



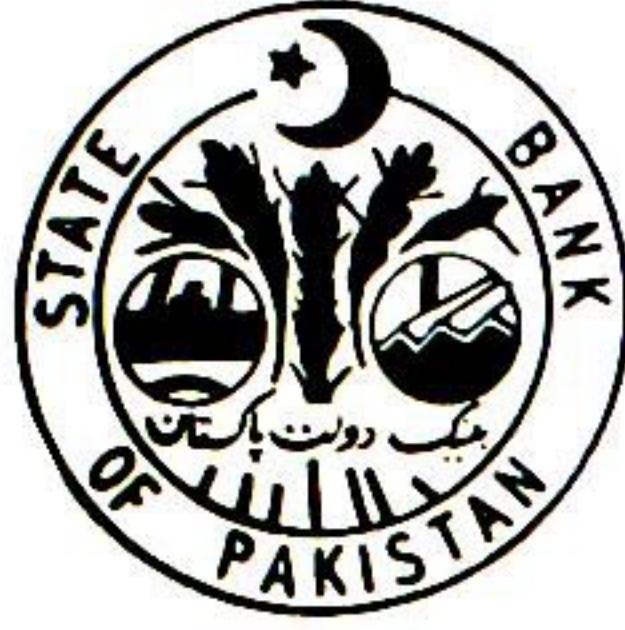
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AGRICULTURAL CREDIT
IN
PAKISTAN



STATE BANK OF PAKISTAN
Agricultural Credit Department
Karachi

DECEMBER 1962



AGRICULTURAL CREDIT
IN
PAKISTAN

With Compliments

From

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Agricultural Credit Department
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F O R E W O R D

Recently the State Bank published an Appraisal of the Credit and Monetary Situation in Pakistan which contained a small chapter on the role of the State Bank in Agricultural Credit. It was, however, felt that in view of the crucial importance of agriculture in our economy we should publish a comprehensive survey of the Agricultural Credit Problem in the country and the part played by the various financing agencies, particularly the State Bank of Pakistan. The present report prepared by our Agricultural Credit Department is designed to meet this need. I trust it will prove useful for those interested in this vital problem.

S. A. HASNIE,
Governor.

8th December, 1962.

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CHAPTER I

INTRODUCTION

Area and Population:

Pakistan consists of two provinces, East Pakistan and West Pakistan, separated by more than 1,000 miles of Indian territory. Its total area is 3,65,529 square miles. According to the Census of 1961, it has a population of 93.8 millions, the average density being 256 per square mile with an extraordinary wide range of variation between the two parts and also in different areas within the same part. Pakistan's economy is predominantly agricultural and 86.9 per cent of the population lives in rural areas. The climate of the country though mainly sub-tropical is one of sharp contrasts. In the southern and western parts of West Pakistan the climate is dry while in the north and north-east temperatures vary greatly. Temperatures are less varied in East Pakistan.

2. The area of East Pakistan is 55,126 square miles or 15.1 per cent of the total area of the country. The population of the province is 50.8 millions or 54.2 per cent of the total population, of which 94.8 per cent lives in rural areas. The density is 922 persons per square mile and the total number of agricultural holdings is 6.5 millions. About 62 per cent of the cultivators are peasant proprietors while 36 per cent are owner tenants and 2 per cent cultivate land wholly rented from others. The total cultivated area is 22.2 million acres, the average size of holding being 3.5 acres per family. Small and fragmented holdings are wide-spread. Being situated in the delta of the Ganges and the Brahmaputra rivers the land is very fertile.

Agriculture in East Pakistan is dependent upon rainfall which is abundant during the summer monsoon from May to mid-October. It varies from 55 to 200 inches per annum with an average of 76 inches for the whole province. Rice and Jute are the major crops. Tea is also an important crop. East Pakistan accounts for about 43 per cent of the total area under jute crop in the world.

3. West Pakistan comprises an area of 3,10,403 square miles or 84.9 per cent of the area of the whole of Pakistan. A considerable part of it is desert or semi-desert. The population is 42.9 millions or 45.8 per cent of the total. The average density of population is 138 persons per square mile with wide variations from 7 per square mile in Kalat Division to 724 per square mile in Lahore Division. 77.5 per cent of the population lives in rural areas. The total cultivated area is about 29.31 million acres. The number of agricultural holdings is 37.6 lakhs, the average size of holding being 9.8 acres of which 6.8 acres are cultivated on the average. Fragmentation and sub-division of holdings have been a major problem, specially in the northern parts of the Province. 41.6 per cent of the holdings are cultivated by the owners while 40.5 per cent are cultivated by tenants and 17.9 per cent by owner-*cum*-tenants. Agriculture in West Pakistan depends mainly upon irrigation, rainfall being generally scanty and low. In the southern and western regions the average is 16 inches, the maximum in some places being about 30 to 34 inches. West Pakistan is served by one of the largest irrigation systems of the world drawing water from the river Indus and its tributaries. The principal agricultural crops in West Pakistan are wheat, cotton and sugarcane.*

SOURCE:— (i) Central Statistical Office.
(ii) Agricultural Census Report.

Land Reforms:

4. Comprehensive land reform laws are in operation in both wings of the country. In East Pakistan, a law known as the East Bengal State Acquisition and Tenancy Act was passed as early as 1950. Under it all intermediaries are to be eliminated and subletting forbidden. The ceilings originally fixed at the level of 110 bighas (1 bigha = .33 acres) including 10 bighas of homestead was raised in 1958-59 to 375 bighas or 10 bighas per family member whichever is greater. Provision has also been made for consolidation of scattered holdings at the request of cultivators. Work on the implementation of the law was started in 1951 and Government have set up an organisation for speedy implementation of the reforms.

5. Radical land reforms were introduced in West Pakistan through a Martial Law Regulation issued in 1959. Maximum land holdings have been prescribed and no one can hold irrigated land in excess of 500 acres or unirrigated land in excess of 1,000 acres. The Regulation also seeks to prevent sub-division of land holdings into uneconomic units and fragmentation of land-holdings. It defines "economic holding" as an area of 64 acres in the Southern part of the province and 50 acres in the Northern part. A "subsistence holding" is defined as an area of 16 acres in the Southern part of West Pakistan and 12 acres in the Northern part. Restrictions have been imposed on the transfer of joint holdings and the alienation of the land owned by any person, in such a manner as to reduce the size below subsistence or economic holding as the case may be. Apart from the 1959 reforms, Government through other legislations is also empowered in certain areas to compulsorily consolidate fragmented holdings. Considerable amount of work has been done in this sphere and it is estimated that an area of 4 million acres has been consolidated so far.

Agricultural Area, Production and Targets:

6. Agriculture is the mainstay of Pakistan's economy. In 1961-62 agricultural production accounted for 57 per cent of the national income. The principal crops and their acreage and production in 1961-62 are as follows:—

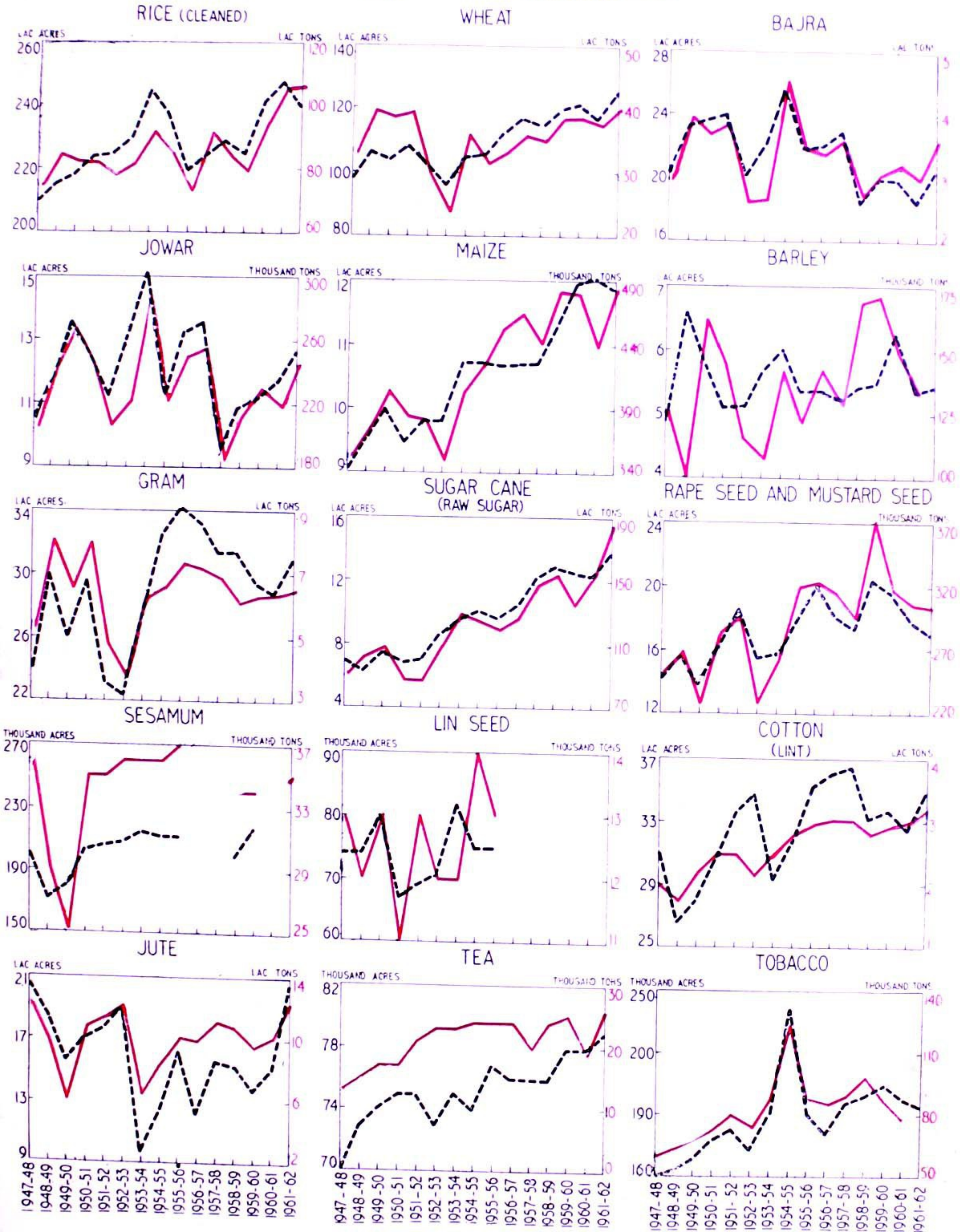
(Figures in thousands)

Crops	Acreage			Production (In Tons)		
	East Pakistan	West Pakistan	Total	East Pakistan	West Pakistan	Total
Rice ...	20,963	3,001	23,964	9,466	1,109	10,575
Wheat ...	145	12,426	12,571	39	4,025	4,064
Bajra ...	—	2,055	2,055	—	364	364
Jowar ...	2	1,267	1,269	1	244	245
Maize ...	22	1,169	1,191	7	480	487
Gram ...	142	2,951	3,093	37	613	650
Barley ...	83	461	544	N.A.	N.A.	—
Sugarcane ...	290	1,098	1,388	4,418	14,330	18,548
Rape and Mustard ...	590	1,114	1,704	103	202	305
Cotton ...	39	3,449	3,488	3	319	322
Jute ...	2,061	—	2,061	1,244	—	1,244
Tea ...	79	—	79	26	—	26

SOURCE:—Statistical Bulletin—October, 1962, Central Statistical Office.

AREA AND PRODUCTION OF PRINCIPAL CROPS

--- AREA PRODUCTION —



Productivity in the country is, however, low. The following table shows the comparative position in Pakistan and other countries:—

(Average yield per acre)

Name of the Country	Wheat Bushels per acre	Rice Lbs. per acre	Cotton Lbs. per acre	Jute Bales per acre	Tea Lbs. per acre	Sugar- cane Tons per acre
Pakistan ...	11.9	1,457	206	3.3	745.5	13.4
U.S.A. ...	23.9	3,375	438	—	—	—
U.S.S.R. ...	12.3	—	584	—	—	—
U.A.R. ...	36.8	3,339	359	—	—	—
China ...	—	3,000	211	—	—	—
India ...	12.5	1,351	95	2.7	990.6	12.9
Canada ...	11.00	—	—	—	—	—
Burma ...	—	1,453	—	—	—	—
Mexico ...	24.00	—	—	—	—	—
Indonesia ...	—	1,600	—	—	—	—
Japan ...	40.8	4,199	—	—	—	—
Australia ...	17.1	5,769	—	—	—	16.5
New Zealand ...	45.00	—	—	—	—	—
United Kingdom ...	51.1	—	—	—	—	—
Ceylon ...	—	—	—	—	788.1	—
Cuba ...	—	—	—	—	—	13.7
Brazil ...	—	—	—	—	—	15.6

SOURCES:—F.A.O Report, Volume 13-59. Reserve Bank of India Bulletin, September, 1962. Foreign Crop and Markets by United States Department of Agriculture.

Cotton—World Statistics—Quarterly Bulletin of the International Cotton Advisory Committee, July, 1962. All Pakistan Crop Estimates by the Ministry of Food and Agriculture, Government of Pakistan.

7. Development of agriculture occupies a prominent place in the country's nation-building plans. In the Second Five-Year Plan agriculture has received a direct allocation of Rs. 342 crores (14.9 per cent of the total), besides Rs. 439 crores (19.1 per cent) for water and power development. The ultimate aim is to make the country self-sufficient in food and to enable it to meet the growing demands for cotton and other basic raw materials to cater to the requirements of a rising population and growing industry. The targets for increase in production fixed for some of the main crops to be achieved by 1964-65 are as follows:—

		Target by 1964-65	Increases achieved until 1961-62
Food-grains	...	21 %	20.3 %
Jute	...	22 %	16.2 %
Cotton	...	38 %	10.4 %
Sugarcane	...	35 %	20.2 %
Tobacco	...	14 %	—12.6 %

The increase achieved so far specially in the case of food-grains has been partly due to favourable weather conditions.

Agricultural Problems:

8. Pakistan's agriculture faces numerous problems. The basic factor is the absence of modern methods of cultivation on the part of the farmer. He is still in the process of being persuaded to adopt measures calculated to improve yields. The Government have been grappling with this problem for some time and their programme includes such items as the increased use of fertilizers and improved varieties of seeds, use of insecticide, better preparation of land, proper utilization of water, etc.

Although the road to be traversed is still long, there are signs of awakening in many parts of the country. Smallness of holdings specially in East Pakistan and natural factors such as floods, droughts, shortage of irrigation water, salinity and water-logging are other problems with which agriculture has to contend.

9. Large tracts of land in West Pakistan are lying uncultivated because of shortage of water. It is estimated that about 22 million acres can be brought under cultivation if irrigation and other facilities can be made available. The Second Plan provides for a large number of projects and schemes, both big and small, for the development of water and power resources. It is estimated that at the end of the Plan period an additional area of 2.4 million acres will be irrigated for the first time.

10. In West Pakistan every year large tracts of arable land are turning into marshes and salt lands on account of erosion, salinity and water-logging. It has been estimated that over 160 million acres suffer in varying degrees from wind and water erosion. The Second Plan recognises the importance of this problem and makes a provision of Rs. 16 million for soil conservation. Salinity and water-logging, it is believed, have affected 50 per cent of the irrigated land or an area of 12 million acres. The Plan provides for Rs. 103.2 million for development of drainage works as against the total estimated requirements of Rs. 25,000 million for solving the problem. East Pakistan suffers from frequent floods and tidal waves. An allocation of Rs. 310.2 million has been made in the Second Plan for flood regulation of which about four-fifths are to be spent in East Pakistan.

11. In East Pakistan almost all the available land is under cultivation. It is estimated that waste land which can be brought under cultivation if irrigation, drainage and reclamation

facilities are made available, is about 2 million acres. Scope exists, however, in some areas (chiefly in the north of the province) for growing a second crop during the winter months with the help of tube-well irrigation. The over-whelming emphasis, however, in East Pakistan is on more intensive farming.

CHAPTER II

AGRICULTURAL CREDIT PROBLEM

Need for Credit:

12. The existence of proper credit facilities is of vital importance for the successful development of the agricultural resources of the country and for the well-being of the farmers. The primary object of credit must of course be to generate increased production but this can be achieved only through simultaneously working for the general economic betterment of farmers. The resources required for agricultural operations are land, labour, live-stock, farm equipment, seeds, fertilizer, irrigation and transport. For the procurement of these resources the majority of farmers must have easy access to credit. Large numbers of farmers also require loans for subsistence during the pre-harvest period. Marketing of crops and in a more advanced stage, the processing of agricultural produce, can be undertaken by agriculturists only if the necessary credit facilities are present. The vast plans referred to in the preceding chapter for promoting agricultural development can make little headway unless organisations are built up for providing suitable credit facilities to the agricultural sector.

Nature of Credit Agencies required:

13. Agricultural credit is ordinarily a more difficult and hazardous proposition than industrial or commercial lending. In the conditions of Pakistan it is extraordinarily complex. The smallness of holdings of the agriculturist, absence of modern methods of cultivation, lack of education on the part of the farmer, the propensity to misapply loans due to the marginal nature of existence and poor communications in some parts

of the country, all create considerable obstacles. In tackling the problem of rural credit these factors have to be taken into account. The organisation that provides credit has to be firstly as close to the borrower as possible so that credit is distributed with the minimum of inconvenience to him and under proper supervision. It should be prepared and be capable of waiting for the return of the money, should it become necessary to do so due to circumstances beyond the control of the borrower. The credit agency should be able to function at reasonably low costs so that credit is not burdensome for the debtor and the rate of interest should be reasonably low. The security acceptable against loans has to suit rural conditions and finally the lending agency must be able to cater to all the requirements of the agriculturist.

14. In developed countries, the normal requirements of agriculturists are looked after by the banking system and Government comes into the picture, in a marginal way, to meet the needs of special areas and sections. In the Indo-Pak Sub-Continent, however, the position has been different. The banking system is of comparatively recent origin, and it is almost entirely urban based. Because of the complexities referred to in the previous paragraph the banks have not ventured into agricultural lending. The burden of devising measures for meeting the credit needs of the rural sector has, therefore, all along fallen on the Government. The efforts of Government have been directed at developing special types of institutional agencies capable of meeting the requirements of agriculture as they develop from time to time.

Committees and Commissions:

15. The question of credit for farmers began receiving the attention of Government towards the end of the last century. Numerous Commissions and Committees appointed before

Independence went into the subject of rural indebtedness and its impact on agricultural conditions. Nicholson's Report of 1895, the Maclagan Committee Report on Co-operation of 1914, the Report of the Royal Commission on Agriculture of 1929, the Central Banking Enquiry Committee Report of 1930 and the Report of the Co-operative Planning Committee, 1946, are important pre-partition documents. Legislation for control of money-lending, initiation of the co-operative movement and the assignment of special responsibility to the Reserve Bank of India in the provision of agricultural credit, were the more significant measures arising out of the various reports.

16. Before Independence the pre-occupation of Government in the field of rural credit was to provide relief to the agriculturists from his burdensome debt to the private money-lender. But after partition the problem of rural credit has acquired a new dimension and emphasis is now on the production aspect of agriculture. A number of Committees and Commissions dealing with agriculture and agricultural credit have dwelt on the subject. Amongst them may be mentioned the Pakistan Agricultural Enquiry Committee (1951), the Expert Committee, West Pakistan Co-operative Enquiry Committee, Credit Enquiry Commission and Food and Agriculture Commission. They stressed the need for strengthening the institutional set up, and an important step taken by the Central Government in this respect has been the setting up of specialised agricultural credit institutions. The requirements of agricultural credit in the country are vast and constantly growing. So far not even the fringe of the problem may be said to have been touched. Many millions of farmers have to be reached and the sum involved would definitely be stupendous. The task involved in this undertaking can be easily imagined.

Important factors in Agricultural Credit:

17. The impression often prevails that provision of loans to the farmer is the panacea for agricultural problems. Nothing could be farther from the truth. Credit by itself cannot bring about the desired results. Credit can play its full part only if the other conditions necessary for Socio-economic progress are present. In this context the most important factor may be said to be adequacy of land with the farmer. To be able to employ properly the loan available to him, the cultivator must be in possession of land, sufficient to make agricultural operations profitable. Credit when it is made available to persons who are wholly dependent on cultivation of inadequate land, results normally in at least a part of the loan being utilised for meeting the gap between earnings and expenditure and eventually leads to either gradual dis-investment of land or the non-realisation of the loan. In Pakistan the problem of small cultivated plots is a specially complex one. Holdings in large parts of the country, particularly in East Pakistan, have become so small through sub-division and fragmentation that large number of farmers cannot even produce enough for bare subsistence. Credit alone can do little to help alleviate the lot of such cultivators. However, as stated in the previous chapter, the process of further reduction in land-holdings and their fragmentation is now prohibited by laws passed in both wings and in some parts consolidation is compulsorily being resorted to. The other important factors having a bearing on the role of rural credit are the social habits and customs of the farmer and his ignorance. Unless, he is educated into the need for increasing his productive capacity and for minimising wasteful expenditures, the loans given to him cannot do real benefit. Side by side with credit facilities, therefore, the educational process has also to be conducted.

18. It is now generally recognised that credit operations, to be really beneficial, should progress in step with agricultural

extension services and availability of supplies essential for improved farming. Where the farmer has been made aware of the need for the use of chemical fertilisers, improved varieties of seed, better implements, methods for conservation and development of water resources, protecting the fertility of land etc., credit can and must perform an essential function. Government have been conscious of this for some time and it is their endeavour to concentrate on providing credit to areas where more intensive effort for agricultural development is being made. In what are known as Model Development areas (popularly known as Crash Programme areas) for agricultural production, special arrangements are also being made for organising adequate institution credit to needy farmers. In the beginning 7 districts in West Pakistan and 7 Sub-divisions in East Pakistan were chosen for this concentrated effort. The programme is now being extended to more districts and sub-divisions.

Agricultural Credit in Pakistan:

19. Agricultural Credit in Pakistan may be divided into two broad categories—(i) Seasonal, and (ii) Development. While any credit utilised properly by the farmer contributes to the growth and development of agriculture, the concept that has grown in Pakistan is that credit operations are rendered more orderly if they are divided into the two categories mentioned above. Seasonal loans are for expenses of a recurring nature while development loans cover capital needs. In actual operation, the division of loans is as follows:—

- (i) Short-term.
- (ii) Medium-term.
- (iii) Long-term.

Short Term Credit:

20. Short-term credit is normally given for growing a particular crop or for a particular season. There are two distinct

agricultural seasons, (a) Kharif or the Summer crop season and (b) Rabi or Winter crop season. These seasons vary from region to region in different parts of the country. During one season more than one crop may be grown by a farmer. Cultivators usually require money at the time of preparing land and are in a position to repay after the harvest. They may borrow for one particular season or for both the seasons at a time and make repayment in two instalments. Usually short-term loans do not exceed a duration of 12 months except for crops like sugarcane where the actual growing period exceeds 12 months. Short-term loans are required by a farmer for a variety of purposes. The basic purposes for which he borrows are preparation of land, purchase of seeds, fertilizers, implements and cattle, employment of labour and other recurring expenses. Not infrequently loans have to be resorted to by the cultivator for maintaining himself during the pre-harvest period and for payment of Government dues such as land revenue and irrigation charges. Loans required for marketing of crops or for processing them also come within the category of short-term loans. In some areas of the country short-term loans are needed for the purchase of plough cattle. In these regions there is a seasonal turn-over of bullocks necessitated by the high cost of maintaining them during the idle period.

Medium Term Credit:

21. Medium-term loans are becoming increasingly important in the field of Agricultural Credit in Pakistan. They are for periods ranging from two to five years. The farmer requires them for meeting development expenses of a non-recurring type. Purchase of agricultural machinery, installation of tube-wells, land improvement including desilting, clearance of jungle, construction of water courses and acquisition of plough cattle are some of the important purposes. Medium-term loans

are also needed for growing orchards. Repayment of these loans as a rule commences during the second or third year and is effected in equal instalments over the rest of the period. Loans may be given in one lump sum or in instalments according to the need of the borrower. The lending agency has to exercise supervision over utilisation of these loans because of the substantial amounts involved and the longer period for which they are given. Medium-term loans are largely needed by middle and larger-sized farmers in as much as they are able to afford the employment of agricultural machines, etc. The smaller cultivators usually borrow for purchase of cattle. Those of them that require machinery or tube-well facilities have to join with others in a similar situation and borrow.

Long Term Credit:

22. Loans for more than 5 years are categorised as long-term loans. They are largely needed for the purchase of land and for developing new land. In other respects the purposes quite often overlap with medium-term loans. For instance, long-term loans are also required for heavy agricultural machinery, for water-lifting purposes and for growing of orchards. As a matter of fact, loans for tube-wells and for orchards are more in the nature of long-term than medium-term loans.

Criteria of Lending:

23. Credit-worthiness is largely determined in the country by land-holding of the borrowers. This is true of both private lenders as well as institutional agencies. Over larger parts of the country loans are generally available against land mortgaged by the borrower or against surety of other persons preferably holding land. Little medium-term and long-term lending is done by private sources and institutional agencies which are engaged in it normally insist upon the mortgage of land as security. The

productive capacity and the income to be generated from loans are not the main criteria. For progressive agriculture it is essential that productivity should, besides integrity, be the basis of judging credit-worthiness and repaying capacity. The possibilities of loans by institutional agencies against hypothecation of crops at least for short-term or seasonal purposes has lately received some attention, but because of the obvious difficulties, a real beginning has yet to be made in this direction.

Sources of Credit:

24. The sources of agricultural credit in Pakistan are as follows:—

- (1) Private money-lenders.
- (2) Co-operative organisations.
- (3) Agricultural Development Bank of Pakistan.
- (4) Government.
- (5) Agricultural Development Corporations.
- (6) State Bank of Pakistan.

CHAPTER III

PRIVATE MONEY LENDING

Pre-Partition Money Lender:

25. Until 1947 the village money-lender was the main source of rural credit in the areas now comprising Pakistan. He enjoyed an entrenched position in this field and apart from being traditionally the supplier of credit to farmers there were a variety of other reasons for this situation. 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 service was swift and with the minimum of formality. The money-lender was often also a trader and played an important part in the movement and disposal of agricultural produce of the farmers. He normally did not question the purpose of borrowing and was content to give money for any need, be it productive or wasteful. The sole criterion was the ability of the borrower to repay.

26. The terms and conditions of loans were, generally speaking, severe and the rates of interest charged, as a rule, were usurious. Very often before a debt 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 agriculture or the well-being of farmers. Generation after generation of a farming family found itself indebted. Loss of land through fore-closures was not an uncommon feature and in some areas of the Indo-Pak sub-continent had assumed undue proportions with far reaching economic and social consequences.

Sources of Agricultural Credit after Partition and their Role:

27. With the partitioning of the sub-continent the village money-lender has, as a class, virtually disappeared from Pakistan. But enquiries and surveys undertaken by various bodies indicate that private money lending has continued to be the predominant source of credit in rural areas. The Pakistan Agricultural Enquiry Committee (1951-52) found the sources of credit in the province of Punjab to be as follows:—

Sources of Credit in the Punjab

Class of People	Co-operative societies	Relatives and friends	Proprietors	Shop-keepers	Taccavi	Money lenders	Total
Land Proprietor ...	19.1	63.3	9.5	2.8	4.9	0.4	100.0
Owner-tenant ...	11.1	53.8	14.9	1.7	0.9	17.6	100.0
Occupancy-tenant ...	11.2	51.5	19.1	—	18.2	—	100.0
Non-occupancy tenant ...	5.7	65.4	24.1	2.2	2.5	0.1	100.0
Labourer ...	9.9	56.6	30.9	1.5	0.9	0.2	100.0
Artisan ...	7.5	70.8	18.5	2.5	0.1	0.6	100.0
Shop-keeper ...	3.7	69.3	22.9	4.1	—	—	100.0
In service ...	14.6	47.4	37.8	0.2	—	—	100.0
Miscellaneous ...	13.6	63.1	20.2	3.1	—	—	100.0
Average ...	13.2	63.2	16.9	2.5	2.9	1.3	100.0

28. A Socio-Economic Survey sponsored by the State Bank of Pakistan and conducted by the Dacca University reported

(in 1956) the position in four sub-divisions of East Pakistan to be as follows:—

Importance of various sources of Credit

Sources of Credit	Narayan- ganj	Rangpur	Rajbari	Feni
Government ...	0.32 (62.50)	5.99 (25.00)	5.28 (25.00)	5.68 (25.00)
Co-operative Society ...	0.39 (75.00)	— —	1.41 (50.00)	9.42 (400.00)
Money-lender ...	3.92 (103.00)	1.36 (132.00)	2.82 (118.75)	8.86 (137.50)
Well-to-do-Rural People ...	17.85 (122.49)	23.26 (90.93)	13.73 (59.62)	31.58 (185.74)
Shop-keeper ...	12.75 (189.57)	4.49 (135.61)	17.26 (120.92)	10.25 (101.69)
Marketing interme- diaries, e.g., Beo- pari, Faria, etc.	2.19 (104.46)	5.17 (93.42)	2.11 (58.33)	0.97 (189.29)
Friends and Rela- tives	59.52 (114.07)	58.64 (92.98)	53.87 (74.35)	41.27 (142.62)
Other Sources ...	3.06 (80.13)	1.09 (87.50)	3.52 (132.50)	0.97 (132.14)
	100 (123.22)	100 (90.84)	100 (80.09)	100 (146.33)

Note:—Unbracketted figures indicate percentages of total cases of borrowing. Bracketted figures indicate average size of loan from each source.

29. It will be observed from the foregoing that friends and relatives constitute the single largest source of credit, their contribution ranging from 41.27 per cent in Feni to 63.2 per cent in the former Punjab. Friends and relations have always provided credit but their share of the total was comparatively

limited prior to Independence. The loans are mostly given without security or against the mortgage of land in the guise of sale or lease. Sometimes guarantee or the security of gold is also accepted. Credit from this source is not, however, available on a purely philanthropist or sentimental basis. In a majority of cases the loans are granted free of interest. When interest is charged, generally it is collected by way of a share in the produce or in other non-monetary forms.

30. Following the departure of the money-lender the Agriculturists in certain areas have become increasingly dependent on shopkeepers, Commission Agents and other marketing intermediaries for their credit requirements. Farias, Beoparis, Cotton Ginners and Grain and Fruit Dealers, all are making a sizeable contribution to credit supply, specially, in areas where cash crops such as jute and cotton are grown and in places where markets are better organised. According to the Socio-Economic Board of the Dacca University trade intermediaries provided in the four sub-divisions surveyed by them, upto 5.17 per cent of credit requirements while in the former Punjab the Punjab University estimated it to be 4.7 per cent. Loans are normally given before sowing and realised immediately after the harvest. The cost to the borrower is exceedingly high, not infrequently amounting to as much as 100 per cent. A commonly adopted device is for the lender to enter into contract with the borrower, for the sale of produce through him, at prices pre-determined or to be determined in such a manner as to give the lender a large margin of profit.

31. Landlords play an important part in the supply of rural credit in some areas, particularly in the southern areas of West Pakistan. Tenants look to them for loans to meet agricultural expenses such as payment for seeds, taxes, plough cattle, pre-harvest subsistence, etc. The amount of loan varies in different

areas depending on the return from the land. Usually interest is not charged but the landlord receives a share in the crop as a service charge in addition to any surplus produce that he may be able to obtain from the borrower for sale at high prices. The land reforms have to a certain extent reduced lending by landlords but they still continue to provide substantial amounts.

32. Although professional money-lenders as a class have more or less disappeared from Pakistan as a result of their migration from the country after Independence, a few of them are still reported to be carrying on business in the rural areas of East Pakistan. The money-lender makes advances generally against the mortgage of land, pledge of ornaments and other movable property. The rate of interest is high and the loans are for small amounts. According to the Credit Enquiry Commission his contribution to the supply of rural credit was 4.2 per cent.

33. Thus while the money-lender has disappeared those who have replaced him cannot be said to be operating on lines substantially different from him. The price for money lent is, as a rule, extortionate and their contribution to the development of agriculture or to the well-being of the farmer is in no way better than that of the departed money-lender. Dis-investment of land for repayment of loans is not infrequent in both wings of the country, specially in East Pakistan.

The State's Approach to the problem of Agricultural Credit:

34. Ever since the question of rural indebtedness began attracting their attention, Government have sought to tackle the problem in three ways:—

- (a) Regulation of money-lending operations;
- (b) Giving loans themselves; and
- (c) Promoting institutional agencies.

The chapters, that follow, give the progress and the present position in respect of the above.

CHAPTER IV

DEBT LEGISLATION

Purpose of Debt Legislation:

35. Several laws exist in both wings of the country which either regulate money-lending directly or affect credit operations indirectly. They are 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 to other classes of persons, specially in satisfaction of debts and for other distress reasons. The laws provide for restrictions on the transfer and mortgage of land and other rural immovable property and the attachment of crops and other movables of agriculturists. In their application the laws, as a rule, make no distinction with regard to individual money-lenders and institutional agencies. The effect of some of the provisions of these enactments has been to restrict, at least in some measure, the flow of credit to the agriculturists, both from private sources as well as from institutional agencies. Provisions, however, exist in some of the laws for grant of exemption by Government to banks and other credit bodies. The specialised credit agencies, namely the Agricultural Development Bank and its predecessors have been in receipt of several exemptions.

A brief description of the various laws in force in the different regions of the country follows.

Debt Legislation in Former Punjab:

36. The following laws are in operation in the former Punjab region of West Pakistan:—

- (1) The Punjab Alienation of Land Act, 1900.
- (2) The Punjab Regulation of Accounts Act, 1930.

- (3) The Punjab Relief of Indebtedness Act, 1934.
- (4) The Punjab Debtors Protection Act, 1936.
- (5) The Punjab Registration of Money-lenders Act, 1938.
- (6) The Punjab Restriction of Mortgaged Lands Act, 1938.

A few of the salient features of these Acts are described below:—

The Punjab Alienation of Land Act, 1900:

37. The Punjab Alienation of Land Act, 1900 restricts the sale of land by agriculturist only to members of certain agricultural classes. This provision is intended to prevent the growth of non-agriculturist money-lenders and the passing of the land into the hands of non-cultivating classes. The Act does not permit the permanent alienation of agricultural land to any person who is not a member of an agricultural tribe. According to a Notification by the Government in 1950 "all persons holding land as landlords or tenants or ordinarily residing anywhere in the Punjab shall be deemed to be group of agricultural tribes". The sale of land to members of non-agricultural tribes in execution of decrees or orders of any Civil or Revenue Court is forbidden. Even temporary alienation for more than 20 years is not allowed.

The Punjab Regulation of Accounts Act, 1930:

38. Under this law, a money-lender is required to maintain regular accounts in prescribed form in respect of every loan. A money-lender who fails to do so has to be disallowed interest charged during the year to the accounts concerned. The creditor is also required to furnish a copy of the accounts to the debtor after every six months.

The Punjab Relief of Indebtedness Act, 1934:

39. The economic depression which set in 1929 steeply brought down the prices of agricultural commodities, gravely affected the repaying capacity of agriculturists. The Punjab Relief of Indebtedness Act, 1934 was therefore framed. The Act made it possible for the agricultural debtors, whose debts exceeded Rs. 250 and whose total property did not exceed Rs. 1,000/- to take advantage of the simple, quick and inexpensive procedure of insolvency. It also amended the Usurious Loans Act, 1918 and made it obligatory for the Court to take action to relieve the debtor if it had reason to believe that (a) the interest charged was excessive and (b) the transaction between the parties thereto was substantially unfair. Debt Conciliation Boards were also established under the Act for the conciliation of debts of the agricultural debtors. The debts of Co-operative Societies have been excluded from the definition of 'Debt' given in this Act.

The Punjab Debtors' Protection Act, 1936:

40. This Act makes it compulsory for the Collector to exempt from attachment sufficient land for the maintenance of a judgment debtor and members of his family who are dependent on him. Ancestral property in the hands of a subsequent holder is completely exempt from attachment in execution of a decree for debts incurred by the predecessor-in-interest, except when the debt is expressly charged by way of mortgage on such property. Standing crops, except sugarcane and cotton, and all standing trees are unattachable and the time limit for the execution of certain types of decrees has been reduced from 12 years to 6 years. Loans due to Co-operative Societies have been exempted from the operations of this Act.

The Punjab Registration of Money-Lenders' Act, 1938:

41. Under this Act the registration and licensing of money-lenders is compulsory. Any person wishing to carry on

money-lending as a regular business is required to apply for registration to the Collector of a district and it is obligatory on the Collector to register his name on payment of a fee of Rs. 5/-. The Collector has no authority to refuse to register the name. A licence may be cancelled by the Collector, at his own initiative, or on the application of an interested party for the following reasons:—

- (i) (a) if the money-lender is found guilty in more than two suits of not regularly maintaining separate accounts for each debtor in the prescribed manner;
(b) not furnishing each debtor every six months statements of accounts of the amount (principal and interest separately) that may be outstanding against him;
- (ii) if the suit of a money-lender for the recovery of a loan is dismissed by the Court on the ground that the entry relating to the loan made in any document shows the amount of advance to be in excess of that actually advanced. For computing actual advance legitimate expenses incurred in connection with it are also taken into account. This provision is meant to protect borrowers against the practice on the part of the money-lenders to obtain documents for amounts larger than those actually lent;
- (iii) if the money-lender is held guilty in a suit for material alteration in any document relating to a loan with dishonest or fraudulent intention;
- (iv) if the suit filed by the money-lender for the recovery of a loan is dismissed on the basis of a finding that it is fraudulent;
- (v) if it is established in more than one suit that the money-lender has charged rates of interest higher than those prescribed by Section 5 of the Punjab

Relief of Indebtedness Act. According to it "The Court shall deem interest to be excessive if on secured loans it exceeds 12 per cent per annum simple interest or 9 per cent per annum compound interest with annual rests, and if on unsecured loans it exceeds 18 per cent per annum simple interest or 14 per cent compound interest with annual rests"; and

- (vi) if the money-lender is found guilty of forgery or cheating in respect of a money transaction.

Advances made by a bank or a co-operative society are excluded from the provisions of this Act.

The Punjab Restitution of Mortgaged Lands Act, 1938:

42. This Act provides for the restitution of land on which a mortgage subsists, which was effected prior to 8th June, 1901. According to the statement of Objects and Reasons: "A number of mortgages of land made by members of agricultural tribes before the 8th June, 1901, *i.e.*, the date on which the Punjab Alienation of Land Act, 1900 came into force, are still in existence, in spite of the fact that the mortgaged money has been realised many times more from the profits of the land". The Bill intended to make provision for termination of such mortgages, on payment of reasonable compensation where necessary and for the restitution of the possession of the land mortgaged. The mortgagor may present a petition to the Collector praying for the restitution of land mortgaged. If the Collector is satisfied that the mortgagee has enjoyed benefits equal to twice the amount of the principal sum originally advanced under the mortgage, he shall order the extinguishment of the mortgage and put the mortgagor in possession of the land. The law served its purpose. It is still in operation but it is now more of historical importance than of practical utility.

Debt Legislation in Former N.W.F.P. :

43. The following laws relating to money-lending are in force in the former N.W.F.P. :—

- (1) The N.W.F.P. Regulation of Accounts Act, 1935.
- (2) The Usurious Loans (N.W.F.P. Amendment) Act, 1935.
- (3) The N.W.F.P. Agriculturist Debtors' Relief Act, 1939.
- (4) The Punjab Alienation of Land (N.W.F.P. Amendment) Act, 1948.

The N.W.F.P. Regulation of Accounts Act, 1935 is similar to the Punjab Registration of the Money-lenders' Act on the subject.

44. The Usurious Loans (N.W.F.P. Amendment) Act, 1935 amended the Usurious Loans Act of 1918. Interest if charged in excess of rates prescribed under it is not recognized by Courts. Interest is not deemed by the Act to be excessive if, in the case of loans advanced on the security of immovable property or pledge of movable property, it does not exceed 8 per cent compound interest with annual rests or 10 per cent simple interest and in the case of other loans it does not exceed 12 per cent compound interest with annual rests or 15 per cent simple interest. Interest is deemed excessive under this Act, if, in the case of loans advanced on the security of immovable property or pledge of movable property, it exceeds 12 per cent compound interest with annual rests or 15 per cent simple interest and in case of other loans it exceeds 18 per cent compound interest with annual rests or 25 per cent simple interest. Institutional credit agencies are exempt from these provisions.

The N.W.F.P. Agriculturist Debtors' Relief Act, 1939 :

45. Under this law every money-lender or a pawn-broker has to get himself registered. Every pawn-broker must issue

a receipt to the owner of the article pawned showing the details of the article pawned, its market value, the price for which it is pawned as well as the interest agreed to be charged upon the loan. It is provided that where any debt of an agriculturist bore simple interest at a rate higher than 9 per cent per annum or compound interest and the agriculturist has paid to the creditor twice the amount of principal of the loan whether by way of principal or interest before 1st October, 1937, all amount outstanding in respect of such debt including the principal shall be deemed to be discharged. The Act also lays down that no debt incurred by any agriculturist shall after the commencement of this Act bear interest at a rate higher than $6\frac{1}{4}$ per cent per annum simple interest: Provided that the Provincial Government may, by notification in the Official Gazette, fix any other rate of interest from time to time. The Act does not apply to the loans advanced by banks for co-operative societies.

The Punjab Alienation of Land (N.W.F.P. Amendment) Act, 1948:

46. The provisions of this Act are similar to those of the Punjab Act. The only difference is that "all Muslims residing or holding land in the N.W.F.P shall be deemed to be members of an agricultural tribe and constitute one group for the purposes of this Act".

47. In Bahawalpur, the Punjab Alienation of Land Act, 1900, including its subsequent amendments, has been adopted. In Baluchistan there is no Land Alienation Law in force, but by executive order the transfer of land is restricted. The order allows only temporary transfer of interest in land to any one who is not a member of an agricultural tribe. Such transfers are valid only for a maximum period of 7 years.

Debt Legislation in East Pakistan:

48. The following laws relating to indebtedness are in operation in East Pakistan :—

- (1) The Bengal Agricultural Debtors' Act, 1935 (Amendment in 1940),
- (2) The Bengal Money-lenders Act, 1939.
- (3) The East Bengal State Acquisition and Tenancy Act, 1950.

The Bengal Agricultural Debtors Act, 1935 (Amendment in 1940):

49. This Act was passed to provide for the relief of indebtedness of agricultural debtors in Bengal and to amend the law governing the relation between the agricultural debtors and their creditors. Debts due to Scheduled Banks are not covered by this Act, but loans due to other Banks or Co-operative Societies are not exempt. Even the liabilities of the co-operative societies have not been exempted from this legislation. The Act provides for the establishment of Debt Settlement Boards. These Boards have been authorised to conciliate the debts of the agriculturist debtors, and to arrange for adjustment of insolvent debtors' debts. The Act also exempts certain properties of such debtors from sale.

The Bengal Money-lenders Act, 1939 :

50. This Act provides for the registration and licensing of money-lenders. No money-lender can carry on the business of money-lending unless he holds an effective licence. The money-lender is required to maintain regular accounts for each debtor separately for all transactions relating to a loan. He has also to furnish each of his borrowers with a statement of accounts. The Act also 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. Interest is also not to be calculated at a rate higher than 9 per cent simple interest on unsecured cash loans and 15 per cent simple interest on loans in kind. The corresponding rates for the unsecured loans were 15 per cent and 25 per cent respectively. Further, no expenses on account of cost or charges can be recovered. The court has the power to fix repayment of the decreed amount in annual instalments not exceeding 20 years. The Act also 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. The Act prohibits arrest and detention in prison of the judgment debtor in execution of a decree. Penalty is provided for molestation of a debtor.

The East Bengal Estate Acquisition and Tenancy Act, 1950:

51. The Provincial Government decided to acquire the rent receiving interest from the Zamindars 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.

CHAPTER V

GOVERNMENT AS LENDER

Introduction:

52. Since the end of the last century Government has been helping agriculturists through grant of loans known as Taccavi in West Pakistan and Agricultural loans in East Pakistan. Direct Government loans have been found to be unavoidable in times of famine and distress and it is in the discharge of this function that the origin of Government as a lender lies. But Government has also been providing development and production finance to the agriculturists. Government loans are granted by the Provincial Governments and administered through their Revenue Departments, for specific purposes under the Land Improvement Loans Act of 1883 and the Agriculturists' Loans Act of 1884.

Land Improvement Loans Act, 1883 and Agriculturists' Loans Act, 1884:

53. 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.

Under the Agriculturists' Loans Act of 1884 (replaced in West Pakistan by the West Pakistan Agriculturists' Loans Act of 1958) 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 and for rebuilding or reclaiming houses destroyed or damaged by floods.

54. 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. Loans under the Agriculturists' Loans Act are to be repaid usually at the next main harvest or after two main harvests.

55. The rate of interest to be charged on loans under the Act of 1883 is fixed in relation to the rate at which Government borrows from the market at the particular time. The rates charged on short-term loans under the Act of 1884 are fairly low. At present in East Pakistan the rate is $6\frac{1}{2}$ to 7 per cent per annum while in West Pakistan it is $5\frac{1}{2}$ per cent. Delays in repayment attract penal interest. Loans are generally given in cash but sometimes they are given in kind to avoid misuse of funds.

56. Security for loans under the Act of 1883 is the land of the borrower, on which an automatic charge is created without the formalities of a registered mortgage and collateral security if the value of land proves insufficient to cover the loan. In West Pakistan loans under the Act of 1958 are granted on a personal bond supported in some cases by a surety. In East Pakistan loans are given under the Act of 1884 to groups of agriculturists, the liability of each individual being both joint and several.

Recommendations of Credit Enquiry Commission:

57. The system of Government loans has been criticised from time to time on the ground that it is not being administered properly, that the formalities to be observed are cumbersome and time-consuming and that the amount disbursed is very inadequate. The recommendations of the Credit Enquiry Commission on the subject are as follow:—

- (i) The Government should not lend directly except in cases of distress.
- (ii) Institutional agencies should take overall agricultural credit activities and Government may continue to give non-distress loans as a transitional measure.
- (iii) To protect the statutory agricultural credit agencies from unnecessary competition, it was recommended that in areas where the offices of these agencies are established, the Revenue head of the district may decide whether any taccavi is to be extended for non-distress purposes.
- (iv) Amount advanced should be sufficient for the purpose for which it is intended.

According to the Commission if there is a choice there should be no hesitation in withdrawing the agency of the Revenue Department from the field of agricultural credit.

Government Policy for Second Five-Year Plan:

58. The above recommendations have been accepted by the Government. During the Second Five-Year National Development Plan Period (1961-65) Government loans will be extended, for purposes other than the relief of distress in the following areas:—

- (i) Where co-operative societies do not exist and are not likely to be established;

- (ii) Where offices of the Agricultural Development Bank of Pakistan do not exist;
- (iii) Where colonisation is in progress but co-operative societies have not been or are not likely to be established; and
- (iv) In special cases in areas where Land Reforms are being implemented.

Government Loans since 1956-57:

59. Figures for Government loans since 1956-57 are as follows:—

(Rupees in thousands)

Years	East Pakistan		West Pakistan		Total	
	Advances	Recoveries	Advances	Recoveries	Advances	Recoveries
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
1956-57 ...	2,79,91	4,93	69,03	27,04	3,48,94	31,97
1957-58 ...	12,18	15,23	1,25,00	23,86	1,37,18	39,09
1958-59 ...	2,08,88	81,43	1,30,00	25,91	3,38,88	1,07,34
1959-60 ...	1,30,06	31,82	2,09,92	55,73	3,39,98	87,55
1960-61 ...	2,13,92	97,73	1,37,00	1,65,00	3,50,92	2,62,73
*1961-62 ...	2,50,00	50,00	1,00,00	1,05,40	3,50,00	1,55,40

SOURCE:—Budget, Government of East/West Pakistan.

*Budget Estimates.

The above figures would indicate that the role of Government in rural finance remains un-diminished. In some years there has actually been an increase in both wings, occasioned in some measure by the introduction of Land Reforms in West Pakistan and the existence of distress conditions in East Pakistan. However, recently, the West Pakistan Government have decided to channelise 40 per cent of the loans in the Second Plan Period through Co-operatives. A proposal that all Government loans should be channelised through Co-operatives is under consideration.

60. The figures of recoveries are not related to the loans granted in any particular year but represent the repayments against the whole amount outstanding. On the basis of the loans granted during the years 1956-57 to 1961-62 the amount recovered during the period constitutes only 42 per cent of the loans. If the entire outstanding loans are taken into account the percentage of recovery would be much lower.

Government as Indirect Lender:

61. Taccavi loans and Agricultural loans constitute the operations of the Government as a direct lender with no intermediate link between it and the agriculturist. A development of recent origin is the emergence of the Government as an indirect lender in the field. The whole of the capital of the Agricultural Development Bank of Pakistan has been contributed by the Government of Pakistan and the Provincial Governments. During the year 1961-62 the Government of Pakistan also gave a loan of Rs. 50 lacs to the Agricultural Development Bank of Pakistan for financing tea crop. The Provincial Governments are participating in the share capital of co-operative banks and are also giving loans to them. In East Pakistan* during 1961-62 the Government authorised an expenditure of Rs. 143.98 lacs by way of loans and advances to co-operatives and the Government of West Pakistan@ allocated a sum of Rs. 13.17 lacs for the above purpose. The loans given in some cases by the State Bank to specialised institutions and to the co-operative banks have been guaranteed by the Government of Pakistan or the Provincial Government. In order to fulfil obligations under guarantees, the Governments have had to make loans to the Credit Institutions concerned to enable them to repay their borrowings from the State Bank.

* Authorised Expenditure as per East Pakistan Budget of 1962-63.

@ Revised Estimate as per West Pakistan Budget for 1962-63.

CHAPTER VI

CO-OPERATIVES AND AGRICULTURAL CREDIT

History:

62. The Co-operative Movement was sponsored in the Indo-Pakistan Sub-Continent at the turn of the century by the then Government of India with the object of providing credit at reasonable terms to the rural masses so as to afford relief to them from indebtedness to the money-lender. The Co-operative Societies Act was passed in 1904 and societies on the Raiffeisen pattern were promoted. The movement which was confined only to the credit sector, expanded rapidly. In 1912 the scope was widened through an amendment of the law, and, other types of societies, such as sales and supplies were also permitted. The Co-operative Societies Act II of 1912 also introduced a three-tier system in the co-operative movement: (a) Primary Societies at the base; (b) Central Banks and Central Unions at the secondary level and (c) Provincial Banks at the top. Co-operation was made a provincial subject in 1918 under the Montagu-Chelmsford Reforms. Until 1925, the Central Act of 1912 continued to be in force in all the provinces. The Act still applies, as adapted in Pakistan, to the regions of former Punjab, N.W.F.P. and Baluchistan. Provincial Laws passed before partition apply to East Pakistan and former Sind.

63. The pre-1929 boom stimulated a tremendous growth in the movement, no less in the areas now included in Pakistan. But the depression created a crisis as farmers who were members of societies became whole-sale defaulters. Co-operative banks and Societies were in great difficulty and special debt legislation introduced by provincial governments for the protection of

agriculturists aggravated the problems. Although, the Provincial Governments started taking measures in the late 1930s for saving the movement, by scaling down debts at all levels and providing fresh finance, it was not until the outbreak of World War II that any real progress in the rehabilitation of the movement was made and that too not everywhere. In the areas now comprising East Pakistan, the position was particularly bad and efforts to revive the movement made little improvement in the situation.

Position at the time of Partition:

64. When Pakistan came into being the co-operative movement was largely in an inactive state particularly in East Pakistan so far as the primary level was concerned. On paper some 36,000 agricultural credit societies existed in the country but the vast majority was not really active or operative. In East Pakistan alone, there were about 27,000 such societies. The Co-operative banking structure in the former Punjab, N.W.F.P. and Sind had somehow managed to survive and even extend itself but in other parts of the country, particularly in East Pakistan, it was dormant for all practical purposes.

65. The vacuum created in the field of commercial banking after partition resulted in the co-operative banks in West Pakistan being called upon to shoulder new responsibilities. Overnight, at the instance of Government they had to undertake large scale financing of trade and commerce and in doing so rendered vital service to the country at that critical juncture. For various reasons lending to commerce continued to be the pre-occupation of most of the banks in this wing. This is not to say that the rural co-operatives did not receive any assistance during the period, but such finance as was being made available until very recently, cannot be said to have been appreciable. This situation cannot be attributed entirely to the bank as the movement at

the primary level was not able to develop sufficiently to create the demand for funds. Greater amounts have, however, been flowing into primary societies during the last 2-3 years.

Development since Partition:

66. In East Pakistan the first task was to create an apex bank at Dacca as the provincial bank for undivided Bengal had its headquarters in Calcutta. Accordingly the East Pakistan Provincial Co-operative Bank was established in 1948. Simultaneously the Provincial Co-operative Department took steps to revive the co-operative movement through the establishment of some 4,000 new societies known as Union Multipurpose Societies and the liquidation of the moribund societies. With a few exceptions, the new societies could not for a long time get off to a start because of nonavailability of funds from the Provincial or the Central Banks. The former was not in position to help as its limited resources were employed for financing other activities and the latter were virtually moribund.

67. Thus for about a decade after Independence the co-operative movement did not make any significant contribution in the sphere of rural credit. But the co-operatives have assumed a new and pressing importance since 1947, in the context of Pakistan's development. They are recognised as the most suitable medium for rural development in general and the extension of agricultural credit in particular. The State Bank of Pakistan has from the earliest sought to bring home to all concerned, the important place of co-operatives in the rural Credit set up. The Pakistan Agricultural Enquiry Committee (1951) expressed the view that the basis for increased production and improved marketing might be agricultural co-operatives. The Planning Commission observed in the First Five-Year National Development Plan (1955-60) that the Central and Provincial Governments should take adequate steps to develop co-operatives in the

country as the most effective means to enable men and women of small means to organise themselves for fulfilling their economic needs, particularly in the rural areas. The Credit Enquiry Commission (1959) in its recommendations assigned a prominent role to co-operatives in the field of rural credit. The Food and Agricultural Commission (1960) called for "a display by Government of its conviction that the development of genuine and successful co-operatives is one of the cardinal points of its farm policy".

68. Notwithstanding the above, it is only in recent years that signs of regeneration are discernible in the co-operative field. The Governments in the country now, have a greater consciousness of the role of co-operatives in the service of the agriculturist. Programmes are afoot in both wings of the country for extending the co-operative sector. The steps that are contemplated seek to employ the co-operative agency in the various fields of rural development but credit continues to occupy a predominant position in co-operative activity. Credit operations are to be linked with marketing and supply activities. A great deal of thought is being given to genuinely strengthening the primary societies through elaborate education and extension services.

Co-operative Credit Structure:

69. The co-operative credit structure in the former Punjab and in East Pakistan comprises of a three-tier system with the Provincial Co-operative Bank at the top, the Central Bank, the Central Union or the Central Multipurpose Society at the intermediate level and the primary society at the base. In former Sind and N.W.F.P. a two-tier system exists with the primary societies being directly affiliated to the apex banks.

CHAPTER VII

PRIMARY AGRICULTURAL CREDIT SOCIETIES

Nature:

70. Primary Agricultural Credit Societies form the base of the co-operative credit structure and constitute its most important link. They occupy a predominant position in the co-operative movement. Until Independence the societies in East Pakistan, the former Punjab and N.W.F.P. were basically of the Raiffeisen type of small size and unlimited liability. Large-sized societies or limited liability co-operatives were few and far between. This pattern also prevailed in the region of former Sind until 1945.

Different types of Societies:

71. In the reorganisation that has been sought to be brought about after partition in the co-operative movement, the following aspects have been the subject of considerable discussions:—

- (i) Whether small-sized societies are the most effective instrument for developing the Co-operative Movement?
- (ii) Is unlimited liability a hinderance or help to the Co-operative Movement?
- (iii) Should societies be single purpose or multipurpose in character?

72. It is argued by those in favour of large-sized societies that small societies, judging from past experience, have not been viable units and that many of their difficulties stemmed from this fact. The most important factor according to them in

retarding progress was the inability of small societies to employ paid Secretaries or Managers because of limited resources. Large-sized societies covering 4 or 5 villages would be able to overcome this deficiency and thus function more efficiently. The main argument of those opposed to large-sized co-operatives is that societies extending beyond village limits lose the essential characteristics of a co-operative society, namely mutual knowledge on the part of members of each other. They contend that large-sized societies are apt to become impersonal and while on the face of it they may appear more workable they cannot really contribute to the growth of a genuine co-operative movement.

73. Limited liability is generally accepted as more desirable than unlimited liability. It is believed that limited liability will induce the more affluent sections of the rural community, which in the past have been inclined to stay out of co-operatives, to become members of societies.

74. In the pre-Independence era the single-purpose credit society was the accepted type of co-operatives. The notion that multipurpose co-operatives would lend greater strength to the co-operative movement than single purpose co-operative societies was based on the reasons that credit is just one aspect of rural development and that for it to succeed other rural problems should also be tackled through co-operatives. The setting up of separate societies for credit and other types of societies for other purposes would be expensive. It would also not be feasible to do so because of the shortage of trained personnel. As such the best course was to have multipurpose societies at the village level. In Pakistan in actual practice, the trend has been in favour of single-purpose co-operatives.

Government Policy :

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

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

Societies in East Pakistan:

76. From the beginning, East Pakistan has favoured large-sized societies with limited liability and multipurpose objectives. In place of the 27,000 Primary Agricultural Credit Societies that existed at the time of partition, Government promoted the establishment of some 4,000 new societies known as Union Multipurpose Societies. A Union Multipurpose Society, as the name suggests, has its area of operation extending to the boundaries of the union, and is much larger in size and scope than village societies. The limited liability concept was also accepted as more conducive to the growth of the movement. Although the societies were designated as multipurpose, in practice, they have so far remained single-purpose societies undertaking only credit business. In the light of Credit Enquiry Commission's recommendation referred to above they are likely to continue functioning as single-purpose societies only.

Of late a new idea is under experimentation in East Pakistan. It seeks on the one hand to retain the large-sized character of the Union Multipurpose Society and on the other to preserve the essentials of co-operation. The question of dividing each society into wards is under consideration.

Societies in former Sind:

77. The co-operative set up in former Sind, as in the rest of undivided India, originally comprised of small-sized societies with unlimited liability. The movement was severely hit by depression and floods from 1927 onwards and by 1938-39, overdues had accumulated to Rs. 192 lacs. Attempts at reconstruction of the movement through debt conciliation and extension of repayment dates failed to bring about any substantial results. Finally, it was decided in 1946 to liquidate those societies which were beyond revival and to merge those which still had some potentialities into large-sized co-operatives. These large-sized societies were based at Taluka headquarters. It was hoped that they would be efficient in operation and offer possibilities of attracting suitable persons on the management. This is the pattern which has continued to exist till now. The societies are generally called Central Co-operative Societies and those of them that are able to build-up paid up capital of Rs. 20,000 are designated as Taluka banks. The Taluka bank or the Central Co-operative Society is intended to serve the requirements of middle class farmers. For large-sized holdings a separate type of institution known as Zamindari Bank exists. Those persons whose land assessment exceeds Rs. 300 are eligible for membership of these banks. The Taluka and Zamindari Banks thus constitute the primary level societies in the region. At present the number of Taluka Banks is 34, Central Co-operative Societies 57 and Zamindari Banks 5.

Societies in former Punjab and N.W.F.P.:

78. In the former Punjab and N.W.F.P. the majority of societies are still small-sized with unlimited liability. Since 1958-59 a new type of society known as Development Society has come into being under a Rural Credit Reconstruction Scheme. A brief description of these societies is given in Chapter X.

Numerative position of Co-operative Societies since 1948-49:

79. The following table gives the numerative position of primary societies (Primary Agricultural Credit Societies and Union Multipurpose Societies) during the period 1948-49 to 1959-60 :—

Progress of Co-operative Societies

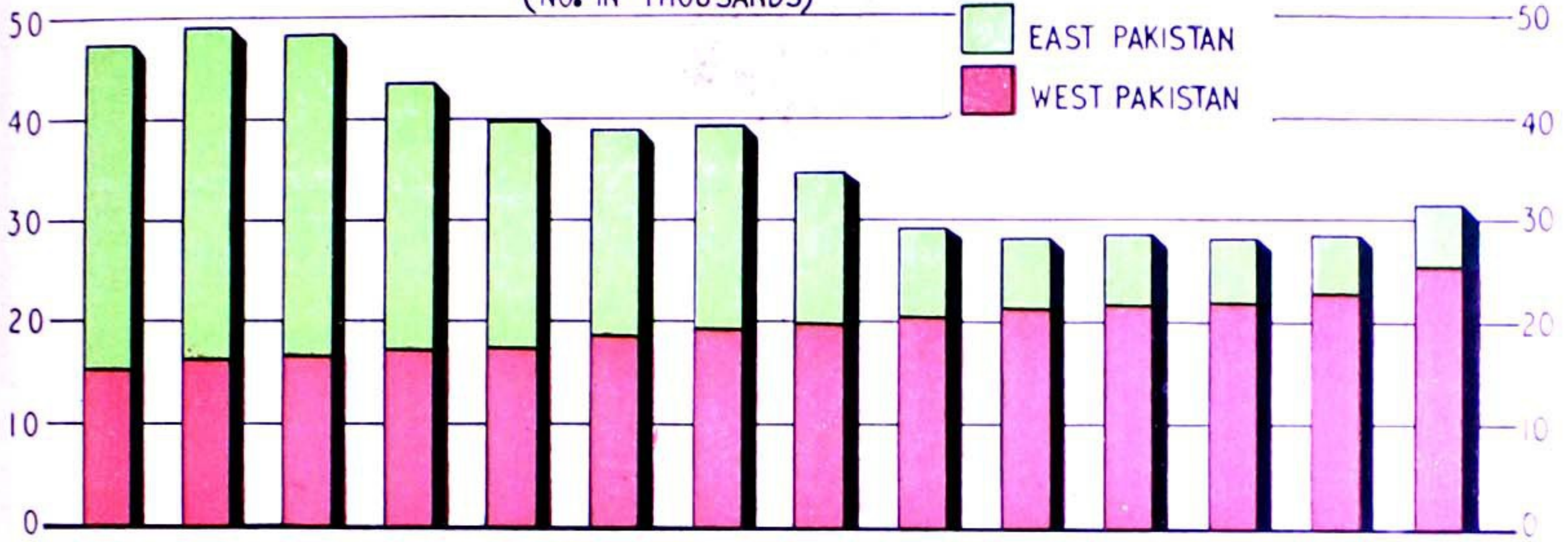
Items	1948-49	1955-56	1959-60
West Pakistan Credit Societies:			
1. Agricultural ...	9,047	10,597	11,871
2. Non-agricultural ...	651	824	1,015
Non-Credit Societies:			
1. Agricultural ...	2,453	3,519	4,245
2. Non-agricultural ...	3,468	4,955	5,458
Total ...	15,619	19,895	22,589
East Pakistan Credit Societies:			
1. Agricultural (Primary Agricultural Credit & Union Multipurpose Societies) ...	27,514	6,679	-4,000
2. Non-Agricultural ...	336	224	311
Non-Credit Societies			
1. Agricultural ...	1,599	237	56
2. Non-Agricultural ...	2,904	1,516	1,068
Total ...	32,353	8,656	5,435
All-Pakistan Credit Societies:			
1. Agricultural ...	36,561 (76%)	17,276 (61%)	15,871 (57%)
2. Non-Agricultural ...	987 (2%)	1,048 (3%)	1,326 (5%)
Non-Credit Societies:			
1. Agricultural ...	4,052 (8%)	3,756 (13%)	4,301 (15%)
2. Non-Agricultural ...	6,372 (13%)	6,471 (23%)	6,526 (23%)
Total ...	47,972	28,551	28,024

PROGRESS OF CO-OPERATIVE SOCIETIES

(INCLUDES APEX & CENTRAL BANKS)

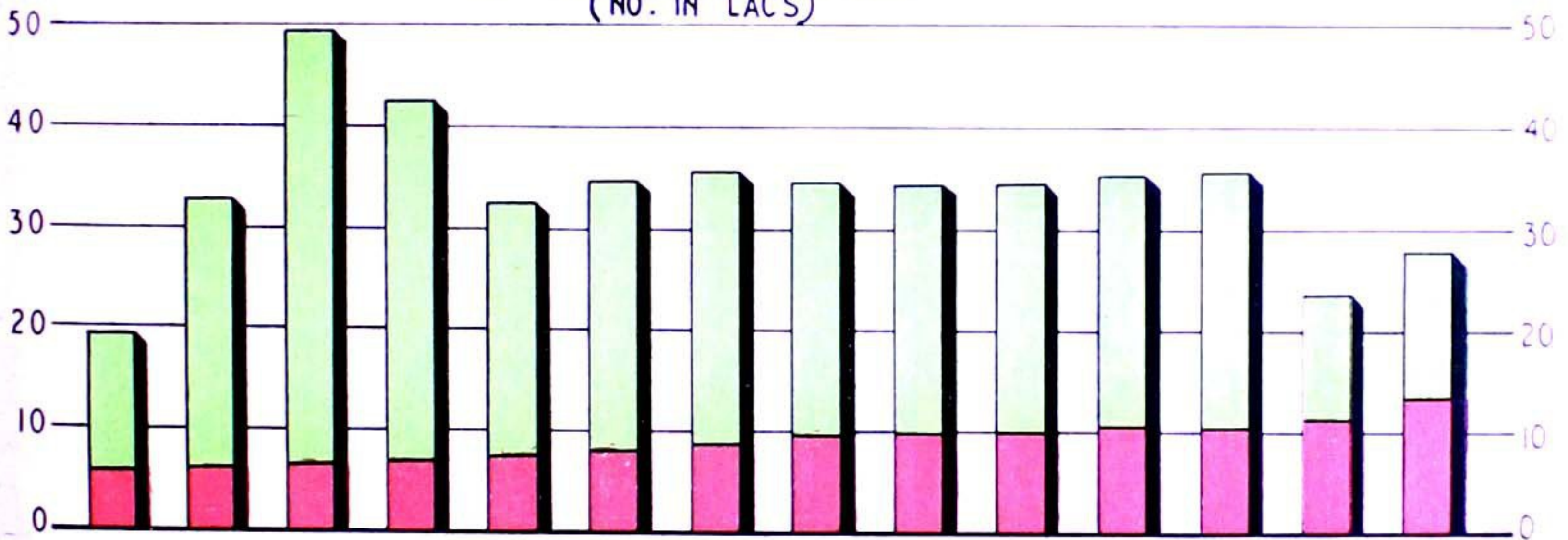
NUMBER OF SOCIETIES

(NO. IN THOUSANDS)



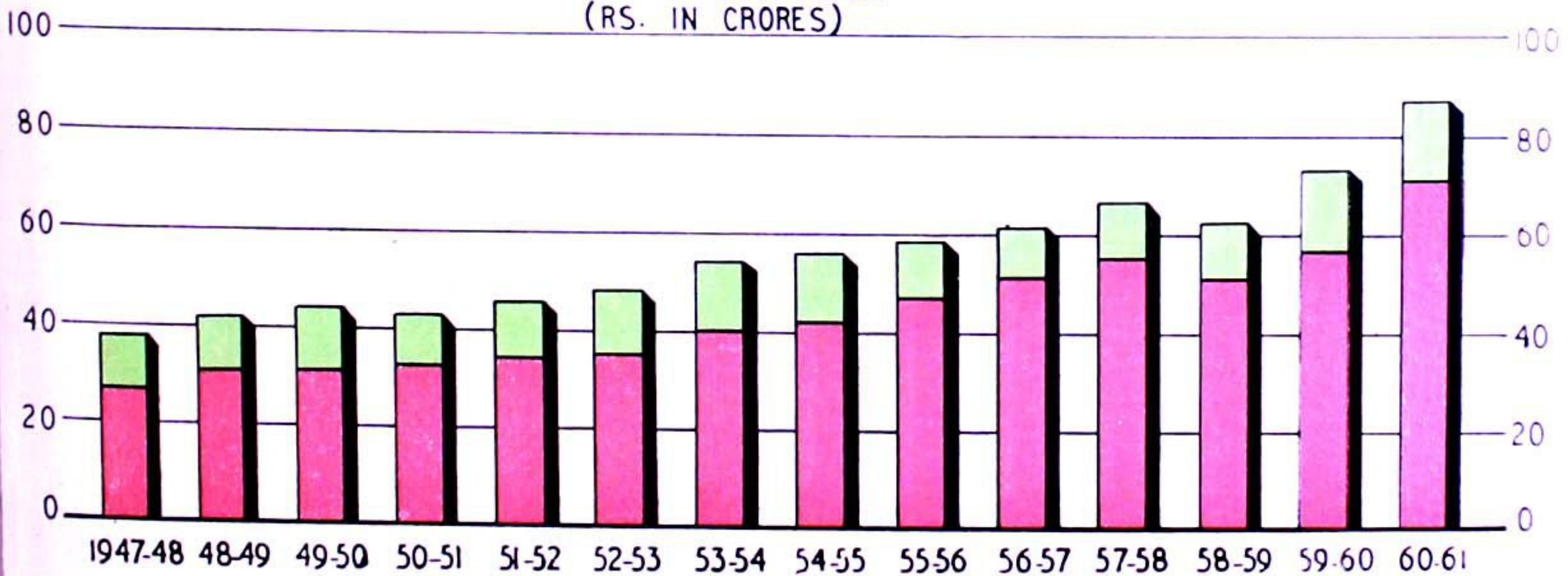
NUMBER OF MEMBERS

(NO. IN LACS)



WORKING CAPITAL

(RS. IN CRORES)



Figures in brackets show percentages to total. In the country as a whole the percentage of agricultural credit societies to the total has come down from 76 per cent in 1948-49 to 57 per cent in 1959-60. The number of agricultural credit societies has come down by 20,690. In East Pakistan the reduction in the number of societies by 23,514, is accounted for by the liquidation of dormant societies and their replacement by Union Multipurpose Societies. In West Pakistan the number of agricultural credit societies has increased by 2,824.

Position of Limited and Unlimited Liability Societies since 1948-49:

80. The distribution of societies by nature of liability has undergone the following changes:—

Items	1948-49	1955-56	1959-60
<i>West Pakistan</i>			
Limited	53	63	107
Unlimited	8,994	10,534	11,764
Total	9,047	10,597	11,871
<i>East Pakistan</i>			
Limited	1,675	3,238	3,711
Unlimited	25,839	3,441	289
Total	27,514	6,679	4,000
<i>All Pakistan</i>			
Limited	1,728	3,301	3,818
Unlimited	34,833	13,975	12,053
Total	36,561	17,276	15,871

Limited liability credit societies in West Pakistan are to be found largely in Hyderabad and Khairpur Divisions. In East Pakistan, as stated earlier, the limited liability societies comprise of Union Multipurpose Societies. The virtual disappearance of unlimited liability societies in that province, is due to liquidation of pre-Independence societies.

Trend in Membership:

81. The trend in membership of agricultural credit societies has been as follows:—

		1948-49	1955-56	1959-60
West Pakistan	...	2,51,310	3,38,686	4,34,327
East Pakistan	...	7,77,074	6,15,079	7,83,052
All Pakistan	...	10,28,384	9,53,765	12,17,379

Between 1948-49 and 1959-60 there has been an increase in membership by 1,83,017 and 5,978 in West Pakistan and East Pakistan, respectively. The membership for East Pakistan in respect of the year 1948-49 may be said to have virtually disappeared as a result of liquidation of old societies and the present strength represents membership of post-independence Union Multipurpose Societies. The average membership per society in West Pakistan at the end of the year 1959-60 was 33, while in East Pakistan it was 195.

Financial Position:

82. The subjoined table shows the break-up of the working capital of agricultural credit societies in the two provinces of the country.

COMPOSITION OF WORKING CAPITAL

(Rupees in lacs)

Items	1948-49		1955-56		1959-60	
	Amount	Percent- age to working capital	Amount	Percent- age to working capital	Amount	Percent- age to working capital
West Pakistan						
Paid-up Capital	47.98	16.21	71.02	14.19	109.56	12.69
Reserves	118.66	40.10	167.99	33.58	185.48	21.49
Total Owned Funds	166.64	56.32	239.01	47.77	295.04	35.35
Deposits	52.65	17.79	101.81	25.35	147.61	17.10
Borrowings	76.57	25.88	159.44	31.87	420.35	48.70
Total Outside Funds	129.22	43.67	261.25	52.22	567.96	65.81
Working Capital	29.586	—	500.26	—	863.00	—

COMPOSITION OF WORKING CAPITAL—(Contd.)

(Rupees in lacs)

Items	1948-49		1955-56		1959-60	
	Amount	Percent- age to working capital	Amount	Percent- age to working capital	Amount	Percent- age to working capital
East Pakistan						
Paid-up Capital ...	51.48	13.35	39.34	23.12	62.85	15.78
Reserves ...	148.34	38.47	32.12	18.87	14.71	3.69
Total Owned Funds	199.82	51.82	71.46	42.00	77.56	19.48
Deposits ...	17.89	4.63	10.60	6.23	7.63	1.91
Borrowings ...	167.87	43.53	88.08	51.76	312.85	78.59
Total Outside Funds	185.76	48.17	98.68	57.99	320.48	80.50
Working Capital ...	385.58	—	170.14	—	398.04	—
Total Working Capital for All-Pakistan	681.44	—	670.40	—	1261.04	—

The owned funds of societies in West Pakistan increased by Rs. 128.40 lacs or 77 per cent. The decline in the owned funds of societies in East Pakistan by Rs. 122.26 lacs or 61 per cent is again due to liquidation of large numbers of defunct societies. In 1959-60 the percentage of owned funds to working capital worked out to 35.3 per cent in West Pakistan and 19.48 per cent in East Pakistan.

While deposits in West Pakistan have increased by Rs. 94.96 lacs or 180 per cent, their ratio to the working capital showed a slight decline from 17.79 per cent in 1948-49 to 17.1 per cent in 1959-60. A large portion of these deposits may be said to have been collected by large-sized societies, particularly Zamin-dari and Taluka Banks in Hyderabad and Khairpur Divisions which are operating more or less as urban based banks. The deposits in East Pakistan amounted to only 1.9 per cent of total working capital in 1959-60 as against 17.87 per cent in 1948-49.

83. It should be apparent from the foregoing paragraph that the thrift movement which is as important an aspect of

primary credit societies as the credit side has not shown the requisite degree of progress. Societies in both the wings of the country have obtained the bulk of their funds by borrowings. Although in West Pakistan the deposits show an increase, it can hardly be said to apply to the average society. As stated earlier, a few of the large-sized societies, particularly Zamindari and Taluka Banks which are classified as primary societies, account for the bulk of the amount.

84. The working capital of the societies on an all-Pakistan basis increased by Rs. 579.60 lacs or 85 per cent between 1948-49 and 1959-60. In West Pakistan it increased by Rs. 567.14 lacs or 192 per cent and in East Pakistan by Rs. 12.46 lacs or 3 per cent. The decline of Rs. 215.44 lacs in working capital in East Pakistan between 1948-49 and 1955-56 was the result of liquidation of large number of societies and the increase by Rs. 227.90 lacs or 134 per cent between 1955-56 and 1959-60 was due to establishment of Union Multipurpose Societies.

85. The following figures show the average working capital per society and per member, for the year 1959-60:—

Provinces	No. of Societies	Member-ship	Working Capital in thousands of rupees	Average Working Capital	
				Per Society	Per Member
West Pakistan ...	11,871	4,34,327	86,300	7,260	198
East Pakistan ...	4,000	7,83,052	39,804	9,952	50
All-Pakistan ...	15,871	12,17,379	1,26,104	7,945	103

The above figures reveal the meagreness of resources with the average society and the limited extent to which the average member can be assisted. Although the State Bank of Pakistan is becoming an ever increasing source of funds for them, the co-operatives can, in the long run, become really sound organisations only if they achieve a proper balance between their needs and their deposits.

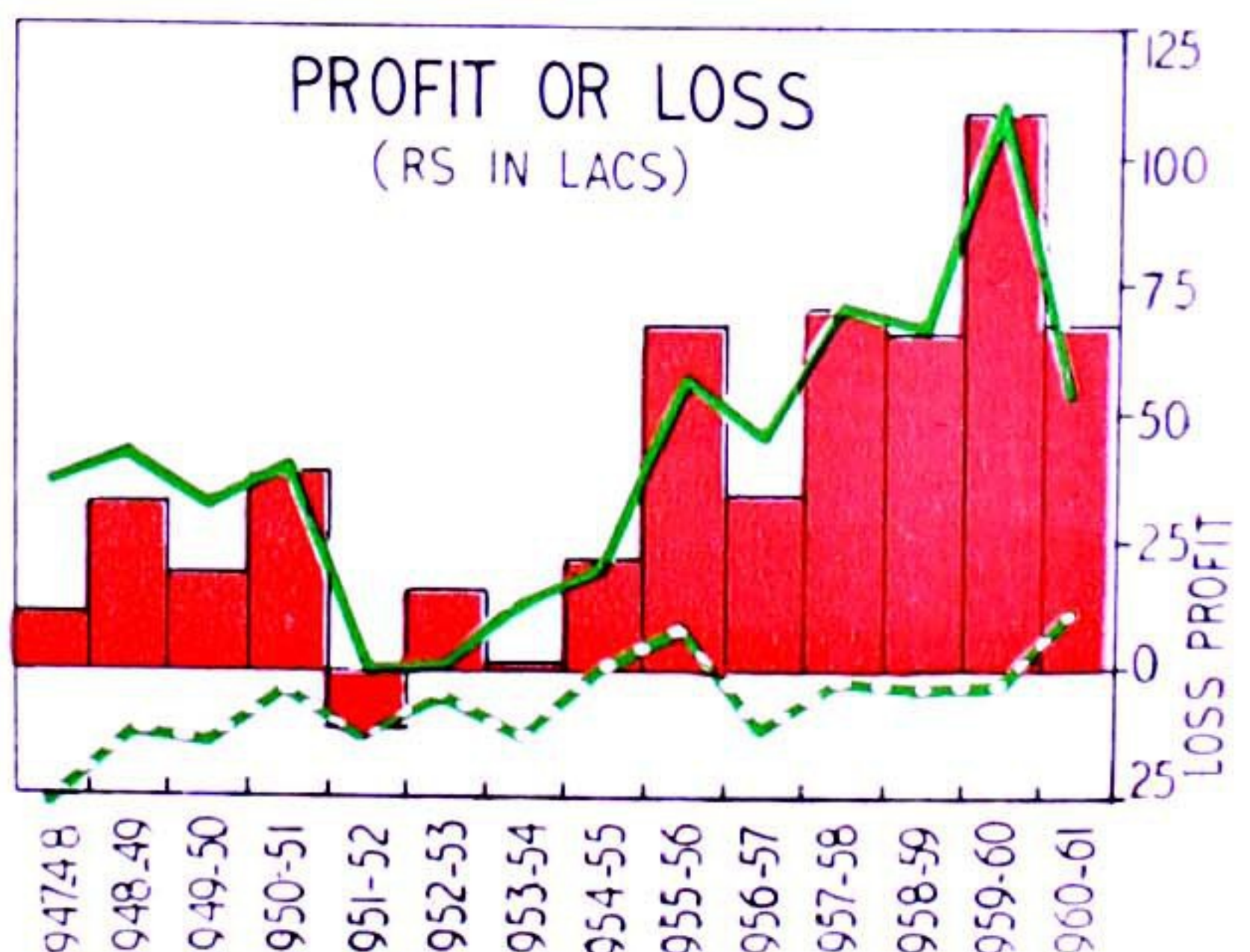
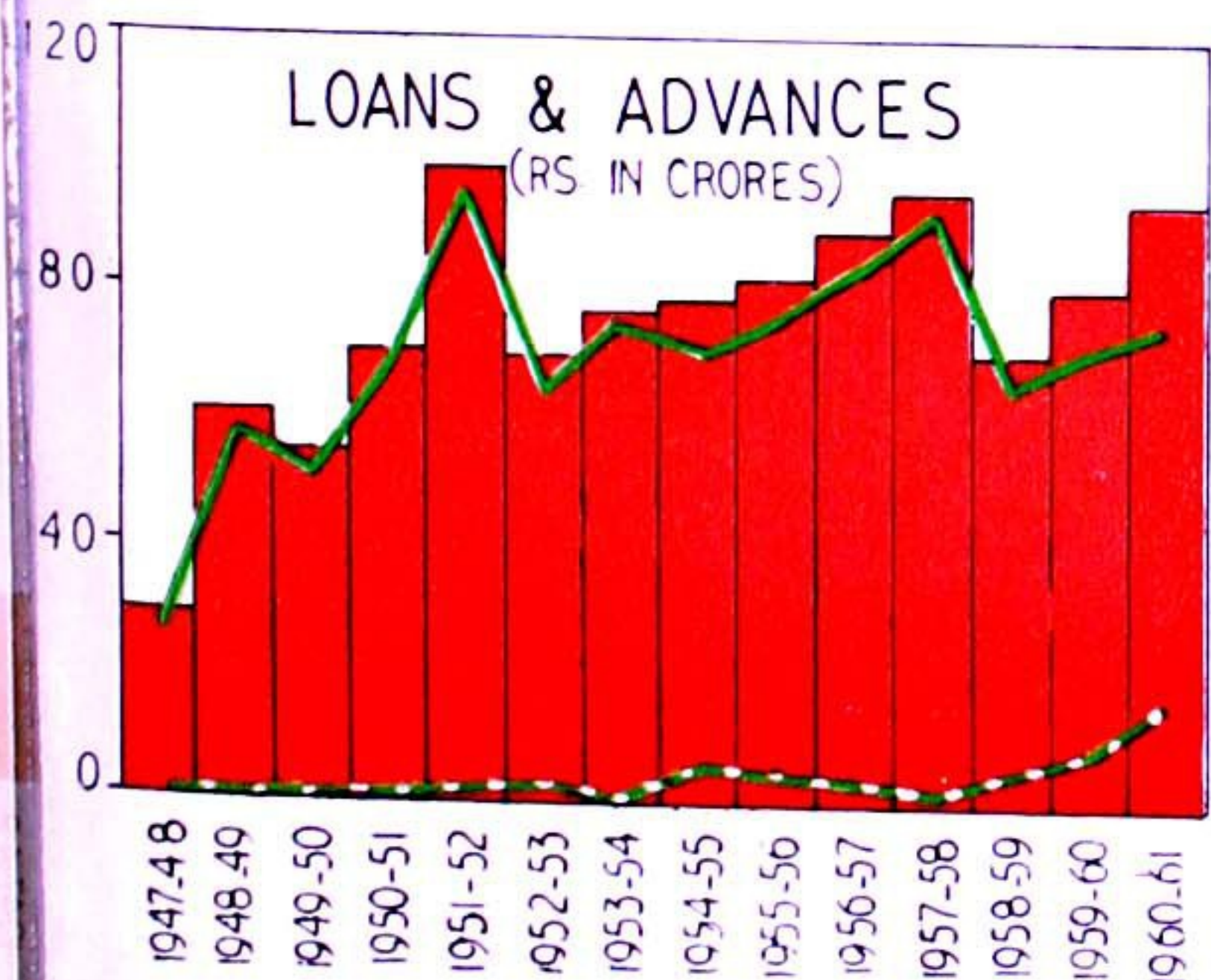
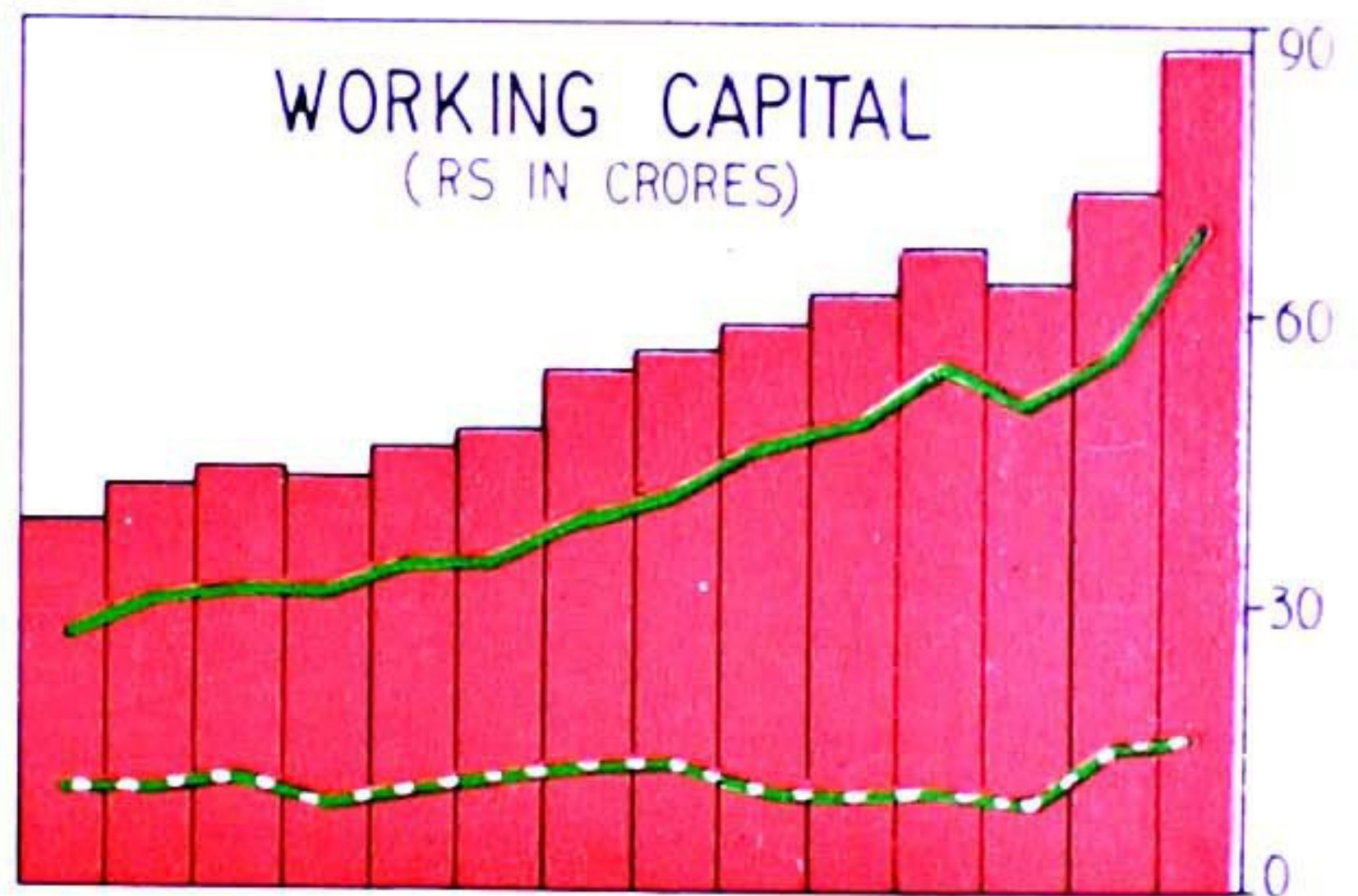
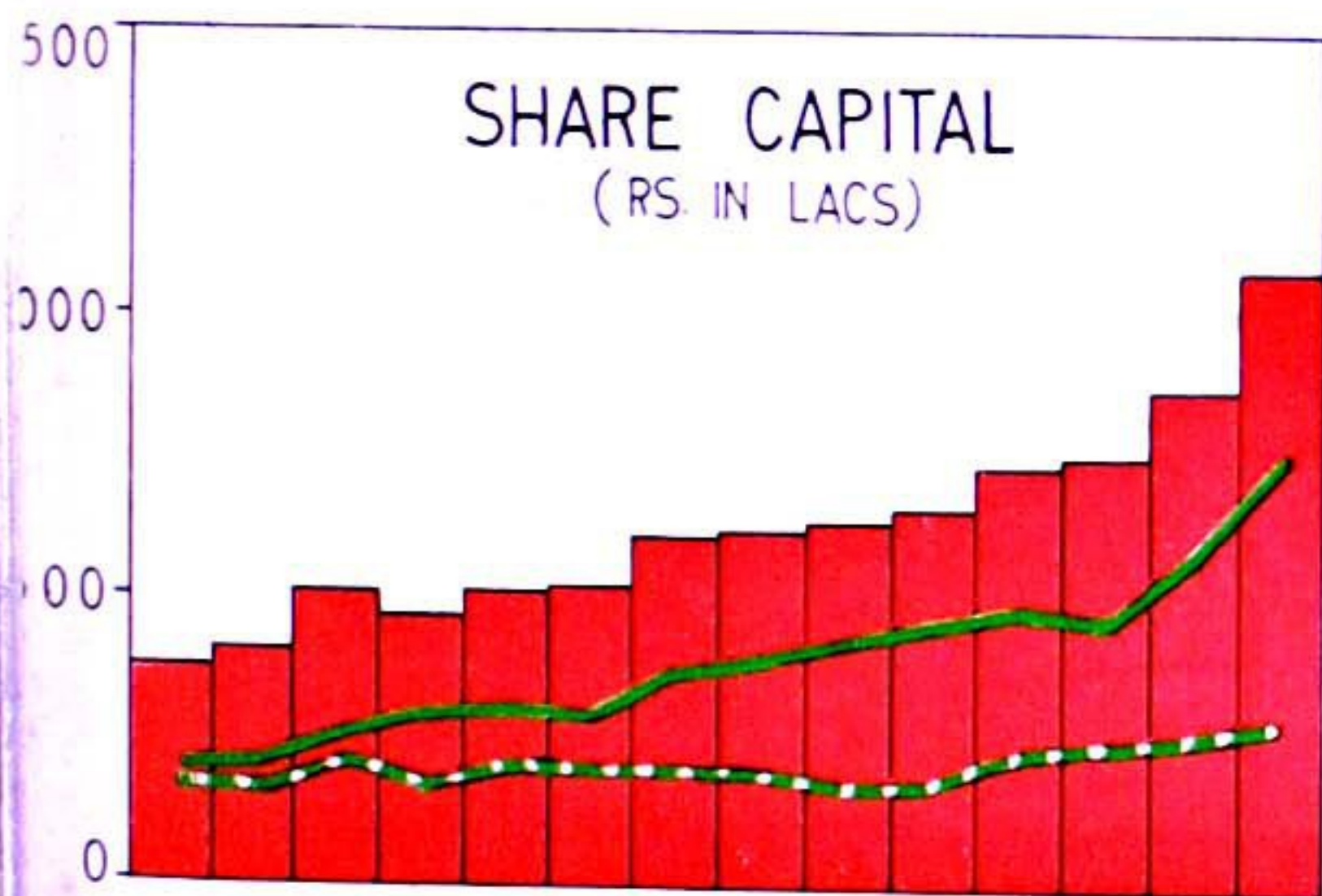
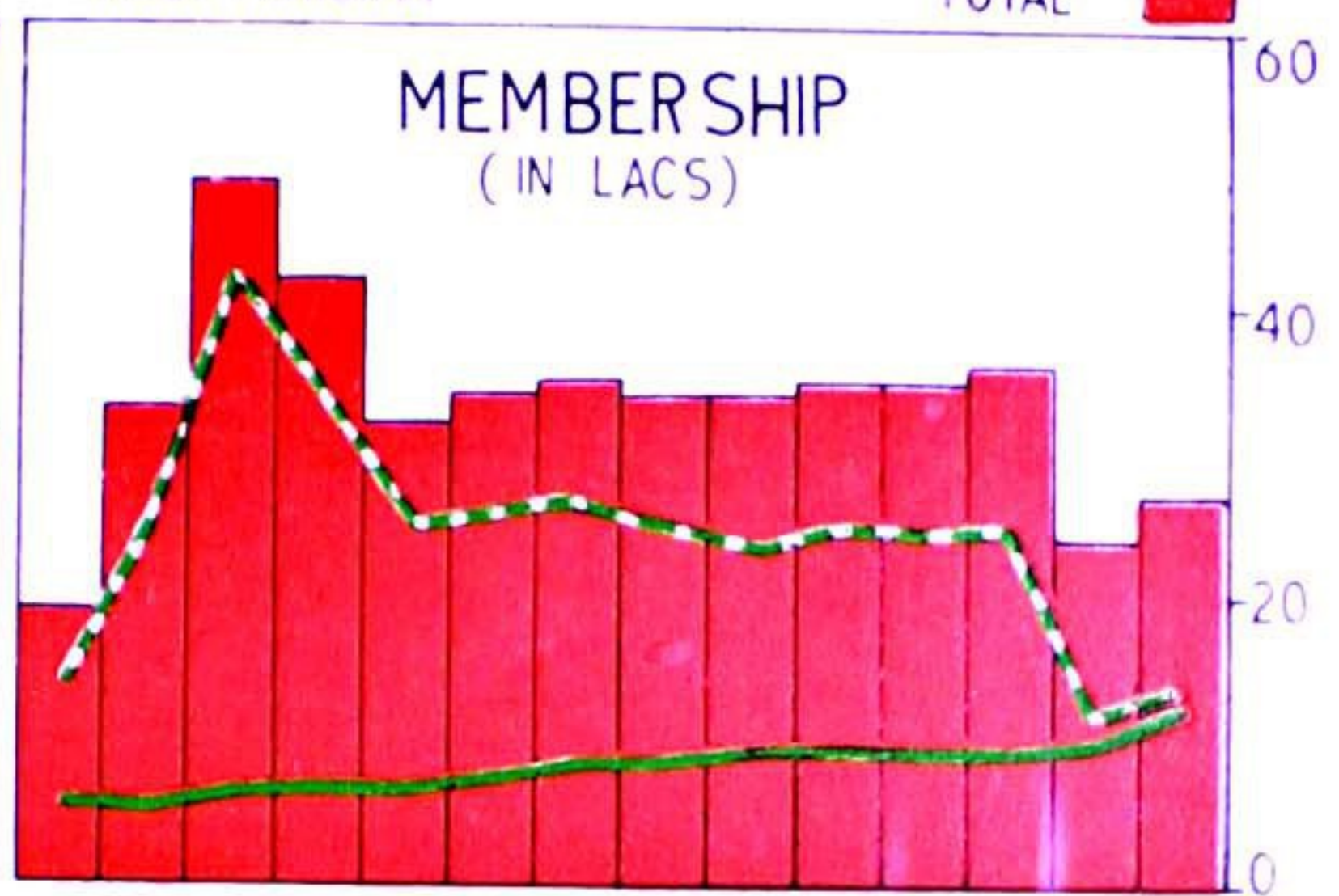
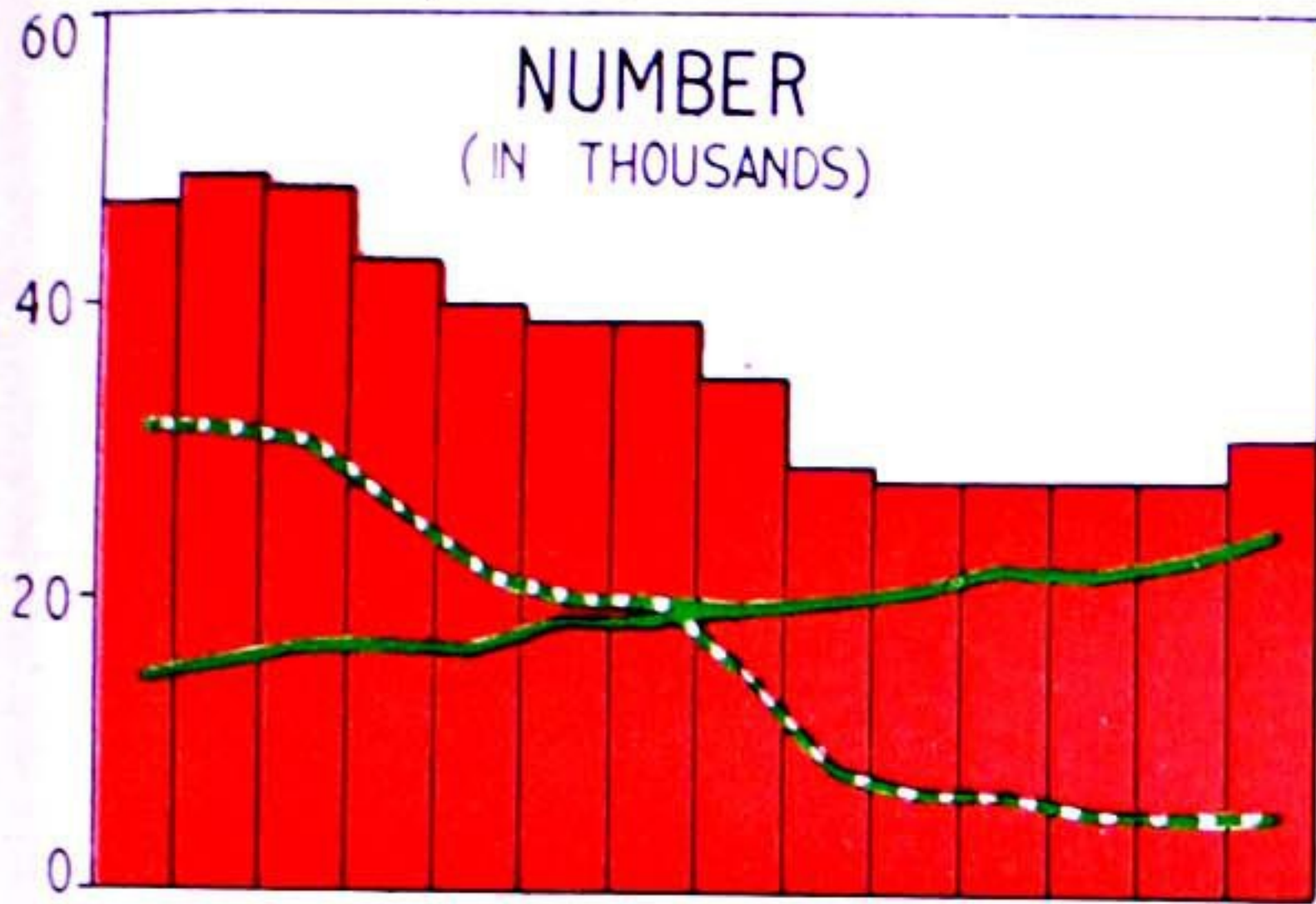
PROGRESS OF CO-OPERATIVE SOCIETIES

(INCLUDES APEX & CENTRAL BANKS)

--- EAST PAKISTAN

— WEST PAKISTAN

TOTAL



Trend of Loan Operations:

86. The trend in the loan operations of agricultural credit societies has been as under:—

	(In lacs of rupees)								
	1948-49			1955-56			1959-60		
	East Pak.	West Pak.	Total	East Pak.	West Pak.	Total	East Pak.	West Pak.	Total
Loans advanced during the year	19.89	70.12	90.01	12.08	262.99	275.07	277.23	530.54	807.77
Loans outstanding at the end of the year	189.21	251.67	440.88	95.57	364.93	460.50	332.01	678.07	1010.08
Of which overdue	146.24	66.37	222.61	72.59	98.07	170.66	55.23	153.37	208.60
Percentage of overdue to outstanding	77%	26%	50%	78%	27%	33%	17%	24%	21%
Average outstanding loan per society	688	2,781	1,206	1,433	3,444	2,665	8,300	5,712	6,364
Average outstanding loan per member	24	100	43	15	108	48	42	156	83

The lending operations have expanded greatly in both wings of the country between 1948-49 and 1959-60. There has been an increase of Rs. 549.58 lacs between 1955-56 and 1959-60, evidencing much greater attention to the problem of credit for the agriculturist. The average advance per society and per member in both the wings of the country, however, remains low. The large overdues in East Pakistan in 1948-49 represented amounts due to the old societies. The figure of 17 per cent shown for 1959-60 is in respect of new advances. The loans given are overwhelmingly for short-term seasonal needs mostly for seeds, fertilizers, bullocks, land revenue, etc.

Working Results of Primary Co-operatives:

87. The consolidated profit position of societies in both wings has been as follows:—

Profits for the year	(In lacs of rupees)	
	East Pakistan	West Pakistan
1948-49	—7.14	+1.50
1955-56	+0.24	+5.41
1959-60	+3.15	+16.41

With increasing volume of business the overall profits have gone up greatly in both East and West Pakistan.

Security for Loans:

88. Loans by co-operative societies are at present given in East Pakistan and Hyderabad and Khairpur Divisions (West Pakistan) against mortgage of land. In East Pakistan a mortgage deed known as Karbarnama is executed and is valid for a period of 12 years. In Hyderabad and Khairpur Divisions automatic charge is created against land as soon as a person becomes a member of a society. In the region of former Punjab and N.W.F.P., co-operative loans for short-term purposes are mainly given against personal sureties.

Methods of Recovery:

89. Loans are recoverable in East Pakistan as arrears of land revenue and decrees are executed under what is known as the "Certificate" procedure. In Hyderabad and Khairpur Divisions also co-operative dues are recoverable as arrears of land revenue with the added facility that Co-operative Department officials are empowered to execute decrees. In former N.W.F.P. and Punjab, however, the position is somewhat different. While co-operative officials can, as in the rest of the country, deliver awards, execution of decrees has to be accomplished through the normal machinery of Courts of Law and the decreed amount cannot be recovered as arrears of land revenue. Because of this procedure the recoveries in these two regions are lower than in Hyderabad and Khairpur Divisions.

Rates of Interest:

90. The rate of interest charged on advances varies from 6 per cent to 9 per cent. The rates have been brought down from 12 per cent in some areas as a result of Government's decision, following the recommendation of the Credit Enquiry Commis-

sion that primary agricultural credit societies shall not charge more than 9 per cent on their loans. The rates of interest which the societies have to pay to central financing agencies range from $4\frac{1}{4}$ per cent to 6 per cent.

Management:

91. Primary societies are at present generally managed by Secretaries working in an honorary capacity. This has not been a satisfactory arrangement and the difficulties of societies are attributed very largely to the absence of full-time Secretaries or Managers. Plans are afoot both in East and West Pakistan for the employment of paid and full time Secretaries at least for the large-sized societies.

Land Mortgage Banks:

92. For medium and long-term loans the co-operative credit structure provides for Land Mortgage Banks at the base. West Pakistan has practically no Land Mortgage Banks at present, although a few existed before partition. In East Pakistan, there were 8 Land Mortgage Banks at the end of 1959-60 with a membership of 7,567 and Share Capital of Rs. 2.71 lacs. Their working capital amounted to Rs. 24.80 lacs. In 1959-60 they advanced Rs. 6.32 lacs to agriculturists for redemption of old debts and permanent improvement of land.

CHAPTER VIII

CENTRAL CO-OPERATIVE BANKS, CO-OPERATIVE BANKING UNIONS AND CENTRAL MULTIPURPOSE SOCIETIES

Central Co-operative Banks:

93. Central Co-operative Banks exist in every district of East Pakistan and former Punjab with some districts having more than one bank. In 1960, Government decided that in the interests of viability, there should not be more than one central bank in a district. There has, however, been hardly any progress so far in the implementation of this decision.

Co-operative Banking Unions:

94. Co-operative Banking Unions are to be found in smaller towns of former Punjab. Their membership is confined to societies and, unlike central co-operative banks, their profits are not divisible. Central Multipurpose Societies were organised in East Pakistan under a programme of rehabilitation of the Co-operative movement. Primarily they are intended to assist primary co-operatives through marketing and other allied activities. A number of these societies have, however, become involved in credit business, specially at places where central banks do not function effectively, and are functioning as secondary level credit institutions in these areas.

Trends Since 1948:

95. At the end of the year 1948 there were 28 Central Co-operative Banks, 21 Banking Unions and 2 Industrial Unions in West Pakistan. Their number rose to 31 Central Co-operative Banks, 2 Industrial Banks and 13 Industrial Unions with 67

branches in 1955-56. The number of Banking Unions, however, went down from 21 to 18 as a result of the amalgamation of three Banking Unions with the Central Co-operative Banks. By the end of the year 1959-60 there were 30 Central Banks, 18 Banking Unions, 2 Industrial Banks, 11 Industrial Unions and 4 other Central Institutions with 81 branches in all.

96. In East Pakistan at the end of 1948-49 there were 83 Central Co-operative Banks. The number had decreased to 78 in 1955-56 and further to 56 by 1959-60. According to the Scheme approved under the Second Five-Year Plan, 54 Central Banks will be retained, one in each sub-division of the province. The reduction in number of banks is accounted for by the policy of the East Pakistan Co-operative Department to retain banks only at sub-divisional headquarters and to liquidate those at outlying stations through amalgamation with banks at sub-divisional level or conversion into Central Multipurpose Societies.

Membership

97. Membership in Central Co-operative Bank in both the wings of the country comprises of individuals and societies. Membership of individuals was considered necessary in the earlier stages in order to enlist the interest of the urban and trading classes and to form institutions of a size and composition which would be more likely to attract deposits of the wealthier section of the community living in towns. The bye-laws of most banks, however, require that at least 50 per cent of their shares should be held by societies. But this has not prevented many banks from domination by individuals. The Credit Enquiry Commission was of the view that some of the difficulties experienced by the co-operative banks after Independence can be traced to the presence of individual members with little personal stake in the institutions from

which they obtained their finances, and it, accordingly, recommended that individuals should be removed from co-operative banks at all levels. The Government accepted this recommendation and it has been decided that secondary co-operative societies should not entertain individuals as members. In East Pakistan the proposal to make the necessary amendment is under consideration. In West Pakistan, Co-operative Department has allowed a period of two years to the Central Banks for the retirement of share-holding of individuals.

98. The table below indicates the position of membership in Central Banks and Banking Unions of individuals and societies:—

Year	Number	Individuals	Societies	Total	Percentage of individual membership to total
1948-49 ...	134	7,243	35,065	42,308	17%
1955-56 ...	142	8,723	22,920	31,643	27%
1959-60 ...	121	9,972	17,389	27,361	36%

Province-wise the trend has been as follows:—

MEMBERSHIP

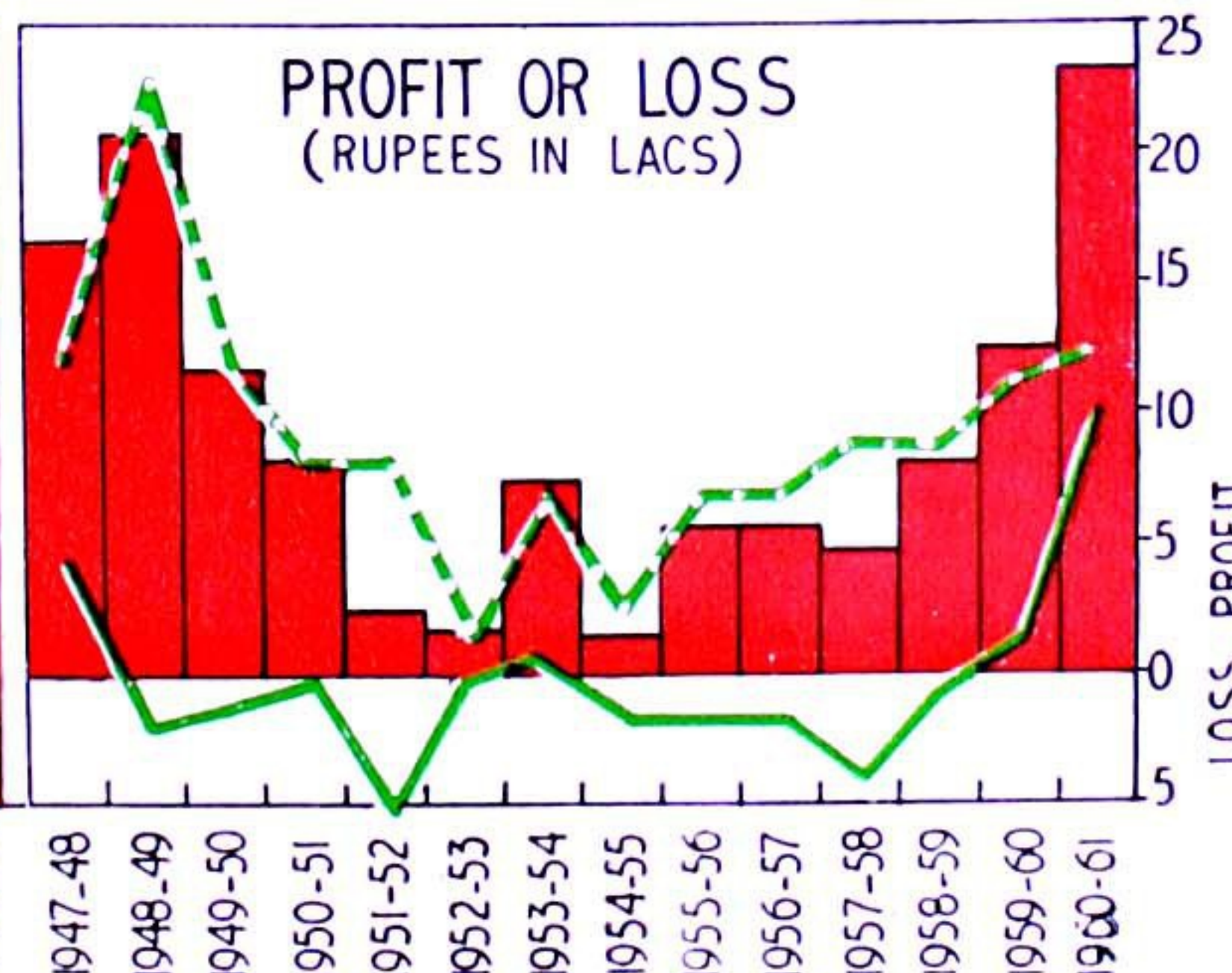
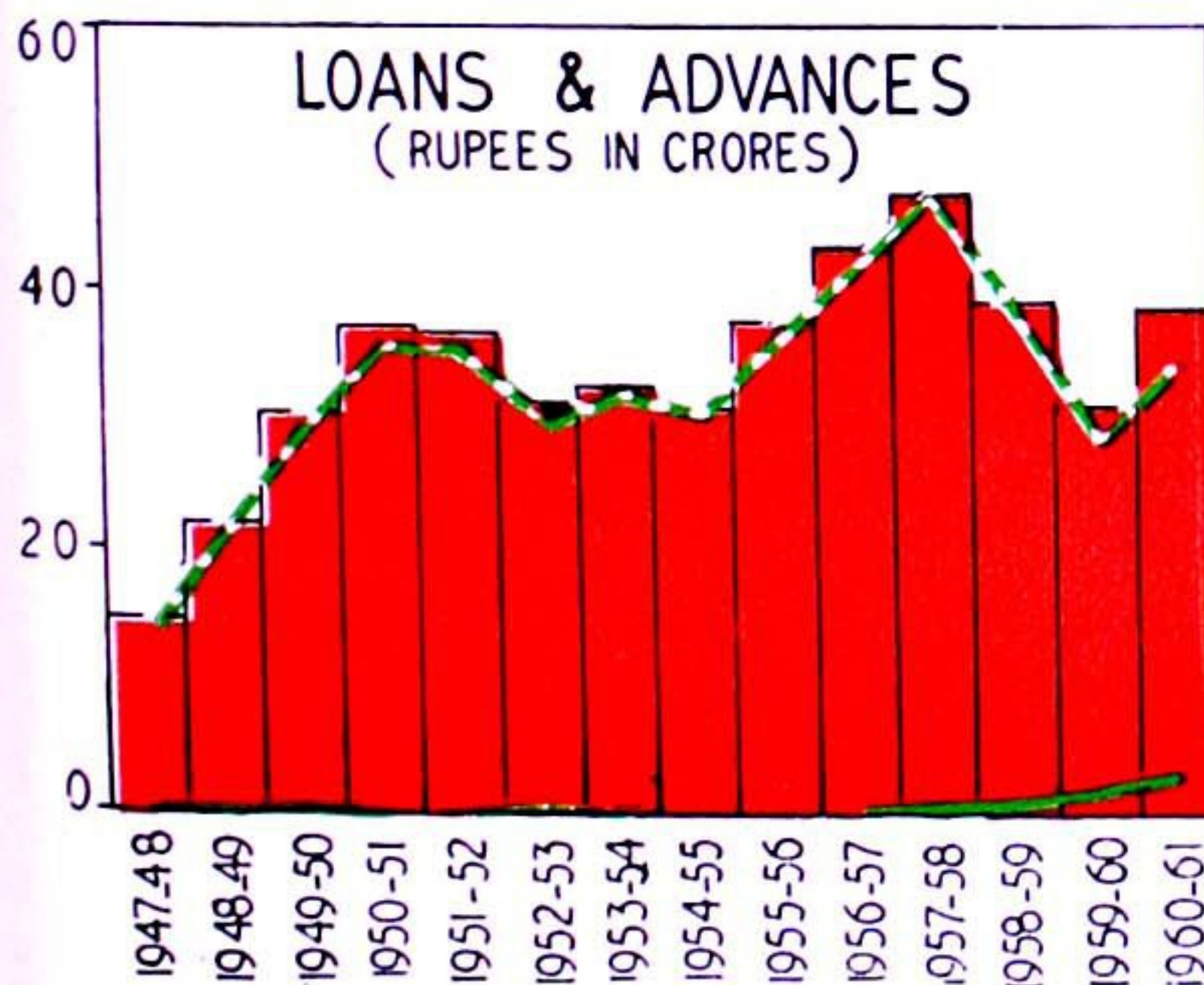
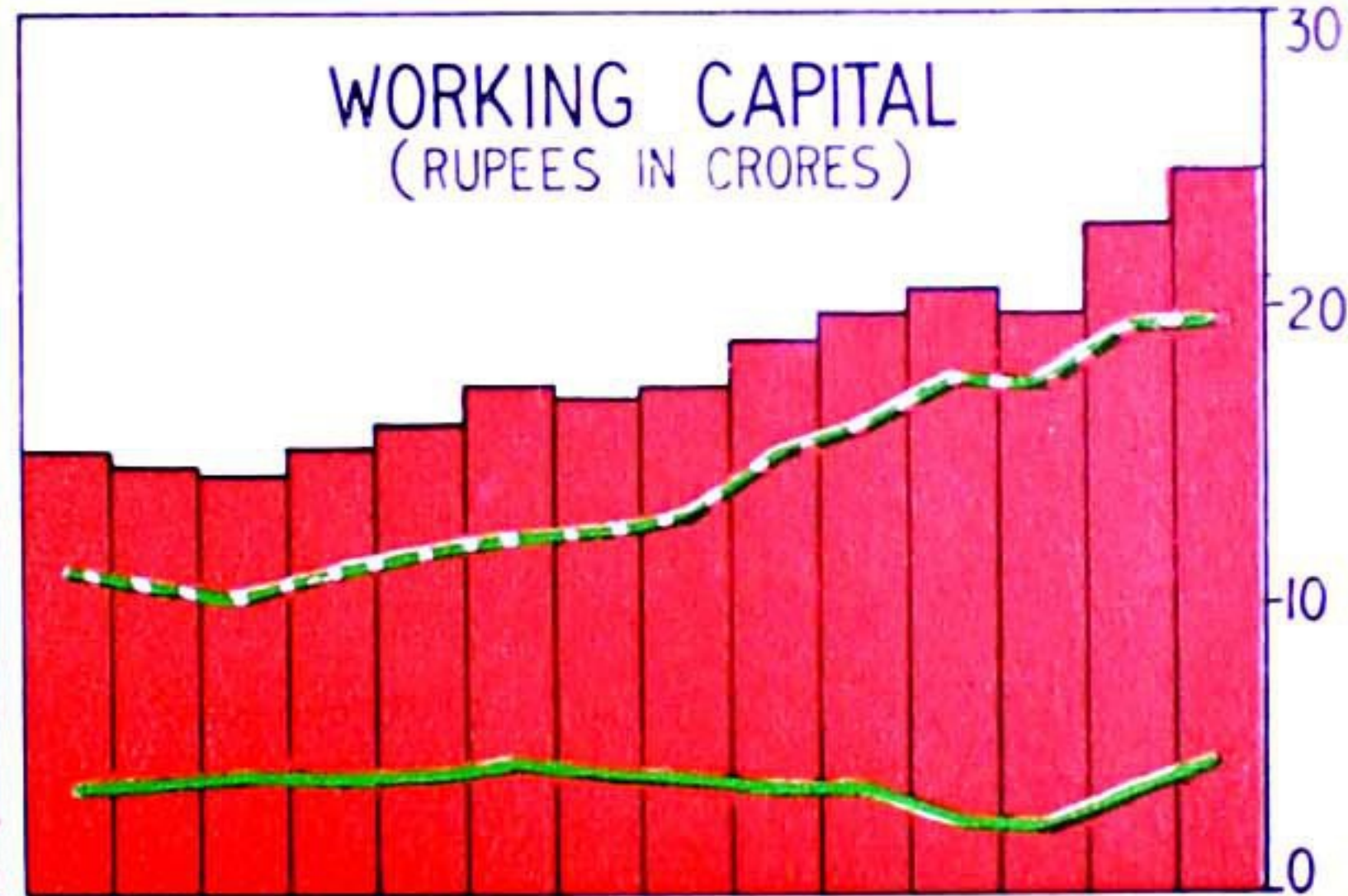
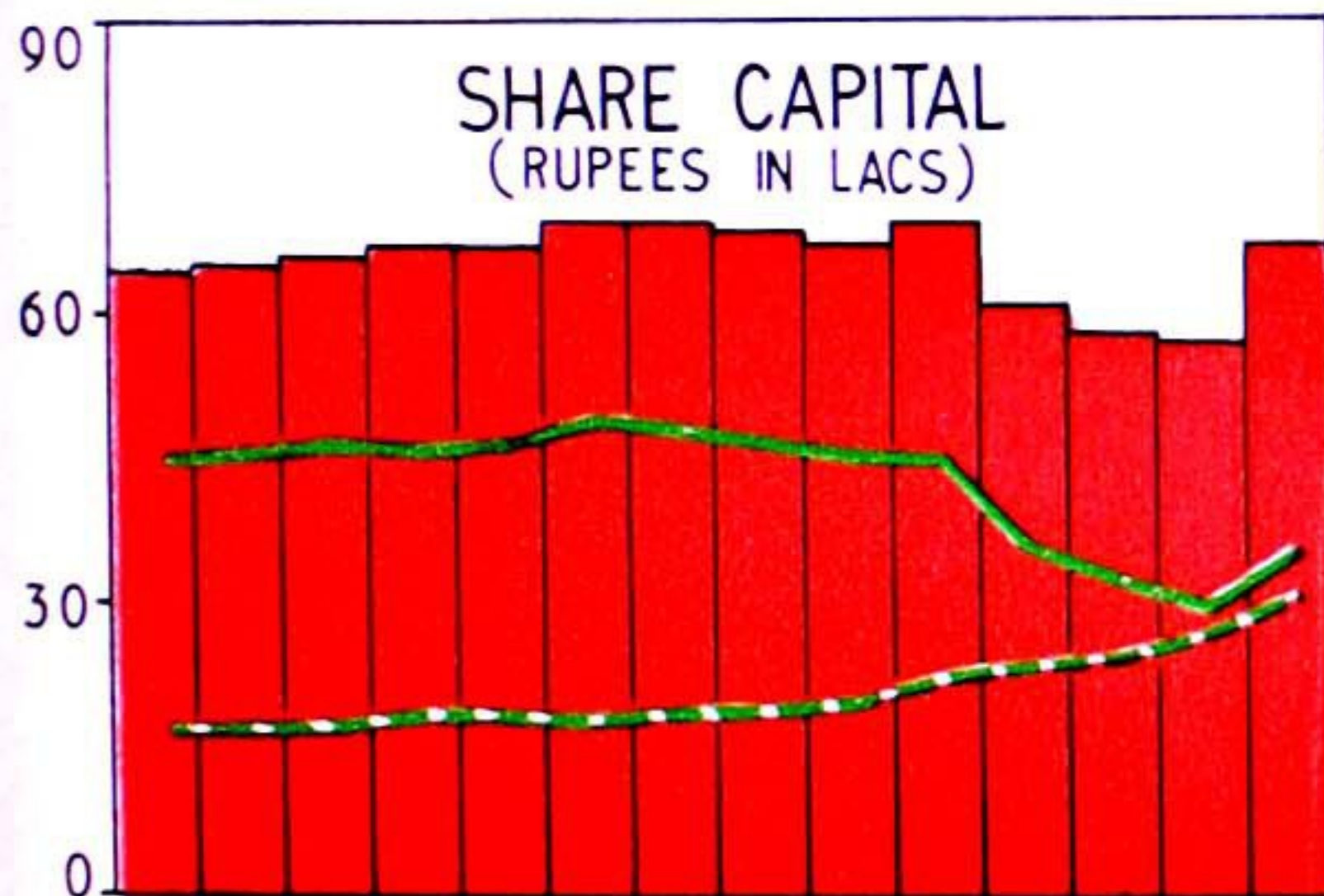
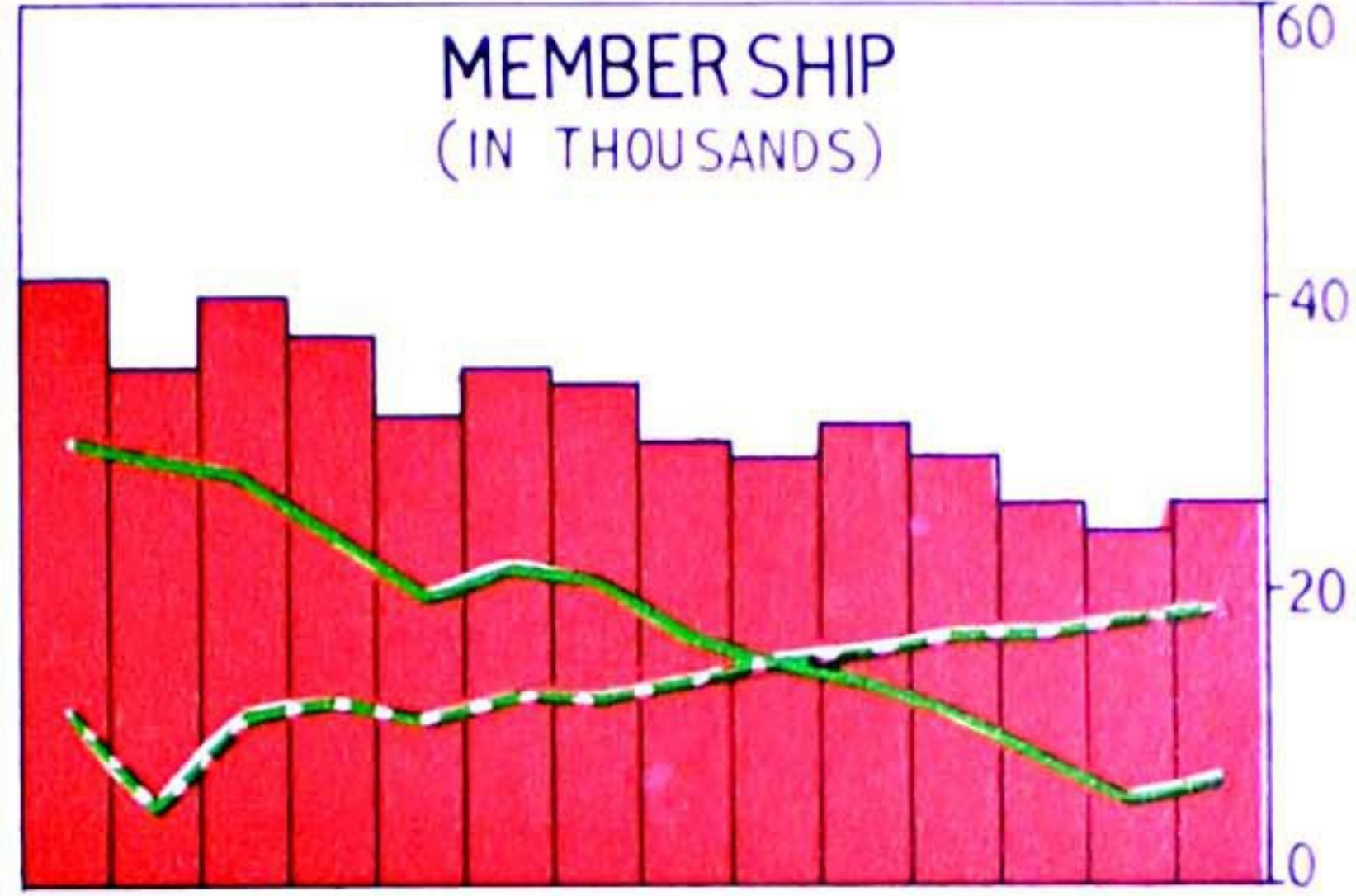
	1948-49			1955-56			1959-60		
	No.	Individuals	Societies	No.	Individuals	Societies	No.	Individuals	Societies
West Pakistan ...	51	3,147	9,361	64	4,634	12,238	65	7,005	13,872
East Pakistan ...	83	4,096	25,402	78	4,809	10,682	56	2,967	3,517
Total	134	7,243	34,763	142	8,723	22,920	121	9,972	17,389

PROGRESS OF THE CENTRAL CO-OPERATIVE BANKS

EAST PAKISTAN

WEST PAKISTAN

TOTAL



WEST PAKISTAN

Owned Funds:

99. The changes in the owned funds between 1948-49 and 1959-60 and their ratio to the outside liabilities have been as follows:—

	1948-49	1955-56	1959-60
	(Rupees in lacs)		
	1948-49	1955-56	1959-60
Paid-up Capital ...	18.69	27.77	39.04
Reserve and other funds	80.54	132.90	168.09
Total ...	99.23	160.67	207.13
Ratio of Owned funds to outside liabilities...	1:9	1:8	1:9

The owned funds increased by Rs. 107.90 lacs or 109 per cent. The percentage rise in paid-up capital (Rs. 20.35 lacs) and in Reserves (Rs. 87.55 lacs) was the same. The increase in reserves has been mainly due to the high profits generated by commercial lending. The Reserves shown above have been offset by sizeable bad and doubtful debts (*see* para 11) of the banks. There are wide variations in the position of individual banks. The ratio of owned funds to outside liabilities has not shown much variation over the years and remains satisfactory.

Outside Liabilities:

100. The increase in deposits since partition has been as shown below:—

	1948-49	1955-56	1959-60
	(Rupees in lacs)		
	1948-49	1955-56	1959-60
Deposits ...	922.06	1312.41	1368.76
Borrowings ...	27.32	94.18	475.20
Total ...	949.38	1406.59	1843.96

Deposits have shown an overall increase of Rs. 446.70 lacs or 48 per cent between 1948-49 and 1959-60 as against a rise of 167 per cent for scheduled banks in the same period. Between 1948-49 and 1955-56 the borrowings increased by Rs. 66.86 lacs or 244 per cent reflecting the increased volume of business. Between 1955-56 and 1959-60 the borrowings showed an increase of Rs. 381.02 lacs or 404 per cent, indicating a more sustained lending by these banks in place of sharp seasonal variations.

Commercial Lending:

101. As stated in the previous chapter, the pattern of advances of Central Co-operative Banks in West Pakistan underwent a radical change after independence when they were required to fill the vacuum created by the collapse of the commercial banking system. Once having got into commercial lending on a large scale these banks have been reluctant to give it up. A great deal of discussion has taken place on this subject and it has been commented upon by different Commissions and Committees. Amongst them mention may be made of the views of the Expert Committee appointed by former Punjab Government in 1955 and of the Credit Enquiry Commission. The former recommended that co-operative banks should cease to transact commercial lending at places where commercial banks existed and that at other places, they should withdraw within a period of three years effective from 1st September, 1954. The Credit Enquiry Commission felt that Co-operative Banks "by financing the processing and trading intermediaries in the private sector have done great injury to the co-operative movement". The Commission called for a "phased withdrawal from commercial lending depending upon the development of commercial banking facilities and the absorptive capacity of primary societies". The State Bank has also consistently sup-

ported the view that in engaging in commercial lending, as a matter of normal business, the Central Co-operative Banks are diverting much needed resources from the agricultural sector.

102. Government on the basis of the recommendation of the Credit Enquiry Commission have now taken the following decision:—

“Commercial lending is not a proper function of the co-operative banks. There should be a phased withdrawal of the co-operative banks from this field. Wherever regular commercial banks are already functioning, the co-operative banks should immediately stop commercial lending and confine their activities to agricultural credit. In other areas where there are no commercial banks, the co-operative banks may continue their commercial lending operations on the clear understanding that they will withdraw from this field as soon as a commercial bank starts functioning in that area.”

103. In accordance with the above, the Co-operative Department is seeking to bring about a change in the situation through a phased programme and instructions were issued to all Central Co-operative Banks in July, 1961 to reduce their lending to individuals by 20 per cent each year. The intention is that total withdrawal should be effected in about 5 years.

Trend in Advances:

104. The variations in the advances of Central Co-operative Banks between 1948-49 and 1959-60 are shown below:—

		(Rupees in lacs)		
		1948-49	1955-56	1959-60
Societies	..	331.32	450.24	534.10
Individuals	...	107.36	443.56	752.06
Total	...	438.68	893.80	1286.16

It will be observed that the increase on account of societies has been of the order of Rs. 202.78 lacs or 64 per cent as against Rs. 644.70 lacs or 600 per cent for individuals. The loans to individuals are mainly against the security of agricultural produce, gold ornaments, merchandise or clean. In the year 1959-60 out of the loans to societies about 78 per cent were accounted for by primary agricultural credit societies and the rest by other societies.

Overdues and Working Results:

105. The overdues and bad and doubtful debts of Central Co-operative Banks in West Pakistan as at the close of 1959-60 were as follows:—

			(Rupees in lacs)	
			Overdues	Bad and Doubtful
Individuals	...	...	447.71	86.87
Societies	...	...	75.41	61.92
Total	...	...	523.12	148.79

The above amounts are substantial and the bad and doubtful debts constitute 72 per cent of the owned funds. The overdues constitute 40 per cent of the total loans and advances, and 253 per cent of the owned funds.

The profit position of Central Co-operative Banks has been as follows:—

		(Rupees in lacs)		
		1948-49	1955-56	1959-60
Profit	...	23.03	8.28	13.47

Overall profits have gone down sharply, even though the volume of business is considerably greater. The reason for this is not to be found in any undue increase in expenses. The ratio between cost of operations and the working capital does not show any significant increase. It was 1.33 per cent in

1948-49, 1.46 per cent in 1955-56 and 1.18 per cent in 1959-60. It is more likely due to the narrower margins between the interest paid by banks on deposits and borrowings and the interest charged on loans.

EAST PAKISTAN

Owned Funds:

The changes in the capital and reserves in the consolidated position of Central Co-operative Banks in East Pakistan since independence have been as follows:—

	1948-49	1955-56	1959-60
(Rupees in lacs)			
Paid-up Capital ...	46.38	46.25	30.28
Reserves ...	124.14	108.72	19.01
Total ...	170.52	154.97	49.29

The paid-up capital has decreased by Rs. 16.10 lacs or 35 per cent. This is accounted for by the liquidation of a large number of member societies as also by a reduction in the number of banks from 83 in 1948-49 to 56 in 1959-60. The reserves have declined by Rs. 105.13 lacs to the meagre figure of Rs. 19.01 lacs. This major change has been primarily due to the writing off of large debts owed by societies which were under liquidation. It may also partly be attributed to the decline in the number of banks.

Outside Liabilities:

Deposits and borrowings have shown the following variations since 1948-49:—

	1948-49	1955-56	1959-60
(Rupees in lacs)			
Deposits ...	116.03	116.90	46.80
Borrowings ...	121.28	106.68	249.57
Total ...	237.31	223.58	296.37

Little progress has been shown by the banks in the mobilization of deposits since partition. The drastic reduction in deposits in 1959-60 as compared to 1955-56 has been due mainly to the exclusion from the books of Central Co-operative Banks, of deposits of persons residing out of Pakistan. The increase in borrowings between 1955-56 and 1959-60 is accounted for almost entirely by facilities made available by the State Bank of Pakistan.

Advances:

The trend in advances has been as follows:—

		(Rupees in lacs)		
		1948-49	1955-56	1959-60
Societies	...	179.34	100.23	284.41
Individuals	...	0.07	6.14	3.62
Total	...	179.41	106.37	288.03

The decline of Rs. 73.04 lacs between 1948-49 and 1955-56 is due to the exclusion of amounts due by liquidated societies. The increase since 1955-56 is attributed to larger availability of funds from the State Bank. The loans to individuals have all along formed a negligible part of overall advances and the present outstanding of societies represent almost entirely, dues by Union Multipurpose Co-operative Societies, the dues of other societies being very small.

The overdues and bad and doubtful advances at the end of 1959-60 were as follows:—

		(Rupees in lacs)	
		Overdues	Bad and Doubtful
Individuals	...	1.13	—
Societies	...	53.46	—
Total	...	54.59	7.95

The bad and doubtful debts constitute 16 per cent of the owned funds and 3 per cent of the total advances. The overdues form 111 per cent of the owned funds and 19 per cent of the total advances. Besides, the overdue interest amounted to Rs. 12.52 lacs out of which Rs. 7.29 lacs is estimated to be doubtful of recovery.

The profit and loss position of the Central Co-operative Banks has been as follows:—

		(Rupees in lacs)		
		1948-49	1955-56	1959-60
		—————	—————	—————
Profit/Loss	...	—2.07	—1.78	+1.35

Because of small turn-over the banks as a whole were not able to show any profit until recently. Their position was also in some measure affected by the losses incurred in jute trading in the early 1950s. The profit shown in 1959-60 is due to larger turn-over arising from loans to co-operative societies. The position of profit and loss figures shown above is not indicative of the true position in-as-much as almost all the Central Banks are in charge of Executive officers deputed by the Co-operative Department and their salaries continue to be paid by the Government.

Central Multipurpose Societies:

As stated earlier, these societies exist in East Pakistan and many of them have taken to credit business in order to fulfil the requirements of areas which are not served by Central Co-operative Banks. A number of them have come into existence

as a result of conversion of Central Co-operative Banks. The trends in their financial position has been as follows:—

		1948-49	1955-56	1959-60
		<u>5</u>	<u>68</u>	<u>62</u>
<i>Membership</i>				
Societies	...	661	1,195	1,429
Individuals	...	—	11,076	6,665
Total	...	661	12,271	8,084
<i>Owned Funds</i>				
				(In lacs of Rupees)
Paid-up Capital	...	11.23	11.73	15.77
Reserves	...	3.36	5.74	5.41
Total	...	14.59	17.47	21.18
				(In lacs of Rupees)
		<u>1948-49</u>	<u>1955-56</u>	<u>1959-60</u>
<i>Outside Liabilities</i>				
Deposits	...	10.93	15.13	14.73
Borrowings	...	—	48.60	43.11
Total	...	10.93	63.73	57.84
Profit	...	—	+0.85	+0.69
<i>Advances outstanding</i>				
from:---				
Societies	...	—	27.95	56.94
Individuals	...	—	0.21	3.30
Total	...	—	28.16	60.24

Although the number of societies has increased from 5 to 62, the paid-up capital has risen by only Rs. 4.54 lacs between

1948-49 and 1959-60. The reserves also show small increase of Rs. 2.05 lacs over this period. Deposits show an increase of Rs. 3.80 lacs but borrowings have risen steeply. The loans have been overwhelming to societies. The profits have on the whole been small.

CHAPTER IX

APEX CO-OPERATIVE BANKS

History:

106. At the time of Independence there were three apex co-operative banks in Pakistan, one each in the former provinces of Punjab and Sind and one in Bahawalpur State. East Pakistan started without an apex bank as the Bengal Provincial Co-operative Bank Ltd., which served undivided Bengal, had its headquarters in Calcutta. A new Provincial Co-operative Bank was, however, established soon after partition, under the name of "East Pakistan Provincial Co-operative Bank Ltd".

107. The Punjab Provincial Co-operative Bank was started in 1925 and is the oldest apex bank in the country. The Sind Provincial Co-operative Bank was established in 1919 as a Central Co-operative Bank affiliated to the Provincial Co-operative Bank in Bombay. In 1934 it assumed the status of a Provincial Co-operative Bank and the various central banks functioning in the region of former Sind at that time were amalgamated with it. In 1958, another bank known as the Regional Co-operative Bank Ltd., was set up with its headquarters at Hyderabad to function as the apex institution for Hyderabad and Khairpur Divisions. This bank was sponsored by the West Pakistan Government and the move was prompted by the feeling on its part that the Sind Provincial Co-operative Bank with its headquarters at Karachi was not in a position to properly look after Hyderabad and Khairpur Divisions. In the former N.W.F.P. a bank known as Industrial Co-operative Bank was in existence at the time of partition. The Central

Co-operative Banks at Dera Ismail Khan and Bannu and the Co-operative Banking Union at Hangu were merged into it in 1948 and the name changed to "The Frontier Co-operative Bank Ltd". This institution was intended to serve as an apex bank for the region. The Abbasia Co-operative Bank was established in 1916 and its area of operation extended to the whole of the former Bahawalpur State.

Recommendations of Credit Enquiry Commission and Governments Decisions:

108. The Credit Enquiry Commission took stock of the situation in 1959 and recommended that three apex banks should continue to operate in West Pakistan and that all Co-operative Banks in their respective regions should be merged into them with the object of establishing a strong institution in each region. For East Pakistan it was suggested that the province should have at least two apex banks in view of the poor state of communications. It was also proposed that the Abbasia Co-operative Bank Ltd. should be merged into the Punjab Provincial Co-operative Bank Ltd. The Government after considering these recommendations, however, decided that the three-tier system in the co-operative movement should continue and that there should be only two apex banks, one in each province.

109. No change in the position in East Pakistan was required but in West Pakistan an apex bank for the whole province, in implementation of Government's decision, has yet to formally come into being. It has, however, been decided that the Punjab Provincial Co-operative Bank Ltd. would ultimately become converted into the apex bank for the whole of West Pakistan. This measure has been preferred to one under which all the existing apex banks would have been merged into a

single institution. This would have left the region concerned, namely, former Sind, N.W.F.P. and Bahawalpur without central banks which could deal directly with primary societies.

110. Pending a full conversion of the Punjab Provincial Co-operative Bank into the apex bank for the whole Province, the other apex banks have become its members. But in their respective regions they still function as apex banks for all practical purposes. An important benefit accruing to them from the membership of the Punjab Provincial Co-operative Bank is the availability of credit on a larger scale from the State Bank of Pakistan.

111. The Credit Enquiry Commission was emphatic that there should be only one apex institution in former Sind and that the existence of two separate and rival banks was not in the interest of the region. The State Bank of Pakistan from the beginning lent support to this idea and has been working towards its implementation. After protracted negotiations the Sind Provincial Co-operative Bank and Regional Co-operative Bank Ltd., finally agreed to merge and the amalgamation actually took effect in the middle of October, 1962. The new bank is known as the Sind Regional Co-operative Bank Ltd., and it is intended to function as a Central Co-operative Bank for the region.

Membership:

112. Membership in the Punjab Provincial Co-operative Bank, Regional Co-operative Bank and East Pakistan Provincial Co-operative Bank has always been limited to co-operative institutions. The Sind Provincial Co-operative Bank and the Frontier Co-operative Bank were in the past also admitting individuals as members. Government have now decided that individuals should be removed from the membership of the

apex and the Central Co-operative Banks and it is expected that these banks will gradually extinguish the holdings of individual members. The trend in membership of the apex banks during the period 1948-1960 was as follows:—

Apex Banks	1948-49		1955-56		1959-60	
	Indivi- duals	Banks and Socie- ties	Indivi- duals	Banks and Socie- ties	Indivi- duals	Banks and Socie- ties
Punjab Provincial Co- operative Bank Ltd.	—	11,173	—	10,766	—	49
Frontier Co-op. Bank Ltd.	152	715	560	1,231	661	1,550
Sind Provincial Co-op. Bank Ltd.	1,952	1,115	3,373	649	4,014	614
Regional Co-op. Bank Ltd.	—	—	—	—	—	124
East Pakistan Pro- vincial Co-op. Bank Ltd.	—	83	—	114	—	138
Total	2,104	13,086	3,933	12,760	4,675	2,475

113. The membership of the Punjab Provincial Co-operative Bank has decreased due to the fact that following a change in its bye-laws in 1960, the bank's membership is now open only to central co-operative banks and other secondary credit co-operatives. The share-holding of primary societies has been retired. They are members of the Central Co-operative Banks in their respective areas and the latter, in turn are required to hold shares in the Provincial Co-operative Bank in proportion to their membership.

114. In the years immediately following its formation the Frontier Co-operative Bank dealt extensively with individuals and accordingly there was a great increase of individuals in its membership. The bank is, however, at present lending

almost exclusively to societies and this accounts for the large increase in their membership in recent years.

115. The great increase in the membership of individuals in the Sind Provincial Co-operative Bank is also attributable to large scale lending by the bank to individuals after partition. The decline in the membership of societies is mainly due to the consolidation of smaller societies into large-sized societies in the region. Moreover, a number of defunct or moribund societies have been liquidated and removed from the Bank's membership.

116. The membership in East Pakistan has all along been confined to secondary societies. To begin with the 83 central banks in the province became share-holders but their number has now come down to 54 with corresponding reduction in their membership of the bank. The remaining membership comprises of Central Multipurpose Societies, almost all of which are engaged in credit business.

Owned Funds:

117. The following figures show the changes in the owned funds of apex banks between 1948-49 and 1959-60:—

Owned Funds:—

(Figures in lacs of rupees)

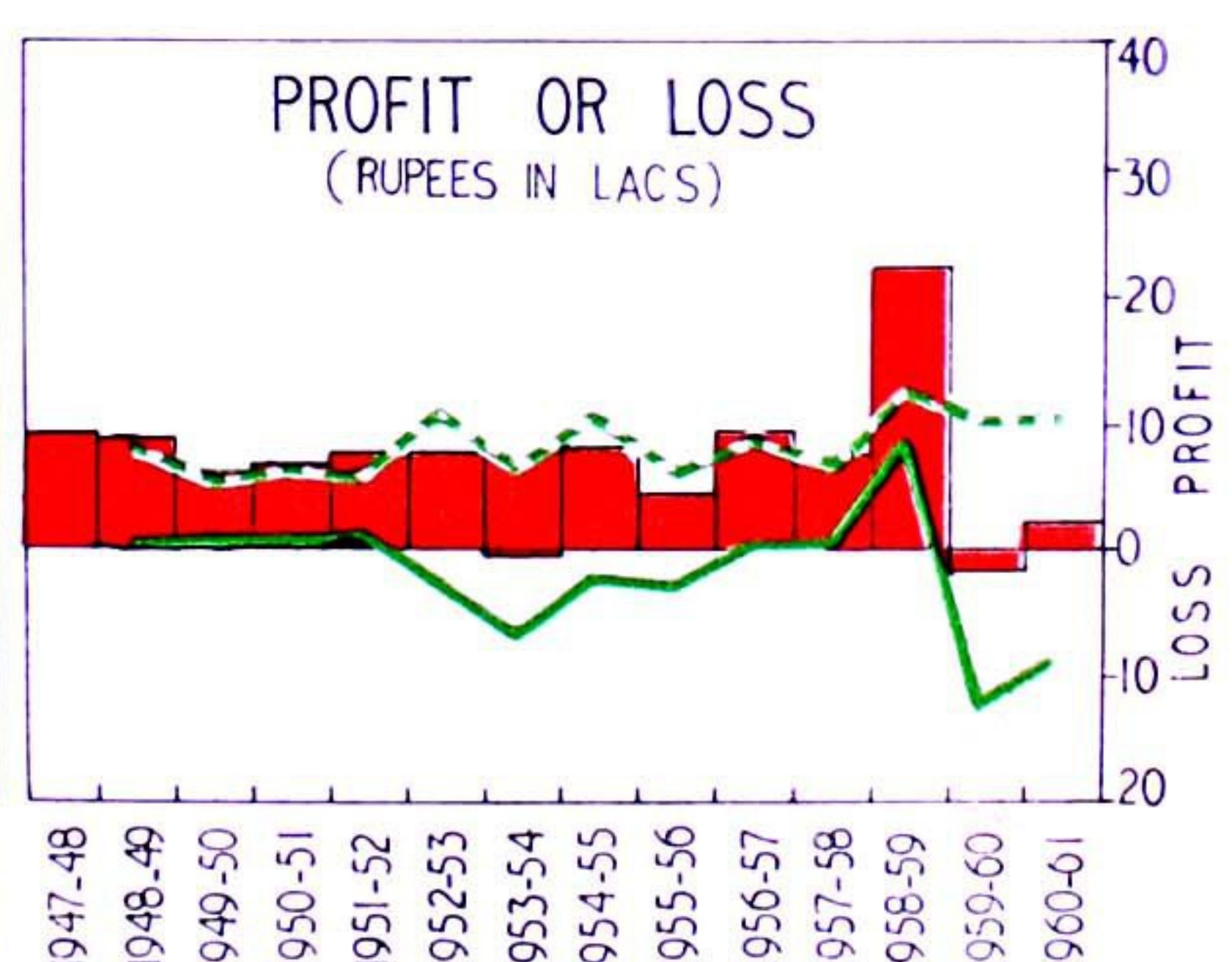
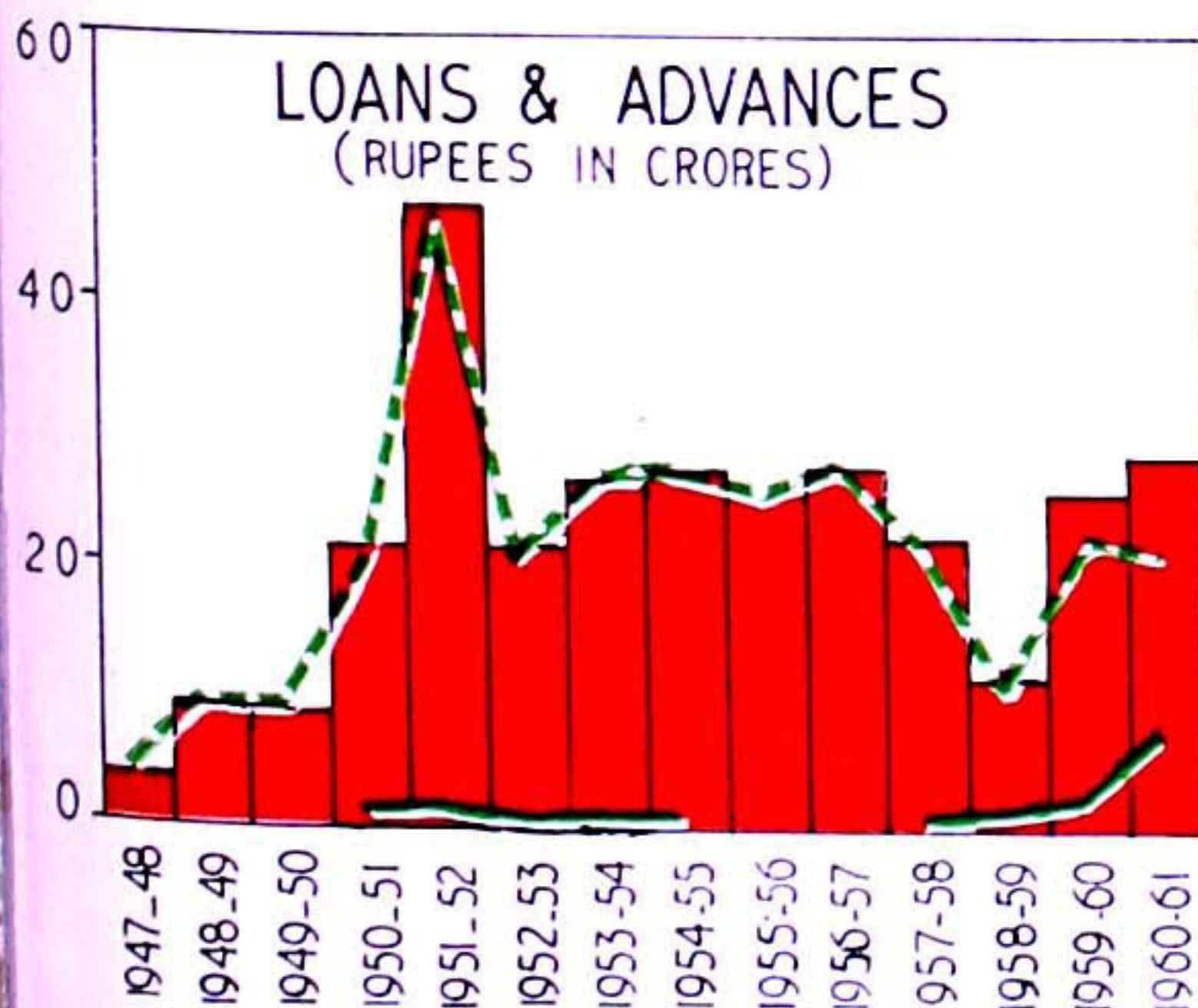
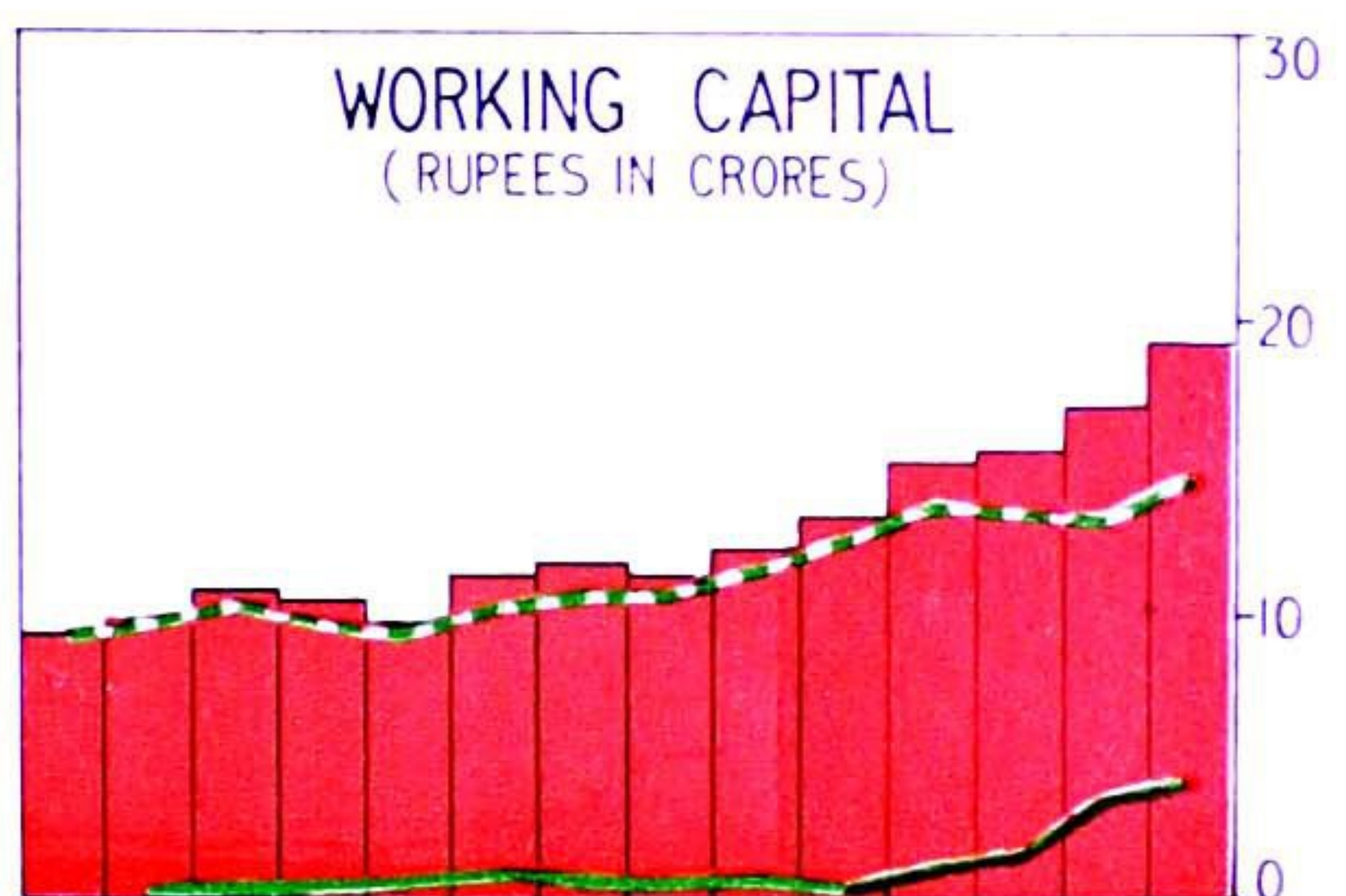
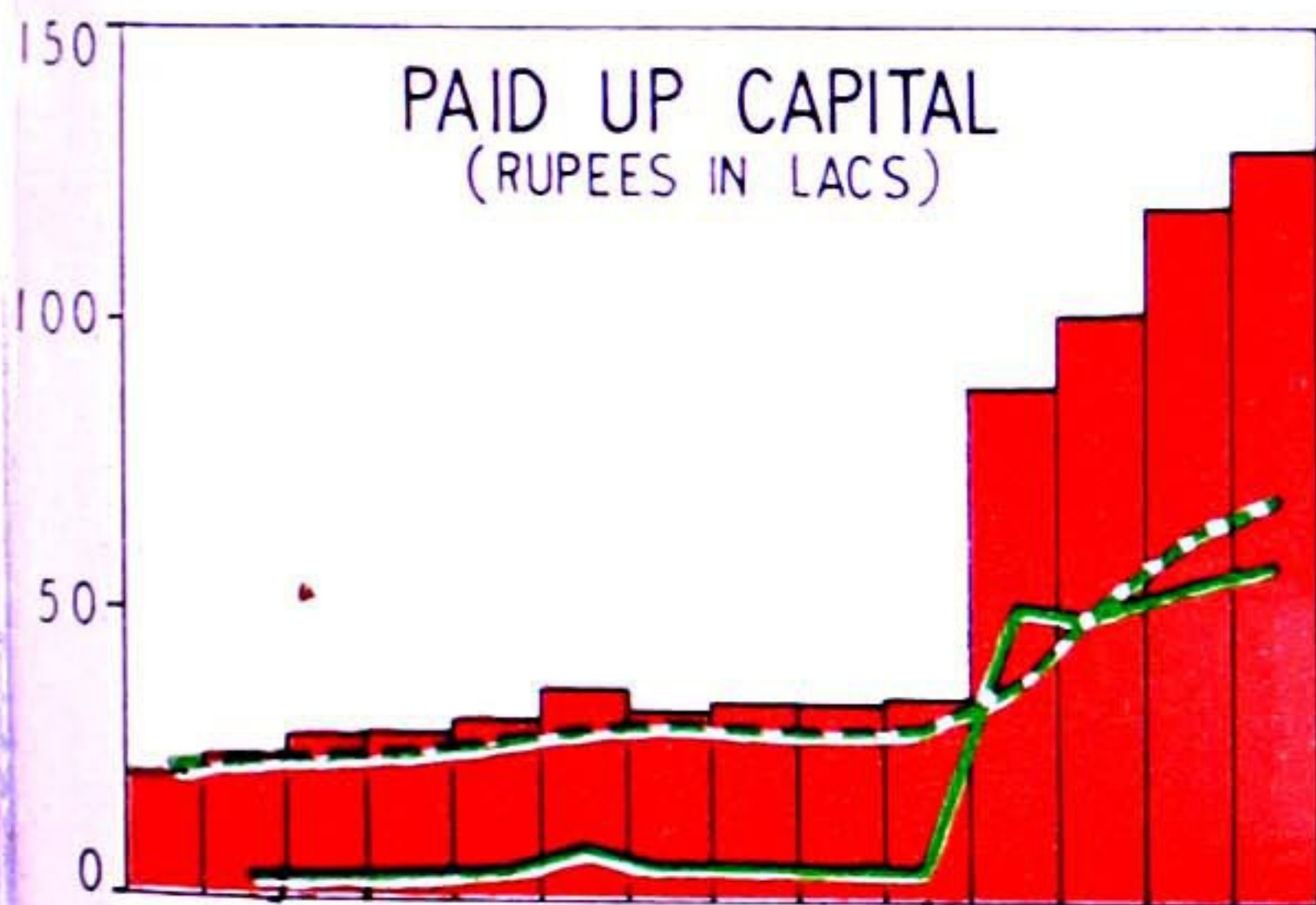
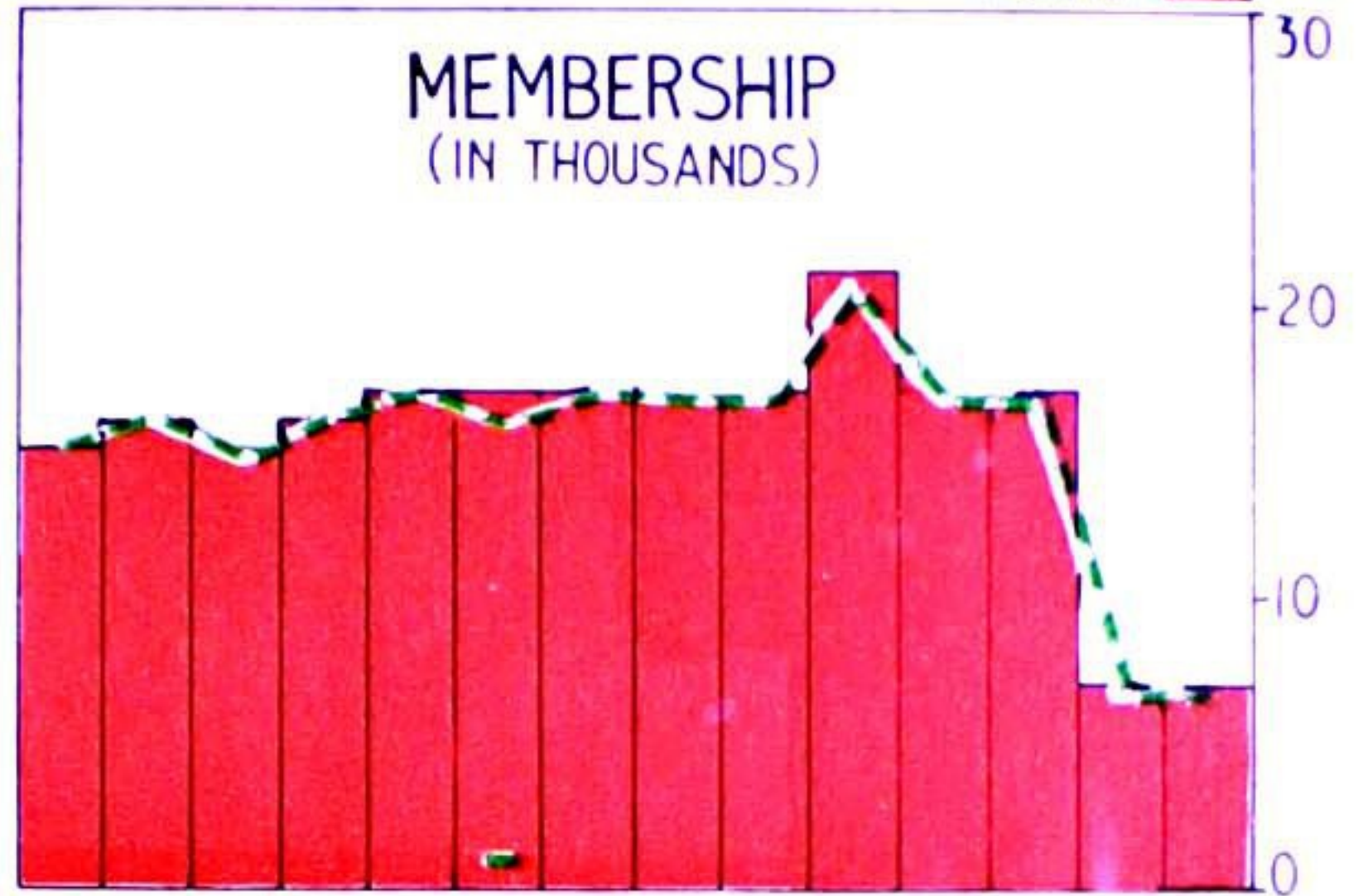
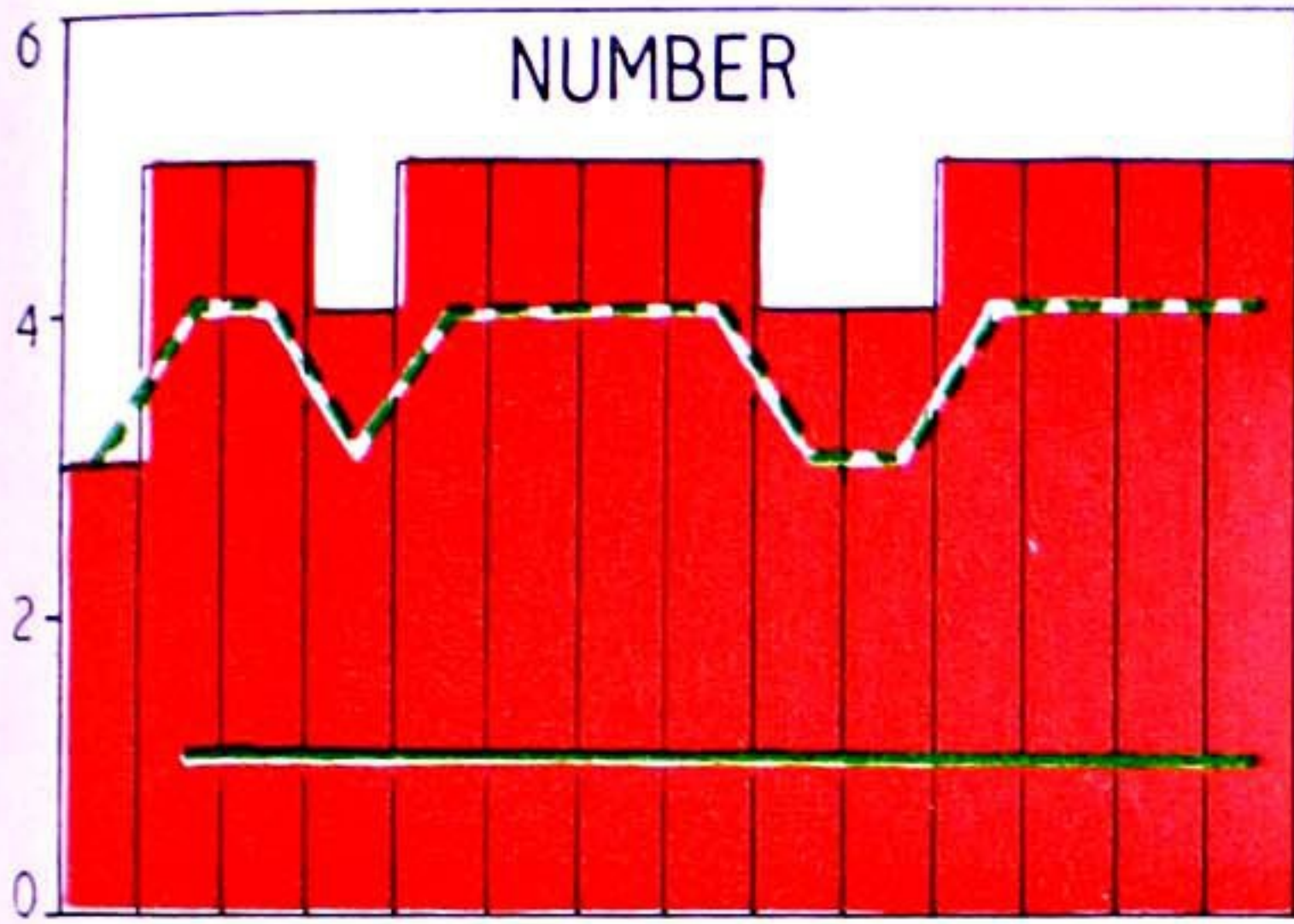
Apex Banks	Paid up Capital			Reserves and other Funds			Total		
	1948-49	1955-56	1959-60	1948-49	1955-56	1959-60	1948-49	1955-56	1959-60
Punjab ...	11.77	12.91	32.05	35.23	36.77	52.30	47.00	49.68	84.35
Frontier || ...	2.09	6.17	8.74	2.45	4.68	5.13	4.54	10.85	13.87
Sind ...	8.26	9.52	12.04	14.73	30.15	42.54	22.99	39.67	54.58
Regional ...	—	—	10.88	—	—	0.27	—	—	11.15
East Pakistan Provincial Co-op. Bank Ltd. ...	2.59	5.48	55.36	—	9.70	0.62	2.59	15.18	55.98
Total ...	24.71	34.08	119.07	52.41	81.31	100.86	77.12	115.38	219.83

PROGRESS OF APEX CO-OPERATIVE BANKS

— EAST PAKISTAN

- - - WEST PAKISTAN

TOTAL



There was an overall increase of Rs. 142.71 lacs and all the banks shared in it. The rise in the capital of the Punjab Provincial Co-operative Bank since 1955-56 is due to the requirement that all its member central banks should hold shares in proportion to the share-holding of co-operative societies in them. Besides a sum of Rs. 8.90 lacs has been contributed by Government. Reserves of the Sind Provincial Co-operative Bank went up because of the larger volume of business after 1948 and the policy of the bank in recent years to provide larger reserves against overdue loans and other contingencies. The East Pakistan Provincial Co-operative Bank Ltd.'s share-capital has shown a phenomenal increase since 1959-60, due to conversion of the Provincial Government's loan of Rs. 45 lacs into share-capital. The Reserves of the bank have declined as a result of writing off of unrealisable assets.

Outside Capital:

118. The outside liabilities (deposits and borrowings) of apex banks have progressed as follows:—

Deposits and Loans

(Rupees in lacs)

Apex Banks	1948-49	1955-56	1959-60
Punjab	535.75	571.65	519.53
Frontier	196.61	196.51	160.75
Sind	142.56	267.34	324.57
Regional	—	—	156.42
East Pakistan Provincial	21.69	59.19	325.05
Total ...	896.61	1094.69	1486.32

The overall increase since 1955-56 is mainly on account of larger borrowings. The following is a break-up of the deposits and borrowings from 1957-58 to 1959-60:—

(In lacs of Rupees)

Apex Banks	Deposits			Borrowings		
	1957-58	1958-59	1959-60	1957-58	1958-59	1959-60
Punjab ...	430.61	497.20	197.52	269.68	120.37	322.01
Frontier ...	244.21	170.85	137.15	—	0.07	23.60
Sind ...	323.55	324.99	278.27	2.50	—	46.30
Regional ...	12.09	69.07	72.28	—	44.96	84.14
East Pakistan Provincial Co-operative Bank ...	26.85	25.40	34.34	48.24	100.18	290.71
Total ...	1037.31	1087.51	719.56	320.42	265.58	766.76

There has been a net reduction of Rs. 367.95 lacs in deposits and increase of Rs. 501.18 lacs in borrowings. The reduction in deposits of 3 crores in the case of Punjab Provincial Co-operative Bank is due principally to certain book adjustments made in respect of evacuee deposits. There have been notable declines in the deposits of the Frontier Co-operative Bank and the Sind Provincial Co-operative Bank, while the deposits of the East Pakistan Provincial Co-operative Bank have for all practical purposes remained stagnant. It may be mentioned that between 1957-58 and 1959-60 the deposits of the scheduled banks as a whole in the country increased by 26 per cent. The increase in borrowings of the apex banks is accounted for almost entirely by larger credit availability from the State Bank of Pakistan.

119. The ratios of owned funds to working capital and of owned funds to outside liabilities are as under:—

Apex Banks	Ratio of Owned Funds to Working Capital			Ratio of Owned Funds to Outside Capital		
	1948-49	1955-56	1959-60	1948-49	1955-56	1959-60
Punjab ...	1:12	1:12	1:7	1:11	1:12	1:6
Frontier ...	1:44	1:17	1:13	1:43	1:17	1:11
Sind ...	1:7	1:7	1:7	1:6	1:7	1:6
Regional ...	—	—	1:15	—	—	1:14
East Pakistan Provincial Co-operative Bank ...	—	—	1:7	—	—	1:6

The most notable feature of the above statement is the greater balance that has progressively come about in the ratio of owned funds of the Frontier Co-operative Bank Ltd. to its outside liabilities and working capital. The reasons for it are to be found in the increased owned funds and a considerable decline in the deposits.

Profit and Loss:

120. The trend in profits is shown by the following figures:—

Apex Banks	(Rupees in lacs)		
	1948-49	1955-56	1959-60
Punjab ...	+7.29	+2.15	+6.97
Frontier ...	+0.39	+0.41	+0.10
Sind ...	+1.14	+4.58	+2.53
Regional ...	—	—	+0.75
East Pakistan Provincial Co-operative Bank ...	+0.02	—2.56	—12.30
Total ...	+8.84	+4.58	—1.95

The profit position does not indicate satisfactory growth or even steadiness over the years. In East Pakistan the losses in recent years are the consequence of a policy to make provision for accumulated unrealisable debts. The marginal profits of the Frontier Co-operative Bank Ltd. may also be attributed to the same reason. The wide fluctuations in the profits of the Punjab Provincial Co-operative Bank Ltd. and the Sind Provincial Co-operative Bank flow at least partly, from rising expenditure.

Working Capital and Operational Costs:

121. The following table gives figures of working capital and operational expenses and the ratio between the two:—

(In lacs of rupees)

	Working Capital			Cost of Operation			Percentage of operational Costs to working Capital		
	1948-49	1955-56	1959-60	1948-49	1955-56	1959-60	1948-49	1955-56	1959-60
Apex Banks									
Punjab	582.75	621.33	603.88	0.81	3.86	2.67	0.1%	0.6%	0.4%
Frontier	201.15	207.36	174.62	156.00	3.05	2.96	0.7%	1.5%	1.7%
Sind	165.56	307.01	379.15	—	3.53	4.14	1.1%	1.15%	1.09%
Regional	—	—	167.57	—	—	0.68	—	—	0.4%
East Pakistan Provincial Co-operative Bank	24.28	74.36	381.02	0.20	0.41	N.A.	0.12%	0.5%	—
Total	973.74	1210.06	1706.24	157.01	10.85	10.45			

The ratio of operational costs has been showing a marked and upward trend and varies from bank to bank. It is governed primarily by the nature of the bank's operations. Thus it is fairly low for the Regional Co-operative Bank which has banks and societies as its main clientele both in the sphere of deposits

as well as loans. The Frontier Co-operative Bank's rising ratio may be said to stem from the decline in deposits that has taken place recently.

Loans and Advances:

122. Loans and Advances comprise the most important aspect of the operations of apex banks. Actually, the chief objective of an apex bank is to work as a balancing centre and financing agency for the co-operative movement. The loans given in the past, may be divided into two distinct categories: (a) to co-operative banks and societies and (b) to individuals. The lending activities of apex banks have undergone a steep rise since 1948-49, as indicated by the following figures:—

(In lacs of Rupees)

		1948-49	Total	1955-56	Total	1959-60	Total
Punjab	Individuals	5.03		101.80		8.82	
	Societies	24.57	29.60	304.91	406.71	435.41	444.23
Frontier	Individuals	8.13		32.54		32.38	
	Societies	164.23	172.36	105.29	137.83	66.58	98.96
Sind	Individuals	70.32		101.06		89.38	
	Societies	216.79	287.11	99.84	200.90	153.77	243.15
Regional	Individuals	—	—	—	—	—	—
	Societies	—	—	—	—	144.89	144.89
East Pakistan Provincial Co-operative Bank	Individuals	1.36	—	—	—	20.97	—
	Societies	20.43	21.79	32.94	32.94	322.36	343.33
Total			510.86		778.38		1274.56

It will be observed that the over-all increase in loans to co-operative societies and banks between 1948-49 and 1955-56 was not very significant but they have more than doubled in 1959-60 as compared to 1955-56. Very sharp increases have been registered by the Punjab Provincial Co-operative Bank and the East Pakistan Provincial Co-operative Bank Ltd., while

the Frontier Co-operative Bank's loans indicate a persistent decline. A new comer of considerable significance was the Regional Co-operative Bank Ltd. which in 1959-60 had loaned the substantial amount of Rs. 144.89 lacs.

Loaning Policy:

123. In common with other co-operative banks, the loaning policies of apex banks underwent drastic change in the post-partition period and the loans given to individuals were mostly for marketing of agricultural produce and for other commercial purposes. For many years they were preoccupied with commercial lending. In more than one bank, the loaning was not properly managed and the banks concerned have found difficulty in making recoveries. In recent years, however, under the persuasion of the State Bank and as a result of the decision of the Government that the co-operative banks should channelise their activities into genuine co-operative activity, there has been a major reduction in advances to individuals. The position now is that Government have decided that co-operative banks should not lend to individuals and that they should withdraw from this business in a phased programme. The figures of outstandings in 1959-60 are mostly in respect of old advances, which are difficult to recover. The overdues of apex banks are fairly large as evidenced by the following figures for the year 1957-58 to 1959-60.

Overdues from Individuals and Banks and Societies

(Rupees in Lacs)

		1957-58	Total	1958-59	Total	1959-60	Total
Punjab	Individuals	—	—	—	—	—	—
	Societies	—	—	—	—	—	—
Frontier	Individuals	14.30		15.07		14.55	
	Societies	20.10	34.40	20.87	35.94	13.44	27.99
Sind	Individuals	75.20		82.42		78.98	
	Societies ...	31.37	106.57	25.97	108.39	21.20	100.18

Overdues from Individuals and Banks & Societies—contd.

(Rupees in lacs)

		1957-58	Total	1958-59	Total	1959-60	Total
Regional	Individuals	—	—	—	—	—	—
	Societies	—	—	—	—	0.21	0.21
East	Individuals	N.A.	—	21.63	—	20.97	—
Pakistan	Societies	N.A.	—	22.45	44.08	27.13	48.10
Provincial							
Co-operative							
Bank							
Grand Total			140.97		188.41		176.48

A substantial portion of the overdues is likely to remain unrealised indefinitely, in the case of loans to individuals in the Frontier Co-operative Bank Ltd., and the Sind Provincial Co-operative Bank Ltd. The Government have agreed to give the East Pakistan Provincial Co-operative Bank Ltd., a subsidy to write off the bad and doubtful debts to individuals.

Management:

124. The management of the Punjab Provincial Co-operative Bank Ltd., is vested in an Executive Committee which can consist of not more than 21 members. One member is elected from each district of the former Punjab and one member each from the area of operation of former Bahawalpur State and the Frontier Province. The Registrar is authorised to nominate on the Committee as member, an experienced non-official co-operator from amongst elected representatives of member banks to the general meeting of the bank. The Banking Adviser to the Co-operative Department or, in the event of there being no Banking Adviser any Officer of the Department nominated by the Registrar, shall be *ex-officio* member of the Executive Committee. The Registrar is *ex-officio* President of

the Bank and Chairman of the Executive and the Working Committees. Provision also exists for a Working Committee of not more than eleven persons to be appointed by the Executive Committee out of its own members. The Working Committee may perform such functions and exercise such powers as may be entrusted to it from time to time by the Executive Committee. There has been no Working Committee since 1958 and the Executive Committee conducts all the affairs of the bank.

The Sind Regional Co-operative Bank Ltd., which came into existence on 14th October, 1962, as a result of the merger of the Sind Provincial Co-operative Bank Ltd., and the Regional Co-operative Bank Ltd., is under the direction of an interim Board of Directors. This Board is to continue for a period of 12 months or until such time as an elected Board starts functioning. The Registrar, Co-operative Societies, will be the *ex-officio* Chairman.

The Central Board of the Frontier Co-operative Bank Ltd., consists of 21 Directors, two elected representatives of the member societies, one representative of individual shareholders from each district having a branch of the Bank, and two members nominated by the Registrar. The Central Board may appoint from amongst its own members a small Working Committee of not more than 8 members (excluding the *ex-officio* President). It is provided that the Registrar, Co-operative Societies, Peshawar or any officer authorised by him shall be *ex-officio* President of the Bank and Chairman of the Central Board and the Working Committee.

The elected Managing Committee of the East Pakistan Provincial Co-operative Bank Ltd., was superseded in March 1957 and since then Managing Committee appointed by the Provincial Government have been in charge of the bank's

affairs. The elected Managing Committee used to comprise of 15 members of which 9 were to be elected representatives of affiliated societies and not more than 4 were to be appointed by the Provincial Government. The nominated Managing Committee comprises of 9 members and the Registrar, Co-operative Societies is the *ex-officio* Chairman. The term of the present Managing Committee expires on 30th June, 1963.

CHAPTER X

QUASI AGRICULTURAL CO-OPERATIVE CREDIT SOCIETIES

Requirement of Credit for Marketing:

125. For the success of agricultural credit operations eventually, it is considered essential that farmers should have proper facilities for marketing their crops. Unless a farmer is able to get a fair return for his produce, he will not have the desired incentive or sufficient margin to repay the loans. By himself, the average farmer has not the capacity or the strength to secure an adequate price. Very often he is compelled by various factors to unload his produce at an inappropriate time and at prices which are not sufficiently remunerative. Formation of co-operative organisation of farmers for undertaking marketing of members produce has therefore been tried in the areas comprising Pakistan for quite sometime. Co-operative Commission Shops and Sales and Purchase Societies have existed much before partition. The number of such societies was, however, not large and their impact on the situation not substantial.

Developments since Partition:

126. Soon after Independence, attempts were made in both wings of the country to promote co-operative marketing. In West Pakistan, the already existing Commission Shops and Supply and Sales Societies began extending their operations. Originally, their function was confined to selling produce for members on a commission basis but after partition they also began buying and selling on their own account. With the assistance of finance from Central Co-operative Banks many of them were able to undertake business on a considerable scale.

127. New co-operative multipurpose societies were organised in many places in former Punjab after Independence with the object of combining various functions such as credit, supply, purchase and sale, etc., in one society. Some of these societies were also allotted evacuee mills and factories in the earlier years. These societies helped in filling the vacuum created not only by the exodus of the *arathias* but also by the departure of those non-muslims who used to own and run mills and factories. These societies which in the earlier stages were very active, suffered heavy losses subsequently, partly due to inexperience and partly due to Government taking back the evacuee mills from them. The position at present is that all the evacuee mills have been taken back from the societies. The contribution of these societies to co-operative marketing and credit is at present negligible. Many of them may be said to be practically dormant.

Marketing Societies in West Pakistan:

128. The following table gives the position of marketing societies in West Pakistan as at the end of 1959-60:—

	No.	Member-ship	Working Capital	Purchases	Sales	(Rupees in lacs)	
						Sales on Commission Value	Commission earned
West Pakistan							
Supply Societies	21	1,168	1.88	.72	.91	.72	—
Sugarcane sale Association ...	6	460	5.61	.01	.05	42.45	.75
Sugarcane Sale Societies ...	460	19,417	.54	—	—	—	—
Wool Shearing and Marketing Sales Societies, Commission Shops, etc. ...	73	5,990	58.39	46.52	45.19	182.65	2.85
Multipurpose Societies ...	201	12,157	60.01	23.01	23.20	2.47	.07
Multipurpose Mill Societies ...	16	800	16.92	1.61	2.31	1.36	0.3
Total ...	800	40,272	143.40	71.88	71.67	229.65	3.70

From the above it would be observed that in 1959-60 the Co-operative Sugarcane Associations and the Commission Shops were the only organisations which were in business to some extent. The others functioned very nominally.

Marketing Societies in East Pakistan:

129. In East Pakistan co-operative marketing after partition has been attempted largely in the sphere of jute. A Provincial Co-operative Jute Marketing Society was formed in 1950. It made progress during the first few years. The society, however, subsequently incurred heavy losses and is now doing little business. In 1959-60 the total volume of its operations amounted to Rs. 5.80 lacs. It may also be mentioned that the society, when active, utilised, amongst others, the agency of Central Co-operative Banks in the province for purchase of jute. The involvement of these banks in jute trading, partly on their own account and partly for the society, resulted in major losses for many of them.

130. The Central Multipurpose Societies in East Pakistan were primarily intended to serve the marketing needs of Union Multipurpose Co-operative Societies and their members. Apart from the part played by them as agents for the East Pakistan Co-operative Jute Marketing Society in the purchase of jute, their participation in the marketing of agricultural produce has not been significant. In 1959-60 their total purchases and sales amounted to Rs. 21.45 lacs and Rs. 23.81 lacs respectively representing almost entirely the supply side of their business.

Recommendations of Credit Enquiry Commission:

131. Thus while there has been little progress in co-operative marketing since independence, co-operative marketing with the expanded activity in the agricultural credit sector, has assumed a pressing importance. The Credit Enquiry Commission

expressed the view that "the organic connection between credit and marketing, storage and processing must be clearly recognised. Measures exclusively for credit reforms may be frustrated by impediments in these fields". The Commission recommended the setting up of 250 marketing co-operative societies in each province during the Second Plan period. East Pakistan proposes putting into service all the Central Multipurpose Societies in the province numbering 62 for developing marketing. Government are assisting these societies by giving them subsidy for construction of godowns. West Pakistan's target in respect of setting up marketing societies is 100 by the end of 1964-65.

132. Warehousing facilities are essential for the successful conduct of marketing operations. The Credit Enquiry Commission recommended the setting up of licensed warehouses in the country and Government have accepted the recommendation. An Act to cover licensed warehouses was passed in East Pakistan in 1959, but licensed warehouses have yet not come into existence. It was envisaged that the State may itself have to start warehousing corporations in the absence of private enterprise, but no steps have yet been taken in the matter so far. As a matter of fact, the co-operators contend that instead of starting warehousing from the top it would be better to start from the lowest level and instead of the State getting involved directly, it could serve the purpose better by assisting co-operatives to set up storage facilities. This view is still under consideration and positive steps for promoting licensed warehousing may be expected only after Governments have been able to come to a decision.

Service Co-operatives:

133. Service Co-operatives are the out-come of the policy of separating credit from other forms of business within the co-operative movement. The need for this type of society originally

arose when Government in 1960 decided to make intensive efforts for the development of agriculture in selected districts of West Pakistan and sub-divisions of East Pakistan. For the success of the programme it was essential to have supply centres for seeds, fertilizers, etc., as close to the villager as possible. It was felt that the co-operative organisation was the most suitable agency for undertaking this work and since it was not considered desirable to entrust the work to credit co-operatives, a special type of society, to be known as Service Society, was brought into being. To begin with, service co-operatives were established only in the crash programme area but the idea received the blessing of the Credit Enquiry Commission and the policy of the Government is now to promote one Service Society in each union council area throughout the country. In West Pakistan the number of Service Societies has grown rapidly in the past two years and now exceeds 2,500. In East Pakistan, however, the supply side is still largely looked after by the Union Multipurpose Societies, although of late the Co-operative Department has been striving to organise a number of Service Societies, and 372 primary Service Co-operative Societies have been organised. Service Societies, provided they function satisfactorily, should, in the long run, be of great assistance to the credit movement. They will facilitate in considerable measure the giving of loans in kind, thereby reducing the misuse of funds and helping to increase agricultural production.

Development Societies:

134. These are large-sized societies in West Pakistan with their area of operation extending to 4 or 5 villages. They were initiated in 1958-59 under a Rural Credit Reconstruction Scheme. Their purpose is to bring under one society, credit, supply, marketing, etc., and to promote viable societies. At the end of 1959-60 there were only 302 Development Societies

and 750 more societies are to be set up in the Second Plan period. These societies have certain advantages over the small-sized societies, chiefly the appointment, in the long run of full-time paid secretaries. At the same time some experience has to be gained as to how the different elements that would comprise the membership of such societies are able to work. Therefore, a cautious policy for their registration has been adopted. Although multipurpose in character, credit operations have dominated the operations of development societies. Their consolidated position as at the end of 1959-60 was as follows:—

Development Societies

No.	Membership		Total
	Individual	Societies	
302	32,396	5	32,401
Owned Funds			
			(Rupees in lacs)
Paid up Capital			22.62
Reserves			2.94
Total			25.56
Outside Liabilities			
Deposits			3.36
Borrowings			39.80
Total			43.16
Working Capital			
Purchases			68.72
Sales			15.64
			11.75
	Individuals	Societies	Total
Loans and advances made during the year.	57.78	15.72	73.50
Loans and advances outstanding at the end of the year	54.94	5.68	60.62
Of which overdue	—	—	9.08
Profit	+2.34		

FISHERMEN CO-OPERATIVES

135. East Pakistan with its numerous rivers has a large fishing population estimated at 6,00,000. For their well-being as well as for developing the fishing industry, these people require credit and other facilities as much as primary producers in the agricultural sector. Fishermen need credit for a variety of purposes—for taking fisheries on lease, for buying boats, nets and marine engines, for marketing, etc. The problem of financing them is, however, complicated by the fact that the assets of the average fishermen comprise only of movables and very few of them are in ownership of land. Co-operatives were started long before Independence to help them and at the time of partition 455 fishermen's co-operatives existed in the area of East Pakistan. As in the case of primary agricultural credit societies, they were for all practical purposes, defunct and the vast majority had to be liquidated. Revival of fishermen's co-operatives has, however, been taken in hand only since 1959-60.

136. The fishermen's co-operative set up in East Pakistan, is at present a three-tier system: (i) an Apex Society at the top (ii) Central Societies at the intermediate level and (iii) primaries at the base. The co-operatives are multipurpose in character and their objectives include credit, marketing, lease of fisheries, joint fishing operations, etc.

137. At the end of 1959-60 there were 121 fishermen's co-operatives at the primary level with membership of 19,617 fishermen. Their financial position as at the end of 1959-60 was as follows:—

	(Rupees in lacs) 1959-60
Paid up capital.	1.19
Reserves & other funds.	.21
Loans & Deposits.	.75

	(Rupees in lacs) 1959-60
Working Capital.	2.49
Loans.	1.22
Overdue loans.	.80
Bad & Doubtful debts.	.49
Value of purchases.	1.01
Value of Sales.	1.89

There was only one Central Fishermen Co-operative Society in 1959-60, with a total membership of 1,064 individuals and 4 societies. Its owned funds amounted to Rs. 0.17 lacs and deposits amounted to Rs. 0.05 lacs. There were no borrowings and thus the total working capital amounted to Rs. 0.22 lacs only. The apex society known as East Pakistan Provincial Fishermen's Co-operative Production and Sale Society Ltd., was started in 1960. Its membership at the end of 1959-60 was comprised of 87 societies and its working Capital amounted to Rs. 40.38 lacs. Fishermen's co-operatives in both wings of the country have received direct aid in recent years from the Government.

138. The most important fishermen co-operative society in West Pakistan is the Fishermen Co-operative Society Ltd. Karachi. This society was established in 1945 but was closed down in 1947, due to mismanagement and lack of funds. It was revived in 1957 and is now functioning actively. The construction of the Karachi Fish Harbour provided great incentive to Karachi fishermen and has helped in the growth of the society. The main objectives of the society are to improve the conditions of fishermen by granting loans and advances at a moderate rate of interest and giving assistance in obtaining necessities in the fishing industry, viz., Engines, Nylon Nets,

Yarn, Wood, Salt, Spare Parts, etc. Marketing and processing of fish are also amongst its objectives. The membership consists of *bona-fide* fishermen as well as "sympathisers" with the society's objectives. At the end of 1960-61 the society had 1,500 members and the resources amounting to Rs. 30.96 lacs comprised of its owned funds amounting to Rs. 22.46 lacs and borrowings amounting to Rs. 8.50 lacs from the Government.

Four Fishermen Co-operative Societies are also functioning on the Mekran Coast. They are: (1) Pasni Fishermen Co-operative Society Ltd., (2) Jivani Fishermen Co-operative Society Ltd., (3) Ormara Fishermen Co-operative Society Ltd., and (4) Gowadar Fishermen Co-operative Society Ltd. With a view to developing the fishing industry of this region the Government of Pakistan have provided loans to these societies to the extent of Rs. 4 lacs. Besides this allocation, some fishing launches fitted with engines and nets of the value of Rs. 6,20,000 have been supplied on a deferred payment basis, recoverable out of the fish catch during a period of 5 to 6 years.

CHAPTER XI

AGRICULTURAL DEVELOPMENT BANK OF PAKISTAN

Introduction:

139. The establishment of a specialised institution for agricultural credit was first thought of by the Central Government in 1951. It was then felt that the co-operatives, because of the nature of their liabilities, were not in a position to provide adequately development finance of a medium or long-term nature. It was, therefore, decided to establish an institution capable of providing all kinds of finance, but primarily development loans. An institution, known as the Agricultural Development Finance Corporation was brought into existence in 1952 under Central Act for the purpose of expanding financial facilities and promoting the development and modernisation of agriculture in Pakistan. In 1957, another institution, the Agricultural Bank of Pakistan, was established for extending credit to agriculturists, co-operative societies and other bodies corporate. Its scope was wider than that of the Agricultural Development Finance Corporation and it was intended to operate as much in the field of seasonal or short-term finance as medium and long-term finance. The two bodies, which had over-lapping functions in many respects, existed separately until February 18th, 1961, when they were amalgamated, as a result of the recommendations of the Credit Enquiry Commission to form the Agricultural Development Bank of Pakistan.

Agricultural Development Finance Corporation:

140. Since Agricultural Development Bank of Pakistan is a successor organisation to Agricultural Development Finance

Corporation and Agricultural Bank of Pakistan, it is necessary to briefly narrate the history and working of these two institutions, in order to show the progress of specialised institution. Agricultural Development Finance Corporation was established to cater to the needs of agriculture (including forestry, fishery, animal husbandry, poultry keeping, dairying) and development of agriculture including loan for provision of mechanical equipment, tractor stations, land improvement, purchase and distribution of seeds, chemical and other fertilisers, agricultural implements, establishment of seed and other stores. Loans were to be given ordinarily in kind but loans in cash could also be given at the discretion of the Corporation when the circumstances warranted the grant of such loans. The loans were to be utilised only for the purpose for which they were meant failing which the borrowers could be called upon to repay the amount forthwith.

141. The Corporation faced many initial difficulties on account of shortage of trained staff, difficulties in verifying the title of borrowers to their properties and 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 money-lending.

142. The Corporation's authorised capital of Rs. 5 crores was subscribed by the Central Government from time to time and as on 17th February, 1961 when it was amalgamated with the Agricultural Bank of Pakistan, the entire authorised capital of Rs. 5 crores had been fully subscribed and paid up. The Corporation's only other source of funds comprised of borrowings from the State Bank of Pakistan and from the Government. On 17th February, 1961, they amounted to Rs. 1 crore and Rs. 17 lacs respectively.

143. Loans upto Rs. 500 were granted against bond with one surety while for higher amounts borrowers were required to pledge, mortgage, hypothecate, or assign their property. Borrowers were required to satisfy the corporation about the proper use of the loans and the corporation maintained its own machinery for verification. Loans in cash were generally allowed in instalments and before the release of the second and subsequent instalment, the borrower had to satisfy the corporation that the previous amounts had been actually utilised for the purpose for which they were meant. The corporation's loans were recoverable as arrears of land revenue.

144. The rate of interest charged was 4 % for Co-operative Societies and 5 % for others. However, in 1959, a uniform rate of 5 % was introduced for all types of borrowers. From 1st November, 1960, the rate was increased to 6 %.

145. The Corporation commenced loan operations in March, 1953 and upto 17th February, 1961, the date of merger, it had advanced the following amounts:—

(In lacs of rupees)

Year	Amount sanctioned	Amount disbursed	Amount outstanding
1952-53	1.46	.80	.80
1953-54	27.80	8.07	8.87
1954-55	22.46	15.01	23.09
1955-56	19.49	16.72	36.74
1956-57	52.93	32.12	62.56
1957-58	144.76	74.63	126.45
1958-59	192.58	125.44	218.39
1959-60	357.58	244.45	422.75
1960-61 (upto 17-2-61)	286.43	217.35	536.20

146. During its 8 years' existence the Corporation made cumulative losses of Rs. 13,62,602 in its working as per details below:—

(In lacs of rupees)

Year	Profit	Loss	Cumulative Loss
1952-53		3.62	3.62
1953-54		3.76	7.38
1954-55		4.08	11.46
1955-56		3.64	15.10
1956-57		3.94	19.04
1957-58		6.84	25.88
1958-59		3.24	12.09
1959-60		2.36*	14.45
1960-61 (upto 17-2-61)	0.83		13.62
Total Loss		31.48	13.62

(*Includes Income Tax deducted at source shown in accounts of 1958-59 found to be not recoverable.)

The reduction in loss shown in 1959 was due to the waiver with retrospective effect, by Government of a sum of Rs. 17,02,940 due to them by the Corporation by way of interest on the capital.

Agricultural Bank of Pakistan:

147. (i) The Bank started with an authorised capital of Rs. 20 crores and as at 17th February, 1961 (the date of its merger with Agricultural Development Finance Corporation) its paid-up Capital amounted to Rs. 3.25 crores which was subscribed by the Central and Provincial Governments. The

objectives of the Agricultural Bank of Pakistan did not basically differ from those of Agricultural Development Finance Corporation, but its charter intended it to function essentially as a bank. The bank faced operational problems in the initial stage similar to the Agricultural Development Finance Corporation.

(ii) The Agricultural Bank of Pakistan commenced loaning operations in 1959. During the brief period upto 1961 the loans sanctioned by it had amounted to Rs. 4 crores as per details given below:—

(Rupees in lacs)

Year	Loans sanctioned	Lons disbursed	Loans outstanding
1958-59	38.58	29.21	28.93
1959-60	193.25	182.45	182.17
1960-61	167.11	156.09	247.29
(Upto 17-2-1961)			

Loans upto Rs. 500 were permitted against sureties. Other loans were given against mortgage of immovable properties and also such security as jewellerys, life insurance policies, Government securities, etc.

148. The bank charged interest at the rate of 6 per cent on loans for a period of 15 months and 5% on other loans, for all borrowers except the co-operatives. For Co-operative Societies for periods not exceeding 15 months, the rate was 2 per cent below the rate charged by such societies to their members, subject to a minimum of 5 per cent and a maximum of 6 per cent. For secondary co-operative societies (such as Central Co-operative Banks) and Apex Banks such rates were to be charged as may be fixed by the Board of Directors, with a minimum of 3½ per cent or 4 per cent respectively. In 1959, a

uniform rate of 5 per cent was adopted for all types of loans and all categories of borrowers. Again in 1960 in the case of loans upto 15 months the rate was increased to 6 per cent. The bank made a cumulative loss of Rs. 15,62,419 in the 3½ years or so of its operations, as per details given below:—

Year	Loss	Cumulative Loss
	Rs.	Rs.
1957-58	2,59,820	2,59,820
1958-59	6,70,618	9,30,438
1959-60	4,61,152	13,91,590
1960-61	1,70,829	15,62,419

Establishment of Agricultural Development Bank of Pakistan— Incorporation and Share Capital:

149. As stated earlier, the Agricultural Development Bank of Pakistan came into existence in February, 1961 as a result of the amalgamation of the Agricultural Development Finance Corporation and Agricultural Bank of Pakistan under the Agricultural Development Bank of Pakistan Ordinance (No. IV of 1961). The authorised Capital of the Agricultural Development Bank of Pakistan is Rs. 20 crores of which at least 51 per cent is to be subscribed by the Central Government and the remaining shares, if any, are to be offered to Provincial Governments, Co-operative Societies and the members of public in such proportion and on such terms and conditions as the Central Government may determine at the time of each issue. The share capital can be increased with the previous approval of the Central Government. The Bank started with a paid-up capital of Rs. 8.25 crores (the paid-up capital of the two merged organisations). At the end of June 1962 the paid-up capital was

Rs. 10 crores. The additional capital has been subscribed entirely by the Central Government.

Management:

150. The general direction and superintendence of the affairs of the Bank vest in a Board of Directors who are to act on commercial considerations but with due regard to the interest of agriculture and cottage industries in rural areas and are ordinarily required to follow the directions of State Bank of Pakistan on questions of monetary and credit policy. The Board of Directors consists of Chairman, two Central Government Officers, one each from the Ministries of Finance and Agriculture, two officers one each of the two Provincial Governments to be nominated by the Provincial Government concerned, two non-officials one each from East and West Pakistan to be nominated by the Central Government in consultation with Provincial Governments and such other persons as the Central Government may consider necessary to give representation to co-operative societies, and the public shareholders. While Government officials on the Board of Directors are *ex-officio* directors, the term of office of non-officials is 3 years but these directors are eligible for reappointment. The Chairman of the Board, who is also the Chief Executive of the bank is appointed for a period upto five years by the Central Government.

Authorised Business:

151. The Agricultural Development Bank of Pakistan has been authorised to give credit in cash and kind to agriculturists for the purpose of agriculture (including horticulture, forestry, fishery, animal husbandry, poultry farming, dairying, bee-keeping and sericulture) and to persons engaged in cottage industries in rural areas for the purpose of such industries. The term "agriculturist" for the purposes of the Bank means

any individual engaged in agricultural products or in storage, warehousing, marketing or processing of agricultural produce and any public or private company incorporated or registered and so engaged, and any persons, company or co-operative society who satisfies the Bank that the loan to be taken shall be spent on agriculture or the development of agriculture or agricultural products or on the storage, warehousing or marketing or processing of agricultural products. The Bank has also been authorised *inter alia* to accept money on deposits, to borrow money for the purposes of its business against the security of its assets, to issue and sell bonds and debentures, to accept movable and immovable property as security for its loans, to buy, stock and supply on credit, seeds, agricultural machinery, implements and fertilizers, to subscribe to debentures maturing within 10 years of any body corporate concerned with agriculture, or the financing of agriculture or financing of cottage industries.

Loan Policy:

152. Loans are granted for meeting cost of cultivation including cost of fertilizers, seeds, agricultural implements, development of agriculture such as sinking of tube-wells and other types of wells, improvement of irrigation system, etc., cattle and sheep breeding, cottage industries in rural areas and marketing of crops, etc. Loans can be granted against pledge, mortgage, hypothecation or assignment of movable and immovable properties of the borrower or his surety or unconditional bank guarantee of a scheduled bank or by discounting, buying or rediscounting bills of exchange and promissory notes bearing two or more good signatures, one of which should be that of a scheduled bank or that of a co-operative bank or other negotiable instrument.

Types of Loans and Security:

153. The Bank's regulations provide for three types of loans, short-term, medium-term and long-term. A short-term loan is for periods upto 18 months for financing cost of raising crops/marketing of crops while medium-term loans are granted for periods of more than 18 months and not exceeding 5 years for purchasing agricultural implements, livestock, etc. Long-term loans are for periods exceeding 5 years. The purpose of long-term loans is to provide funds for the development of agriculture, purchase of tractors and other heavy machinery and installation of tube-wells, etc. During the years 1960-61 and 1961-62 the Bank sanctioned the following short, medium and long-term loans. (The figures of 1960-61 are in brackets.):—

	Short-term	Medium-term	Long-term	Total
East Pakistan	3,11,07,001 (1,10,17,177)	1,15,91,975 (2,95,14,581)	17,89,022 (5,46,410)	4,44,87,998 (4,10,78,168)
West Pakistan	1,26,79,852 (78,83,092)	1,21,62,791 (1,04,55,960)	2,56,24,183 (1,81,61,280)	5,04,66,826 (3,65,00,341)
Total	4,37,86,853 (1,89,00,269)	2,37,54,766 (3,99,70,550)	2,74,13,205 (1,87,07,690)	9,49,54,324 (7,75,78,509)

While short-term loans upto Rs. 1,000/- may be granted against a bond with one or more personal sureties and where considered necessary a charge on the property of the borrower, other loans must be fully secured. Medium-term and long-term loans are required to be secured by mortgage of immovable property but the Bank can accept gold, Government Securities or life insurance policies in suitable cases. (Loans upto Rs. 500/- can be granted against personal surety only.) Ordinarily loans are to be granted in kind but cash loans are also granted at the discretion of the Bank. The cash loans are granted in instalments, each instalment subsequent to the first, being advanced only after verifying that the borrower has utilised

the previous instalment for the purpose for which the loan was granted.

Break-up of Loans according to purpose:

154. The following table shows the break-up of loans sanctioned for different purposes during 1960-61 and 1961-62 (Figures of 1960-61 are in brackets):—

(Rupees in lacs)

Items	Amount sanctioned— East Pak :	Percent- age	Amount sanctioned— West Pak :	Percent- age	Total	Percent- age
Seeds ...	48.63 (37.03)	10.9 (9.0)	29.98 (13.85)	5.9 (3.8)	78.60 (50.88)	8.3 (6.4)
Fertilizers ...	7.87 (8.51)	1.8 (2.1)	18.09 (10.71)	3.5 (2.9)	25.96 (19.22)	2.7 (2.5)
Cattle (Short-term)	21.49 (26.02)	4.8 (8.8)	24.62 (35.87)	4.8 (9.8)	46.11 (71.88)	4.9 (9.3)
Levelling	9.46 (9.46)	2.1 (2.3)	21.02 (20.82)	4.1 (5.7)	30.48 (30.28)	3.3 (4.0)
Excavation and Embankment	2.67 (12.33)	0.6 (3.0)	0.87 (1.11)	0.1 (0.3)	3.55 (13.44)	0.4 (1.6)
Cattle (Medium-term)	88.74 (153.53)	19.9 (37.4)	64.53 (50.47)	12.7 (13.8)	153.27 (204.00)	16.1 (25.6)
Indigenous Implements	3.33 (0.02)	0.7 (—)	14.42 (4.44)	2.8 (1.2)	17.75 (4.46)	1.8 (0.6)
Poultry	.02 (—)	— (—)	.28 (.07)	0.1 (—)	0.31 (.07)	0.1 (—)
Dairy	.25 (.02)	0.1 (—)	10.65 (6.69)	2.1 (1.9)	10.89 (6.71)	1.2 (0.9)
Animal Husbandry	— (—)	— (—)	2.16 (.55)	0.4 (0.1)	2.16 (.55)	0.2 (—)
Labour Charges	165.29 (102.99)	37.1 (25.1)	26.73 (11.37)	5.2 (3.1)	192.02 (114.36)	20.2 (6.8)

(Rupees in lacs)

Items	Amount sanctioned— East Pak :	Percent- age	Amount sanc- tioned— West Pak :	Percent- age	Total	Percent- age
Tractors and Implements	.69 (2.12)	0.2 (0.5)	94.42 (45.14)	18.9 (12.4)	95.12 (47.26)	10.2 (6.8)
Tubewells and other wells	— (—)	— (—)	145.98 (109.04)	28.9 (29.9)	145.98 (109.04)	15.3 (14.9)
Pumps & Engines	.53 (.49)	0.2 (0.1)	4.90 (5.46)	0.9 (1.5)	5.43 (5.95)	0.5 (0.8)
Horticulture	.41 (.94)	0.1 (0.2)	6.56 (6.95)	1.4 (1.8)	6.97 (7.89)	0.7 (1.0)
Fisheries	1.38 (.96)	0.3 (0.2)	2.87 (11.34)	1.0 (3.1)	4.25 (12.30)	0.5 (1.6)
Godown	.27 (.31)	0.1 (0.1)	.85 (2.57)	0.1 (0.7)	1.12 (2.87)	0.1 (0.4)
Miscellaneous	93.82 (46.06)	21.1 (11.2)	35.74 (28.56)	7.1 (7.8)	129.58 (74.62)	13.7 (9.5)
Total ...	444.86 (410.79)	100.00 (100.00)	504.67 (365.01)	100.00 (100.00)	949.55 (775.78)	100.00 (100.00)

Loans against hypothecation of Crops:

155. The bank has been making loans against hypothecation of certain cash and food crops. This procedure of advancing loan is simple and very convenient for the borrowers. No mortgage of property is involved and even sureties are not required to be provided except in the case of landless agriculturists. The borrower has simply to execute a hypothecation agreement with the Bank to sell the crop to the Government, particular mill or factory. An agreement is entered into with the mill or factory by the Bank whereby the former undertakes to deduct the dues of the Bank from the

sale proceeds and remit the amount to the Bank. Loans have been advanced under this system against Tea, Sugarcane and Paddy crops in East Pakistan and sugarcane and cotton crops in West Pakistan. The extent of loaning against hypothecation of crops has been as follows:—

(a) Amount of loans sanctioned, paid and recovered against hypothecation of paddy crop since inception upto June 30th, 1962 (East Pakistan only)

For cultivation of Aman Paddy.	Amount sanctioned		Amount paid		Amount fell due	Amount Re-covered	Percentage of Recovery
	During the year 1961-62	Since inception	During the year 1961-62	Since inception			
1960 Crop ...	—	4,27,615	—	4,02,300	31,19,515	19,73,190	63
1961 Crop ...	26,60,47	27,73,753	26,20,621	26,41,251			
1962 Crop ...	2,66,523	2,66,523	94,419	94,419*	Not fell due	—	—
Total ..	29,27,001	34,67,891	27,15,040	31,37,970	31,19,515	19,73,190	63

*Loaning in progress

(b) Amount of Loans sanctioned, paid and recovered against hypothecation of cotton crop since inception upto June 30th, 1962 (West Pakistan only)

For cultivation of Cotton Crop.	Amount sanctioned		Amount paid		Amount fell due	Amount Re-covered	Percentage of Recovery
	During the year 1961-62	Since inception	During the year 1961-62	Since inception			
1961 Crop							
1. Mirpurkhas	1,00,300	4,99,437	29,624	3,71,917	3,81,945	3,09,193	81
2. Hyderabad	46,270	6,00,000	1,18,522	5,35,000	5,35,000	2,56,000	48
3. Nawabshah	29,685	1,61,645	72,074	1,50,329	1,57,607	1,27,149	80
Total of 1961 Crop ...	1,76,255	12,61,082	2,20,220	10,57,246	10,74,552	6,92,342	64

(b) Amount of loans sanctioned, paid and recovered, etc.—*contd.*

For cultivation of Cotton Crop.	Amount sanctioned		Amount paid		Amount fell due	Amount Re-covered	Percentage of Recovery
	During the year 1961-62	Since inception	During the year 1961-62	Since inception			
1962 Crop:							
1. Mirpurkhas	8,57,481	8,57,418	7,21,195	7,21,195	Not fell due.	Not fell due.	—
2. Hyderabad	3,12,533	3,12,533	2,07,338	2,07,338	..	..	—
3. Nawabshah	7,12,752	7,12,752	3,65,169	3,65,169	..	..	—
4. Sanghar ...	1,44,637	1,44,637	51,530	51,530	..	..	—
Total for 1962 Crop	20,27,403	20,27,403	13,45,232	13,45,232			
Grand Total	22,03,658	32,88,485	15,65,452	24,02,478	10,74,552	6,92,342	64

Note:—Loaning of 1962 is in progress.

(c) Amount of loans sanctioned, paid, fell due and recovered against the hypothecation of sugarcane crop since inception upto 30th June, 1962 (East and West Pakistan)

For cultivation of Sugarcane Crop.	Amount sanctioned		Amount paid		Amount fell due	Amount Re-covered	Percentage of Recovery
	During the year 1961-62	Since inception	During the year 1961-62	Since inception			
1960 Crop:							
East Pakistan	—	8,92,800	—	7,85,000	8,25,180	6,63,085	80.9
West Pakistan	—	88,687	—	76,171	80,482	78,877	98.7
Total 1960 Crop	—	9,81,487	—	8,61,171	9,05,662	7,41,962	81.8

**(c) Amount of loans sanctioned, paid, fell due and recovered,
etc.—contd.**

For cultivation of Sugarcane Crop.	Amount sanctioned		Amount paid		Amount fell due	Amount Re- covered	Per- centage of Re- covery
	During the year 1961-62	Since inception	During the year 1961-62	Since inception			
1961 Crop:							
East Pakistan	1,18,713	24,27,367	8,07,049	17,41,621	17,68,536	14,30,280	80.8
West Pakistan	2,61,347	14,89,142	2,94,410*	12,93,321	13,61,864	10,75,190	78.8
Total 1961 Crop	3,80,060	39,16,509	11,01,459*	30,34,942	31,30,400	25,05,470	79.9
1962 Crop:							
East Pakistan	35,13,087	35,13,087	21,79,397†	21,79,397	Not fallen due	Not fallen due	—
West Pakistan	40,31,071	40,31,071	33,22,446†	33,22,446	„	„	—
Total 1962 Crop	75,44,158	75,44,158	55,01,843†	55,01,843	—	—	—
Grand Total	79,24,218	1,24,42,154	66,03,302	93,97,956	40,36,062	32,47,432	80.3

Note—*The amount paid during the current financial year against 1961 Crop is due to the adjustment of bills of the amount sanctioned during 1960-61.

†Loaning is in progress.

**Amount of loans sanctioned, cancelled and paid to Tea Estate
in East Pakistan during the year 1961-62**

Nature of Loans	Amount sanctioned		Amount cancelled		Amount Paid		Per- centage of Re- covery
	During the year 1961-62	Since inception	During the year 1961-62	Since inception	During the year 1961-62	Since inception	
Against Hypothecation	27,77,078	70,74,755	—	14,05,717	15,57,516	44,49,476	100

Loans in Crash Programme Areas, etc:

156. The crash programme of the Central and Provincial Governments started in 1959-60 received special attention of the Bank and increased financial assistance was provided to the agriculturists in the selected areas for intensifying cultivation of crops. The bank has also decided to intensify loaning operations in the project areas of the Provincial Agricultural Development Corporations in order to facilitate purchase by agriculturists, of seeds, fertilizers and implements from the stores and distributing centres established by the Corporations.

Loans to Cottage Industries:

157. Under its Ordinance the Bank is authorised to give loans to cottage industries in rural areas. A beginning is now being made in this respect. In consultation with the West Pakistan Small Industries Corporation and the Director, Rural Industrial Services, Peshawar, it has been decided to grant loans to cottage industries in Peshawar area, survey of which has been completed. For the present loans will be given for such cottage industries as sericulture, Gur making, crate making, wool shearing machines and shoe making which are closely related to agriculture or require comparatively smaller capital. In East Pakistan loans are intended to be given initially for sericulture in Chittagong Hill Tracts and Rajshahi District as proposed by the Provincial Small Industries Corporation.

Operating Procedures:

158. (i) The operating procedure of the Bank is similar to that followed by two other organisations prior to their merger. The rate of interest charged by the Bank was 6 per cent for all types of loans upto May, 1961 but subsequently 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 the case of default in the repayment of loan from the date of default.

(ii) While granting the loan the Bank has to verify the title of the borrower to the property and for this purpose revenue records have to be searched. Absence of up-to-date records of rights in some parts of the country creates difficulties for the Bank in this regard. In East Pakistan where the Registrars/Sub-Registrars do not issue non-encumbrance certificates the Bank has to employ a large number of staff to ensure that the property of the borrower is not already encumbered. The local laws relating to the recovery of loans in East Pakistan are also an impediment in speedy recovery of loans. The expenses in connection with verification of title, utilisation of loan or any other work involved on account of any act or omission of borrowers are charged to them.

(iii) It is the statutory responsibility of the Bank to ensure that the loans are utilised for the purpose for which they are granted failing which the loans can be recalled forthwith. While loans given in kind do not pose a big problem in this respect, the Bank has to carry out sample checking of the utilisation of cash loans. Arrangements have also been made with the Provincial Governments whereby the Bank furnishes quarterly lists of loans to local Government officers for verification of utilisation of loans. All sums due to the Bank are recoverable as arrears of land revenue.

Loans disbursements and recoveries:

159. The total loans sanctioned since the establishment of Agricultural Development Finance Corporation and Agricultural Bank of Pakistan upto 30th June, 1962 amount to Rs. 27,76,25,066 out of which an amount of Rs. 22,94,58,707

was disbursed. During 1960-61 the amount of loans sanctioned and disbursed amounted to Rs. 7,75,78,509 and Rs. 6,90,89,678 respectively. The corresponding figures for 1961-62 are Rs. 9,49,54,852 and Rs. 8,74,56,324 respectively. The total number of applications, amount of loans sanctioned and disbursed in the two wings during 1960-61 and 1961-62 were as follows:—

(Figures for 1960-61 are in brackets.)

	No. of applications approved	Amount of loan sanctioned	Amount of loan disbursed
East Pakistan	1,16,404 (1,15,003)	4,44,87,998 (4,10,78,168)	4,05,44,055 (3,75,75,217)
West Pakistan	25,018 (22,999)	5,04,66,826 (3,65,00,341)	4,69,12,269 (3,15,14,461)
Total ...	1,41,422 (1,38,002)	9,49,54,824 (7,75,78,509)	8,74,56,324 (6,90,89,678)

The following table indicates the recovery position as reported by the Bank during 1960-61 and 1961-62:—

(Figures for 1960-61 are in brackets.)

	Amount due for recovery during the year	Amount recovered during the year	Percentage of recovery
East Pakistan	3,11,14,898 (1,93,34,935)	2,38,94,987 (1,58,28,528)	76.70 (82.00)
West Pakistan	1,70,08,990 (1,99,00,340)	1,28,71,435 (1,67,45,370)	75.60 (84.00)
Total ...	4,81,23,888 (3,92,35,275)	3,67,66,422 (3,25,73,898)	76.40 (83.00)

The recoveries have been lower in 1961-62 as compared to 1960-61.

Sources of Funds:

(i) Borrowings from State Bank—

160. The capital of the Bank is inadequate for its loaning operations. It has been borrowing from State Bank on a substantial scale. The extent of loans sanctioned by the State Bank has been as follows:—

Year	Amount
1960-61	Rs. 6.50 crores.
1961-62	Rs. 7.50 crores.
1962-63*	Rs. 7.62 crores.

*(Upto 31st October, 1962).

At the moment (31-10-1962) as against the paid-up capital of Rs. 10 crores the Bank has taken loan from the State Bank amounting to Rs. 7.87 crores.

(ii) Deposits—

161. The bank has also been seeking to supplement its resources by securing deposits but progress has not been marked. The following figures show the deposits as at the end of the last 3 years:—

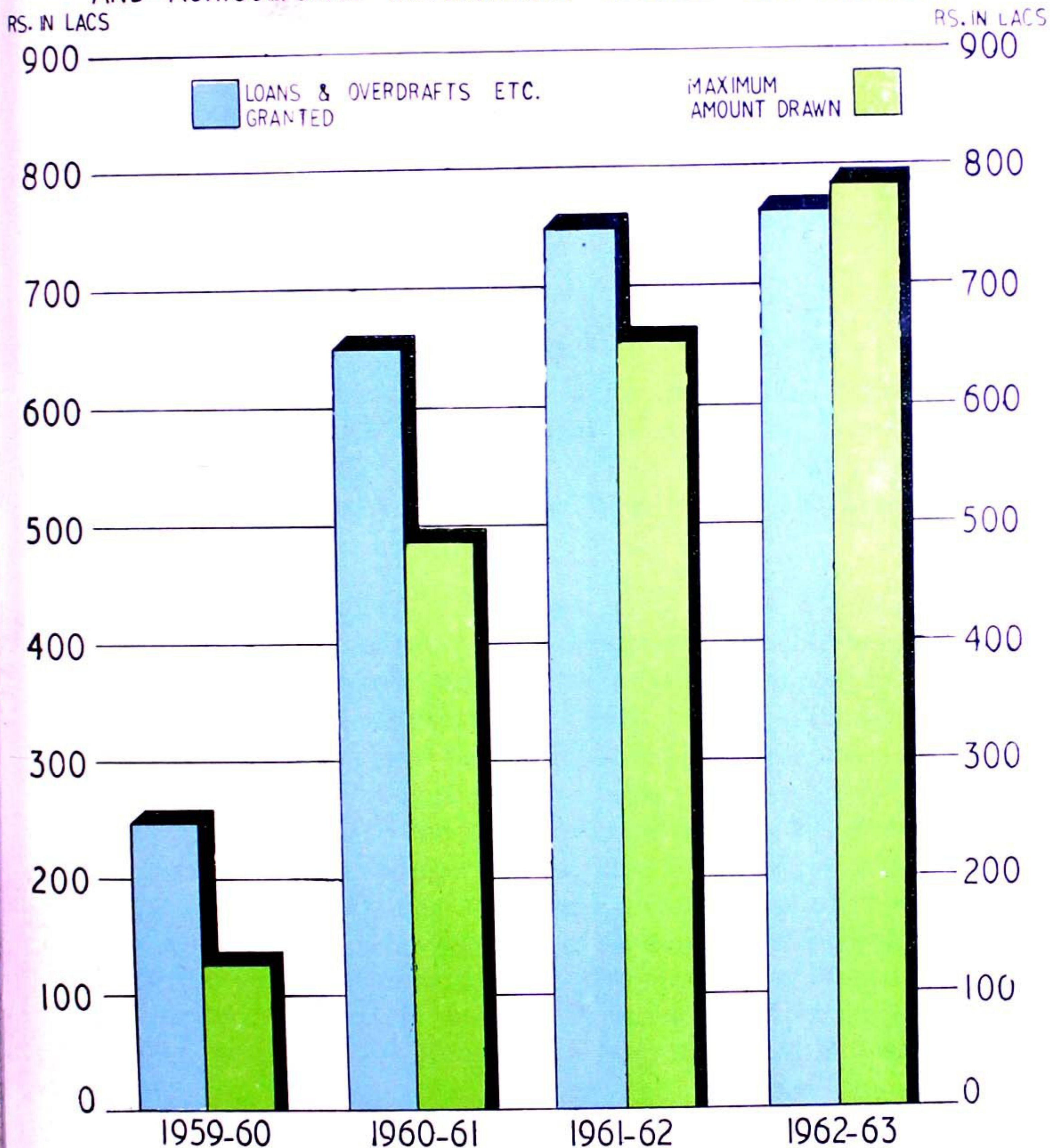
	As on 18-2-1962	As on 30-6-1961	As on 30-6-62
Fixed Deposits ...	65,700	79,700	19,11,959
Savings Deposits ...	212,977	258,585	6,03,974
Total ...	278,677	338,285	25,15,933

The Bank does not accept current account deposits for want of trained staff to handle this business.

Branches:

162. The Bank inherited at the time of merger from the Agricultural Development Finance Corporation and Agricultural

LOANS AND OVERDRAFTS ETC. SANCTIONED TO AGRICULTURAL DEVELOPMENT BANK OF PAKISTAN AND ITS PREDECESSORS AGRICULTURAL BANK OF PAKISTAN AND AGRICULTURAL DEVELOPMENT FINANCE CORPORATION.



Note: 1959-60 Overdraft against Govt. securities to the extent of Rs. 1.50 crores.
 1960-61 & 1961-62 Includes overdraft against Govt. securities to the extent of Rs. 2 crores.
 1962-63 (i) Includes overdraft against Govt. securities Rs. 61,51,000.
 (ii) Maximum drawn amount of 1962-63 includes drawings against loan sanctioned in 1961-62.

Bank of Pakistan 47 branches, 5 sub-branches and 22 pay offices out of which 24 branches, 1 sub-branch and 10 pay offices were in East Pakistan and 23 branches, 4 sub-branches and 12 pay offices were in West Pakistan. Since then the total number of branches, sub-branches and pay offices has increased from 74 to 96. The existing position of its branches, sub-branches and pay offices is as under:—

		East Pakistan	West Pakistan	Total
Branches	...	16	28	44
Sub-branches	...	16	9	25
Pay offices	...	10	17	27
		42	54	96

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

The total number of branches, etc., is still very much inadequate as compared to the requirements for disbursing credit. The Government has fixed the target of branches to the extent of half the total number of Tehsils and Sub-Divisions in the country. The total number of Tehsils and Sub-Divisions is 224 and as such the Bank is required to open total number of 112 branches, etc., till the end of the plan period, *i.e.*, by 1964-65. At present its programme is to up-grade 3 pay offices to sub-branches and to start two new chief regional offices and 5 new pay offices in 1962-63 in each Wing of the country. In accordance with the Government decision on decentralisation of powers of institutions engaged in credit or development activities a high powered General Manager has been appointed at Dacca.

Training of Staff:

163. The need for properly trained staff has been recognised by the Agricultural Development Bank as well as its predecessors the Agricultural Development Finance Corporation and Agricultural Bank of Pakistan. The Agricultural Development Finance Corporation had made arrangement for training of field and accounts staff at the National Bank of Pakistan and Agricultural Colleges. The staff was also required to have a basic knowledge of agriculture, economics, banking law and practice, tenancy laws and accountancy. The Agricultural Bank of Pakistan started a Training Centre in 1957 where the course of study consisted of socio-economics, agricultural credit, banking, co-operation, book-keeping and accountancy, statistics and civil and criminal laws pertaining to agricultural credit. After completion of this course the trainees were given a practical training in agriculture at the Agricultural Colleges and thereafter received theoretical and practical training in revenue and settlement work. The Agricultural Development Finance Corporation also sent its staff for training at the Agricultural Bank of Pakistan Training Centre, and in 1960 established its own institutes at Dacca and Karachi. The Institutes provided training facilities for Investigation Officers only. The Agricultural Development Bank of Pakistan has continued to retain the Training Institutes started by the Agricultural Development Finance Corporation. During the year ended 30th June 1962, 31 trainees successfully completed their training at the Bank's Institute at Karachi and 20 trainees at Dacca. The Bank also arranged refresher courses for the staff to enable them to keep abreast of the latest techniques in agricultural credit. Experts on subjects such as co-operation, village aid, agriculture and banking participated in group discussions along with the Bank's field and account staff.

CHAPTER XII

STATE BANK OF PAKISTAN AND AGRICULTURAL CREDIT

State Bank's Role:

164. In a developing and predominantly agricultural country like Pakistan, the Central Bank has a special role to play in the field of agricultural credit. This has been recognised by the State Bank of Pakistan from the very beginning. Soon after its inception in July, 1948 the Bank, notwithstanding the more pressing problems it faced at that time of rehabilitating commercial banking and credit in the country, lost no time in giving attention to the problem of rural credit. It became immediately aware of the great gaps in this field, the vital need for improving the situation and the immensity of the 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 realised that under existing conditions it would have to provide a very substantial portion of the credit requirements of the agriculturists. The State Bank is, however, a Bankers' bank and a lender of last resort. It is not a field organisation in the sense that it does not directly deal with individuals and has to channelise its operations through other agencies which are intended to directly deal with the public. The Bank was empowered under the law to make loans for seasonal agricultural operations and the marketing of crops through Provincial Co-operative Banks. It, therefore, naturally had to turn towards the co-operatives for expansion of rural credit facilities.

Agricultural Credit Situation from 1948—53:

165. But the situation which the Bank found to exist during the first few years of its existence was far from helpful. In

both wings of the country the co-operative banking structure was hardly available for channelising funds into the agricultural sector. In West Pakistan, co-operative banks after Independence were called upon to fill the void created in the field of commercial banking. Commercial banking, as a matter of fact, became the pre-occupation of these banks and the energies of the entire co-operative structure, official and non-official, seemed to have been mobilised to revive commercial banking activity in the country. In East Pakistan, the whole co-operative movement was at a standstill. Such measures as were being taken for the revival of co-operative banking were resulting mainly in the financing of trading activity. Co-operatives were a provincial subject and the State Bank, therefore, embarked upon ceaseless efforts to bring home to the authorities concerned the need for co-operative banks giving greater attention to agricultural lending which, in the view of the Bank, was their primary function. These efforts were of little avail and for various reasons agricultural lending continued to form a very insignificant part of the operations of co-operative banks.

Studies of Credit Situation and Credit Institutions:

166. The above situation may be said to have continued for at least 5 years after the establishment of the State Bank of Pakistan. During this phase the Bank was able to do little more than continually study agricultural credit problems and watch the situation generally. Special, on the spot, studies were conducted in former Sind, East Pakistan and former Punjab. They covered such subjects as general credit conditions and marketing operations in jute and cotton. Because of their vital importance eventually in the growth of agricultural credit, the Bank maintained a special interest in the affairs of co-operative banks and took every opportunity of bringing to the notice of the Provincial Governments concerned the working of

these banks particularly the dangers inherent in the manner in which commercial lending was being carried out by them. During this period assistance was also rendered to the Governments in the country, wherever possible, in formulating their policies on matters pertaining to rural and co-operative credit. The Bank's representatives served on many committees, the more notable of them being the Co-operative Enquiry Committee of West Pakistan, 1955 and the Technical Advisory Committee of the Agricultural Development Finance Corporation.

Establishment of Agricultural Credit Department:

167. (i) Beginning in 1953, the Bank became more directly interested in the affairs of co-operative banks. For the first time in that year inspections of three co-operative banks in West Pakistan were carried out at the request of the Registrar of Co-operative Societies. Following these inspections the State Bank was in a position to press the provincial authorities more vigorously for re-orientating the outlook in regard to the operations of co-operative banks. The year 1953 also saw the establishment of a full-fledged Agricultural Credit Department in the State Bank. Prior to that agricultural and co-operative credit matters were looked after by a cell which existed as a part of the Banking Control Department from 1948 to 1951 and within the Research Department from 1951 to 1953.

(ii) The second phase of the State Bank's efforts in the field of agricultural credit may be said to have lasted from 1953 to 1958. It was a period of intensive study and preparation. Considerable thought was given to the strengthening and extending of the agricultural credit base and the part State Bank itself could play in achieving these objectives. The scope of the State Bank of Pakistan's own lending operations in the context of a developing agricultural economy, came in for special review. Important and far-reaching policy decisions

emanated from the various studies which in later years were to help considerably in the growth of agricultural credit.

Report of Egyptian Expert:

168. In 1954, the Government of Pakistan and the State Bank invited the President of the Agricultural Co-operative Bank of Egypt Mr. Mohammad Chafie-el-Labban, to visit Pakistan for studying agricultural credit conditions and suggesting measures for building a sound agricultural credit structure in the country. Mr. Labban after an extensive tour of the country submitted a detailed report, which amongst other recommendations, called for the setting up of an Agricultural Bank under the sponsorship of the Central Government to cover the whole country.

Expert Committee of former Punjab:

169. In early 1955, the Government of the former Punjab set up, at the suggestion of the State Bank, an Expert Committee to determine the policy in respect of co-operative banks as well as to advise the Government on measures to strengthen the co-operative banking structure. At about the same time, the Punjab Government issued instructions authorising the State Bank to inspect the co-operative banks in the province. The Expert Committee resolved that commercial loans should be discontinued gradually by the co-operative banks in the former Punjab. It also supported inspection of these banks by the State Bank of Pakistan. The Committee for the first time focussed attention on the problem of proper training of managers and other officers of co-operative banks. These were all highly important measures in an area which had by far the most active co-operative banking set-up in the country.

Training of Co-operative Personnel:

170. The importance of proper training for the staff of co-operatives in the development of the movement was recog-

nised by the State Bank as early as 1953. In that year the Punjab Provincial Co-operative Bank which had been borrowing from the Bank against Government Securities in the normal course of business, was allowed a rebate of 1 per cent on the interest charged to it subject to the condition that the amount of rebate was utilised on co-operative education. This arrangement was intended to cover education and training of co-operative personnel generally and no specific provision was made for the staff of co-operative banks. Training of officials of co-operative banks was, however, of more immediate interest to the State Bank and it was taken in hand in 1955. Arrangements were made with commercial banks in East and West Pakistan for training at the expense of the State Bank, of officials of the Co-operative Departments and Banks. In 1956-57 the first group of 9 persons from each wing went through this training.

Change in State Bank's Charter:

171. (i) In 1955 important changes were made in the State Bank's Charter. The State Bank of Pakistan Order, 1948, was replaced by the State Bank of Pakistan Ordinance, 1955 (subsequently passed into the State Bank of Pakistan Act, 1956). Under the new law the importance of agricultural credit was recognised and the bank assigned special responsibility in that sphere. The maintenance of the Agricultural Credit Department became a statutory obligation under Section 8(3) of the Ordinance and the functions of the Department were prescribed as under:—

- (a) to maintain an expert staff to study all questions of agricultural credit and be available for consultation by the Central Government, Provincial Governments, Provincial Co-operative Banks and other banking organisations;
- (b) to co-ordinate the operations of the Bank in connection with agricultural credit and its relations with

the Provincial Co-operative Banks and any other organisations engaged in the business of agricultural credit.

(ii) Another important change brought about by the State Bank of Pakistan Ordinance, 1955, was regarding scheduling of co-operative banks. Previously the co-operative banks were not eligible for scheduling. In terms of Section 37 of the State Bank of Pakistan Act, 1956, the State Bank can declare any co-operative bank as a scheduled bank. The conditions on which scheduling could be done were also made less stringent than those for commercial banks in that the State Bank could make an exception in the case of co-operative banks in regard to the requirement that a bank should have minimum Share-capital and Reserves for scheduling.

(iii) Under the State Bank of Pakistan Order, 1948, the Bank was authorised to grant accommodation to co-operative banks for financing seasonal agricultural operations and the marketing of crops for periods not exceeding nine months. Detailed studies and experience showed that this period was insufficient to cover fully short-term requirement of agriculturists. Accordingly, the State Bank of Pakistan Ordinance, 1955, raised the period to 15 months. In conformity with the existing concepts of Central Banks functions, it was envisaged at the outset, that the Bank would not make loans other than of a short-term nature. But with the increasing demand for development finance it became obvious by 1955 that it would, in the absence of a developed capital market in the country, have to play at least some part in the extension of medium-term credit. The State Bank of Pakistan Ordinance, 1955, therefore, authorised the Bank under Section 17(2)(d) to—

“purchase, sale and rediscount of bills of exchange and promissory notes drawn and payable in Pakistan

bearing two or more good signatures one of which shall be that of a scheduled bank, or any corporation approved by the Central Government and having as one of its objects the making of loans and advances in cash or kind, drawn and issued for financing the development of agriculture, or of agricultural or animal produce or the needs of industry, having maturities not exceeding five years from the date of such purchase of rediscount”.

A more far-reaching provision was included in Section 17(6) of the Ordinance which enables—

“the making to institutions or banks specifically established for the purpose of promoting agricultural or industrial 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”.

The above was intended to meet any kind of situation that could arise in the sphere of development finance.

Need for specialised Credit Institutions:

172. While the co-operatives were all along considered by the State Bank as the most suitable type of agency for reaching the farmer, it nevertheless began quite early to develop the feeling that they were inadequate for the purpose of meeting the agricultural credit requirements of the country. The vastness of the problem made it obvious that with the best of effort it would take a long time to build up the movement sufficiently. The idea that an additional agency was essential, at least till such time as the co-operatives could cover the whole country, began taking root in the middle 1950s. The recommendations of Mr. Muhammad Chafie-el-Labban of the Agricultural and Co-operative Bank of Egypt, referred to earlier, and other

foreign experts gave further strength to the move for such an agency. The idea of setting up agricultural banks on a district-wise basis was toyed with for some time but eventually both local and foreign experts, came to the conclusion that the new agency should be a strong institution with sufficient resources and country-wide coverage. Such a body, it was further agreed, would have to be sponsored by the Central Government. The Centre had already established the Agricultural Development Finance Corporation in 1952 to provide development finance only to agriculturists. The need was for an institution that could give short-term loans which were urgently needed throughout the country. The State Bank was not in favour of having separate specialised bodies for different kinds of finance and advocated the setting up of an institution capable of meeting the various types of requirements—short, medium and long. This, it believed, apart from being of convenience to the borrowers, would render the operations of the lending agency more easy and effective. A scheme for starting the Agricultural Bank of Pakistan on these lines, was accordingly prepared and it provided for the absorption of the Agricultural Development Finance Corporation into the new bank. Government accepted the proposals with some modifications, the most important of which was to permit the Agricultural Development Finance Corporation to continue as a separate entity. The Agricultural Bank of Pakistan actually came into being in 1957.

Revitalization of Co-operative Movement in East Pakistan:

172. (i) One of the most important measures taken by the State Bank in the field of agricultural credit has been the effort to revitalise the co-operative movement in East Pakistan. The condition of co-operatives in East Pakistan in the years following Independence has been described in some details in the preceding Chapter. In brief, the central co-operative banks were inactive

and played little or no part in providing rural credit. The apex bank which had come into being after Independence was engaged almost entirely in the financing of trade. Such credit as was made available by the co-operative to agriculturists, comprised of small amounts given by the Provincial Government from year to year by way of loan. The total amount so obtained over a period of 8 years was approximately 45 lacs. The Provincial Government's efforts to revive the movement through setting up of Union Multipurpose Societies did not meet with much success, the main factor being want of finance.

(ii) In 1957, the State Bank of Pakistan conducted a special study of the situation to ascertain the extent to which the co-operatives could serve to channelise loans to agriculturists and what measures were required in this respect. The main findings of the study were as follows:—

- (1) The Provincial Co-operative Bank had become burdened with frozen debts involving heavy amounts. It had not been able to repay to the Provincial Government, the sum of Rs. 45 lacs which it had received for financing agricultural credit societies through the central co-operative banks.
- (2) A vast organisation, though inactive, existed in the province in the form of central co-operative banks and Union Multipurpose Societies. It could play a valuable part in the extension of agricultural credit and there were reasonable chances of its being activated over a period of time through supply of credit from the Government or the State Bank, along of course with other measures.

(iii) The State Bank came to the conclusion that more determined efforts had to be made in the revival of the movement and for its own part, the bank was willing to provide the necessary credit facilities. The Bank was able to persuade the Provincial Co-operative Bank to take positive steps for the reorganisation of the movement, the more important of them being as follows:—

- (1) The Provincial Co-operative Bank which had been financially affected was given support by contribution of Rs. 45 lakhs to the share capital by the Provincial Government through conversion of its loans to it.
- (2) Steps were taken for giving better management to the Provincial Co-operative Bank. The elected Managing Committee was superseded and Government assumed powers for nominating the chairman and members.
- (3) The Government agreed to share, in view of the existing state of the co-operatives, a part of the risk in the loans that would be given by the State Bank.

Thus, a beginning was made towards the rehabilitation of the co-operative credit structure in the province and the State Bank granted its first loan amounting to Rs. 10 lakhs in the year 1956-57. The amount has been increased considerably since then, and in the year 1961-62 a sum of Rs. 5 crores was sanctioned for Union Multipurpose Societies.

Socio-Economic Survey:

174. Apart from conducting its own studies, the State Bank of Pakistan has also secured the services of other agencies in this task. Socio-Economic surveys were conducted under the sponsorship of the Bank by the Dacca University and the Punjab

University in 1956. These surveys dealt with the credit problem at some length and the information collected was of considerable value. The State Bank has also tried to keep those interested in agricultural credit informed of the developments in the field from time to time. A quarterly publication known as "Credit (Rural and Co-operative)" giving the facts about rural credit and allied subjects in Pakistan and abroad has been published since 1953. About 650 copies of every issue of the bulletin at present published are distributed free of cost.

Loans to Co-operative and Specialised Credit Institutions:

175. (i) The State Bank of Pakistan has been making loans to co-operative banks since 1951 but until 1957-58 these loans were almost entirely against Government Securities and were given without any stipulation as to the purposes for which they could be utilised. Effective lending for agricultural purposes may be said to have been started in 1957-58. Although a loan of Rs. 10 lacs was sanctioned for East Pakistan in 1957 and another of Rs. 25 lacs for former Sind, the actual utilisation of these limits took place in 1957-58. The State Bank of Pakistan also started making loans to specialised credit agencies during 1959-60 when the former Agricultural Development Finance Corporation was granted a limit of Rs. 1 crore. The Bank has also been insisting since 1960-61 that the loans taken from it by Rural Credit Agencies, Co-operative and otherwise, be utilised solely for financing agriculture.

(ii) The Bank's loans to Agricultural Credit Institutions have been continuously rising every year since 1957-58 but the increase has been rapid since July, 1960. At the end of June, 1962 the total amounts sanctioned stood at Rs. 17.51 crores as against Rs. 6.67 crores at the end of June, 1960.

The following figures give the position, from year to year of the total loans sanctioned by Bank:—

**Loans to Co-operative Banks and A.D.F.C.,
A.B.P., A.D.B.P., etc.**

(Rupees in Crores)

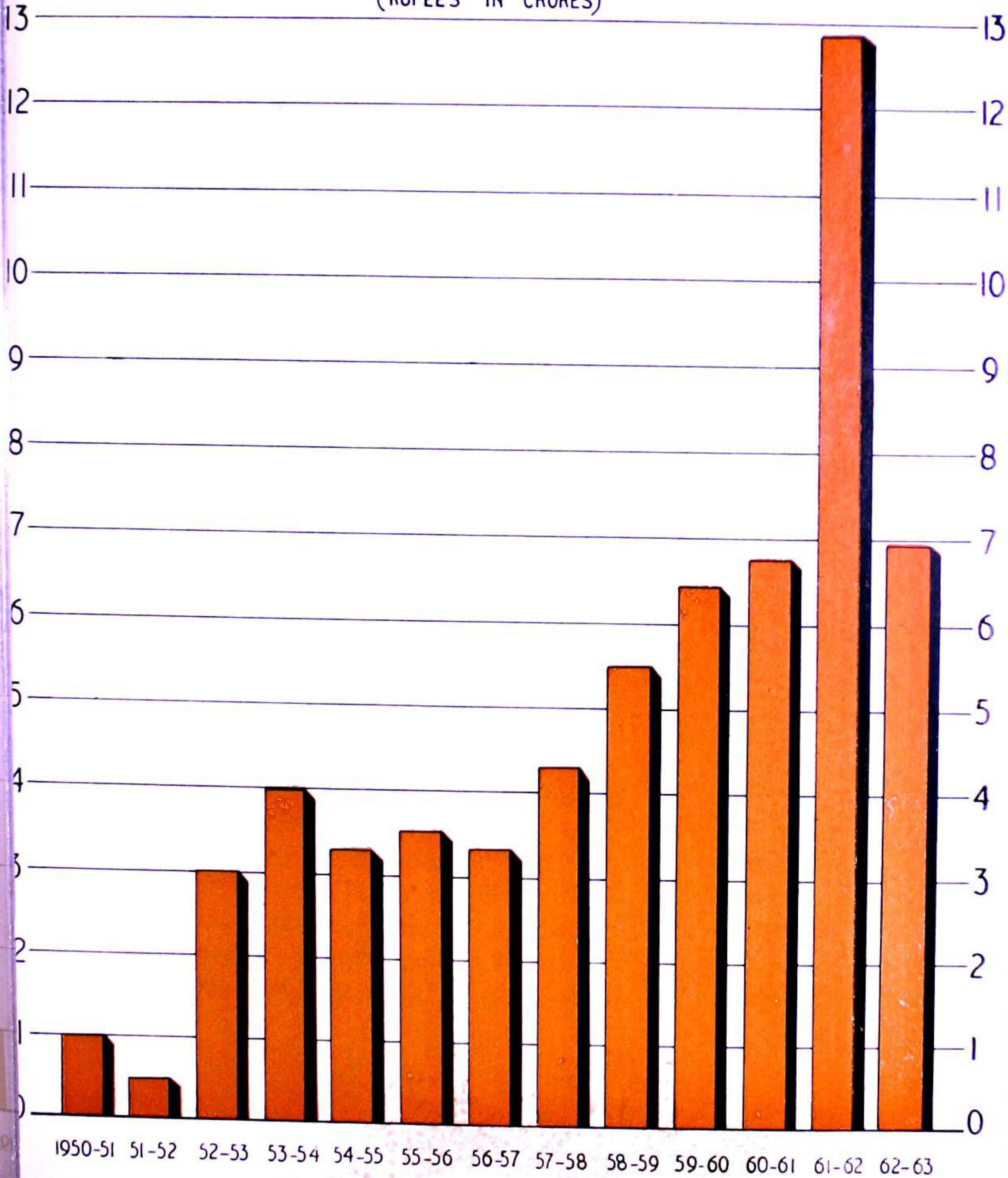
Year	Loans against Govt. Securities	Other Loans	Total
1950-51	1.00	—	1.00
1951-52	0.50	—	0.50
1952-53	3.00	—	3.00
1953-54	3.00	1.00	4.00
1954-55	3.35	—	3.35
1955-56	3.00	0.53	3.53
1956-57	3.00	0.35	3.35
1957-58	3.27	1.03	4.30
1958-59	3.00	2.49	5.49
1959-60	2.07	6.88	8.95
1960-61	7.06	11.20	13.26
1961-62	7.05	13.29	20.34
1962-63	6.02	8.53	14.55
Total	40.32	45.30	85.62

(Upto 31-10-1962)

(ii) The agricultural loans of the Bank have so far been entirely of a short-term nature except for a limit of Rs. 25 lacs sanctioned for East Pakistan in 1961-62 and a limit of Rs. 3 lacs given to Gilgit Co-operative Bank in 1959-60. The short-term loans are given at different times in different parts of the country depending upon the crop seasons. Usually, the attempt is to make the credit available at the time of preparation of land and

STATE BANK OF PAKISTAN'S FINANCIAL ASSISTANCE TO CO-OPERATIVE BANKS

(RUPEES IN CRORES)



to recover them after the harvest. The loans are channelised through Provincial Co-operative Banks and are intended to reach the farmer through primary credit societies.

Interest Rates:

176. (i) The State Bank has throughout been conscious of the need for having a reasonable interest rate structure for agricultural credit. It has, therefore, for its own part accepted the principle that the rate of interest charged by it for agricultural loans should be lower than that on other types of advances. Originally the Bank's policy was to charge a rate of interest half per cent below the Bank Rate for loans to Provincial Co-operative Banks. Out of this, it agreed to give away 1 per cent by way of rebate to be spent on co-operative education and training. The rebate was, however, discontinued in 1954 as the Bank decided that it would consider for assistance individual schemes from co-operatives from time to time. The concession of half per cent has, however, continued for several years after 1954 on loans to co-operative banks. This rate remained at $2\frac{1}{2}$ per cent so long as the Bank Rate was 3 per cent. But in 1959, when the Bank Rate was increased to 4 per cent, the loan rate for Co-operative Banks was raised to $3\frac{1}{2}$ per cent. Agricultural and co-operative interests, however, represented that this rate was high and requested that the Bank charge 1 per cent below the Bank Rate to co-operatives. This plea was accepted and the rate reduced to 3 per cent.

(ii) The present interest rate policy of the Bank is in accordance with Government's decision, following the recommendations of the Credit Enquiry Commission. For co-operatives a rate of 1 per cent below the Bank Rate is charged. This is on the basis that funds should reach the ultimate borrower at not more than 9 per cent. The Agricultural Development Bank of Pakistan is charged half per cent below the Bank Rate.

The Agricultural Development Bank lends directly to individuals as against co-operatives where funds have to pass through several intermediate institutions before reaching the farmer and it is for this reason that a differential of $\frac{1}{2}$ per cent has been kept on advances to the two types of institutions.

Loans to Co-operatives:

177. (i) The State Bank's loans to Co-operatives in the two wings of the country have been as follows since 1957-58:—

(Rupees in Crores)

	EAST PAKISTAN		WEST PAKISTAN	
	Loans against Govt. Securities	Other Loans	Loans against Govt. Securities	Other Loans
1957-58	0.07	0.25	3.20	0.78
1958-59	—	1.00	3.00	1.49
1959-60	0.07	4.00	0.50	1.88
1960-61	0.06	5.00	—	1.70
1961-62	—	4.32	5.05	3.47
1962-63	—	0.07	5.40	1.46
(Upto 31-10-62)				
Total	0.20	14.64	17.15	10.78

In 1960 financing of fishermen's Co-operatives in the province was initiated with a loan of Rs. 2.60 lacs. The limit for 1962-63 is Rs. 7 lacs. In 1961-62 a limit of Rs. 25 lakhs was sanctioned as medium-term credit for financing cattle purchase but the amount remained unutilised.

(ii) The loans to co-operatives in East Pakistan expanded quite rapidly during the past few years. 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 amounts actually loaned.

(iii) In West Pakistan the bulk of the borrowing is still against Government Securities but as stated above the amounts are now required to be used for financing agricultural credit co-operatives. The region-wise break-up of the loans in West Pakistan is as follows:—

(In crores of rupees)

Years	Former Punjab			Former Sind			Former Frontier			Total		
	Loans against Govt. Secs.	Other Loans	Total	Loans against Govt. Secs.	Other Loans	Total	Loans against Govt. Secs.	Other Loans	Total	Loans against Govt. Secs.	Other Loans	Total
1950-51 ...	1.00	—	1.00	—	—	—	—	—	—	1.00	—	1.00
1951-52 ...	0.50	—	0.50	—	—	—	—	—	—	0.50	—	0.50
1952-53 ...	3.00	—	3.00	—	—	—	—	—	—	3.00	—	3.00
1953-54 ...	3.00	1.00	4.00	—	—	—	—	—	—	3.00	1.00	4.00
1954-55 ...	3.00	—	3.00	0.25	—	0.25	0.10	—	0.10	3.35	—	3.35
1955-56 ...	3.00	—	3.00	—	0.53	0.53	—	—	—	3.00	0.53	3.53
1956-57 ...	3.00	0.25	3.25	—	—	—	—	—	—	3.00	0.25	3.25
1957-58 ...	3.00	0.35	3.55	0.20	0.43	0.63	—	—	—	3.20	0.78	3.98
1958-59 ...	3.00	1.87	3.82	—	0.67	0.65	—	—	—	3.00	1.49	4.49
1959-60 ...	—	0.75	0.75	0.50	1.11	1.61	—	0.02	0.02	0.50	1.88	2.38
1960-61 ...	—	0.27	0.27	—	1.20	1.20	—	0.23	0.23	—	1.70	1.70
1961-62 ...	5.00	1.06	1.06	0.05	2.38	2.43	—	0.03	0.03	5.05	3.47	8.52
1962-63 ... (to 31-10-62)	5.00	1.00	6.00	0.40	0.08	0.48	—	0.38	0.38	5.40	1.46	6.86
Total ...	32.50	5.50	33.00	1.40	6.40	7.80	0.10	0.66	0.76	34.00	12.56	46.56

(iv) It will be observed that a small beginning was made in the former Sind also and loans have been gradually expanded to the figure of Rs. 2.43 crores in 1961-62.

The co-operatives of the former North West Frontier Province have started borrowing from the State Bank of Pakistan on a substantial scale only in 1961. All the loans in West Pakistan so far have been of a short-term nature.

Loans to specialised Credit Institutions:

178. The following figures show the loans given to specialised credit institutions from year to year:—

Agricultural Development Finance Corporation/Agricultural Bank of Pakistan/Agricultural Development Bank of Pakistan

(In Crores of Rupees)

Year	Loans against Govt. Securities	Other advances	Total
1959-60	1.50	1.00	2.50
1960-61	2.00	4.50	6.50
1961-62	2.00	5.50	7.50
1962-63 (Upto 31-10-1962)	0.62	7.00	7.62
Total	6.12	18.00	24.12

The “other advances” have been given against the guarantee of the Central Government.

Rural Credit Fund:

179. A fund known as the Rural Credit Fund was established by the State Bank in 1960 in terms of requirements of an amendment (Section 17A) to the State Bank of Pakistan Act. The idea of the Fund was put forth by the Credit Enquiry

Commission and accepted by the Government. The purposes for which it may be utilised are given in the law as follows:—

- “(a) The making of medium-term loans and advances to co-operative banks, repayable on the expiry of a fixed period, not exceeding three years from the date of the making thereof, against such security as the Bank may, from time to time, prescribe in this behalf;
- (b) The making of medium-term and long-term loans and advances to rural credit agencies created or established by or under any law for the time being in force on such terms and conditions as the Bank may, from time to time, prescribe in this behalf;
- (c) Where the Bank is satisfied that any co-operative bank, to which a loan or advance as is referred to in sub-section (4) of Section 17 has been made, is unable to repay the same in time, the converting of such loan or advance into a medium-term loan or advance, as the case may be, in accordance with the provisions of clause (a).”

The Credit Enquiry Commission had recommended that the Fund should be set up through an initial contribution of Rs. 5 crores by the Government and further contributions should be made out of the profit of the State Bank of Pakistan from year to year with the approval of the Government. Government, however, decided that the fund should be started with contributions from the State Bank's own profit and the Bank has made the following allocations to it so far:—

1961	...	...	...	Rs. 2 crores
1962	...	...	...	Rs. 50 lacs
			Total	...
				<u>Rs. 2.50 crores</u>

Remittance facilities to Co-operative Banks:

180. (i) An important function of the State Bank is to provide remittance facilities to the general public, Government and banks, and a 'Remittance Facilities Scheme' is operated by the Bank. The extent of the facilities and the terms on which they are available vary for each of the foregoing categories. Even in the case of banks, the facilities and the terms thereof differ for scheduled banks, non-scheduled banks and co-operative banks. The extent of the State Bank's interest in agricultural credit and co-operative banks is indicated by the fact that the most favourable facilities are available to co-operative banks. Scheduled banks are permitted to remit fund from their Head Offices to the branches and *vice versa*. In the case of co-operatives, the facilities are available to those which wish to join the scheme but for the sake of convenience to the movement as a whole, all affiliated banks of the Provincial Banks concerned are treated as its branches. A major concession accruing to the co-operative sector in this respect is that Provincial Co-operative Banks which join the "Remittance Facilities Scheme" are required to maintain 1 per cent of their time liabilities and $2\frac{1}{2}$ per cent of their demand liabilities with the State Bank of Pakistan as against 2 per cent and 5 per cent respectively for scheduled commercial banks. An even greater advantage lies in the fact that whereas commercial banks have to maintain their balances with the State Bank on the basis of the deposits of all their offices, Provincial Co-operative Banks which join the scheme are required to keep balances only on the basis of their own deposits, although the benefits accrue to all the affiliated banks.

(ii) The remittance facilities for co-operatives have been made available from the very beginning and they have continued to be liberalised over the years. The most recent liberalisation

will come into effect from 1st January, 1963, making the following provisions:—

1. (a) The rate for remittances upto Rs. 5,000/- has been reduced from 1/16 per cent to 1/32 per cent. The minimum charge (for amounts upto Rs. 5,000/-) has also been reduced to 25 paise for all types of remittances. Previously the minimum charge of 25 paise (for amounts upto Rs. 5,000/-) was applicable to drafts and mail transfers only and not to T.T's. The minimum charge for T.T's previously was Re. 1/-.

(b) Rates for remittances over Rs. 5,000/- have been reduced from 1/32 per cent to 1/64 per cent and the minimum charge for amounts upto Rs. 5,000/- has also been reduced from Rs. 3.12 paise to Rs. 1.56 paise. The above rates are applicable to remittances favouring self or other banks. In the case of T.T. the telegram charges will be charged in addition as usual.

2. (a) The amount of money allowed to be remitted between the accounts at the offices and branches of the State Bank of Pakistan free of charges has been reduced from a multiple of Rs. 10,000/- to a multiple of Rs. 1,000/-. The minimum remittable amount, however, remains at Rs. 10,000/-.

(b) Previously a free of charge remittance of Rs. 5,000/- or a multiple thereof to the principal account with State Bank of Pakistan was allowed from any place at which it had an office and where there was an office or agency of the State Bank. Now the banks can remit twice a week to *any* account with the State Bank from any place at which there is an agency of the State Bank of Pakistan. Further, the remittable amount has been reduced from a multiple of Rs. 5,000/- to a multiple of Rs. 1,000/- subject to a minimum of Rs. 5,000/-

(c) Other remittances which were allowed to its *principal account* subject to a charge of 1/64 per cent (maximum charge Re. 1/-) are now to be allowed to *an account* which it maintains

with the State Bank of Pakistan from any place at which there is an agency of the State Bank of Pakistan. The co-operative banks can now effect remittances from any account with National Bank of Pakistan or State Bank to any account with State Bank of Pakistan @ 1/64 per cent (minimum Re. 1/-). This will also be of great benefit to co-operative banks.

(d) The co-operative banks can now effect other remittances through State Bank of Pakistan or its agencies (other than Treasury Agency) not covered by (a), (b), or (c) above in favour of self at the following rates:—

Upto Rs. 5,000/-	...	1/32% (minimum Re. 1/-)
Over Rs. 5,000/-	...	1/64% (minimum Re. 1/56 paise)

(Actual telegram charges in addition.)

Under this facility the co-operative banks can remit money between accounts from State Bank to National Bank and from National Bank to National Bank.

Statutory Control and Inspection of Co-operative Banks:

181. (i) Co-operation is a provincial subject and co-operative banks have accordingly been supervised and controlled by the Provincial Governments. The Credit Enquiry Commission, however, recommended that in the interests of unified control of the credit structure of the country, control of co-operative banks should be vested in the State Bank of Pakistan. Government have accepted this suggestion and Sections 40 and 41 of the Banking Companies Ordinance, 1962 have been made applicable to co-operative banks also. The sections read as follows:—

“Section 40. *Inspection*

(1) Notwithstanding anything to the contrary contained in Section 138 of the Companies Act, 1913 (VII of 1913), State

Bank may, at any time and on being directed to do so by Central Government, shall, inspect any banking company and its books and accounts.

(2) The inspection shall be carried out by such officers of the State Bank as the State Bank may direct.

(3) The State Bank shall supply to the banking company a copy of its report on the inspection made under this section.

(4) It shall be the duty of every director or other officer of banking company to produce to any officer, hereafter in this section called the inspecting officer, making an inspection under this section, such books, accounts and other documents in his custody or power and to furnish him with such statements and information relating to affairs of the banking company and within such time as the inspection officer may require.

(5) The inspecting officer may examine on oath any director or other officer of the banking company in relation to its business and may administer an oath accordingly.

(6) The State Bank shall, if it has been directed by the Central Government to make an inspection, and, in any other case, may, submit a report to the Central Government on any inspection made under this section and the Central Government, if it is of opinion, after considering the report that the affairs of the banking company are being conducted to the detriment of the interests of its depositors, may, after giving such opportunity to the banking company to make a representation in connection with the report as, in the opinion of the Central Government seems reasonable, by order in writing:—

- (a) prohibit the banking company from receiving fresh deposits;
- (b) direct the State Bank to apply under section 49 for the winding up of the banking company:

Provided that the Central Government may defer for such period as it may think fit, the passing of an order under this sub-section, or cancel or modify any such order, upon such terms and conditions as it may think fit to impose.

(7) The Central Government may, after giving reasonable notice to the banking company, publish on the advice of the State Bank, the report submitted by the State Bank or such portion thereof as may appear necessary to the Central Government.

Explanation:—For the purposes of this section, the expression “banking company” shall include—

- (i) in the case of a banking company incorporated outside Pakistan, all its branches in Pakistan; and
- (ii) in the case of a banking company incorporated in Pakistan—
 - (a) all its subsidiaries formed for the purpose of carrying on the business of banking exclusively outside Pakistan; and
 - (b) all its branches whether situated in Pakistan or outside Pakistan.

Section 41.

Power of the State Bank to give directions.—(1) Where the State Bank is satisfied that—

- (a) in the public interest; or
- (b) to prevent the affairs of any banking company being conducted in a manner detrimental to the interests of the depositors or in a manner prejudicial to the interests of the banking company; or
- (c) to secure the proper management of any banking company generally;

it is necessary to issue directions to banking companies generally or to any banking company in particular, it may, from time to time, issue such directions as it deems fit, and the banking companies or the banking company, as the case may be, shall be bound to comply with such directions.

(2) The State Bank may, on representation made to it or on its own motion, modify or cancel any direction issued under sub-section (1), and in so modifying or cancelling any direction may impose such conditions as it thinks fit, subject to which the modification or cancellation shall have effect.”

(ii) Although the State Bank of Pakistan had no statutory powers in the past for inspecting co-operative banks, it was, beginning in 1953 called upon, from time to time, to inspect some of these banks, where advice was sought by the banks or the Provincial Governments concerned and where, the bank, in its capacity as a lender wished to ascertain the position of a particular bank. Inspections in the earlier years were few and far between but with the increase in the agricultural credit operations, inspections became more or less a regular feature. The tempo increased considerably in the year 1961-62. The following table gives the number of inspections that have been carried out over the years:—

Sl. No.	Year	Number of banks inspected	Remarks
1.	1952-53	1	
2.	1953-54	1	
3.	1955-56	2	
4.	1957-58	2	
5.	1958-59	2	
6.	1959-60	4	
7.	1960-61	4	
8.	1961-62	20	

Deputation of Officers and other Assistance to Co-operative Banks:

182. Apart from inspections, the State Bank of Pakistan has sought to assist the Agricultural Credit agencies in other ways also. Advisers were given to the co-operative banks in both wings of the country. Since 1959 a Senior Officer of the bank has been lent to the Co-operative Department in East Pakistan to work as Adviser at the expense of the State Bank. Another Senior Officer was deputed in a similar capacity to the Co-operative Department in West Pakistan in 1959. Officers have been lent in the past to the Frontier Co-operative Bank, Gilgit Co-operative Bank and the Agricultural Development Bank of Pakistan and its predecessors, to work in managerial and other positions. The bank has also supplied, out of its training scheme, trained personnel to the Agricultural Development Finance Corporation, the Agricultural Bank of Pakistan and the Agricultural Development Bank of Pakistan. Officials of the bank are nominated to serve as directors and members on the Boards and Technical Advisory Committees of co-operative banks and specialised agricultural credit institutions. More recently the bank has taken a more direct interest in the promotion of co-operative movement at the primary level. In 1961 it made a contribution of Rs. 1 lac to an "extension scheme" drawn up by the East Pakistan Co-operative Department for educating the masses in co-operative principles.

Rural and Co-operative Credit Advisory Committee:

183. The Credit Enquiry Commission recommended that a Rural and Co-operative Credit Advisory Committee should be formed under the State Bank's auspices to provide a machinery for consultation and to co-ordinate activities of Rural Credit Agencies. Such a Committee was set up by the Government

on 22nd July, 1961, with the Governor of the State Bank of Pakistan as its Chairman. The 7 other members are as follows:—

1. Chairman, Agricultural Development Bank of Pakistan ... Member
2. Co-operation and Marketing Adviser, Government of Pakistan ”
3. Registrar, Co-operative Societies, East Pakistan ”
4. Chairman, West Pakistan Co-operative Development Board ”
5. Mr. Ghulam Haider Shah, Vice-Chairman, of the Sind Provincial Co-operative Bank Ltd. ”
6. Mr. Mohammad Badshah Miyan Chowdhury, Chairman of the Chittagong Central Co-operative Bank Ltd. ”
7. Chief Officer, Agricultural Credit Department, State Bank of Pakistan, Central Directorate, Karachi Member-Secretary.

The State Bank acts as the secretariat of the Committee. Three meetings of the Committee have been held so far and the matters discussed have covered a wide range of subjects pertaining to rural credit.

Expansion of Agricultural Credit Department:

184. As the volume of agricultural credit work has increased, the organisation within the State Bank to cope with it has continued to expand. It has already been mentioned

that a full-fledged department of Agricultural Credit was set up in 1953. The functions of this Department were confined until 1957-58 to the study of problems and actual operational work such as examining of loan proposals and inspections were carried out by the Banking Control Department. Since 1958, however, the Department has become fully operational and all work pertaining to rural credit is looked after by it. While at the Central Directorate there was a special department for agricultural credit the work at the branches was conducted through the organisation of the Banking Control Departments at Lahore and Dacca. In 1961, the Bank decided to establish branches of the Agricultural Credit Department at Lahore and Dacca to cope with the increasing work pertaining to agricultural credit and co-operative banks in those regions.

Agricultural Credit Advisers and Action Plans:

185. The Bank's policy in the past has been to assist the co-operatives in a broad way in organising themselves and improving their operations. In 1960, however, it came to the conclusion that the State Bank could perhaps do more in this field through the preparation of definite programmes. The Provincial co-operative departments, no doubt had their own 5-year plans but it was felt that the State Bank would help by pointing the way in achieving the desired results. Two Agricultural Credit Advisers, one for each wing, having extensive experience of agriculture and co-operatives were appointed in 1960-61 primarily to advise the Bank on the preparation of working plans for more rapid expansion of agricultural credit facilities through co-operatives. After extensive studies two separate Action Plans for East and West Pakistan have been prepared by them. The Action plan for East Pakistan covering co-operative credit, co-operative marketing and co-operative training has already been discussed with

officers of the Provincial Co-operative Department and is now ready for necessary action by the Government. For West Pakistan the Action Plan covering co-operative credit and marketing has been sent to the Provincial Co-operative Department and further steps in regard to it are expected in due course.

Action Plan—East Pakistan

186. The broad features of the Plan for East Pakistan are as follows:

I. Credit

1. The annual requirements of credit amount to Rs. 40 crores for short-term loans and Rs. 10 crores for medium-term. The targets suggested for co-operatives are as follows.

Year	(In crores of rupees)	
	Short-term	Medium-term
1963-64	6	1
1964-65	8	2
1965-66	11	3
1966-67	15	4
1967-68	20	5

2. The co-operative structure would have to be built up within the bounds of the policy of the Government. The co-operatives should give short-term and medium-term loans while long-term loans should be the responsibility of the Agricultural Development Bank of Pakistan subject to adjustments so long as co-operatives are not fully organised. The co-operative structure should be re-organised. There should

be one central bank at each district headquarters and one single-purpose credit society in each village.

3. The Government and the central banks should participate in raising the share capital of the East Pakistan Provincial Co-operative Bank to Rs. 1.50 crores by 1967-68. Government control on the Board of Directors of the Bank should continue and the administrative set up of the Bank should be re-organised with Government subsidy which should cease in 1968-69.

4. The re-organisation of central banks into district units should be completed at the earliest. The capital structure of the banks should be strengthened by contributions from the primary societies and the Government. Democratisation of the Managing Committees should be brought about gradually. The administrative services should be re-organised with subsidy from the Government upto 1967-68.

5. A service to be known as the "East Pakistan Co-operative Bank Service" should be jointly sponsored by the Provincial Co-operative Bank and the Central banks. This service should be administered by a "Co-operative Bank Service Board."

6. The Union Multipurpose societies should restrict their activities to credit and if they undertake any other activity they should do so only as agents of the Government, Agricultural Development Corporation or others. The societies should function as banking institutions and should have mostly full time paid Secretaries. There should be a "Co-operative Societies Service" in each district under the control of a "Service Board." The organisation of primary societies should proceed on a phased programme and be completed in ten years. Between 1963—68, 1,450 societies should be organised. The organised societies

should have priority over the other societies in receiving funds for short-term and medium-term requirements.

7. The co-operative structure at all levels is not capable at present of employing proper or adequate staff and for arranging their training. Government should, therefore, give suitable subsidies in the initial years.

8. Service co-operative societies to be organised at every Union Council headquarters should undertake all non-credit functions other than marketing. The programme of organisation should not be rushed in view of the complicated nature of their operations.

9. The loan operations of the co-operatives should be drawn up and implemented according to the crop pattern in each area. Detailed instructions for assessment of credit requirements, credit-worthiness and repaying capacity, and valuation of assets should be issued by the Registrar. An intelligent and efficient policy of loan operation and administration should be followed.

10. Default in the repayment of loans by the borrowers is heavy. Incentive in the shape of rebate of one per cent in interest should be allowed to the borrowers who repay in time. The legal provisions enabling automatic charge upon the crops or agricultural produce have not helped recovery. Under the Co-operative Societies Act recovery of the claims or dues of co-operative societies after an award is given, has to be made through the Certificate Officer and/or civil courts. This process has proved ineffective. The solution of the problem lies in the temporary appointment of Certificate Officers specially for cases of co-operative banks as and when necessary. The co-operative dues should also be brought within the purview of

the Public Demand Recovery (Amendment) Ordinance, 1961 which prescribes a simpler procedure for recovery.

11. Sustained efforts should be made to mobilise savings by education and propaganda, and provision of incentives and facilities. The Provincial Bank and the central banks should make efforts to attract deposits from individuals and institutions.

12. The co-operatives should transfer not less than 50 per cent of their net profits to their reserve funds.

II. Marketing

13. In the marketing sector there should be an Apex institution to be known as the East Pakistan Provincial Co-operative Marketing Federation. The Federation should not directly take part in trading activities but bring the societies in the "producing" and "consuming" areas together. It should undertake all import and export business of co-operatives including inter-wing trade. The Government should contribute 51 per cent of the share capital of Rs. 50 lakhs, the remaining 49 per cent being held by the affiliated societies. The question of surrendering Government shares if at all may be considered at the end of five years in 1968-69. The working finance of the Federation should be obtained from the commercial banks.

14. By 1964—68 fiftyfour marketing societies should be organised. They should purchase agricultural produce and supply the needs of the agriculturists. They should not provide credit except finance against pledge. In order to safeguard the societies against the opposition of local dealers complementary societies in the producing and consuming areas should be established from the very beginning. Dependence on private trade should be eliminated but sale in the local market may be allowed if business considerations demand it. The share capital

of each marketing society should be contributed by the multipurpose societies linked to it. Borrowers should be compelled to sell their produce through the marketing societies. Scheduled banks should arrange finance to marketing societies against pledge of goods or other security. Union multipurpose societies should act as agents of the marketing societies.

15. The Marketing Societies should employ efficient staff. The Government should subsidise the salaries of the officers of the Federation and societies for five years. A separate service known as "The East Pakistan Co-operative Marketing Service" should be created. A "Service Board" should be set up for the purpose.

16. Godowns already built by the provincial government are to be handed over to the Marketing Societies on rental basis or by outright sale. Where there are no godowns government should grant an interest free loan of Rs. 25,000 recoverable over a period of 20 years. The Federation should have branches at central places and hire or build godowns with interest free loans.

17. The Scheme of the Government for organising jute growers co-operative should be dropped in order to avoid overlapping with the marketing societies.

18. Co-operatives should maintain their accounts on the double entry system. They should compile detailed statistics. Provident Funds should be constituted for the staff.

III. Training

19. Arrangements should be made at the East Pakistan Co-operative College and in four Zonal Co-operative Training Institutes (to be set up) for the training of the officials of the Co-operative Department and of co-operative institutions.

Candidates selected for appointment in the department and the institutions should also be trained in the college and the period so spent should count for probation. The existing practice of training candidates first and then offering appointments to them should cease as it has proved unsuccessful.

20. The college and the Zonal Co-operative Training Institute should provide three different courses as follows:—

- (1) Junior Officers Training Course for Assistant Inspectors, Assistant Supervisors of central banks and secretaries of Union Multipurpose Societies.
- (2) Graduate Course for directly recruited Assistant Registrars, District Auditors and Inspectors, Managers, Accountants, Inspectors and Supervisors of the Provincial and Central Banks.
- (3) Refresher course for Joint Registrars, Deputy Registrars, Senior Assistant Registrars, Chief Accountant and Chief Supervisor of the Provincial Bank, Senior Managers of the central banks and teachers in the training college and centres. This course should be arranged on all-Pakistan basis.

21. The duration of the Junior Officers Course should be six months including a period of one month for practical training and there should be an examination at the end of the course. As the number of candidates to be trained would be large, four training centres should be established, one in each division.

The graduate course should be of nine months duration of which two months should be spent in practical training.

22. The syllabus for the Junior Officers Course and the graduate course should be the same but the standard of the latter course should be higher. The subjects included in the

syllabus should be Co-operative and Miscellaneous Laws, Book-Keeping and Accountancy, Agriculture and Agricultural Economics, Banking Law and Practice, Co-operative Credit and Co-operative Banking, Socio-Economics of East Pakistan, Business Management, Public Relations and Personnel Management.

23. The refresher course should be conducted at Karachi once a year and should be of three months duration. The subjects for the course should be the same as for the other two courses. Emphasis should be on seminar discussions. The training arrangements should be made by the State Bank of Pakistan in collaboration with Central and Provincial Governments.

24. The Managers of the Marketing societies should join the graduate course and be given special instructions on marketing. The Accountants should participate in the course for Junior Officers. The top officials of the Marketing Federation should attend the Refresher Course.

25. A Provincial Board of Co-operative training should be established with the Provincial Secretary in charge of Co-operation as chairman to direct, supervise and control the training programme. Whole-time principals and whole-time and part-time instructors should be appointed.

Action Plan—West Pakistan

New Primary Societies:

187. The main features of the Plan for West Pakistan are as follows:—

1. The target for setting up new primary societies during the Second Plan period should be 10,000. The Co-operative

Department should draw up a programme for establishing 10 large-sized credit societies in Quetta and Kalat region.

Re-organisation of Co-operatives:

2. The suggestions for re-organisation of the co-operative societies are; (1) membership should be increased with no restriction on holding of share capital (2) efforts should be made to increase deposits (3) "crop-loan system" should be adopted and crops taken as security (4) borrowing limit for an individual should be determined on the basis of his share-holding also (5) tenant farmers should be given credit in kind making the landlord also liable to repay the loan in the same proportion as he shares the crop (6) no dividend should be declared until the society is able to meet its expenditure without outside assistance and (7) training of 10,000 secretaries during the remaining period of the Second Plan should be undertaken with financial assistance from the Government and Central and Provincial banks.

3. A large number of agricultural credit societies require re-organisation and some may have to be liquidated. The Agricultural Credit Department should help in the preparation of a programme of reactivation, consolidation and revitalization of dormant societies. The Government also should appoint special staff for the purpose. Among others the following steps are suggested for improving recoveries:—

- (1) The system of security of land should be extended to the former Punjab and N.W.F.P.
- (2) Crops or agricultural produce, cattle, fodder, industrial implements or machinery should be made subject to a first charge on account of borrowings by members and past members after the claims of the Government and of the landlord in respect of

rent are met. The Co-operative Societies Act should be amended for creating a charge on property by declarations in writing instead of by registered deeds.

Credit:

4. The following targets are proposed for short-term loans by Agricultural Credit Societies upto the end of 1965:—

Year			Amount to be advanced
1962-63	...	...	Rs. 12 crores.
1963-64	...	...	Rs. 15 crores.
1964-65	...	...	Rs. 20 crores.

As a rough estimate half the money required should come from the movement itself while the remaining half should be provided by the State Bank.

Marketing Societies:

5. The existing marketing societies have no link with the primary credit societies or their members. They will have to be merged in the new marketing societies. The target for the remaining three years of the Second Plan should be 75 more marketing societies at Mandi level. Each society should have a share capital of Rs. 25,000 of which Rs. 15,000 should be contributed by the Government. The Government should give a loan of Rs. 25,000 for 10 years for office and godowns space. Short-term needs of the societies should be met by co-operative banks. In order to enable marketing societies to build godowns the Government should provide the societies with 50 per cent of the cost as a grant and 50 per cent as a loan. The pay of the Managers of the Societies should be subsidised by the Government on a sliding scale for the first five years.

6. The State Bank should encourage the marketing of sugarcane on co-operative basis in Peshawar and Mardan districts. The Co-operative Department should explore the possibility of setting up co-operative sugar mills in the area and the State Bank can assist the Department in this study.

7. The Punjab Provincial Marketing Federation, the Punjab Provincial Co-operative Cotton Corporation and the All-Pakistan Co-operative Marketing Federation should be strengthened. The Government should subsidise the pay of the Managers and Accountants of these institutions for five years.

8. The Government must meet the cost of pay of the Managing Director and office staff of the Rural Supply and Marketing Corporation on a declining scale for five years.

Re-organisation of Co-operative Banks:

9. The working of the co-operative banks needs improvement. The suggestions for their improvement are: (1) bye-laws should be made simple and flexible (2) owned funds should be strengthened (3) a reasonable amount of Government securities should be free from encumbrances (4) medium-term loans should be separated from short-term loans and "crop-loan system" should be adopted (5) to check multiple finance credit information about borrowings should be compiled and supplied to all rural credit agencies (6) central banks should appoint their own recovery staff (7) the services of senior staff of the provincial and central banks should be provincialised and an "Employment Board" set up for the purpose and service rules should be framed for all employees and (8) the State Bank should set up a training class of 3 months duration for senior staff of the co-operative department and co-operative banks.

10. The provincial bank should occupy the same position in relation to central banks as the State Bank does in relation to joint stock banks.

11. An Agricultural Credit (stabilization) Fund should be created by the Provincial and Central Banks and wherever possible by large-sized societies for conversion of short-term loans into medium-term loans whenever necessary.

12. The operations of the Agricultural Development Bank of Pakistan and the co-operatives should be co-ordinated for satisfying the credit needs of persons requiring larger amounts than are now available to individuals from co-operative societies.

13. The co-operative department should properly audit and supervise the urban banks which are not working on sound lines. The State Bank should set up a separate cell to deal with matters pertaining to these banks.

14. Regional Offices of the Agricultural Credit Department should be set up at important places to inspect each bank once a year. A special cell should be created in the Agricultural Credit Department to evaluate the effects of State Bank of Pakistan loans.

15. Huge amounts of loans due from members and societies are outstanding for several years. For rehabilitating the movement scaling down of debts is inevitable. The State Bank may assist in the estimation and conciliation of debts. The debtors may have to be allowed the benefit of full settlement on part payment in cash or alternatively recovery should be made in instalments. Where writing off becomes necessary central banks may grant relief to the societies. In case of need the

Provincial Bank and the Government should assist the Central Banks.

16. The Co-operative Societies Bill drafted in 1958 should be enacted without delay.

Re-organisation of Co-operative Union:

17. The West Pakistan Co-operative Union should have its own staff for attending to its activities. All co-operative societies having a paid up share capital of Rs. 25,000 may be made members of the union. All the regions should be represented on the Executive Committee. The Union should have branches at Regional or Divisional Headquarters. Co-operative Committees affiliated to the Union should be set up at Union, Tehsil, District and divisional levels with paid secretaries. Libraries should be set up, journals issued and documentary films prepared. The Government may consider giving a recurring grant of Re. 1/- per member to the Union. A major part of the Co-operative Development Fund should be placed at the disposal of the Union. Audit fees which is being recovered from the societies by the Government may be handed over to the Union.

18. The duties and functions of the Co-operative Development Board and of the Department should be properly defined. The Government should give an annual recurring grant to the Board equal to 2 per cent of the owned funds of the societies in the province.

19. The Agricultural Development Corporation should provide short and medium-term funds to co-operative credit societies and not to the farmers direct. It should encourage the creation of societies where they do not exist. The Corporation should utilise the service societies for distribution of seeds

and fertilizers. It should play an active role in linking credit with marketing. It should assist co-operatives in the introduction of supervised credit and subsidise the scheme from its own funds. The State Bank should undertake a study of the working of the Corporation in due course.

20. The Government should sanction sufficient staff for implementation of the Second Five-Year Plan. The terms and conditions of service of the staff of the Department should be brought on par with those of staff in other departments. There should be increasing decentralisation of power in the Department. Training facilities available in the country should be fully utilised.