sup>

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<sup>21</sup> Dacca University Socio-Economic Survey Board, Rural Credit and Unemployment in East Pakistan, 1956 (Dacca: Dacca University Socio-Economic Research Board, 1957), p. 66.

<sup>22</sup> P. G. K. Panikar, "The Burden of Debt in Indian Agriculture," Jour. Farm Econ. Vol. 45 (1), Feb. 1963, p. 203.

<sup>23</sup> Shahjahan Mirza, op. cit. p. 11.

the amount of debt per indebted family in East Pakistan varies from Rs. 160 to Rs. 358 . But the East Pakistan Agricultural Census of 1960 showed that, though the upper limit of a loan may be above Rs. 1000, 75 per cent of all government loans are in the range of Rs. 1 to 99, and about 67 per cent of all non-government loans are in the range of Rs. 1 to 249.<sup>24</sup>

It may seem from the above data that the average size of debts in East Pakistan is quite low. But the size of the average debt does not by itself convey much useful information regarding the real burden of the debt. To assess the real burden of debt it is necessary to have detailed knowledge of the purposes for which the debt is contracted, the rate of interest charged on the debt and the manner in which the repayment is made. These have already been dealt with in some detail in a previous section.

All these considerations lead one to the conclusion that although the size of debts is small in East Pakistan, very often it far exceeds the annual cash income of the farmer. Thus it constitutes a heavy burden on him and his family. The farmer is tied economically to the lender and cannot avail himself of cooperative marketing services which would increase his annual income materially.

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<sup>24</sup> Agricultural Census 1960, East Pakistan , op. cit. pp. 251-257.

### Savings in Agriculture

Savings are necessary in any business to take care of the need for more capital to support the improvement or expansion of the business. Agriculture is no exception to this. Farmers need a large amount of credit and most of it must come from their own savings. As the Finance Minister of Pakistan said in his inaugural address to the CENTO Conference on Agricultural Banking in Karachi in 1962, "means must be found to increase the rate of savings by the farmers themselves, and of productive investment from their own resources."<sup>25</sup> But as already mentioned, the farmers of East Pakistan are mostly subsistence farmers and, therefore, they have very little or no savings at all. "The main need here is to make further savings possible by increasing rural incomes."<sup>26</sup> But higher income will not necessarily increase savings. For this to occur there are three related requirements according to Belshaw.<sup>27</sup> These are, education and propaganda, the provision of suitable incentives and also the provision of facilities which conform to the needs and convenience of rural people.

Reliable estimates of savings by farmers are not generally available for the underdeveloped areas, but there are some indications.

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<sup>25</sup> Finance Minister's Address", Agri-fin (Karachi: Agricultural Development Bank of Pakistan, April, 1962), p. 38.

<sup>26</sup> Horace Belshaw, op. cit. p. 69.

<sup>27</sup> Ibid. p. 70.

In India during 1951-52 investments in the form of shares, deposits and the like amounted, on the average, to less than Rs. 4 per family, most of this being by the top 10 per cent of the cultivators in terms of size of holdings.<sup>28</sup> Generally, a low volume of savings in agriculture can be regarded as inevitable, lower than in other sectors, because of very low real and still lower cash incomes.

Savings by peasant families are, therefore, in very small and scattered units, difficult to mobilize, and accumulated for reasons which are not conducive to making deposits with financial institutions, nor generally, to investment in economic growth on farms.

The All-India Rural Credit Survey group suggested that three considerations must be kept in view when suggesting measures to mobilize rural savings. These are:<sup>29</sup>

1. The need to make rural savings possible (e.g. by economic development and credit extension) is much more important than to render rural savings available (by \*mobilization\* of different kinds).
2. To the extent they exist, rural savings are most likely to be rendered available where most seen to be used for rural needs.

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<sup>28</sup> Committee of Direction, All-India Rural Credit Survey (abridged ed. Bombay: Reserve Bank of India, 1954), p. 264.

<sup>29</sup> Ibid. p. 265.

3. Rural savings fall so short of rural needs, that they must be supplemented from, not diverted to, urban areas.

#### Requirements of Effective Rural Credit Scheme

The foregoing discussion has given some indication that the present system for the provision of agricultural credit in East Pakistan is far from being satisfactory. The situation can be altered only by a very effective rural credit scheme. The task confronting the architects of an effective rural credit system is a formidable one. Replacing the moneylender and the non-institutional agencies now in the field means that a vast network of credit outlets must be organized, accessible to every credit-worthy borrower, flexible enough to provide credit of varying maturity for different purposes quickly and conveniently, on reasonable terms, with proper arrangements for supervision and recovery. A serious effort at organization is called for which will, of course, take time.

#### Need for an Integrated Scheme

The farmers in East Pakistan do not regard farming as a business but as a way of life. Their prestige, customs, and practically everything is bound to the farm. Therefore, anything that is done to help them must take into account all aspects of his life. Provision of credit has been viewed up to now as something separate from other

requirements of the farmer. This is one of the reasons why credit programs up to now have failed to achieve their objectives.

Therefore, an integrated approach is needed, which will not only improve the credit facilities but also the facilities for marketing of the farmer's crops and provide services to him and even improve his household conditions.

## CHAPTER III

### GOVERNMENT AGRICULTURAL CREDIT AGENCIES

#### Role of Government in Agricultural Finance

If the provision of agricultural credit is to be effective governments must assume a great deal of responsibility for it.<sup>1</sup>

The importance of agricultural credit is recognized in most countries today. However, the government in pre-partition India did not realize the full importance of the role of government in agricultural development. A Department of Agriculture was established in India in 1870 but due to lack of sympathy from the top this department degraded down to a Revenue Department. In 1889 J. A. Voelcker of the Royal Agricultural Society was appointed to inquire and report on the improvements of Indian agriculture.<sup>2</sup> But the matter of agricultural finance was not investigated until 1926 when the Royal Commission on Agriculture was appointed and one of its objectives was to investigate into the methods by which agricultural operations are financed and credit afforded to agriculturists. In 1937 agriculture was made a provincial subject but even then agriculture was not given the attention it deserved on account of being the most important industry in the country.

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<sup>1</sup> Belshaw, op. cit. p. vii

<sup>2</sup> S.M. Akhtar, Economics of Pakistan (Lahore: Publishers United 1963), I, p. 301.



After partition, the Government of Pakistan appointed the Agricultural Enquiry Committee in 1951 to recommend on the methods of improving agriculture in the country. But Agricultural Credit as such, did not receive much attention before the appointment of the Pakistan Credit Enquiry Commission on February 24, 1959. This Commission took stock of the credit situation in both the provinces and made many valuable recommendations for improving the provision of credit to farmers through reorganization of present credit institutions and establishment of new institutions.

The present activities of the Government of East Pakistan and of the Central Government are in continuation of the endeavor of government to solve the problems of rural indebtedness which became very acute just before the turn of the century. At this time the government tried to solve the problem in three ways. These were:

1. Regulation of moneylending operations by debt legislation.
2. Giving loans directly by government.
3. Promoting institutional agricultural credit agencies.

### Debt Legislation

#### Purpose of Debt Legislation

The debt problem could be approached from three sides: (a) Reduction or elimination of the existing debts, (b) Measures for regula-

tion and control of private moneylending, and (c) Creation of alternative agencies of rural finance.

It was obvious that unless the existing debts (mostly ancestral) were gotten rid of, there was no hope of agricultural progress in the country. Several laws were, therefore, passed in pre-partition India either to regulate moneylending directly or to affect farm credit operations indirectly. They were designed primarily "(a) to protect the borrower from extortionate money-lending, (b) to provide relief from the heavy load of indebtedness, and (c) to prevent transfer of land from cultivators<sup>3</sup> to other classes of persons specially in satisfaction of debts and for other distress reasons."<sup>3</sup>

In part of India laws were passed for the declaration of insolvency under certain conditions. They also provided for the reduction and settlement of old debts on equitable bases for both parties. This problem was tackled in three ways: (a) Moratorium on the court proceedings regarding repayment of debt, (b) Liquidation or compulsory scaling down of debts through the passing of Relief Acts, (c) Debt conciliation by voluntary settlement between the debtor and the creditor with the help of specially constituted Conciliation Boards.

As a result of these measures, the amount of debt was consider-

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<sup>3</sup> State Bank of Pakistan, Agricultural Credit Department, Agricultural Credit in Pakistan (Karachi: State Bank of Pakistan, 1962), p. 22.

ably reduced. In Bengal by 1939 debts were scaled down by Rs. 50 million. Where voluntary scaling down failed, compulsory scaling down was introduced. Such scaling down was justified on the grounds that in many cases these debts were not bonafide. They were inflated through various fraudulent practices.

Measures were taken not only to reduce indebtedness but also to prevent or avoid future indebtedness. This was done, firstly, by reducing the power of the peasant to borrow by limiting his credit. Secondly, by putting restrictions on the moneylenders, reducing their capacity to lend. The laws, as a rule, made no distinction with regard to individual money-lenders and institutional agencies. But some exemptions were provided for the institutional agencies in some cases.

A brief description of the three laws on debts in effect at present in East Pakistan will show how the regulation of improper and usurious type of money-lending was effected.

1. Bengal Agricultural Debtors Act, 1935 (Amended in 1940)

This law was passed to provide relief to farmers in Bengal who were indebted and to amend the law governing the relation between the farmer-debtor and his creditors. The debts due to Scheduled Banks are not under this law but loans due to all other banks and cooperative societies are under it. The Act provides for the establishment of Debt

Conciliation Boards. These Boards have been authorized to conciliate the debts of the indebted farmers and to arrange for adjustment of insolvent debtors' debt. The Act also exempts certain properties of such debtors from sale.

2. Bengal Money-Lenders Act, 1939

This Act provides for some very important restrictions on the moneylenders. It provides for the registration and licensing of moneylenders. No moneylender can carry on business of moneylending unless he has a currently valid license. Secondly, moneylenders are required to maintain regular accounts for each debtor separately for all transactions relating to a loan. Thirdly, the Act places limits on the rate of interest and other charges and accordingly no borrower is liable to pay any sum in respect of principal and interest which together with any amount already paid or included in any decree in respect of a loan exceeds twice the amount of the original loan. The maximum interest rate that can be charged is 9 per cent simple interest on secured cash loans and 15 per cent simple interest on loans in kind. The corresponding rates for unsecured loans are 15 per cent and 25 per cent respectively. Fourthly, the court has the power to fix repayment of the decreed amount in annual instalments not exceeding 20 years. Fifthly, the Act places restrictions on the sale of property of the debtor in execution of a decree in respect of loans and only such property as the court considers saleable at a price sufficient to satisfy the decree is permitted to be sold. Sixth, the Act prohibits arrest

and detention in prison of the judgement debtor in execution of a decree. Penalty is provided for molestation of a debtor.

### 3. East Bengal Estate Acquisition and Tenancy Act, 1950

The East Pakistan Government decided in 1950 to acquire the rent receiving interest from the big landlords called Zamindars, who were given the right to receive rent from farmers in a certain area by the British Government, by paying compensation to them. Under this Act the debts payable by a receiver of compensation may be scaled down if the amount of debt exceeded one fourth of the compensation money. The Act also prohibits transfer of land by sale in execution of decrees or by any other means except to a bonafide cultivator.

### Government as Lender

The Government takes part in the credit field both as a direct lender and as an indirect lender. The direct lending consists mainly of loans to farmers in the form of Land Improvement Loans and Agricultural Loans which are disbursed through the Revenue Department of the Government. This side of government lending is not very successful because of various defects in the system itself which will be dealt with a latter section.

As indirect lender the government can play a more productive and effective role. It can help all the agencies giving agricultural

credit in a number of ways. It can provide tax concessions, subsidize the institutions, provide guarantee for institutional loans. But more important than these, the government can take part in the capital structure of the institutional credit agencies by purchasing shares and by providing technical and supervisory facilities to them the government gives loans to the Agricultural Development Bank and Co-operative Banks through the State Bank of Pakistan. A fuller account of these will be given later.

#### Government as Direct Lender

Direct government loans have been found unavoidable in times of famine and other distress and it is in discharge of this function that the origin of government as a lender lies. The principle of "distress finance" was later extended to include permanent farm improvements which would leave the rural population less exposed to natural hazards.

The legislative framework was provided in the Land Improvement Loans Act of 1883 and the Agriculturists' Loans Act of 1884 enabling the provinces to frame rules for extending agricultural credit.

The Land Improvement Loans Act of 1883 provides for long-term loans for the following purposes:

- (i) The construction and repair of wells, tanks and other works of storage, supply or distribution of water.

- ( ii) The preparation of land for irrigation.
- (iii) The drainage, reclamation from rivers or other waters or protection from floods, erosion, etc.
- ( iv) The reclamation, clearance, enclosure, etc., of land for agricultural purposes.
- ( v) Such other works as the local government may from time to time declare to be improvements for the purposes of the Act.<sup>4</sup>

Under the Agriculturists\* Loans Act of 1884 loans are granted for the purposes stated in items (i), (ii) and (iii) above and also for the relief of agriculturists in distress, for the purchase of seeds, cattle, fodder, manure and agricultural implements for rebuilding or reclaiming houses destroyed or damaged by floods.<sup>5</sup>

#### Lending Procedures and Conditions

Loans under the above legislation are usually disbursed in cash. Loans under the 1883 Act are sanctioned on the basis of documents establishing the borrower's title of ownership and assessing the value of the land. Loans under the Act of 1884 are given after simple enquiry and in emergency conditions the head of the district administration may authorize on the spot distribution of loans by the revenue officers.

The security that the borrowers gives for loans under the Act

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<sup>4</sup> Ibid. p. 31.

<sup>5</sup> Ibid. p. 32.

of 1883 is his land on which a statutory charge is automatically created without the formalities of a registered mortgage. Collateral security is demanded if the value of the land proves insufficient to cover the loan. Loans under the 1884 Act are given on a personal bond and surety but often attempt is made to give loans to groups of borrowers, the liability of each individual being both joint and several.

The maximum period of repayment of loans, under the Land Improvement Loans Act is 35 years with power to government to fix the actual period so as not to exceed the maximum period. But it usually varies according to the purpose for which credit is obtained. Loans for tube-wells and wells may be repaid in ten years, but ~~for bullocks~~ the loan is to be repaid within two years. Loans under the Agriculturists' Loans Act are to be repaid at the next main harvest or after two main harvests. Loans can be recovered as arrears of the land tax.

The rate of interest charged on loans under the Act of 1883 is fixed in relation to the rate at which the government borrows from the market at the particular time.<sup>6</sup> But usually it is the same as the rate charged by cooperative societies. The rate of interest for loans under the Act of 1884 is fairly low. At present, in East Pakistan, the rate charged is 6.5 to 7 per cent per annum. For delays in repayment penal rate of 0.5 per cent is charged for the additional period.

Although the share of government agricultural loans in the

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<sup>6</sup> Ibid. p. 32.



total credit advanced to farmers is small the role of government in direct rural finance has remained undiminished over the years. However, the individual loans are almost useless as production loans because "the rules framed by the Provincial Government under this Act (Agriculturists' Loans Act, 1884) provide that no individual shall be advanced more than Rs. 25 in any given year."<sup>7</sup>

The recovery of government loans has been extremely low. On the basis of the loans granted during the year 1956-57 to 1961-62 the amount recovered during the period constitute only 42 per cent of the loans. If the entire outstanding loans are taken into account the percentage of recovery would be much lower. This clearly shows the unsatisfactory condition in the recovery of government loans.

#### Difficulties of Government Agricultural Loans (Taccavi)

The above discussion has shown that government loans are not the ideal solution to the rural credit problem. At least in East Pakistan, they have failed to achieve almost anything at all. The difficulties with the obtaining and recovery have been admirably summarized by Andrus and Mohammad in the following words:

The formalities attendant on them (taccavi) are cumbersome and often involve long delays. The cost of the loan is greatly increased by consumption, both at the time of issue and repayment.

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<sup>7</sup> Credit Enquiry Commission Report, op. cit. p. 16.

The procedure for repayment is generally inflexible and may involve considerable hardship to the borrower. Finally, revenue officials are mainly concerned with the mechanics of lending rather than with the purposes for which funds are applied and this places the burden of responsibility for the intelligent use of funds entirely upon the uneducated agriculturist.<sup>8</sup>

Along with the above difficulties there is the problem of utter inadequacy of the loan amount of Rs. 25 to any farmer for financing any productive undertaking. Under these circumstances the failure of taccavi loans to achieve anything substantial is not at all difficult to understand.

The system of government loans has been criticized by many on the above grounds. The Credit Enquiry Commission recommended in 1959 that:<sup>9</sup>

1. The government should not lend directly except in cases of distress.
2. Institutional agencies should take over all agricultural credit activities and government may continue to give non-distress loans as a transitional measure.
3. To protect the statutory agricultural credit agencies from unnecessary competition taccavi should not be extended in areas where offices of agricultural credit agencies exist.
4. Amount advanced should be sufficient for the purpose for which it is intended.

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<sup>8</sup> Andrus and Mohammad, op. cit. p. 144.

<sup>9</sup> Credit Enquiry Commission Report, op. cit. p. 184.

The Planning Commission recommended in the Second Five Year Plan that "whereas the procedure for securing taccavi loans should be simplified to help the farmer, there should be equal insistence on making loan recoveries more effective. Loans should be large enough for the productive purpose for which they are made, and should be issued in kind to the extent possible. There should be continuous supervision and audit to see that they are properly used. Efforts should be made to recover the outstanding loans, and an investigation made to identify the causes of poor recovery, delays and remissions, to serve as a guide to future policy."<sup>10</sup>

#### State Bank of Pakistan and Agricultural Credit

As the central bank of the country the State Bank of Pakistan has the responsibility for ensuring monetary stability in the country. And as such, it has some responsibilities in the field of agricultural credit also. In a developing and predominantly agricultural area like East Pakistan, the State Bank has a special role to play in this field. Since its establishment in 1948, the State Bank never failed to give due importance to agricultural credit. As the State Bank publication Agricultural Credit in Pakistan points out:

It became immediately aware of the great gaps in this field, the vital need for improving the situation and the immensity of the

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<sup>10</sup> Second Five Year Plan, 1960-65, op. cit. p. 180.

problems involved. How best a greater flow of credit could be generated into the agricultural sector became a matter of vital concern to the Bank. It realized that under existing conditions it would have to provide a very substantial portion of the credit requirements of the agriculturists.<sup>11</sup>

The State Bank is, however, a bankers' bank and a lender of last resort. It does not have the field organization to deal with the farmers directly and, therefore, it turned towards the agricultural organizations in the country such as the cooperative societies and banks to channelize its rural credit operations. "It was allowed to advance short-term loans to provincial cooperative banks up to a period of nine months."<sup>12</sup> This period was later found insufficient and, therefore, extended to 15 months.

The State Bank could not do anything as fast as it wanted to because of the fact that in East Pakistan the whole cooperative movement was at a standstill following partition. The measures that were being taken for the revival of cooperative banking were resulting mainly in the financing of trading activity. In spite of ceaseless efforts of the State Bank to impress upon the provincial government that cooperative banking should limit its activities to the field of agricultural credit only, "agricultural lending continued to form a very in-

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<sup>11</sup> Agricultural Credit in Pakistan, op. cit. p. 107.

<sup>12</sup> Akhtar, op. cit. p. 254.

significant part of the operations of cooperative banks."<sup>13</sup>

#### Agricultural Credit Department

Before 1953 agricultural and cooperative credit matters in the State Bank were looked after by a section which existed as a part of the Banking Control Department from 1948 to 1951 and within the Research Department from 1951 to 1953. In 1953 a full-fledged special department known as the Agricultural Credit Department was established in the State Bank to take care of the agricultural credit needs in the country.

In 1956 a new law was passed which changed the State Bank Charter considerably. Under the new law the importance of agricultural credit was recognized and the Bank assigned special responsibility in the sphere. The maintenance of the Agricultural Credit Department became a statutory obligation under the law and the functions of the Department were prescribed as under:

1. 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.
2. To coordinate the operations of the Bank in connection with agricultural credit and its relations with the Provincial Cooperative Banks and any other organizations engaged in the business of agricultural credit.<sup>14</sup>

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<sup>13</sup> Agricultural Credit in Pakistan, op. cit. p. 108.

<sup>14</sup> Ibid. pp. 111-112.

Under the same law the State Bank was empowered to declare any co-operative bank as a scheduled bank. The conditions and requirements for scheduling were also made less stringent than for commercial banks in respect to minimum share capital and reserve requirements.

Under the State Bank of Pakistan Order, 1948, the Bank was authorized to grant accommodation to cooperative banks for financing seasonal agricultural operations and the marketing of crops for periods not exceeding nine months (later raised to 15 months). The 1956 Act provided that the State Bank may also advance medium-term loans. A more far-reaching provision of the Act allows the State Bank:

The making to institutions or banks specifically established for the purpose of promoting agricultural --- development in the country of advances and loans for such amounts and on such terms and conditions as the Central Board may decide from time to time.<sup>15</sup>

The State Bank made a special study of the functioning of the co-operative credit system to ascertain the suitability of the system to serve as the channel through which it can forward loans to agriculturists. Its main findings are that:<sup>16</sup>

1. The provincial cooperative Bank had become burdened with frozen debts involving heavy amounts.
2. A vast organization, though inactive, existed in the province in the form of central cooperative banks and union multi-purpose societies which can play a vital rôle in the extension of agricultural credit.

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<sup>15</sup> Ibid. p. 113.

<sup>16</sup> Ibid. p. 115.

The State Bank, therefore, came to the conclusion that the cooperative banking system should be revitalized through determined efforts. In this respect the Bank was able to persuade the Provincial Government to take positive steps towards revitalization of the cooperative banking structure which includes:

1. Contribution of Rs. 450 thousand to the share capital of the Provincial Cooperative Bank through conversion of its loans to it.
2. The management was improved by appointing a nominated Managing Committee in place of the elected one.
3. The Provincial Government agreed to share a part of the risk in the loans that would be given to the cooperative bank by the State Bank.

#### Loans to Cooperative and Specialized Credit Agencies

The State Bank of Pakistan has been giving loans to cooperative banks from 1951 against government securities and without any stipulation as to the purpose for which they could be used. But effective lending for agricultural purposes actually started in 1956-57 when Rs. 1 million was lent to the cooperative banks of East Pakistan. The amount has been increased considerably since then, and in the year 1961-62 a sum of Rs. 50 million was sanctioned for Union Multi-purpose Societies. The following Table shows the actual amounts loaned by the State Bank to

the cooperative banks in East Pakistan.

These loans other than those against government securities have been guaranteed by the Provincial Government on a sliding scale. The extent of Government's liability depends upon the amount actually loaned.

TABLE 4

STATE BANK LOANS TO COOPERATIVE BANKS IN EAST PAKISTAN<sup>a</sup>

Year	Loans Against Govt. Securities ( Millions of Rupees	Other Loans	Total )
1957-58	0.7	2.5	3.2
1958-59	-	10.0	10.0
1959-60	0.7	40.0	40.0
1960-61	0.6	50.0	50.6
1961-62	-	43.0	43.0
1962-63 <sup>b</sup>	-	0.7	0.7
Total	2.0	146.4	148.2

<sup>a</sup> Source: Adapted from State Bank of Pakistan, Agricultural Credit in Pakistan (Karachi: State Bank of Pakistan, Dec. 1962), p. 120.

<sup>b</sup> Upto 31st Dec. 1962.



The Bank has been insisting since 1960-61 that the loans taken from it by rural credit agencies, be utilized solely for financing agriculture.

The State Bank loans have so far been entirely for short-term purposes. But in 1961-62 a limit of Rs. 2.5 million was sanctioned as medium-term credit for financing cattle purchase. The short-term loans are given so that they are available to the farmers at the time of preparation of land and to recover them after harvest. The State Bank gives the loans to the Provincial Cooperative Bank. They are intended to reach the farmer through primary credit societies.

The State Bank started to make loans to specialized credit agencies during 1959-60 when the former Agricultural Development Finance Corporation (ADFC) was granted a limit of Rs. 10 million. In 1959-60 the total loan to ADFC and the Agricultural Bank of Pakistan (ABP) was Rs. 25 million and in 1961-62 the loans to the Agricultural Development Bank (ADBP) was Rs. 75 million.<sup>17</sup>

#### Interest Rate

The State Bank realized from the beginning the need for a reasonable rate of interest for agriculture credit and, therefore, it charges interest rate to cooperative banks which is lower than that

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<sup>17</sup> Ibid. p. 122.

charged to commercial banks. This rate was 2.5 per cent upto 1959 when it was raised to 3.5 but it has always been 0.5 per cent lower than the Bank rate. Cooperative Banks found this increased rate too high and so it was lowered to 3 per cent. But the ADBP is still charged 3.5 per cent interest by the State Bank.

### Rural Credit Fund

This fund was established by the State Bank in 1960 according to the provision of an amendment to the law governing the State Bank activities. The idea of the fund was put forward by the Credit Enquiry Commission.<sup>18</sup> The purposes for which it may be utilized are:<sup>19</sup>

1. The making of medium-term loans to cooperative banks, repayable at the expiry of a fixed period not exceeding three years.
2. The making of medium and long-term loans to other rural credit agencies.

The State Bank was

empowered to make appropriations to the Fund from time to time, from its surplus profits, in consultation with the Central Government. A sum of Rs. 10 million which was transferred to the Reserve Fund of the Bank in 1960 pending creation of the Rural Credit Fund, was accordingly transferred to the Fund. The size of the Fund was increased by another Rs. 10 million by appropriation from 1960-61 profits of the Bank bringing the total amount to Rs. 20 million.<sup>20</sup>

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<sup>18</sup> Credit Enquiry Commission Report, op. cit. p. 153.

<sup>19</sup> Agricultural Credit in Pakistan, op. cit. p. 123.

<sup>20</sup> Government of Pakistan, Ministry of Finance, Economic Survey of Pakistan, (Karachi: Manager of Publications, 1962), p. 138.

By the end of 1962 a further amount of Rs. 5 million was added to the Fund.

### Statutory Control and Inspection of Cooperative Banks

Cooperation has been made a provincial subject since 1937 and therefore, the Provincial Government has been controlling and supervising the cooperative banks. But it was felt in many quarters that cooperative banks should be brought under the State Bank's control and supervision. The Credit Enquiry Commission was "convinced that the effective control of credit is a national responsibility and that all banking institutions, whether cooperative or otherwise, must be under the unified control of the central bank."<sup>21</sup> The government accepted the suggestion and the Banking Companies Ordinance of 1962 have been made applicable to cooperative banks also.

Although the State Bank of Pakistan had no statutory powers in the past for inspecting cooperative banks, it was, beginning 1953, called upon to do so from time to time. Beginning with only one cooperative bank in 1952-53 the number of inspections have increased to 20 in 1961-62.

### Rural and Cooperative Credit Advisory Committee

The Credit Enquiry Commission recommended the establishment

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<sup>21</sup> Credit Enquiry Commission Report, op. cit. p. 54.

under the auspices of the State Bank of Pakistan of a Rural and Co-operative Credit Advisory Committee consisting of the chief executives of the apex cooperative banks and the statutory agricultural credit agencies. The chairman of this Committee is to be the Governor of the State Bank.

The Committee was to provide the machinery of consultation for the State Bank of much the same kind as now exists in the case of commercial banking in the shape of periodic meetings of representatives of banks. In addition, it was supposed to initiate and sponsor schemes for improving agricultural credit facilities through action in other fields such as warehousing and marketing. Finally, the Committee was to assist in coordinating the actions of the cooperatives with the statutory credit agencies.<sup>22</sup>

The Committee was set up in July, 1961. There are eight members including the chairman. Three meetings of the Committee have been held up to the end of 1962 and a wide range of subjects on rural credit have been discussed.

Advisors to Cooperative Banks and other Credit Agencies

In addition to inspections, the State Bank of Pakistan has

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<sup>22</sup> Ibid. pp. 55, 156.

tried to help the agricultural credit agencies in other ways. Since 1959 a Senior Officer of the Bank has been loaned to the cooperative Department in East Pakistan to work as advisor at the expense of the State Bank. Advisors were also seconded to the Agricultural Development Bank and its predecessors. The State Bank has also supplied out of its own training schemes, trained personnel to the ADBP and the organizations that went before it. Officials of the State Bank are nominated to serve as directors and members on the Boards and Technical Advisory Committees of cooperative banks and specialized credit agencies. Recently, the State Bank has shown its increased interest in cooperative credit by contributing Rs. 100,000 to an "extension scheme" drawn up by the East Pakistan Cooperative Department for educating the masses in cooperative principles.

## CHAPTER IV

### AGRICULTURAL DEVELOPMENT BANK OF PAKISTAN

#### Past Development Leading to Its Creation

The Agricultural Development Bank of Pakistan is a relatively new credit institution but the need for such an organization was felt by the Central Government as early as 1951. It was felt that the existing agricultural credit institutions, mainly the credit cooperatives, were not in a position to meet the full credit needs of the farmers. Because of their slow growth process and moribund condition, they were simply unable to meet the challenge. Therefore, the Government decided to establish an institution capable of providing all kinds of finance to the agriculturists of the country. An institution known as the Agricultural Development Finance Corporation (ADFC) was set up in 1952 for expanding agricultural credit facilities and for promoting development and modernization of agriculture in Pakistan. It started its operations in March, 1953.

In 1957, another organization known as the Agricultural Bank of Pakistan was established for extending credit to farmers, cooperative societies and other agricultural corporate bodies. It was established because ADFC lacked many of the facilities of a banking institution. The Agricultural Bank was given much wider scope than the ADFC and was

intended to operate as much in the field of short-term credit as medium and long-term credit whereas the ADFC was primarily intended for medium and long-term credit. The two agricultural credit institutions had many over-lapping functions and, therefore, they were amalgamated on February 18, 1961 to form the present Agricultural Development Bank of Pakistan (ADBP).

Since the ADBP is a successor organization to the Agricultural Development Finance Corporation and the Agricultural Bank of Pakistan, it is necessary to follow their history and working in order to have a complete picture of the development of specialized credit institutions in the country.

#### Agricultural Development Finance Corporation

##### Purpose

The Agricultural Development Finance Corporation was established to serve the needs of agriculture and other related activities and the development of agriculture. The latter function included making loans for purchase or hire of mechanical equipment, land improvement, purchase and distribution of seeds and chemical fertilizers as loan in kind, drainage and reclamation of land, and disease and pest control.

Loans from the Corporation were to be given in kind generally but loans in cash could also be granted at the discretion of the Corporation when the circumstances warranted the advance of such loans.

Another provision was that loans from the Corporation could be utilized only for the purpose for which they were granted. Otherwise, the borrowers could be called upon to repay the amount forthwith.

### Capital Structure

The Corporation operated under the general direction of a Board of seven directors, including the Managing Director who was a full-time officer.<sup>1</sup> It was an autonomous body except in the matter of policy in which it had to take guidance from the government.

The Corporation had its head office at Karachi and eight branch offices in East Pakistan.

The Corporation's authorized capital was Rs. 50 million which was subscribed by the Central Government from time to time before it was amalgamated with the ABP. The entire amount had been fully subscribed and paid up. The Corporation got more capital by borrowing from the State Bank of Pakistan and from the Government. On 17th February, 1961, these borrowings amounted to Rs. 10 million and Rs. 1.7 million respectively.

Out of the total share capital not less than 51 per cent were to be subscribed by the Government. As to the remainder, to be sub-

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<sup>1</sup> Akhtar, op. cit. p. 240.



scribed by the public, the government had guaranteed the repayment of the principal as well as the payment of a fixed dividend not exceeding 5 per cent per annum. Over and above the share capital, the Corporation could, with the prior approval of the government, also issue and sell bonds and debentures not exceeding 5 times the value of the share capital and reserve fund combined, for the purpose of raising its working capital.<sup>2</sup>

#### Loan Operations

The Corporation commenced loan operations in March, 1953. Loans could be granted to farmers directly, or indirectly through subsidiary bodies, or organizations like cooperative societies. Loans granted by the Corporation in cash and in kind known together, were not to exceed Rs. 100,000 to an individual and Rs. 500,000 to a company or a cooperative society. These limits could, however, be relaxed at the discretion of the government. These maximum amounts, however, were never applied for no loaned.

Upto 30th April, 1959, the Corporation had loaned Rs. 20.1 million in East Pakistan. The loan operations of the Corporation increased greatly during the nine years of its operations, starting with a meagre amount of Rs. 80,000 for the whole of Pakistan (for East

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<sup>2</sup> Report of the Center on Agricultural Financing and Credit in the Near and Far East, op. cit. p. 137.

Pakistan it can be taken as nearly half) the loans granted rose to Rs. 21.7 million in 1960.<sup>3</sup>

#### Security Requirements

Loans upto Rs. 500 were granted against the farmer's promissory note with one surety. For higher amounts borrowers are required to pledge, mortgage, hypothecate, or assign their property.<sup>4</sup> Borrowers were also required to satisfy the Corporation about the proper use of the loans and the Corporation maintained its own machinery for verification. Cash loans were usually given in suitable instalments and before a second or subsequent instalment was given the Corporation had to be satisfied about the proper use of the previous instalments.

#### Rate of Interest

The rates of interest charged by the Corporation at the beginning were quite low. It charged cooperative societies only 4 per cent while the charge to individuals was 5 per cent. However, in 1959 the charges were made uniform and both cooperatives and individuals were charged an interest rate of 5 per cent. From 1st November, 1961, the rate was increased to 6 per cent.

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<sup>3</sup> Agricultural Credit in Pakistan, op. cit. p. 89.

<sup>4</sup> Ibid. p. 89.

### Repayment, Profit and Loss Situation

Strict recovery procedures for collecting loans were applied by the Corporation. But in special cases where the default was due to reasons outside the control of the borrower additional time was allowed for repayment. The Corporation's loans were recoverable as arrears of land revenue taxes.

The recovery percentage in East Pakistan was not very satisfactory. In 1958-59 the average recovery percentage for all Pakistan was 72.5 but for East Pakistan it was below average, being only 67 per cent.<sup>5</sup>

During its relatively long existence the Corporation made a cumulative loss of Rs. 1,362,602. Only in 1960-61 did the Corporation show some profit whereas in all previous years it incurred heavy losses on its loan operations.

### Agricultural Bank of Pakistan

The Agricultural Bank of Pakistan was established in 1957. The Bank was created because it was found that the ADFC was moving very slowly in its operations. Therefore, ABP was established with a wider

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<sup>5</sup> Akhtar, op. cit. p. 241.

scope than the ADFC in order to speed up the process of extending production loans required promptly by farmers.

The object of the Bank was to give short, medium and long-term loans in cash or kind to farmers, cooperative societies, and other corporate bodies of which the majority of the members were farmers. Besides the supply of credit the Bank provided storage and marketing facilities to the agriculturists and those engaged in allied activities. In addition to this, the Bank was also expected to arrange for the supply of better seeds, fertilizers and agricultural implements on credit. Moreover, it could also construct warehouses for its own use and provide financial assistance to its clients for providing warehousing facilities. The Bank also carried on its normal functions for taking necessary actions to achieve its objective. The Bank was specifically required to give preference to the credit needs of small farmers.

#### Management and Capital Structure

The management of the Bank was entrusted to a Board of directors consisting of a Managing Director, five directors nominated by the Central Government, an official of the State Bank of Pakistan, four directors representing the Provincial Governments, and two representing cooperative societies. The Bank had its head office at Karachi and two Provincial offices at Lahore and Dacca. There were eight branches of the Bank in East Pakistan before its merger with the ADFC.

A territorial division of jurisdiction was effected between the ADFC and the ABP to avoid overlapping of activities. Nine out of seventeen districts in East Pakistan were within the jurisdiction of the ABP.

The ABP started its operations with an authorized capital of Rs. 200 million, of which Rs. 32.5 million had been issued at the start and subscribed by the Central Government, Provincial Governments and Cooperative Societies, who are the only eligible bodies to subscribe to the share capital of the Bank. The Bank was authorized to raise working capital by borrowing, issuing and selling bonds and debentures, and accepting deposits from the public.

#### Security and Interest Rate

The ABP issued loans upto Rs. 500 against personal bonds with sureties. Loans above this amount were given against mortgage of immovable properties and also such security as jewellery, life insurance policies and government securities.

The Bank charged interest on its loans at the rate of 6 per cent for a period of 15 months, and 5 per cent on other loans, for all borrowers except cooperative societies. For cooperatives, for periods upto 15 months, the rate was 2 per cent below the rate charged by such cooperatives to their members, subject to a minimum of 5 per cent and

a maximum of 6 per cent. For central cooperative banks and apex banks such rates were a minimum of 3.5 and 4 per cent respectively. In 1959, a uniform rate of 5 per cent was fixed for all types of borrowers and all types of loans. Again in 1960 the interest rate on short-term loans (upto 15 months) was raised to 6 per cent.

### Loan Operations

The Agricultural Bank started its actual operations in East Pakistan from the 15th December, 1958. The Bank decided to emphasize the credit requirements of the farmers in East Pakistan. This attitude may be clear from the following:

The Managing Director has begun to think in terms of the total credit requirements of the agricultural sector in East Pakistan. He estimates the requirements are to the tune of Rs. 1,500 million.<sup>6</sup>

Upto the last week of June, 1959 the branches in East Pakistan had sanctioned loans amounting to Rs. 3 million, of which Rs. 2.5 million had been disbursed. The bulk of the loans granted in East Pakistan were seasonal and livestock loans. The loans were, however, not disbursed at one time but in suitable instalments.

The ABP made a cumulative loss of Rs. 1.56 million in the 3.5 years or so of its operations.

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<sup>6</sup> Mohammed Uzair, "The Role of Government Agencies in Rural Credit in Pakistan", Credit-rural and cooperative, (July - September, 1959), p. 7.

### Agricultural Development Bank of Pakistan

The Agricultural Development Bank of Pakistan (ADBP) came into existence in 1961 as a result of the merger of the two existing agricultural credit institutions, the ADFC and the ABP under the Agricultural Development Bank of Pakistan Ordinance of 1961.

The merger of the two institutions into one was recommended by many since the time of the existence of the two institutions side by side. Much overlapping of functions, duplication of overhead costs, maintenance of two sets of personnel, etc., caused the Credit Enquiry Commission to comment that "the merger of the Agricultural Development Finance Corporation and the Agricultural Bank of Pakistan is the ideal solution".<sup>7</sup> The Planning Commission agreed with the Credit Enquiry Commission and thought it highly desirable to merge the two institutions into one.<sup>8</sup> Therefore, the new Agricultural Development Bank was incorporated

to make better provision for affording credit facilities to agriculturists and persons engaged in cottage industries in the rural areas, and for matters connected therewith.<sup>9</sup>

#### Capital Structure

The original share capital of the ADBP was Rs. 200 million,

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<sup>7</sup> Credit Enquiry Commission Report, op. cit. p. 77.

<sup>8</sup> Second Five Year Plan, 1960-65, op. cit. p. 181.

<sup>9</sup> The Agricultural Development Bank Ordinance, 1961 (Karachi: Government of Pakistan, 1961), p. 1

divided into two million fully paid-up shares of the nominal value of one hundred rupees each. The share capital can be increased with the previous approval of the Central Government. The Bank started with a paid-up capital of Rs. 82.5 million (the paid-up capital of the two merged institutions). At the end of June, 1962 the paid-up capital was Rs. 100 million. The additional capital came entirely from the Central Government.

The share of different agencies and individuals in the share capital of the Bank is similar to the provision for the Agricultural Bank.

Not less than fifty-one per cent of the shares issued at any time shall be subscribed for by the Central Government, and the remaining shares, if any, shall be offered to the Provincial Governments, the cooperative societies and members of the public for subscription in such proportion and on such terms and conditions as the Central Government may determine at the time of each issue.<sup>10</sup>

The capital of the Bank has been found to be inadequate for satisfying its loaning operations. It has been borrowing from the State Bank of Pakistan on a substantial scale. In the first half of 1962-63 the Bank borrowed from the State Bank Rs. 76.2 million.

In order to augment its resources for loan operations, the Bank has been authorized to borrow money against the security of its assets, or otherwise, and also to accept money on deposits. The Bank provides fixed deposit and savings bank facilities in rural areas.<sup>11</sup>

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<sup>10</sup> Ibid. p. 3.

<sup>11</sup> Economic Survey of Pakistan, op. cit. p. 133.



### Management

The head office of the Bank is at Karachi with three regional offices in each province. In East Pakistan the regional offices are at Khulna, Rajshahi and Dacca. In addition, the Bank has 16 branches, 16 sub-branches and 10 pay offices throughout the province. The government has fixed the target of branches to the extent of half the total number of sub-divisions in the province.

The general direction and superintendence of the affairs and business of the Bank are entrusted to a Board of Directors who are to act on commercial considerations but with due regard to the interests of agriculture and cottage industries in rural areas. They are required to follow the directions of the State Bank on questions of monetary and credit policy.

The Board of Directors consist of the chairman, two Central Government officers, one each from the Ministries of Finance and Agriculture, two officers, one each from the two Provincial Governments to be nominated by the Provincial Governments concerned, two non-officials, one from each province, and such other persons as the Central Government may consider necessary to give representation to cooperative societies, and the public shareholders. The chairman is both the executive and administrative head of the Bank and is responsible to the Board.

Branches, sub-branches and pay-offices, located at the district and sub-division headquarters are the issue offices for loans to the farmers. Each of these units headed by a Manager or Deputy Manager or an Officer-in-charge maintains a number of field staff known as Investigation Officers, who collect loan applications from the villages with the assistance of local chairman of Union Councils and Development Circle Officers.

#### Advisory Committee

Each Regional Office of the ADBP has an Advisory Committee consisting of three Provincial Government officers, three non-officials representing the agricultural interests in the region and the Regional Manager, the latter being the Chairman of the Committee. This Committee advises the Regional Managers on general matters of policy, such as expansion of the Bank's loan operations, determination of priorities of loans having regard to their purposes, etc.

#### Technical Advisory Committee

According to the provision of the ADBP Ordinance, 1961, a Technical Advisory Committee consisting of experts in the various fields of agriculture and banking has been appointed at the Head Office to give the Bank technical advice on schemes to be submitted to it for financial assistance and other matters of loan policy and procedure.

### Authorized Business

The ADBP has been authorized to

provide credit in cash or in kind and credit facilities, including the hiring and renting of anything which it may advance by way of loan and the provision for warehousing facilities... to agriculturists for the purpose of agriculture.<sup>12</sup>

The Bank can also buy, stock and supply on credit, seeds, agricultural machinery, implements and equipment, fertilizers and chemicals and materials used in agriculture and act as agent for any organization for the sale of such materials. The bank is further authorized to accept money on deposit, to borrow money for the purpose of its business against the security of its assets, to issue and sell bonds and debentures and to accept movable and immovable property as security for its loans.

### Objects of the Loans

Loans are granted by the ADBP for:<sup>13</sup>

1. Meeting the costs of cultivation including costs of fertilizers, seeds, hired labor, and small implements.
2. Marketing of crops and other agricultural products, including construction of warehouses.
3. Purchase of livestock, agricultural implements, light and heavy

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<sup>12</sup> Agricultural Development Bank of Pakistan Ordinance, 1961, op.cit. p.7.

<sup>13</sup> General Information for Obtaining Loans from the Agricultural Development Bank of Pakistan (Karachi: ADBP, n.d.), pp. 2-3.

machinery, including pumps.

4. Development of agriculture e.g. sinking of tube-wells, percolation, wells and constructing persion wheels, reclamation of land, flood-control measures, improvement or establishment of irrigation system, raising of orchards, etc.
5. Cattle breeding.
6. Cottage industry in rural areas.

The loans are granted to individuals engaged in agriculture or in the development of agriculture or agricultural products or in cottage industry in rural areas or in storage, warehousing, marketing or processing of agricultural produce. Loans are granted for the above purposes also to corporate bodies, cooperative societies, etc.

#### Types of Loans

The Bank's regulations provide for all three types of loans. The short-term loans are granted, for a period not exceeding eighteen months, depending on the crop cycle. The medium-term loans are given, for a period not exceeding five years. Long-term loans are advanced for periods more than five years but not exceeding 20 years.

#### Security Requirements

The Bank is allowed to accept, as security for its loans, pledges, mortgages, hypothecation or assignment to the Bank of any

kind of movable or immovable property, or unconditional bank guarantee of a scheduled bank, or draw, accept, discount, buy and sell or rediscount bills of exchange and promissory notes bearing two or more good signatures, one of which shall be that of a scheduled bank or that of a cooperative bank. The Bank also accepts gold ornaments, jewels, securities, savings certificates, life insurance policies and government securities as security.

While short-term loans upto Rs. 1000 may be granted against a bond with one or more sureties, and where necessary a charge on the property of the borrower, other loans must be fully secured. Landless farmers, however, can obtain loans upto a maximum of Rs. 500 each on personal surety. The surety, should, of course, be solvent in terms of the amount involved. Short-term loans may also be secured by bank guarantee, promissory note etc. mentioned above. Medium and long-term loans are required to be secured by mortgage of land and often immovable property but the Bank can accept gold, government securities, etc. But even in the case of medium and long-term loans, Rs. 500 or less may be granted against personal surety only.

The total amount of loan advanced in aggregate at any time to any borrower shall not exceed:

- (i) 80% of the market value or face value of government securities, whichever is lower;

- ( ii) 75% of the appraised value of the tea crop;
- (iii) 75% of the surrender value of life insurance policy with the condition that the policy is kept alive by prompt payment of premiums;
- (iv) 70% of the value of gold of maximum fineness;
- ( v) 50% of the appraised value of security in all other cases unless in any suitable case, where land is offered as security the sanctioning authority for reasons to be recorded in writing decides to relax that limit in which case the loan may be advanced upto 60% of the appraised value of the land.<sup>14</sup>

#### Rate of Interest

The Bank charged a rate of interest of 6 per cent for all types of loans upto May, 1961. But later the rate has been raised to 7 per cent for short and medium-term loans repayable within 5 years. For long-term loans the rate remains at 6 per cent. Additional interest at the rate of  $\frac{1}{2}$  per cent is charged in case of default in the repayment of loans from the date of default.

#### Procedure for Obtaining Loans

The largest demand for agricultural loans is for seasonal production expenses such as preparation of land, sowing, purchase of seeds, fertilizers, harvesting, etc. Before the planting season is on the investigation staff of the Bank visit the villages in order to supply

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<sup>14</sup> Ibid. pp. 5-6.

the farmers with application forms and then collecting them. They also help the farmers in filling up the forms without any charge. They assess the credit needs and the value of the securities and verify the correctness or otherwise of the statements made in the applications. Then the application forms and the reports of the investigation staff are submitted to the Regional Manager through the Branch offices, or by post, or handed over to the investigation staff when they visit the villages. A nominal application fee is charged to each applicant. To ensure that borrowers give correct information on their farms and their financial conditions the Bank treats all the information on a strictly confidential basis.

The Regional Manager examines the application and the accompanying reports of the investigation staff and, if satisfied, grants the loan. Then the applicant is informed about the approval and asked to call at the nearest Branch office with necessary documents to execute a mortgage deed and/or a bond.

For seasonal loans there is a provision of "continuous mortgage" to avoid the inconvenience of executing a mortgage every year. According to this provision a property is mortgaged once and the farmer can obtain loans every year from the Bank by only executing a Loan Bond. Medium and long-term loans may also be granted on this mortgage.

its repayment. These repayment dates are generally two in every year, 1st January and 1st July. Seasonal loans are scheduled to be repaid at the time of harvest. The instalments on medium and long-term loan repayments are not scheduled to be repaid before the farmer to get income from the investment. Defaulters are charged  $\frac{1}{2}$  per cent higher rate and debarred from getting loans in the future. But the Bank allows additional time for repayment if the default is due to reasons outside the control of the farmer such as floods, draught, cytone, etc.

#### Loan Against Hypothecation of Crops

The Bank has been making loans against hypothecation of certain cash and food crops, such as sugarcane, tea and paddy, in East Pakistan. This procedure of advancing a loan is very simple and convenient for the borrowers. No mortgage of property is involved and even sureties are not required. The borrower only executes an agreement with the Bank to sell the crop to the Government, a particular mill or factory at the market price. The Bank enters into an agreement with the mill or factory whereby the latter undertakes to deduct the dues of the Bank from the sales proceeds and remit the amount to the Bank. The following Table shows the extent of loaning by the Bank against hypothecation of the sugarcane crop in East Pakistan.



TABLE 5

LOAN OPERATIONS OF ADBP AGAINST SUGARCANE CROP IN EAST PAKISTAN<sup>a</sup>

Crop Season	Amount Sanctioned		Amount Paid		Amount Due	Amount Recovered	Percentage of Recovery
	During 1961-1962	Since Inception	During 1961-1962	Since Inception			
1960 Crop	-	892,800	-	785,000	825,150	663,085	80.3
1961 Crop	118,713	2,427,367	807,049	1,741,621	1,768,536	1,430,280	80.8
1962 Crop	3,513,087	3,513,087	2,179,397	2,179,397	Not yet due	-	-

<sup>a</sup> Source: Agricultural Development Bank of Pakistan, Annual Report and Statement of Accounts for the year ended 30th June, 1962, (Karachi: 1962), p. 8.

The amounts sanctioned and paid out for 1960 and 1961 crops under "since inception" means since inception of the Agricultural Development Finance Corporation and the Agricultural Bank of Pakistan. The amounts under that heading for 1962 crop means the amounts sanctioned and paid out since the inception of the Agricultural Development Bank of Pakistan.

#### Loan Operations

The Bank's loan operations are increasing every year. In 1958-59 the former two institutions paid out only Rs. 8.6 million in East Pakistan whereas in 1961-62 the amount of loans paid out was Rs. 40.5 million. During 1962-63 the amount of Rs. 45 million was sanctioned

for East Pakistan out of which Rs. 30 million had been paid out during the first five months. By December, 1962 the total loans advanced to agriculturists in East Pakistan since 1953 was Rs. 142.5 million covering more than two hundred and fifty thousand loan applications. More than 65 per cent of the loans went to small agriculturists.<sup>15</sup> The average amount of a loan in East Pakistan is around Rs. 350 per borrower. According to the Economic Survey of Pakistan, 76 per cent of the ADBP loans in East Pakistan were sanctioned for small land holders.<sup>16</sup>

#### Recovery of Loans

Recovery of ADBP loans in East Pakistan was not uniform. It varied widely with the purposes for which they were granted. During 1960-61 about 300,000 rupees were paid out to farmers in cyclone affected areas of Chittagong and Noakhali districts under special arrangements. The recovery percentages for the two districts were 37.1 and 56.8 respectively which were considered very unsatisfactory. For hypothecation of paddy crops the recovery was 63 per cent in 1961 which was also not very satisfactory. The more satisfactory recovery was in case of loans against hypothecation of sugarcane crops as can

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<sup>15</sup> A.M. Salimullah, "The Role of Agricultural Development Bank of Pakistan in the Development of Agriculture in Pakistan", A Radio Talk from Dacca on 25.4.63 (Mimeographed), p. 3.

<sup>16</sup> Economic Survey of Pakistan, op. cit. p. 134.

be seen in the previous Table. The most satisfactory recovery was in case of loans granted to the Tea Estates. The recovery of loans both against mortgage and hypothecation of crops were 100 per cent in 1961-62.<sup>17</sup> The recovery percentages for the whole province for all purposes during the periods since commencement of ADBP loans to 1961-62 and during 1961-62 were 81.5 and 76.7 respectively. There has been a deterioration in the recovery position. "The main factor responsible for this deterioration is the low recovery of loans granted in the Crash Programme of Model Scheme areas - - - and those granted in the cyclone-affected areas of East Pakistan".<sup>18</sup> However, in February, 1963 recovery percentage stood at 79 per cent.<sup>19</sup>

#### Supervision of Loan Utilization

It is a statutory responsibility of the Bank to ensure that the loans granted by it to farmers are utilized for the purpose for which they were granted. To minimize the chances of misutilization, loans are given in kind as far as possible. A check for proper use of loans by farmers is also exercised by the Branch officers who sanctioned the loans. For this purpose the Branch officers send members of their investigation staff to visit the farms for physical verification and

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<sup>17</sup> Agricultural Development Bank, Annual Report and Statement of Accounts, 1962, op. cit. p. 6.

<sup>18</sup> Ibid. p. 11.

<sup>19</sup> Salimullah, op. cit. p. 4.

report to the Branch officers. All instances in which misuse of loans is detected are reported to the Head Office and action is taken immediately to recall the loans at once. Although the supervision of loan use is still very inadequate, favorable results were obtained by even this limited verification. The Table below shows the result of a sample verification on the use of ADBP loans made by the investigation staff.

TABLE 6

UTILIZATION OF AGRICULTURAL DEVELOPMENT BANK LOANS IN EAST PAKISTAN<sup>a</sup>

Region	No. of Cases Verified	Wholly Utilized		Partly Misutilized		Wholly Misutilized	
		Number	Percentage	Number	Percentage	Number	Percentage
Dacca	5,857	5,786	98.8	68	1.2	3	Negligible
Rajshahi	3,787	3,774	99.7	11	0.3	2	Negligible
Khulna	4,873	4,841	99.4	19	0.4	13	0.2
Total	14,517	14,401	99.2	98	0.6	18	0.2

<sup>a</sup> Source: Agricultural Development Bank of Pakistan, Annual Report and Statement of Accounts for the Year Ended 30th June, 1962, (Karachi: 1962), p. 12.

Difficulties in Loan Operations

The ADBP, like its predecessors, faced, and is still confronted with many difficulties which are slowing down greatly the pace of progress in its loan operations. One of the foremost difficulties it faced was the shortage of trained staff. In a very specialized and complicated business

such as giving loans to small farmers the risks involved are great. In order to deal with this situation effectively properly trained staff is essential. As the existing facilities for training the staff are very limited, the Bank's loan operations must suffer for still sometime to come.

Another difficulty was that of verifying the title of borrowers to their properties in the pledge, mortgage, etc. of properties. A good deal of time was taken up in securing the exemption from various laws governing land alienation and moneylending. Verifying the titles themselves is very cumbersome as the farmer in many cases do not have the proper documents. In other cases the properties are either owned by several persons or are already encumbered.

A further difficulty that the Bank experienced was in the recovery of its dues. The Bank is required, in East Pakistan, to file a suit in the courts of Certificate Officers under the East Bengal Public Demands Recovery Act of 1913. This procedure was found to be cumbersome, dilatory and expensive. It took a long time before final decision could be taken and in this way the Bank's money remained locked up unnecessarily for an indefinite period. In order to ameliorate this situation the Provincial Government amended the Act, exempting the Bank from certain provisions of the Act which are generally availed of by recalcitrant defaulters to obstruct recovery proceedings. The government is also considering a request by the Bank to appoint special

Certificate Officers to deal with the Bank's cases speedily which otherwise take a long time because of the inadequate number of Certificate Officers.

### Training of Personnel

As mentioned earlier, trained staff in adequate numbers is essential to the success of any institution extending credit to small farmers. This need has been recognized by the Agricultural Development Bank as well as its predecessors. The Agricultural Bank started a Training Center in 1957 where basic knowledge was given on almost all the subjects pertaining to agricultural credit. After completing this course, the trainees had practical training in agriculture at the Agricultural Colleges. In 1960 the ADFC established its own Training Institutes at Dacca and Karachi. These institutes provided training to investigation officers only. The ADBP retained the institutes. During the year 1961-62, 20 trainees successfully completed their training at the Bank's Institute at Dacca. The Bank also arranged refresher courses for the staff to enable them to keep abreast of the latest methods and developments in administering agricultural credit. Group discussions are also held among the experts on cooperation, village-AID, agriculture and banking, and the Bank's staff at all levels. The Bank is trying to increase existing training facilities so that it can have more trained staff to cope with its fast growing loan operations.

## CHAPTER V

### CO-OPERATIVE CREDIT STRUCTURE IN EAST PAKISTAN

#### Importance of Credit Co-operatives in Agricultural Progress

Co-operatives have been thought for a long time by many people in the field of rural credit to be peculiarly suited for serving the needs of small farmers for credit and other services in their farming operations. As is stated in United Nations Department of Economic Affairs Publication:

There can be little doubt that the extension of cooperative credit organizations is an important factor in promoting the expansion of agricultural production by small farmers.<sup>1</sup>

Sir Bernard O. Binns also said in a similar vein:

The cooperative form of organization offers the best prospects of providing cheap and efficient credit to small farmers and should be unremittingly cultivated wherever any favorable ground is seen.<sup>2</sup>

The National Planning Board of Pakistan also reiterates the above statements. It says "in the sphere of credit especially we see no wholly satisfactory substitute for cooperatives as the ultimate objective."<sup>3</sup>

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<sup>1</sup> United Nations Department of Economic Affairs, Land Reform Defects in Agrarian Structure as Obstacles to Economic Development (New York 1951), p. 40.

<sup>2</sup> Bernard O. Binns, Agricultural Credit for Small Farmers, FAO Development Paper No. 16 (Rome: 1952), p. 24.

<sup>3</sup> First Five Years Plan, 1955-60, op. cit. p. 297.

Cooperation is not only a type of organization to serve the people but it is a philosophy of life, a way of living. It is an organization made by the farmers, run by them for their own benefit. It is highly commensurate with the democratic ideals of our society. It can do much more for the individual than any other single organization. But as stated by W. P. Watkins, it is:

no panacea; nor beyond a certain point a substitute for the self-responsibility of individuals, or the responsibility of government for social welfare. Yet it contributes to social life an element which neither of them can supply. It is more than a middle way between them; it is a third dimension.<sup>4</sup>

#### Advantages of Credit Cooperatives

Cooperatives have clear advantages over other forms of credit extending agencies in meeting the credit needs of farmers. Village cooperatives provide credit to the farmer almost at his door. The members have an intimate knowledge about each other's financial condition and credit needs. The overhead and administrative expenses are low, thus making it possible for the farmers to get credit at low cost. The Governor of the Farm Credit Administration of the United States, R. B. Tootell, listed five other advantages of credit cooperatives. They are:<sup>5</sup>

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<sup>4</sup> W. P. Watkins, "Cooperation and Liberty", Credit-Rural and Cooperative July-September, 1960 (Karachi: State Bank of Pakistan), p. 13.

<sup>5</sup> R.B. Tootell, "Credit Cooperatives as an Effective Tool in Providing Agricultural Credit", Conference on Agricultural Development Banking, Karachi, April 16-20, 1962 (Ankara: Central Treaty Organization, 1962), pp. 132-133.



1. Provides training and experience in the democratic process to the members as they take part in the actual running of the business of their cooperative.
2. Encourages thrift and attention to financial obligations.
3. Increases capital accumulation.
4. Facilitates technical supervision for the effective use of credit and for farm planning.
5. Cooperatives have greater bargaining power in obtaining loan funds.

Farmers also gain the economics of large scale operation, when they join together in operating a cooperative doing a large volume of business. Individual initiative is given freeplay. But this also gives rise to difficulties. One of the prerequisites for success of cooperatives is sound management. Since farmers in many countries are mostly illiterate, administrative personnel must be chosen with care and their working supervised by experts dedicated to helping farmers progress through joint effort.

#### Government Organized Cooperatives

Cooperative societies originated from the people or farmers themselves. Both in England and in Germany the agricultural cooperative movement was started by the farmers who needed the services of the societies. But in countries like India and Pakistan, the program was

not spontaneous, it was organized and initiated by the government officials. There is quite justifiably a school of thought which thinks that government initiation and control must be gradually diminished and removed from cooperatives as it is inimical to the development of a genuine cooperative movement when dictatorial or paternalistic. The other view is that without regulation, control and paternalistic encouragement by the government, cooperatives cannot endure, much less prosper and flourish. The former group is influenced by the successful development of cooperatives in some western and Asian countries as a largely non-official private enterprise. The latter group is influenced by the fact that farmers in Pakistan and other developing countries are illiterate and have no knowledge of cooperative principles. Therefore, it is the duty of the government to make them familiar with the new program which may help them solve many of their problems. There is proof that a government initiated cooperative program can also be successful, as in Japan, where the Department of Cooperatives currently follows its philosophy of teaching families how to operate cooperatives successfully on their own responsibility.

In Japan:

the agricultural cooperative movement was initiated by the government and developed under the paternal guidance of government officials, rather than through the efforts of farmers themselves.<sup>6</sup>

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<sup>6</sup> Tomomi Ashikaga, Agricultural Cooperative Associations in Japan, Agriculture, Forestry and Fisheries Productivity Conference, Agricultural Department Series No. 6 (Tokyo: July, 1959), p. 9.

However, it is significant that with the rapid growth of democratic ideology in Japan following World War II, farmers have taken responsibility for the functioning of local cooperatives. Leaders of local cooperatives have actually directed the policies and functioning of the federations. Cooperatives have become self-sustaining with the role of government cooperative officers being those of supervision for adherence to the law, inspection and auditing in the interest of the members.

The question in Pakistan is, therefore:

not one of transferring the responsibility of government to non-officials but one of providing an inspiring leadership to the official control machinery and to lift it up to a higher ideal of dynamic service with a missionary purpose. The present position is one which must cause anxiety to all people interested in co-operation. Speaking generally, the non-official elements, for a variety of reasons, are unable to manage the primary societies efficiently, though in law and theory they are responsible for management. In actual fact decisions are taken directly or indirectly by the officials who are not responsible under the law. Thus the non-officials are responsible but do not exercise their power which in law rests with them; the officials exercise the power but are not responsible for their actions. The official machinery receives insufficient encouragement and inspiration from political and administrative leadership, with the result that the so-called cooperative movement is managed and led without much vision, outlook and understanding.<sup>7</sup>

#### History of Cooperative in East Pakistan

It was in 1849 that Raiffeisen originated the form of rural credit cooperation now known by his name.<sup>8</sup> He did not succeed in his

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<sup>7</sup> First Five Year Plan, 1955-60, op. cit. p. 293.

<sup>8</sup> Report of the Committee on Cooperation in India, 1915 (Bombay: Reserve Bank of India, 1957), p. 3.

efforts in the beginning. But ultimately, his earnestness and enthusiasm prevailed against the apathy and misrepresentation with which he was confronted.

In British India the condition of farmers was similar, at the turn of the century, to the condition prevailing in Germany when Raiffeisen started his program. Therefore, the Indian government appointed a committee to report on the possibility of introducing cooperation in India. The committee reported favorably and in parts of India including Bengal (a part of which is now East Pakistan), some officials on their own initiative established a few pioneer societies. But difficulties arose due to the absence of any special legislation. Therefore, in 1904, the Cooperative Credit Societies Act was passed. Cooperative credit societies on the Raiffeisen principle of unlimited liability were promoted. They progressed quite well and there was need for other types of cooperatives. Therefore, in 1912 the Act of 1904 was amended as the Cooperative Societies Act II. The object of the two Acts was to encourage thrift, self-help and cooperation among farmers, artisans and persons of limited means. Cooperation in pre-partition India was mainly concerned with the solution of the problem of the growing menace of agricultural indebtedness.

The cooperative societies progressed rapidly. But when in 1919, cooperation was made a provincial subject, the cooperative development

was retarded due to budgetary limitations and the laissez-faire policy of the government.<sup>9</sup>

The pre-1929 boom stimulated a tremendous growth in the cooperative program. But the following depression created a big crisis as farmers who were members of the societies became defaulters in great numbers. Cooperative societies and banks were in great difficulty and special debt legislation introduced by the provincial governments for the protection of farmers, aggravated the problems of the societies. Obligations due cooperatives were not exempt from debt settlement laws in East Pakistan so that many defaulted loans could not be collected. The program received a setback at the financial base from which it did not recover.

A committee was set up in 1944 by the Government of India to find ways and means to reorganize the program. It reported in 1946 but the recommendations could not be carried out as India was divided in 1947.

#### Partition and Its Effects

When Pakistan was created in 1947, the cooperative program was largely in an inactive and stagnant condition, particularly in East Pakistan. At that time there were 26,664 agricultural credit societies

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<sup>9</sup> Credit Enquiry Commission Report, op. cit. p. 19.

but most of them were on the verge of liquidation. By 1956-57, over 24,000 of them were under liquidation.<sup>10</sup>

In East Pakistan the most urgent task in the rehabilitation of cooperatives was the creation of a new Apex Cooperative Bank as the old one was in India. The East Pakistan Provincial Cooperative Bank was established in 1948. It was decided in 1950 to liquidate all moribund primary credit societies and in their place establish 4,000 new societies to be known as union multi-purpose societies. Each such society was planned to draw members from a group of 10-15 villages making up a union. By 1957 the total number of societies declined from 26,664 to 1,989 with a corresponding decline in membership from 658,125 to 48,226. The membership of multi-purpose societies in 1957 was 529,000, which added to that of the other primary societies give a total membership of 577,000.<sup>11</sup>

#### CO-OPERATIVE CREDIT STRUCTURE

The cooperative credit structure in East Pakistan has remained unchanged since the three-tier pyramidal system was introduced in India in 1912. The system consists of:

1. Primary village credit societies at the base.

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<sup>10</sup> Ibid. p. 25.

<sup>11</sup> Ibid. p. 25.

2. Central cooperative banks at the secondary or intermediate level of the district.
3. Apex Cooperative Bank, known as the East Pakistan Provincial Cooperative Bank at the top.

The primary cooperative societies are federated into central cooperative banks (at subdivision or district level) and these into an apex bank at the provincial level.

#### Primary Co-operative Credit Societies

Primary agricultural credit societies form the base of the co-operative credit structure and constitute the most important link between the farmer members and the source of funds in the central and apex banks. They occupy a predominant position in the cooperative credit structure. Before 1947, the societies in East Pakistan were basically Raiffeisen type of small size and unlimited liability. Large size and limited liability societies were very hard to find.

#### Types of Societies

After independence, when the government was trying to rehabilitate the cooperative societies, many questions came up, as for example, whether the size of the societies should be small or large, whether unlimited or limited liability should be accepted as the basis of organization, or whether single-purpose or multi-purpose societies

should be organized. The government appointed numerous committees and commissions to consider all these problems but complete agreement on these points has not yet been reached.

### Multi-Village Society

It is often suggested that primary societies should be organized on a large-scale multi-village basis. The main reason for this is that a sufficient turnover of business would be afforded which would allow employment of a paid staff without subsidy from the government. But this cannot be taken as sufficient reason for setting up such societies. The pattern on which the primary societies have been built up in the country was laid down by the Maclagan Committee of 1915. This committee laid down the conditions for organizing cooperative societies in the following words:

The field of the society should be sufficiently restricted to allow members to be mutually acquainted and to be in a position to exercise an effective mutual control. It is a good general rule that there should be one society to one village and one village to one society.<sup>12</sup>

But in the All-India Rural Credit Survey Report it was recommended that large-size multi-village societies with a membership of 500, a minimum share capital of about Rs. 15,000 and a total amount of business of Rs. 150,000, should be set up. The object of forming these large-sized

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<sup>12</sup> Report of the Committee on Cooperation in India, 1915, (Bombay: Reserve Bank of India, Reprint 1957), p. 18.



societies is to make them economic and self-sufficient units.<sup>13</sup>

### Limited Vs. Unlimited Liability

When cooperatives were first organized in India they followed the Raiffeisen principle of unlimited liability. There are merits to this principle in that it is essentially cooperative in character and creates a sense of collective responsibility and mutual watchfulness among members. Further, since cooperatives are generally organized among persons of small means whose individual credit-worthiness is low, the unlimited liability basis enables them to jointly merit credit which is enough for their minimum productive needs. But the experience of the thirties made unlimited liability very unpopular as many of the regularly repaying honest members were called upon to pay for other members' defaults. "The result has been", as pointed out by the Credit Enquiry Commission, "to make many well-to-do and honest people reluctant to join as members which has resulted in hindering the growth of cooperative savings and their availability for public use."<sup>14</sup>

The arguments that are usually raised against unlimited liability include:<sup>15</sup>

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<sup>13</sup> Cooperative Developments in India, 1953-54 to 1955-56, Report of the Third Indian Cooperative Congress, (New Delhi: All India Cooperative Union, April 4, 1958), p. 4.

<sup>14</sup> Credit Enquiry Commission Report, op. cit. p. 32.

<sup>15</sup> K.R. Kulkarni, Theory and Practice of Cooperation in India and Abroad, Vol. I, (Bombay: Cooperators' Book Depot, 1958), pp. 119-120.

1. Unlimited liability is a principle which the majority of farmers can scarcely understand.
2. Unlimited liability has kept away the better class of farmers whose participation would have helped in the efficient management of societies.
3. Unlimited liability may be made ineffective by selling or transferring of property in the name of relatives.
4. Unlimited liability assumes possession of mutual knowledge of financial conditions and needs which in actual practice is not true in many cases.
5. It is efficient and honest management rather than unlimited liability that induces confidence among financing banks and depositors.

In East Pakistan unlimited liability societies have failed and are gradually being liquidated. The trend is shown in the following Table. Limited liability is now generally accepted as more desirable than unlimited liability.

TABLE 7

TREND OF LIMITED AND UNLIMITED LIABILITY SOCIETIES IN EAST PAKISTAN<sup>a</sup>

Items	1948-49	1955-56	1959-60
Limited Liability	1,675	3,238	3,711
Unlimited Liability	25,839	3,441	289
Total	27,514	6,679	4,000

<sup>a</sup> Source: State Bank of Pakistan, Agricultural Credit in Pakistan (Karachi: Agricultural Credit Department, Dec. 1962), p. 45.

"Recent world cooperative opinion is also in favour of abolition of the principle of joint and several liability."<sup>16</sup> However, there is nothing basically wrong with unlimited liability societies and they are successful in some parts of the world, e.g., Cyprus and Jordan.

Table 7 shows a marked decrease in unlimited liability societies and increase in limited liability societies because of the fact that most of the old single-purpose unlimited liability credit societies in East Pakistan have been replaced by multi-purpose limited liability societies.

#### Single-Purpose Vs. Multi-Purpose Societies

In the pre-independence era the single-purpose credit society was the accepted type of cooperative organization. But after independence the government of East Pakistan decided to set up multi-purpose societies. The main reason for this was the fact that single-purpose credit societies had failed to interest the farmers to a great extent because they covered only one aspect of the farmers requirements. The basic argument in favour of multi-purpose societies is that the cooperative societies must encompass all aspects of the life

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<sup>16</sup> Ibid. p. 122.

of the farmer if it is to succeed in its purpose of helping the members to advance economically.

In the Report of the Technical Meeting on Cooperatives in the Near East held at Cairo in 1959, many participants were of the opinion that:

the multi-purpose society in the village was more useful and effective than the society for credit only since farmers could obtain correct and proper production supplies and market their produce through the one cooperative village unit.<sup>17</sup>

Thus, it can be seen, that the multi-purpose form of cooperative society is very convenient and useful to the farmers.

The multi-purpose society has the further advantage of providing the services at the same place. This is a very strong point in favor of multi-purpose societies as the farmers do not like to deal with a number of societies.

The idea of meeting the varied needs of farmer members through one overall local society rather than through several uneconomical small scale societies performing different functions, has gained headway in India.<sup>18</sup>

The advantages of good management claimed for single-purpose

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<sup>17</sup> Report on the Technical Meeting on Cooperatives in the Near East, Cairo, Oct. 1959, (Rome: FAO of the UN, 1960), p. 17.

<sup>18</sup> M.A. Abrahamsen, A Look at Agricultural Cooperatives in India, Farmer Cooperative Service Circular 28, U.S.D.A., (Washington, April, 1961), p. 29.

societies may be looked upon as disadvantages too. They have to depend more on honorary services and for separate societies the overhead and other costs will be higher. It is stated in the State of Food and Agriculture of 1963 that:

general purpose cooperatives seem well adapted for the very small-scale farms commonly found in Asia and other less developed regions. They are economical of management and permit a larger and more economic scale of operation than would be possible with single purpose cooperatives.<sup>19</sup>

Further advantages have been claimed for multi-purpose societies. As M.B. Nanavati said that:

Experience has taught us that single-purpose societies are incapable of obtaining the full loyalty of the members and eliciting their enthusiastic cooperation. In a purely credit society the tendency for members is to remain in it as long as they get credit. In the case of a multi-purpose society, however, the contact being continuous and the benefits being more tangible than the mere benefit of getting credit or that of saving a small sum by way of interest charges, there is a greater sense of loyalty. The manifold problems of the average cultivator are sought to be solved by the multi-purpose society, and, therefore, this kind of society imparts strength and stability to the movement itself.<sup>20</sup>

### Membership Trends

The membership trend must be considered under two headings, those of single-purpose unlimited liability credit societies and those

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<sup>19</sup> State of Food and Agriculture (Rome: FAO of the UN, 1963), p. 163.

<sup>20</sup> M.B. Nanavati, "Rethinking on Rural Credit," Indian Journal of Agricultural Economics. XII (1) Jan.-March, 1957.

of multi-purpose societies.

The cooperative credit societies with unlimited liability operating in a village with a membership of only 20 to 25 could not function as an economic unit. Therefore, the government is trying to liquidate them gradually and at present only 289 of them exist. As the number of these societies decreased their total membership also declined. In 1957-58 the total membership was 39,785 and in 1959-60 it was only 9,834. The total number of societies and their membership in recent years is shown in the following Table.

TABLE 8

NUMBER AND MEMBERSHIP OF PRIMARY CREDIT SOCIETIES IN EAST PAKISTAN<sup>a</sup>

Type of Society	1957-58		1958-59		1959-60	
	No.	Member-ship	No.	Member-ship	No.	Member-ship
Single-Purpose Credit	1,054	39,785	614	24,114	289	9,834
Multi-Purpose	3,456	571,983	3,524	643,860	3,711	773,218
Total	4,510	611,768	4,139	667,974	4,000	783,052

<sup>a</sup> Source: Registrar of Cooperative Societies, East Pakistan, Annual Departmental Reports for the years 1958-59 and 1959-60 (Dacca: East Pakistan Government Press, 1961, 1962), pp.

In case of union multi-purpose societies the picture is quite different. Their number has risen quite steadily and with this their membership has also increased. The average membership at the end of the year 1959-60 was 195 per society.<sup>21</sup>

#### Financial Position

The financial position of the primary societies as a whole was never very satisfactory and as a result of the liquidation of a large number of single-purpose societies the situation shows a further deterioration. The owned funds declined by Rs. 12 million or 61 per cent between 1948-49 and 1959-60. In 1959-60 the percentage of owned funds to working capital was 19.5 per cent. The deposits amounted to only 2 per cent of total working capital in the same year. The working capital increased by 3 per cent from 1956-57 to 1959-60. The average working capital per society was Rs. 9,952 and per member it was a meagre Rs. 50 in 1959-60.

#### Trend in Loan Operations

The lending operations of primary societies have increased greatly between 1948-49 and 1959-60. The average advance per society and per member, however, remains quite low. The union multi-purpose

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<sup>21</sup> Agricultural Credit in Pakistan, op. cit. p. 46.

societies advanced Rs. 27.6 million to individuals as during 1959-60 against Rs. 14.7 million during the previous year while the recoveries were only 25.8 per cent of the amounts due. The total outstanding loans due by individuals amounted to Rs. 32.8 million at the end of 1959-60. There is a large volume of overdue debts because it represents amounts due to both the present societies and the liquidated societies. The percentage of overdues to outstanding loans was 17 for the new advances made in 1959-60.

#### Duration of Loans

Cooperative societies are more particularly suited to the provision of short-term credit covering a crop season, usually not longer than a year. The loans given by the union multi-purpose societies and single-purpose credit societies are overwhelmingly for short-term seasonal needs mostly for seeds, fertilizers, bullocks and payment of the land revenue tax. These short-term loans, however, may be renewed and hence formal short-term loans may function as medium or long-term loans. This is true not only in East Pakistan but in some other countries also, e.g., in Sweden.<sup>22</sup> However, the duration of loans must be essentially limited to seasonal needs in the initial stages because of the shortage of funds. According to Belshaw this should be so "until capital and

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<sup>22</sup> Ake Sambergs, "Agricultural Finance in Sweden", Indian Journal Agricultural Economics XII (1) Jan. - March, 1957. p.



reserves are sufficiently accumulated, or sufficient confidence among outside lenders is built up for the society to obtain loans for long enough duration."<sup>23</sup>

#### Security, Interest Rates and Recoveries

It is a well-known and distinguishing characteristic of cooperative credit that the primary security for all loans is personal. By this is meant that when a loan is granted regard is paid primarily to the man himself and his sureties rather than to his property. The idea of personal security, however, implies the ability of a member to repay, and this in turn depends on his capacity as a farmer, his honesty of character, and the amount of his property.

In East Pakistan, however, the cooperative societies generally do not grant any loans on the basis of any of the above factors but on the mortgage of land which is valid for 12 years. There is nothing wrong or un-cooperative in the mortgage of immovable property, so long as it is recognized that personal security is the primary factor in repayment and that the borrower's property is only a secondary or collateral protection. But in East Pakistan cooperatives concentrate on the security offered rather than on the prospect for repayment of the loan.

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<sup>23</sup> Belshaw, op. cit. p. 170.

The rate of interest charged to farmers by the cooperative societies varies from 6 to 9 per cent. This maximum rate of 9 per cent is the limit set by the government.

Recovery of loans has not been very satisfactory though the amounts are recoverable as arrears of land revenue taxes because the land taxes are not paid on time. A legal procedure known as the "Certificate Procedure" is in existence for recovery of overdue loans but this system has proved unsatisfactory as it is too lengthy and takes a long time before the loans can be recovered.

The societies were running at a loss until recently when some surplus was achieved. This improvement in the financial position is primarily due to the better functioning of the union multi-purpose societies.

#### Management

At present the primary societies are generally managed by secretaries working in an honorary capacity as the societies are not in a position to keep paid secretaries. This arrangement has proved quite unsatisfactory in East Pakistan and many of the difficulties faced by cooperatives are attributed to the absence of full-time paid secretaries. The MacLagan Committee on Cooperation in 1915 commented on the function of the secretary in the following words:

It is essential that as far as possible he should be kept to purely clerical work, such as writing accounts and minutes, and should not be allowed to take into his own hands any of the functions of the Managing Committee.<sup>24</sup>

But in East Pakistan both the secretary and the members of the managing committee usually are influential village leaders without much interest in cooperatives and the welfare of the small farmers.

### Central Cooperative Banks

Central cooperative banks were organized according to the Co-operative Societies Act of 1912 to act as the secondary stage in the three-tier system of cooperative credit organization. These central banks are located in the headquarters of a district or sub-division. Primary societies in the area are affiliated to each of these central banks. Those affiliated societies are the members of the central cooperative banks. The member societies having surplus funds deposit them with the banks which direct the money to other societies needing funds. Secondly, the primary societies can borrow money from the central banks when needed. There were 82 central banks in East Pakistan at the time of partition<sup>25</sup>, though most of them were in a moribund condition. The government adopted the policy of retaining central cooperative banks only at the sub-division level, the total number of

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<sup>24</sup> Report of the Committee on Cooperation in India 1915 (Bombay: Reserve Bank of India, Reprinted 1957), p. 21.

<sup>25</sup> Credit Enquiry Commission Report, op. cit. p. 39.

which will be 54. As a consequence, the banks at outlying stations were either converted to other societies or amalgamated with the central cooperative banks at the sub-division level. The number of banks decreased from 82 in 1947 to 59 in 1958-59 and to 56 in 1959-60.

### Membership

Both primary societies and individuals are allowed to be members of central cooperative banks. Membership of individuals was considered necessary in the earlier stages to attract savings from the wealthier section of the community. But inspite of the provision that at least 50 per cent of the shares should be held by societies, individual domination of these banks is very common. In order to remove this difficulty, the Credit Enquiry Commission recommended that individuals should be eliminated from cooperative banks at all levels.<sup>26</sup>

The individual membership is steadily on the decrease. The number of individuals decreased from 4,809 to 2,967 between 1955-56 and 1959-60. The number of societies also decreased from 10,682 to 3,513 during the same time but this was due to the liquidation of old single-purpose societies.

### Financial Situation

The financial situation of central banks was as unsatisfactory

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<sup>26</sup> Ibid. p. 51.

as that of the primary societies. The paid-up capital decreased from Rs. 4.6 million in 1955-56 to Rs. 3 million in 1959-60 due to the liquidation of many primary societies and some central cooperative banks. There was a large decline in accumulated reserves from Rs. 10.9 million to Rs. 1.9 million between 1955-56 and 1959-60. This is due to the writing off of large amounts of uncollectable loans due to societies which were liquidated. There was a drastic reduction in deposits in 1959-60 compared to previous years due mainly to the repayment of deposits of persons living outside Pakistan<sup>27</sup> by central cooperative banks. A large increase in borrowings took place between 1955-56 and 1959-60 due almost entirely to the larger loans extended credit societies by the State Bank of Pakistan.

#### Loan Operations

There was a decline in advances to member societies between 1948-49 and 1955-56. This was due to the decrease in number of societies due to liquidation of those which were insolvent. There was an increase in advances between 1955-56 and 1959-60 due to the State Bank's increased loans to the cooperative banks. The present outstanding loans of societies represent almost entirely borrowings by multi-purpose societies. The loans owed by other societies and by individuals are very small.

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<sup>27</sup> Agricultural Credit in Pakistan, op. cit. p. 60.

The uncollectable and doubtful debts constitute 16 per cent of the owned funds and 3 per cent of the total advances. The recovery percentage of loans had not been very satisfactory in the early years after independence but at present there has been some improvement with the establishment of multi-purpose societies. The recovery percentage in 1958-59 stood at 73 and in 1959-60 at 55. This decrease was due to natural calamities which greatly reduced farmers' incomes that year.

Because of small turn-over the banks as a group were unable to show any net earnings until recently. In 1959-60 a surplus of Rs. 155,000 was achieved. But even this does not represent the true situation as the executive officers of these banks are paid by the government.

#### Loaning Policy and Funds

The central cooperative banks give credit only to credit societies and to union multi-purpose societies. They do not deal directly with the individual farmers at all. They receive deposits from individuals and from societies dealing in loans and credit. To have enough funds to loan out to the primary societies, they borrow from the apex bank and also from the State Bank of Pakistan.

### Apex Cooperative Bank

At the time of independence East Pakistan started its credit program without an apex bank as the apex bank that served undivided Bengal was in Calcutta. A new apex bank was established in 1948 which is known as the East Pakistan Provincial Cooperative Bank.

### Management

Management of the apex bank was entrusted to an elected managing committee. This committee was, however, suspended in March 1957 and since then the Provincial Government has appointed a managing committee in charge of the bank's affairs. The elected committee used to be comprised of 15 members of which 9 were elected representatives of affiliated central cooperative banks, the others were nominated by the government. The present committee is comprised of 9 members and the Registrar of Cooperative Societies, who is the ex-officio chairman.

### Loaning Policy

After partition the apex bank entered into commercial business and advanced loans to individuals. But now the government has decided that cooperative banks should not lend to individuals. Due to indiscriminate loaning and political influence there has been a large amount of bad debts to individuals. The government has agreed to give the apex bank a subsidy to write off these loans.

Since the creation of the new apex bank it has been the policy of the bank not to allow individuals to become members and the membership has remained limited to secondary cooperative institutions only.

### Financial Situation

The share capital of the bank has increased tremendously since 1959-60, due to the conversion of the Provincial Government's loan of Rs. 4.5 million into share capital. The member institutions investment in the share capital has not changed much as the increased investment by functioning central banks has been counterbalanced by the decrease in number of central banks. The reserves, however, have declined due to writing off of early loans that could not be collected. There has been a large increase in the borrowed funds, mainly from the State Bank of Pakistan, while deposits of member banks increased only slightly.

### Loans and Advances

The apex bank is supposed to work as a balancing center and financing agency to the cooperative societies of all kinds. The central banks are members of the apex bank and serve in the name for societies within their respective territories.

Loans showed a sharp upward trend as they moved from a total of Rs. 2.2 million in 1948-49 to Rs. 3.3 million in 1955-56 and to Rs. 34.3 million in 1959-60. The loans are given by the bank to the



secondary level cooperative institutions at 4.5 per cent to 5 per cent interest.

### Land Mortgage Banks

The union multi-purpose societies as they are functioning now can at best meet only the short-term credit needs of the farmers. The loans for medium and long-term duration must, therefore, be provided by special credit societies. This type of society in East Pakistan is known as a land mortgage bank. These cooperative banks are organized at the sub-division level. The number of these banks remained at 8 up to 1959-60. However, according to a scheme of the government, the total number was planned to be increased to 17. and in 1962-63 alone 4 more banks were established, bringing the total to 16 banks.<sup>28</sup>

Up to 1959-60 the membership (individual farmers) increased to 7,576. The share capital increased to Rs. 271,000 as against Rs. 247,000 of 1958-59 while there was an increase also in the working capital amounting to Rs. 2.5 million. The 8 banks in 1959-60 advanced total loans of Rs. 632,000 to the farmers.

As the names of the banks suggest, the security for all loans

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<sup>28</sup> Pakistan Observer (Dacca), National Cooperative Day Supplement, November 2, 1963, p. 2.

from the banks is the mortgage of land. The purpose for which loans are granted by these banks have usually been the redemption of old debts and permanent improvement of farm land. In 1962-63 the 16 banks advanced long-term loans amounting to Rs. 5 million.

The banks are not in a very satisfactory financial position due to poor repayment of loans and they are making a nominal profit as a whole.

## CHAPTER VI

### EVALUATION OF COOPERATIVE AND OTHER INSTITUTIONAL CREDIT

The institutional credit agencies for farmers in East Pakistan started with the enactment of the Cooperative Societies Act of 1904. The only alternative to money-lenders in the villages were the cooperative credit societies. The other institutions, which were and are semi-government agencies, are of very recent origin. The first semi-government credit agency for farmers was started in 1952.

The cooperative program has a long history of about 60 years which is a long enough period of time for any agency to show what it can accomplish. But the cooperatives remained throughout all this time as half-dead and ineffective organizations. They failed to achieve the objectives for which they were created of helping farmers to get free from debt and accumulate savings. The reasons for this are many. They will be discussed in a later section. The semi-government agencies such as the Agricultural Development Bank, though of very recent origin, have already achieved a great deal of success in providing farmers with credit which they can get in time and use productively for their economic benefit.

The cooperative societies in the Indo-Pakistan sub-continent were organized under official initiative. Whereas, on the other hand, in all the western countries such as European countries and United States, cooperation started as a voluntary organization because the people for whose benefit the program was started, themselves felt the need for such an organization. In pre-partition India the movement was not started by the farmers but by some government officials who felt that the farmers should be organized on a cooperative basis to remedy and avoid the ruinous effects of the exploitation by village moneylenders. But as the program did not start from the base of farmer interest, there was a great need for education of farmers in general of the advantages, principles and operations of cooperative business. The members have remained ignorant of the whole basis and principles of cooperation. As a result, the cooperatives are still largely managed and controlled by the most influential persons in the villages and some official advisors of the cooperative department with very little participation by the large majority of the members themselves. Under such a state of affairs the program cannot be called a cooperative credit movement and can hardly be expected to make progress.

The semi-government institutions, on the other hand, were established on a basis which is suited to efficient management and which can avoid the control of a few self-centered influential people.

These agencies have been given the full rights to exploit every possibility of improving their business with the farmers and as they are managed by experienced and qualified people they are doing much better than the cooperatives in meeting the credit needs of farmers. But being institutions in which farmers cannot participate and as they are situated in towns away from the villages they are at a disadvantage in dealing with the farmers. The cooperatives, however, are ideal, by their very nature, for serving farmers in a better and more efficient way. However, to achieve this objective the cooperatives have to be successful, well-managed and the farmers must feel that they are a part of the system and not outsiders. The poor working of the cooperatives has disappointed farmers and they still do not have much faith in the whole system simply because they have not been able to get any substantial tangible benefit out of their cooperatives. Still, a cooperative is the only organization that has the advantages of being in the village, of having close contact with farmers, and of having the possibility of winning the confidence of the people. Therefore, there is no alternative to cooperation in serving the villages in all their needs. Though cooperatives have not even achieved what the recent semi-government organizations have achieved, the fact that the cooperative program "has not succumbed to its failures, however, shows that it can still play a major role in all fields of economic activity and social welfare of 80 per cent of the country's population."<sup>1</sup> The

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<sup>1</sup> Pakistan Observer (Dacca), Editorial, Sunday, August 4, 1963.

same attitude has been expressed by the Committee of Direction of the All-India Rural Credit Survey when it said:

For several important reasons, borne out by the experience of not only India but of many other economically underdeveloped countries, it may be regarded as axiomatic that at the rural base, that is to say in the village itself, no form of credit organization will be suitable except the cooperative society.... The problem of future policy may therefore be thus summed up in the context of credit: Cooperation has failed, but cooperation must succeed.<sup>2</sup>

### Stagnation of Cooperatives

The cooperative program in East Pakistan has been in a stagnant condition during a long time. The indications of stagnation and slow progress are many. It can be seen from any aspect of a societies operations that its progress is really slow. The audit classification of societies shows the whole situation very clearly. In 1956-57, of the 4,713 societies (credit and multi-purpose) listed as "living" agricultural societies, 1,231 were in "D" class or below, 3,002 societies were in "C" class and only 140 societies in "B" class and a meagre 13 societies were in "A" class. The breakdown of societies according to performance and financial condition is shown in Table 9. This indicates that in East Pakistan, even at present, the large majority of societies are in a very poor condition indeed.

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<sup>2</sup> All-India Rural Credit Survey Report, (Abridged ed.; Bombay: Reserve Bank of India, 1956), p. 171.

TABLE 9

AUDIT CLASSIFICATION OF COOPERATIVE SOCIETIES IN EAST PAKISTAN<sup>a</sup>

Year	Thoroughly Good Societies A	Fairly Good Societies Showing Evident Signs of Progress B	Average With Some Arrears of Loan Account and General Working Not Satisfactory C	Bad Societies Which May Progress if Re-constituted D	Very Bad Societies Which Should be Can- celled if They Fail to be Recon- stituted E	Societies Under Probation and Not Classed	Total
1956-57	13	140	3,002	1,231	327	-	4,713
1958-59	115	760	3,174	975	820	355	6,199
1959-60	192	906	3,300	763	189	228	5,577

<sup>a</sup> Source: Compiled from the Registrar of Cooperative Societies, East Pakistan, Annual Departmental Reports for the years 1958-59 and 1959-60, (Dacca: East Pakistan Government Press, 1959, 1960), pp. 44, 46.

The statistics of progress of cooperative societies since partition show that whereas in 1947-48 there were 26,664 primary credit societies in East Pakistan, in 1963 they had come down to 289 only because most of them were in a stagnant and moribund condition. The government ordered the liquidation of all moribund credit societies and in their place establish multi-purpose societies. Their number rose from 2,570 in 1949-50 to 4,000 in 1963. The liquidation of a large

number of primary credit societies meant that a large amount of uncollectable loans had to be written off and the financial condition of the societies as a group deteriorated. However, the multi-purpose societies have thus far shown better performance than the credit societies though they deal mainly in credit instead of supplying everything that farmers need. Another indication of slow growth of primary level societies is the slow increase in membership. From 1949-50 to 1959-60 the total membership of primary and multi-purpose societies increased from 696,900 to 783,052. Thus, in 10 years there has been an increase of only 86,152 which means an annual increase of only 8,615 members. This increase, in fact, represents a lesser proportion of the rural population because during these ten years there has been an increase of about 9 million in population in East Pakistan. Therefore, the growth of membership could not even keep pace with the growth of population.

The share capital of the cooperative societies has increased from 1948-49 to 1959-60 by only Rs. 1.14 million, i.e. in eleven years the increase has been less than Rs. 100,000 per year. The same trend is noticeable in working capital which has increased by only Rs. 1 million over the same period. The average working capital, consisting of paid-up capital, borrowed funds and deposits, was a meagre Rs. 50 per member in 1959-60.



Another indication of slow growth of cooperatives is the inability of the societies to attract deposits on any substantial scale. This shows the lack of confidence of farm people in the societies. The profit and loss situation of the societies is another indication of stagnation as the great majority of societies have added very little to their reserves during recent years. Most societies were losing money. The 3,711 multi-purpose societies showed a combined surplus of only Rs. 49,000 in 1955-56 or an average of less than Rs. 15 per society.

#### Causes of Failure of Cooperative Credit

It is generally recognized that the development of the cooperative credit program in East Pakistan has been inadequate in three important respects. First, there are large parts of the province which it has hitherto not covered. Second, even in those areas to which it has extended, there are large sections of the agricultural population which still remain outside its membership. Third, even if attention is confined to those who are members of cooperative credit or multi-purpose societies, the largest part of their credit requirements is met from sources other than cooperative.

There are many factors which have caused the performance of credit societies to continue to be inadequate in all the above respects in spite of their 60 years of existence. Most important of these

factors are discussed below.

### 1. Illeteracy and Subsistence Economy

A basic cause of the slow pace of development of cooperative credit and its inadequacy in supplying the credit needed by farmers has been illeteracy and a subsistence economy. Where almost no savings take place for capital formation in savings deposits or investments, Cooperation and running of cooperatives visualizes a basic minimum of education, capacity to understand business and financing problems, ability to maintain simple accounts and to comprehend cooperative principles. Furthermore, villages failed to produce good cooperative leaders and efficient managers.

### 2. Official Sponsorship of the Program

The cooperative program started by official initiative and not from within the farmers. Even after 60 years, it still remains mostly official in character and the idea of a cooperative society being a member controlled and member owned organization has not been absorbed into the minds of the people. "It is generally believed that the formation and the running of a cooperative is a departmental activity."<sup>3</sup> As long as this attitude prevails in the country cooperatives cannot make much progress.

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<sup>3</sup> Javid Mirza, "The Role of the Cooperative Credit and the Causes of Its Slow Growth in Pakistan", The Agricultural Economist, 1959, (Karachi: Agricultural Economics Society of Pakistan, 1961), p.45.

### 3. Lack of Consistent Government Support

After starting the cooperative program, the government has not really given adequate and consistent support to it. Cooperation and cooperatives are asked to stand on their legs without government help or support and to compete with big business. The cooperative department of the provincial government does not have enough staff to supervise and audit the cooperative societies which would contribute materially toward success of the societies. The Credit Enquiry Commission was of the view that the cooperative program was "over-administered and under-financed"; that the administration of cooperative department was entrusted to politicians whose administrative limitations were well known but had to be rewarded as a member of the ruling party and as the cooperative department was considered a minor one its administration went to those politicians.<sup>4</sup>

### 4. One-Sided Operation

The cooperative program, did not, specially in the initial stages, take in the life of the individual farmer as a whole. The program placed "almost exclusive emphasis for so long on credit",<sup>5</sup> neglecting the other needs of farmers that the program could not

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<sup>4</sup> Credit Enquiry Commission Report, op. cit. p. 28.

<sup>5</sup> E. M. Hough and K. M. Das, The Cooperative Movement in India, (London: Oxford University Press, 1959), p. 284.

achieve much success. The farmers, as a result, found moneylenders, traders and the millers, much more useful sources of credit than the cooperatives. Though the private moneylenders charged a high rate of interest and paid lower prices for their products, the farmers found them better than the cooperatives because they rendered all the services that the farmers needed, as credit, marketing and supplies.

#### 5. Small Size of Societies

Small size is another very important reason for the failure of cooperative societies. A cooperative society to run successfully must have staff which is trained and efficient. But this visualizes a reasonable volume of business which will give a sizable income to support a paid staff. The single-purpose credit societies failed to obtain enough volume of business to keep even a paid secretary-treasurer. The new multi-purpose societies were established with this point in mind.

#### 6. Reliance on Honorary Services

Most of the societies are run by honorary secretaries who are influential people in the village and look after the business only in their spare time. Besides, they have no training whatsoever in running a cooperative business, and as a result, management of the societies is not efficient.

### 7. Low Credit Limits

In all the cooperative societies the maximum credit limit was set up during the pre-war period. The limits on size of loans were reasonable at that time but at present, due to higher prices of all commodities and services, those limits are not at all adequate. A maximum loan of Rs. 300 is too small for many purposes for which a farmer borrows. Sometimes the credit limit is set up at a multiple of the land revenue tax paid by the farmer. In this case the amount of loan that a farmer can obtain is very small. The Credit Enquiry Commission recommended that the credit limit should not be set up in accordance with the land revenue tax or any other criteria but according to the repaying capacity of the borrower and the society's past experience about recoveries.<sup>6</sup>

### 8. Land Mortgage Security

The cooperative societies usually require a land mortgage as security for loans to the farmers and most of these loans are short-term loans. As many farmers have but little land they cannot obtain enough credit. Besides, it takes a long time to go through all the formalities of mortgaging land. Therefore, the membership of many societies became limited to owners of sizable landed

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<sup>6</sup> Credit Enquiry Commission Report, op. cit. p. 29.

property keeping the small land-owners and landless tenants out of the societies.

9. Unlimited Liability Unpopular

Many farmers were deterred from joining the single-purpose credit societies because they were organized on an unlimited liability basis. This became very unpopular after the thirties when large scale defaults were followed by concerted efforts at recovery from non-defaulting members who were held responsible for the unpaid debts of others. It is because of this reason that most well-to-do farmers and many of average means remained outside the societies. Multi-purpose societies were, therefore, organized on a limited liability basis.

10. Frequent Change of the Registrar

In recent years the frequent changes of the Registrar of Co-operative Societies has retarded the growth of societies to a great extent. The term of office of registrars in recent years has been about a year, which is too short for proper programming and carrying out any definite policy measures. The selection of the Registrar is also very unsatisfactory. The Credit Enquiry Commission said that:

He should be an officer of outstanding ability and drive, with a flair for organization and imbued with a sense of mission and of faith in cooperative ideals. He should be appointed only after receiving adequate training and should remain at his post for a period of five years, so that he has time to form-

ulate as well as execute his plans.<sup>7</sup>

But in actual practice the above factors are not considered at all. As the present Registrar of Cooperative Societies in East Pakistan says:

Perhaps the Registrar had never been given any training to undertake a responsibility which requires not only mental orientation but also previous training in its specialized functions. Very rarely the appointment of a Registrar was as a result of option by the incumbent.<sup>8</sup> Generally it was a jettisoning berth for senior officers for whom suitable assignments were not available. ... It would not be far from the truth to say that officers considered it degrading to be appointed Registrar of Cooperative Societies.<sup>8</sup>

There are many other reasons for the failure and stagnation of credit cooperatives in East Pakistan. Some of these are: diversion of cooperative funds to non-cooperative uses after partition, political intervention, exploitation by the economically privileged groups in the societies, large exodus of experienced cooperative staff after partition, poor selection of officials, large magnitude of uncollectable loans, great price fluctuations, lack of business experience of members, uneconomic small holdings of farmers, antiquated methods of cultivation, lack of efficient marketing facilities, and use of a large part of the loans for non-productive purposes.

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<sup>7</sup> Ibid. p. 35.

<sup>8</sup> A.K.M. Ahsan, "The Cooperative Movement in East Pakistan", Pakistan Observer (Dacca), National Cooperative Day Supplement, November 2, 1963, p. 2

### Loan Operations

It was seen in an earlier chapter that the role of lending institutions in financing the production of farmers is still very small. However, within the last few years the coverage of the Agricultural Development Bank (ADB) has increased greatly though it still has not covered even a half of the province and has not met even one-tenth of the credit requirements of farmers. The cooperative societies have remained more or less constant in their importance in rural finance. But after the establishment of the multi-purpose societies there has been a noticeable trend towards increased lending activity.

The cooperative societies in East Pakistan advanced only Rs. 2 million during 1948-49 but this fell to Rs. 1.2 million during 1955-56 due to liquidation of a large number of credit societies. The amount of loans rose to Rs. 27.7 million during 1959-60 as the new multi-purpose societies started to function on a considerable scale. The loans advanced by the Agricultural Development Finance Corporation and the Agricultural Bank of Pakistan in East Pakistan during 1958-59 amounted to Rs. 8.6 million whereas in 1961-62 the Agricultural Development Bank paid out Rs. 40.5 million and in 1962-63 Rs. 45 million was disbursed. Therefore, it is evident that at present the semi-government institutions are doing better than the cooperative societies. The trend in cooperative loan disbursement is encouraging



and if this trend continues then cooperatives can really establish themselves as an important source of credit to farmers.

#### Type of Loans Advanced

The Agricultural Development Bank advances loans of all kinds i.e. short, medium and long-term loans. At present their short-term loan business is the most active. The cooperatives, on the other hand, mainly advance short-term seasonal loans to the members. Some societies also advance some medium-term loans. But essentially the cooperatives are intended to extend only short-term loans for the present. The ADB, on the other hand, is mainly intended to extend medium and long-term credit to farmers but at present it also extends short-term credit as the cooperatives are not in a position to meet the entire short-term credit needs of their members and other farmers in the villages they serve. As there are no cooperatives in many areas the ADB advances all types of loans.

#### Type of Security Demanded

The security that is demanded against loans differs with different agencies. The ADB and its predecessors accepted personal security with one or more sureties for short-term loans up to a maximum amount of Rs. 500 which was later raised to Rs. 1,000. But any amount

exceeding this maximum amount for short, medium and long-term loans must be secured by mortgage of land, chattel, jewelery, insurance policies, government bonds, etc. However, the cooperative societies accept only land mortgage as security for all types of loans. The ADB started to advance short-term loans against hypothecation of crops from 1961 but the cooperatives have no such provision as yet.

#### Procedure for Obtaining Loans

The procedure for obtaining loans from the ADB is much more organized than that of cooperative societies. Before the planting season begins, the investigation officers of the bank go around the villages to receive applications and they submit a report to the Regional Managers along with the completed application forms. The report of the investigation officer contains an appraisal of the soundness of the purpose for which the loan is asked, the security, and the potential ability of the farmer to carry out the project successfully. If the Regional Manager grants the loan, the farmer is required to execute a mortgage deed before the loan is given to him.

In cooperatives, however, the procedure is not so clear and there is no organized system of appraising the purpose of the loan, and the repayment capacity of the farmer is not taken into consideration. The member applies for a loan to the cooperative and the co-

operative in its general meeting approves the loans not according to the need and soundness of the farm plan but according to the influence of the applicant in the cooperative. In most cases the applicant is required to execute a mortgage deed even for a short-term loan. This is a very cumbersome procedure as the farmers have to go to town several times and pay various fees.

#### Collection of Loans

The repayment of loans is not uniform from year to year even in case of the same agency. The ADB experienced a wide fluctuation in the recovery percentage of loans, often caused by natural calamities. For loans given to areas later affected by floods the repayment was only 37 per cent, whereas in case of hypothecation of the sugarcane crop repayment was about 80 per cent. In case of lending in general it was found by the ADB that hypothecation of crops against crop liens is a very convenient way of handling loans and the recovery percentage is also quite satisfactory.

In the case of cooperative credit there was from the past a large percentage of overdue loans. In 1948-49 the percentage of overdue to outstanding loans was 77 per cent and in 1955-56 it changed little, being 78 per cent. But with the active and sound organization of some multi-purpose societies, the percentage of overdues to outstanding has dropped sharply to only 17 per cent in 1959-60. This can

be explained by the fact that this lower percentage includes only new advances whereas the percentages of 77 and 78 include also overdues from previous years.

### Profit and Loss Situation

All the credit agencies were losing money in their loan operations until recently. The Agricultural Development Finance Corporation in its 8 years of operations made a cumulative loss of Rs. 1,362,602 while the Agricultural Bank made a cumulative loss of Rs. 1,562,419 during its 3½ years of existence. The Agricultural Development Bank (ADB), however, made some profit during its first 3 years of operation.

The cooperative societies were also losing money during the early years after partition. In 1948-49 the societies made a total loss of Rs. 714,000. This trend continued until 1955-56 when there was an overall surplus of Rs. 24,000. In 1959-60 the amount of surplus for all registered societies combined was Rs. 315,000.

The reasons for this favorable trend in the financial position of societies is mainly due to the establishment of new union multi-purpose societies which are better managed than credit societies, have larger volume of operations and meet other needs of the members in addition to credit. Another reason is that the credit societies which

were in very bad condition had been liquidated and the credit societies currently operating are more or less successful in their operations.

#### Supervision of the Proper Utilization of Loans

Supervision of the proper utilization of loans granted by credit agencies is considered an essential practice for the success of any credit program. In pursuance of this principle it is the statutory responsibility of the Agricultural Development Bank of Pakistan to ensure that the loans granted by it to farmers are utilized for the purpose for which they were granted. As a further step towards proper utilization of loans the Bank, as far as possible, gives credit in kind rather than in cash. However, the degree of supervision is not as intensive as in the case of supervised credit programs which are being operated in many countries of the world. Members of the investigation staff of the branch offices of the bank go out and visit the farms and verify whether the loans are being used for the purposes for which they were granted. In cases of misuse the loan is immediately recalled in accordance with the provisions of the loan contract.

In case of cooperatives even this limited degree of supervision is not practiced. The loans are given and until the due date for repayment no inspection of the farm is made and the proper use of loans verified. There is no farm planning before the loan is granted but this is done to a limited extent in case of the loan applications

to the Agricultural Development Bank of Pakistan.

### Training Facilities

The cooperative program previously had no training and education facilities for either the staff of the Cooperative Department or the personnel of the cooperatives and their members. Now there is a scheme under execution at a cost of Rs. 1.8 million. This program was started in 1961-62 for carrying an extension and promotional activities among the members and prospective members by organizing short training courses, study circles, seminars, and showing of documentary films. These activities are carried on by the Cooperative Union. To promote these activities the Provincial Cooperative Union has published regularly since 1961-62 one Bengali monthly journal "Samabay" (meaning cooperation) and one English half-yearly journal "cooperation". The total expenditure on these types of activities in 1962-63 was Rs. 355,000. The scheme has recently been revised by making provision for setting up of four zonal Cooperative Institutes in four divisions of the province. These institutes will arrange intensive training for the members and office-bearers of cooperative societies.<sup>9</sup> However, these are still not fully in action and, therefore, a proper appraisal of

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<sup>9</sup> Pakistan Observer (Dacca), National Cooperative Day Supplement, November 2, 1963, p. III.

their success is not possible at this stage. There is one Cooperative Training College in the province which is giving training to cooperative department field staff and the office-bearers of cooperative societies.

The Asia Foundation has recently granted an aid of Rs. 30,000 to the Provincial Cooperative Union to help in its progress.<sup>10</sup>

The Agricultural Development Bank of Pakistan and its predecessors put great emphasis on the training of their personnel because they realized that trained personnel are essential for carrying on successful loan operations in the villages. They tried to train their staff at the National Bank of Pakistan, Agricultural Colleges, and at special training centers. At present the ADB has its own Training Institutes in both provinces. The institutes not only train new personnel but also organize refresher courses for the staff to keep them abreast of the latest methods and developments in administering agricultural credit. The training is far from adequate at present. However, the training programs have already started to bear fruit in the form of better and more successful loan operations, increased volume of loans and higher repayment rates.

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<sup>10</sup> Radio Pakistan, Karachi, News Broadcast, March 5, 1964.

### Central Cooperative Banks

The condition of the central cooperative banks is in no way better than the primary cooperative societies. The Credit Enquiry Commission came to the conclusion that "the central banks ... constitute a very weak link in the cooperative credit structure."<sup>11</sup> They have attributed this weakness of central banks to the following factors:<sup>12</sup>

1. Poor administration.
2. Measures passed during the depression, e.g. Bengal Agricultural Debtors' Act, 1935, providing for compulsory scaling down of debts of farmers to lending agencies, including cooperatives.
3. Commercial lending for which they had almost no experience.
4. Unqualified staff.
5. Domination by individuals who used the banks to serve their personal interests.
6. High proportion of loans to a few influential individuals without adequate security.
7. Favoritism through which directors and their associates derived undue benefits.
8. Basic contradictions in Registrar's control, who has powers to recommend credit limits, a task which should be in highly technical hands.

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<sup>11</sup> Credit Enquiry Commission Report, op. cit. p. 48.

<sup>12</sup> S.M. Akhtar, Economics of Pakistan (Lahore: The Publishers United, 1963), I, p. 271.



### Apex Cooperative Bank

The condition of the East Pakistan Provincial Cooperative Bank was not much different from the primary and secondary credit cooperatives. The Apex Bank was engaged almost entirely in the financing of non-cooperative trade after partition.

### Conclusions

In conclusion the following main problems are found in the extension of agricultural credit in East Pakistan.

### General Problems

1. Agricultural credit until recently has not been treated with the attention necessary for achieving the national goals of higher agricultural production and self-sufficiency in food production.
2. Agricultural credit was treated hitherto as an activity isolated from other developmental programs. As a result, the progress of agriculture has suffered.
3. Adequate credit, both for meeting the total requirements of agriculture and the individual needs of farmers, is not generally available.
4. Not enough savings are accumulated in farming areas to meet the credit needs of farmers.
5. There is no effective method to mobilize or encourage rural savings at present.

6. People are not aware of the potentialities and advantages of personal savings to provide capital for increasing the production of their farms.
7. A large number of the farmers are in the subsistence category and present credit institutions are not adequate to deal with the problems of this class of farmers. This is because these farmers cannot meet the requirements of regular credit agencies for granting loans because of lack of acceptable security and insufficient income to repay the loan.
8. There is inadequate supervision of the proper use of loans. This has resulted in misuse of credit and, therefore, the purpose of the loan has been defeated.

#### Government Credit (Taccavi)

1. Taccavi loans do not serve the ordinary farmer for any productive purpose, because the amount of a loan is too small and the money is not available at the time needed.
2. Corruption and red-tapism are widespread in the government machinery and this make taccavi loans very unpopular.

#### Agricultural Development Bank

1. Its role in rural finance is still small but is growing rapidly.
2. It lacks enough branches to be close to the borrowers and, therefore, cannot reach individual farmers well in villages.

3. It does not have an adequate number of trained personnel.
4. The procedures for handling loans are still too cumbersome to the borrowers.
5. There is not enough supervision of individual loans.
6. Recovery of loans is difficult in cases of default.
7. The activities of the bank are still strange and unfamiliar to many farmers.
8. The interest rate on loans is lower than that of the cooperatives and this puts the cooperatives at a disadvantage.

#### Cooperative Credit

1. The role of cooperatives in rural finance is still insignificant.
2. Management is inefficient due to honorary services by the untrained secretary-treasurer.
3. The land mortgage security required is not suitable for ordinary small scale farmers with fragmented holdings.
4. The lack of proper supervision of the use of loan funds leads to high delinquency and loss from uncollectable loans.
5. Members are ignorant of cooperative principles and the proper functioning of cooperatives.
6. Loan funds are not large enough to meet the needs of members for production financing.
7. Unlimited liability and single-purpose societies have become un-

popular because of enforcing the joint liability to get money to repay the overdues of others.

8. Cooperative Department officials do not have high enough status nor salaries sufficiently large to attract capable persons.
9. There is lack of proper technical advice and guidance of the credit societies.
10. Trained staff are not adequate in both the Cooperative Department and in cooperative societies.

## CHAPTER VII

### RECOMMENDATIONS FOR IMPROVING THE PROVISION OF AGRICULTURAL CREDIT IN EAST PAKISTAN

An evaluation of the present working of the agricultural credit agencies in East Pakistan was made in the preceding chapter. Based on this evaluation a few conclusions were drawn regarding the weaknesses of the present programs for the provision of credit to farmers. In this chapter recommendations will be made to improve and correct the weaknesses enumerated at the end of the last chapter. These recommendations are based on their successful operation in other countries with similar problems.

#### Recommendations Regarding the General Problems

##### Agricultural Credit Should be Treated as a Part of a Coordinated Approach Towards Economic Development

Agriculture is the most important industry in the country and, therefore, any attempt to improve the economic condition of the country must give due consideration to agriculture. As agricultural credit is one of the most important factors in the improvement of agriculture it must be given due importance in the program for economic development of

the country. There should also be coordination between the operations of the different credit agencies in the country so that they supplement rather than compete with each other. In this respect the Agricultural Development Bank should limit its operations to areas where the cooperatives do not exist or cannot meet the full requirements of the borrowers so that undue competition between cooperative societies and the bank does not take place. The government, however, should continue to give taccavi loans in all areas where natural calamities occur.

Every Effort Should be Made to Provide Adequate Funds for Loan Operations by the Credit Agencies

The rural credit needs in East Pakistan are far from being fully met at present. All the credit agencies advance only 10 per cent of the total credit needed by farmers. The government is providing a large amount of funds to the credit agencies but this cannot continue for long. The credit agencies must stand on their feet as soon as possible and get most of their capital through their own initiative from non-governmental sources.

In this respect, there should be an intensive drive to increase deposits and savings in the various banks and cooperatives. A scheme called School Banking Scheme has been introduced in Karachi by

the State Bank of Pakistan and it has already achieved a great success as within 8 months the number of accounts exceeded seventy thousand.<sup>1</sup> A similar scheme should be introduced in East Pakistan specially in the Agricultural Development Bank and its branches and the cooperative societies. In Jordan and Cyprus also school thrift and savings society schemes proved very successful in getting an increased amount of capital for lending to farmers and developing the habit of saving in farm people.

The amount of credit advanced at present by the various credit agencies to individual farmers is in most cases not adequate for the purpose for which the loan is requested. This leads to much misuse and wastage of much needed capital. Therefore, the writer endorses the recommendation made in the First Near-East South Asia Agricultural Credit Seminar held in Ceylon that adequate amounts should be advanced to farmers so that they can utilize the money for the purpose for which it was granted.<sup>2</sup> Proper appraisal of the farm plan and repayment capacity should be made before granting a loan so that the proper amount may be granted.

#### Savings and Investment in Credit Agencies Should be Encouraged

The large amount of funds needed by the rural credit agencies

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<sup>1</sup> State Bank News, Vol. I, No.7, (Karachi: State Bank of Pakistan, 16 August, 1963), p. 4.

<sup>2</sup> Proceedings of the First Near East-South Asia Agricultural Credit Seminar, Ceylon, April 17-28, 1961 (Washington D.C.: International Cooperation Administration, 1961), p. 42.

must in the long run come largely from within the agricultural sector itself. The official recommendations are that the credit agencies should build up their capital by share capital and deposits. This is especially applicable to cooperative societies. The purchase of an increased amount of shares will help develop in the members a sense of ownership which is so vital to the success of the cooperative credit program.

The writer recommends that there should be an intensive drive to convince farmers of the merits of increased investment in their societies so that their various needs may be met more fully and efficiently. The system in Japan<sup>3</sup> of linking the amount loaned to the value of the shares held by the member (5-10 per cent of the loan amount must be owned as shares in the society) is recommended for East Pakistan.

#### 1. Savings Deposit Program

The credit agencies have a savings deposit program. The cooperative societies were supposed to encourage thrift and savings but never did actively work towards this end. There are several methods of encouraging rural savings and it should be one of the most important aims of the government and credit

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<sup>3</sup> W.H. Syed, Extension of Production Credit by Cooperatives with a Program for West Pakistan, Unpublished Master's Thesis, American University of Beirut, 1961, pp. 81-82.



agencies to do everything possible to increase rural savings and mobilize them for productive use as credit to needy farmers.

The writer recommends that the cooperatives should launch a thrift education program for the farmers. This may be helped by the existing Cooperative Union. Members should be taught by the societies to make regular small deposits in their societies and large savings deposits from the sale of crops during the marketing season.

a. Deposit of Marketing Proceeds

In Japan a method has been in practice for increased rural savings for many years and has proved very successful. According to this farmers are required to deliver their rice crop to a marketing agency licensed by the government, such as the cooperative. The members of cooperatives elect to deliver to their own society. The government pay for the rice through the cooperative society. Payment is made in the form of a deposit in each member's deposit account which bear interest until withdrawn by the farmer. This simple device means that the surplus farm income is in a savings institution unless withdrawn.

The same method should be introduced in East Pakistan not only for rice but also for other crops bought by the government through cooperatives.

The members of general purpose cooperatives in Japan leave the proceeds of the sales of their products marketed cooperatively

in their deposit accounts. From the balance remaining after repaying the seasonal crop production loans, the members buy some additional shares and add to their savings deposits. They leave enough in their current accounts to take care of living expenses. They can borrow what they need for the next cropping season. In this way, farmers in Japan are meeting cooperatively by far the greatest part of their needs for credit and production loans.

The writer recommends a similar step to increase savings in agricultural cooperatives in East Pakistan.

b. School Savings Program

School savings schemes have been tried in many countries in recent years and found very effective in increasing savings and mobilizing them into loan funds. In Cyprus,<sup>4</sup> the schools carry on this savings program by collecting small deposits from the students on behalf of the village credit societies. The teacher who is in charge of the program gets a small percentage of the deposits as a commission and to cover the cost of operation. The deposits are deposited weekly in the nearest credit cooperative which can then add them to the funds to advance loans to their members. The total school savings

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<sup>4</sup> Syed, Ibid. pp. 146-147.

deposits exceed £ 1 million. When a student leaves school he gets back his savings amount plus interest on the principal. Jordan has a similar program. This has been found to be a very successful scheme for mobilizing rural savings and strengthening the financial position of the societies.

The writer, therefore, recommends that this program should be introduced in some schools of East Pakistan on a pilot project basis and then expanded when a successful plan is evolved.

Meet the Credit Needs of Subsistence Farmers Through Supervised Credit Program by a Special Agency

The number of subsistence and below subsistence farmers is great in East Pakistan. These farmers cannot get credit they need from regular institutions, including cooperatives, due to lack of proper security and insufficient income to cover repayment of loans plus family subsistence. However, these farmers cannot be neglected and left alone. Therefore, in many countries an intensive system of supervised credit has been introduced. The idea was first started in the United States where a special organization called Farmers Home Administration (FHA) was established in 1933 to extend credit to farmers who could not meet the security requirements of regular credit agencies for loans. The FHA helped these farmers by giving them loans to carry out a farm production plan and then supervising the use of

the loan, advising the farmers in making sound farm plans and even helping in their home planning to make constructive use of their increased incomes and savings. This system has been tried in various countries, particularly in Brazil and Paraguay with great success.

The writer recommends that a special organization similar to FHA in the United States should be established which would deal with the credit needs of below subsistence and subsistence farmers through a supervised credit program. When the farmers get enough income and security they can graduate to regular credit agencies. However, due to lack of adequate finance the program must be started on a small scale in selected areas before it can be expanded to cover the whole province.

#### Adequate Supervision of Loans Use Must be Provided

The loans granted, at present, by credit agencies are not based on farm plans and are not properly supervised as to their proper use. This has resulted in large delinquencies and much wastage of capital.

Therefore, the writer recommends that all loans by the Agricultural Development Bank and the cooperatives should be based on a farm plan and the loan budgeted as to its various uses. The budgeted

loan concept is in practice in the United States<sup>5</sup> by the Production Credit Associations and in the Philippines<sup>6</sup> by the Agricultural Credit and Cooperative Financing Administration (ACCFA). In these countries the budgeted form of advancing loans has been found to be very effective in preventing misuse of loan money. A program should be prepared by the lending agency to advance loans according to the needs and times for the use of money so that farmers can use it only for the specific purpose. The whole amount should be granted by the beginning of the production period but should be paid to the farmer in instalments according to the dates for the use of the funds mentioned in the budget. The recovery dates should be scheduled according to the times of marketing the main crops. The interest should be paid only for the period during which the loan has been with the farmer. Along with this the lending agency should supervise the proper utilization of each instalment. Technical guidance in the farming operations should be provided by the lending agency in cooperation with the extension service of the agriculture department. This will save a large part of the supervision program of the lending agencies.

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<sup>5</sup> E.L. Butz, The Production Credit System for Farmers (Washington: The Brookings Institute, 1944), p. 48.

<sup>6</sup> Agricultural Credit and Cooperative Financing Administration, Production Loan Policies and Procedures, Circular No. 3-A (Manila: ACCFA, 1957), pp. 4-5.

Recommendations Regarding Government Credit

Government loans, or taccavi, were introduced at the turn of the century to relieve farmers of indebtedness to moneylenders. But this credit was never used very productively. The reason is that the loans still are not granted at the proper time, the amount of a loan is too small for any productive purpose, being about Rs. 25 only and because of the delay, corruption and red-tapism and other formalities that are involved in obtaining such a meagre amount of loan. The Credit Enquiry Commission recommended that the taccavi loans should be restricted to distress conditions only and they should not be advanced as normal production loans.

The writer endorses the above recommendation fully because the revenue department that gives these loans is not equipped to run a production loan business properly and because other credit agencies are more suited to serve the farmers under normal conditions. However, care should be taken to make the distress loans available in time when the farmer in distress needs the loan and the loan should be advanced in large enough amounts that can be used profitably in some farming operations so that the farmer can repay them when they fall due and not lose his land and other assets due to default. The government should make the recovery procedure of these loans more flexible so that the farmers have fair chance of repaying the loans.

Recommendations Regarding the Agricultural Development Bank

Establish More Branches to Reach Farmers Effectively

The bank, being urban based, cannot reach the individual farmers in rural areas very effectively. The farmers presently have to travel long distances to towns to get loans from the ADB. The number of branches, sub-branches and pay offices are too few to serve all the farmers in the province needing credit.

The writer, therefore, recommends the establishment of more branches, sub-branches and pay-offices as soon as possible so that the farmers can get their needed credit without much trouble. The bank should ultimately aim at establishing sub-branches or at least pay offices at union level.

Increase Training Facilities for Personnel

Trained personnel are of utmost importance in the business operations of any credit institution. Without trained personnel the bank cannot meet the rapidly increasing pressure for loans. The bank at present trains its personnel, old and new, at its Training Institute at Dacca. The facilities, however, are very limited and a sufficient number of personnel cannot be trained at present.

Therefore, the writer recommends that the bank should increase training facilities for its staff as fast as possible so that it can

cope with the growing volume of business and increase its loan supervision to make its credit business more effective.

#### Procedure for Granting Loans Should be Simplified

In spite of the efforts of the bank to simplify the procedures for granting loans there still remain some difficulties which are hampering the farmers from getting loans from the bank. The formalities to be completed before getting a loan are still too complicated and cumbersome for farmers. The bank sends investigation officers to the villages to give application forms to the farmers, help them in filling them out and appraising the soundness of the purpose of the loan and security. But the farmer still has to go to town, incur expenses and lose work to execute mortgage deeds.

The writer recommends that a law should be passed so that an automatic charge is made on the land and other properties of a borrower when he borrows from the bank without the necessity of the farmer going to town to do that. This procedure is in practice for taccavi loans in East Pakistan.

#### Adequate Supervision of Loan Use Should be Done

To use the limited amount of funds in the credit field most productively the use of loans must be supervised to ensure that they finance increased production. The writer's recommendation on super-



vision had already been given in a previous section, therefore, it will not be dealt with here.

#### Recovery of Delinquent Loans Should be Made Easier

The ADB has experienced a higher percentage recovery of loans than any other previous institutional source of credit but still the percentage of delinquency is high. The procedures for recovering delinquent loans at present are very complicated and time-consuming. As a result, the bank has often run into a great deal of difficulty in recovering these loans.

It is recommended that a law should be passed making it possible to recover the loans as arrears of land revenue taxes. When a law suit has to be lodged with the court special "certificate officers" should be appointed to deal with the Bank's cases, thus making the disposal of cases much quicker than it is now.

#### The Bank Should Make Itself More Familiar to Farmers

The Agricultural Development Bank, being a new institution and with offices situated in towns, is not very well-known to farmers in the villages. The bank is still something strange and unfamiliar to them. As a result, many farmers are not able to take advantage of the credit facilities offered by the Agricultural Development Bank.

Therefore, it is recommended that the bank should try to make farmers familiar with its loan services by radio talks, posters and visits of bank officials to villages.

The Interest Rates Charged by the ADB Should be Made Uniform with the Rates Charged by Cooperatives

The rate of interest charged by the bank is 5-7 per cent whereas the cooperatives charge 7-9 per cent. This puts the cooperatives at a disadvantage in their loaning operations.

Therefore, it is recommended that the rate of interest charged by the bank should be made uniform with the rate charged by cooperatives. Any profit made out of these loaning operations should be used to strengthen the supervisory services for loan use. The bank should not give any loan direct to cooperative societies. But the apex bank or the central cooperative banks should be given credit at low rates so that they can give loans to cooperatives covering the costs.

Recommendations Regarding Cooperative Credit

The cooperative credit program is quite old in East Pakistan but it has not been able to establish itself as an important source of credit to farmers. There is, however, no other substitute for cooperatives in helping farmers in solving their innumerable problems. The Agricultural Development Bank and the Extension Service of the govern-

ment are not suitable for serving the farmers in all their needs and, therefore, must limit themselves to a few functions such as extension of credit, technical guidance in the use of the loans, and teaching farmers improved practices to expand their output. But local cooperatives, if well-managed and successful, can be of help to farmers in solving many of their problems, not only relating to their farming but even in home planning. In the past cooperatives supplied credit only and thus failed to provide the other services that farmers needed besides credit to make effective use of loans. As farming is a way of life for farmers in East Pakistan, the cooperatives failed because they did not become part of his life and work. As cooperation is such a great potential tool in rural progress it should be used to the full advantage and circumstances must be created which are conducive to its success in the future. If cooperation is lost, the most valuable tool of rural improvement will be lost. Therefore, every effort should be made to make it a success. The other credit agencies should work to achieve the ultimate target of transferring most of their functions of direct loaning to individual farmers to the cooperatives.

#### Management Should be Improved by Employing Paid Staff

One of the most important factors responsible for the failure of credit cooperatives has been the lack of efficient management of the business of the societies. At present most of the societies are managed by honorary secretary-treasurers whose main business is not

the affairs of the cooperative society. As he is working on an honorary basis, the secretary cannot be made responsible for any mismanagement. The government therefore, encouraged the establishment of multi-purpose societies serving 10 or more villages so that they will have enough volume of business to employ a paid secretary to look after the affairs of the society on a full-time basis.

The writer endorses the idea of employing full-time paid secretaries and other staff, but they should be properly trained to manage the society efficiently. But in the beginning if a society does not have enough income to pay the secretary it should borrow from the government to do so on the condition that the money will be repaid over several years.

#### Intangible Security Should be Used for Short-Term Loans

The only security accepted now by cooperatives against loans is land mortgage. But it has been found that extending loans only on the basis of land mortgage is a serious handicap in the extension of agricultural credit, particularly seasonal and short-term loans. As clearly stated in the Republic Act No. 821 of the Philippine Congress:

The ability of a borrower to provide security in the form of land or other tangible security should not be the primary deciding factor in approving or disapproving a loan. Instead, the size of the loan should be predicated upon his production with other security being considered supplemental. In instances where credit is extended for items which are not consumed in the family, such items should be pledged as security, but in such cases approval of the loan should be dependent upon the borrower's productive capacity after receiving the item rather than upon return which can

be anticipated in the event of forced sale of the item. Loans made to farmers should be conditioned upon compliance by them with those proven practices which are reasonably within their capacity to carry out and will result in the maximum income and production from such farming unit.<sup>8</sup>

The Pakistan Credit Enquiry Commission also recommended that farmer's repayment capacity and the past experience about recoveries should form the basis of loan extension.

The writer endorses this proposal completely and further recommends that as practiced in the Philippines<sup>9</sup> by the cooperative associations, the farmer-borrowers should be classified by the lending agency according to their past repayment records, the farmers who have always been prompt in repaying their loans should be placed in category "A". Such farmers should be advanced the full amount of the normal requirements for their farming programs up to the safe limit. Farmers who have been repaying previous loans but not on scheduled dates, due to natural calamities, price decline, or who paid a part of the loan, should be placed in category "B". The loan applications of these borrowers should be analyzed carefully and their tangible and intangible merits should be judged carefully before making further loans. In category "C" should be included those farmers who did not meet their obligations deliberately, though they had the ability to repay. No loans should be made to them unless they give enough tangible

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<sup>8</sup> Philippine Congress, Republic Act No. 821, 1952 As Amended by Republic Act No. 1285, June 15, 1955 (Manila: Philippines, 1955), p.9.

<sup>9</sup> ACCFA, Production Loan Policies and Procedures, op. cit. p. 3.

security and provide ample proof of ability and intention to repay as well as proper utilization of the loan. For new applicants, the lending agency should gather factual information about their business with other institutions, their repaying habit, character, integrity and honesty before granting a loan.

#### Adequate Supervision of Loan Use Should be Provided

Supervision of loans made by cooperatives becomes the responsibility of the cooperative. The officer of the cooperative who is actually responsible for supervision is the secretary-treasurer. This is one of the main reasons why a trained and experienced person is needed to be the secretary-treasurer. But as he is only one person it is difficult for him to keep in close touch with every member and his farming business.

Therefore, the writer recommends that the secretary-treasurer's work with members in making productive use of loans should be supplemented by the directors who should keep in touch with members to observe how they are using their loans. This will have a salutary effect on the members.

#### Member Education Should be Started

Education of members in cooperative principles and practices has not yet received proper attention of the government or the public.

As a result, the members do not know much about cooperatives. They can even think that cooperatives are owned and controlled by the government. To improve this situation, the writer recommends an energetic drive to educate farmers in general and members in particular about cooperative principles, practices, ownership, benefits and requirements for success and their mutual aid character, so that members take more interest in their cooperative which they themselves own and whose success depends on their initiative and action.

#### Size of Loans Should be Adequate for Productive Purposes

The amount of loans advanced to individual farmers by cooperative societies presently are too small for financing farm production enterprise. Even the maximum limit of Rs. 300 is not adequate for many purposes like purchasing of bullocks, hiring laborers and equipment, etc. Therefore, a large part of the loans are used for non-productive purposes.

To avoid this misuse and to ensure productive use of loans, the writer recommends that the maximum short-term loan amount should be raised to Rs. 500 and the loan advanced should be adequate for the purpose for which it is granted. As previously mentioned, as large a part as possible of each loan should be advanced in kind.

### Multi-Purpose Societies Better than Single-Purpose Societies

The single-purpose credit societies recommended by the Pakistan Credit Enquiry Commission of 1959 failed in East Pakistan to meet the needs of farmers. There is difference of opinion as to the desirability of either multi-purpose or single-purpose societies. Basically either type can be successful but depending on the circumstances in the country one of them succeeds. In East Pakistan the multi-purpose societies, though not fully operative, showed noticeably more success than single-purpose societies for reasons enumerated in Chapter V.

Therefore, the writer recommends that multi-purpose societies should be favored in East Pakistan over single-purpose societies. They should have a membership of about 500 so that they have adequate volume of business to have capable secretaries. However, the single-purpose societies which are functioning satisfactorily should be allowed to continue. The multi-purpose societies should be organized on a limited liability basis to prevent honest, regularly repaying members from being called upon to pay for the default of others.

### Decent Salaries Should be Paid to Cooperative Officers

The Cooperative Department of the government is responsible for audit, inspection and education of members. But the field staff are very low paid employees without any status. Therefore, good, energetic, trained people with integrity do not like service in the department.



The people who join the department are not well trained and are indifferent to their work. As a result, the whole cooperative program is lagging and relatively ineffective.

Therefore, the writer recommends that the salary of the lowest rank in the department should not be less than Rs. 200 and there should be provision for giving a bonus or increase in pay if superior work is shown by any member of the staff. This provision for merit increases in salary is in practice in the ADB.

Apex and Central Cooperative Banks should Provide Proper Guidance and Technical Advice to Primary Societies

The apex and central banks are essential parts of the whole cooperative program. They were created to act as coordinating organizations for cooperative credit but they have so far failed to provide the support and guidance to the primary societies for which they were created.

The writer recommends that these banks should reorganize their management and business policy so that they have efficient full-time paid managers and that they should have only societies as members. If they are organized on a sound basis then they will be able to give the educational, lending and supervisory help to primary societies so that the whole cooperative program will run in a coordinated way to help solve farmers problems and improve their economic and social conditions.

### Training Facilities Should be Increased for Cooperative Personnel

The personnel of the cooperative department and the cooperative societies and banks lack sufficient training to carry out the business functions efficiently. The present training programs are not adequate to train the required number of personnel.

The writer, therefore, recommends that the present training facilities should be increased as far as possible to meet the need for trained personnel in the cooperative credit program. The capacity of the Cooperative Training College should be expanded and other training centers established so that there are enough cooperative personnel adequately trained to take care of the whole program effectively.

### Summary of Recommendations

#### Recommendations Regarding the General Problems

1. Agricultural credit should be treated as a part of a coordinated approach towards the agricultural and economic development of the country.
2. Every effort should be made to provide adequate funds for the loaning operations of the agricultural credit agencies through encouragement of thrift, savings deposits, increased investment in cooperatives and agricultural credit banks, and larger loan funds advanced by the State Bank of Pakistan.

3. The amount of credit advanced to individual farmers should be adequate for the production purpose for which it is intended in the farmer's farm plan.
4. Savings in rural communities should be enhanced through thrift campaigns and savings deposit programs such as deposit of a part of the sales proceeds of farm products, school savings program and government buying of crops through cooperatives the payment for which is kept in the cooperative until withdrawn for current expenses.
5. Credit needs of subsistence and below subsistence farmers should be met through a supervised credit program by a special agency.
6. Adequate supervision and technical guidance in the proper use of loans should be provided by the lending agencies with the help of the extension agents to ensure the productive use of loans in carrying out farm production plans.

#### Recommendations Regarding Government Credit

1. Government should make taccavi loans to farmers only in cases of widespread distress in an area leaving the normal lending to regular credit institutions.
2. The loans should be given at the time needed and in large enough amounts to finance a productive enterprise.

3. Recovery procedures should be made flexible so that the farmer gets additional time to repay if circumstances beyond his control make it impossible to repay the loan in time.

Recommendations Regarding the Agricultural Development Bank

1. The bank should establish more branches, sub-branches and pay offices to reach farmers more conveniently.
2. Training facilities for personnel should be increased so that adequate staff are available to deal with the ever increasing volume of business and for an increased degree of loan supervision.
3. The procedure for granting loans should be made simpler by making provision for creating automatic charges on property when a loan is granted to a farmer thus avoiding the trouble of the farmer going to town to execute a mortgage deed.
4. Adequate supervision of loan use should be provided to ensure productive use of credit.
5. Recovery of delinquent loans should be made easier by appointing special "certificate officers" to deal with the cases of the bank.
6. The bank should try to make farmers familiar with its loan service facilities by radio talks, posters and visits of officials to villages.

7. The rates of interest charged by the bank should be made uniform with the rates charged by cooperative societies so that the societies are not placed at a disadvantage.
8. The bank should give loans to apex or central banks so as to augment the funds of these cooperative banks to make more loans to qualified borrowers rather than making loans direct.

Recommendations Regarding Cooperative Credit

1. Management of societies should be improved through employment of paid full-time secretary-treasurers. The money for the salary may be borrowed from the government in the initial stage to be repaid over a few years.
2. Intangible security should be accepted for short-term loans. For other loans also attention must be given to intangible security in addition to tangible security. Farmer-borrowers should be classified according to their loan repayment records.
3. Adequate supervision of loan use must be provided.
4. Education of members in cooperative principles and practices should be started by cooperatives with the help of the Cooperative Union.
5. Size of loans should be adequate for the purpose for which they are granted.

6. Multi-purpose societies with limited liability should be adopted as the basis for organizing local farmer cooperatives in East Pakistan.
7. Reasonable salaries and proper status should be given to cooperative department personnel to attract able people in the service who will work with real interest.
8. Apex and central cooperative banks should be reorganized and their management improved so that they can provide the proper guidance and technical advice to primary societies for which they were created.
9. Training facilities should be increased for cooperative personnel so that an adequate number of trained people will be available to operate cooperatives effectively.

#### SUMMARY

In summary, it can be said that the present extent of agricultural credit facilities in East Pakistan is really very limited. The basic objective of the agricultural credit program is to help farmers secure the funds they need to carry out planned production operations which will give them a high yield and, therefore, a large income to improve their economic and social condition.

For the success of any agricultural credit program there are some requirements which must be fulfilled. These requirements include loans large enough to expand farm output, flexible repayment conditions, intangible security, low rates of interest, loan supervision, technical advice about improved farming operations, adequate training facilities for personnel of the lending agencies and last but not least education of farmers regarding thrift, saving deposits, and cooperatives. Progress in the provision of agricultural credit can be made only if the above requirements are met through carefully made programs and enthusiastic participation of the people.

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