Institute of
Social Studies

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Occasional Paper No. 103

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January 1986
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The views expressed in this publication are those of the author and not necessarily those of the Institute of Social Studies.

ISBN 90-6490-020-5

Printed in The Netherlands

1. INTRODUCTION

Pakistan

The creation of Pakistan on 14 August 1947 was the result of the irresistible and massive pressure of Muslim nationalism. The British colonial government, despite its initial reservations on the practicability and soundness of the demand, came around to the viewpoint of the Muslims and agreed to partition India. The Pakistan that came into being had two geographical units separated by 1,600 miles of Indian territory. The Eastern Wing became the independent Republic of Bangladesh at the end of 1971. Pakistan now comprises the West Wing of the Pakistan created in 1947.

The territory of Pakistan now covers 796,095 square kilometres. It borders on Iran to the southwest, Afghanistan to the northwest and India to the east. The southern border is the coast of the Arabian Sea. In 1981, the estimated population was 83.78 million.[1] This population is predominantly Muslim.

Punjab Province

Punjab is one of the four provinces of Pakistan and is located in the northeastern part of the country. It is, on more than one account, the country's most important province. It covers 205,345 square kilometres, which is 25.79% of the territory of Pakistan.[2] It is populated by 47.11 million people, who comprised more than 56% of the estimated national population in 1981.[3] The population density is 229 persons per square kilometre, while the national average density is 105.[4]

The vast amount of agricultural land in Punjab continued to attract and support new settlements until well into the 1950s. It is also important to note that in 1979-80, 12.61 million of Pakistan's 18.8 million cropped hectares were in Punjab. This alone explains the importance of the province to Pakistan, which leans heavily on its agricultural sector. In 1980-81, this sector contributed 29.36% to the GNP.[5]

Clearly, Punjab is an exceptional province and deserves the distinction of being the most important one to the national economy. Its population is the largest of all the provinces and other administrative territories, its contribution to GNP is by far the largest, and it has traditionally played a pioneering role in many areas of national development, including the establishment of cooperatives.

The Subject

The British government in India, as in the other British colonies, tried to popularise the cooperative movement. The reasons for selecting this policy will be explained later. Initially, one important objective of the cooperatives was the expansion of rural credit and the channelling of rural savings for agricultural – and hence rural – development. From 1904 onwards, an elaborate system of cooperative banking had grown which functioned despite limited and more general crises in the country before and after independence.

In 1976 the government of Pakistan introduced fundamental changes in the system. It established a Federal Bank for Cooperatives and thus brought cooperative finance under direct federal control for the first time. My purpose in this paper is to study these changes and how they have affected rural cooperatives in Punjab. The reason for highlighting the importance of Punjab province is, primarily, to show that this case study is important enough to be ascribed wider validity that goes beyond provincial boundaries. Because the sample is so large and vital to the total context, such a general observation is difficult to resist.

This paper is also intended to evaluate the impression that attaining direct federal control over cooperative finance was motivated by one or more of the following:

(a) predominantly political considerations which disregarded the adverse effects of taking control over the cooperative institutions and over the movement;

(b) the desire to assume direct authority over finance available in the cooperative sector of the economy, in order to transfer the large resources held by the Punjab cooperatives to other provinces, notably Sind;

(c) a desire to wrest control over cooperative finance from the traditional rural élite and to create a new élite by exercising patronage; and

(d) a straightforward desire to strengthen and intensify the developmental role of cooperative finance.

This paper does not aim to study or analyse class and power structures in rural Pakistan. Such an undertaking is too large to be treated adequately in a paper of this size, which in any case is devoted to another endeavour, albeit closely related. Only general references shall be made to the class and power structure in order to explain a phenomenon or strengthen an argument, or when this is only possible in such terms.

The aim is also not to study the role of cooperatives in rural development, since the paper considers another dimension. It addresses itself to the overpowering influence of administrative considerations which result in the bureaucratic take-over of what were originally conceived as 'popular' socio-economic institutions. It also addresses itself to the subordination of these to the overriding political interests and the consequent replication of the class and power structures in the character of these institutions.

In concluding this introduction, a few words should be said about the data. There is little published literature on cooperative institutions in Pakistan covering the years since the early 1950s. One therefore has to rely in part on accounts of the experiences of those who have worked closely and directly with these institutions. I have kept in mind that this reliance should not be absolute but corroborative and explanatory, and it is therefore both cautious and discrete.

2. RURAL INDEBTEDNESS: THE REASON FOR ESTABLISHING AND STRUCTURING COOPERATIVE ACTIVITIES

The extent of rural indebtedness, as well as its destructive effects on agricultural production and on Indian rural society, were the subjects of numerous British government studies in the late nineteenth and early twentieth centuries. Some of these studies are referred to here; others are not mentioned either because they are not available or because they do not deal essentially with rural indebtedness or do so only indirectly.

The grave situation created by the disastrous extent of rural indebtedness attracted the attention of the Royal Commission on Agriculture in India in 1927 and of the Punjab Provincial Banking Enquiry Committee in 1929. The British government thus had a fair appreciation of the informal institutions for rural credit, the propensity of and need for agriculturists to get into debt and the usurious nature of private credit (i.e. the hardship involved in repaying it and in collecting it), as well as the harshness of its effects on indebted households, agricultural production and rural society.

Sir Malcolm Darling of the Indian Civil Service brought out a monumental book entitled *The Punjab Peasant in Prosperity and Debt* in 1925, which is perhaps the first knowledgeable analysis of the precarious existence of small agriculturists in Punjab under British rule. In analysing the 'why' and 'how' of rural indebtedness Sir Malcolm wrote:

There are four main reasons why the peasant proprietor is obliged to borrow:

- The small size of his holding and the way it is split up, conditions which make it almost impossible for him to live without getting into debt, unless he is exceptionally frugal and industrious, or has some extraneous source of income.
- His constantly recurring losses of cattle from drought and disease.
- His ingrained improvidence, the effects of which are greatly aggravated by insecurity of crop.
- His extravagant expenditure upon marriage and other domestic ceremonies.

In addition there are two other causes, that make borrowing easy, namely:

- The money-lender and his vicious system of business. The great expansion of credit due to high prices and the inflated value of land.

The first four cases explain why the peasant proprietor must borrow, the last two how he can borrow, and it is the combination of 'must' and 'can' that explains the great increase in debt in the last fifty years. Or, expressing it differently, we may say that the first four causes explain the existence of debt, the money-lender and his system, its continuance and the expansion of credit and its volume.[6]

In doing research, rural credit is classified as long-term, medium-term and short-term. While the purposes for which each of these kinds of credit are used may – and frequently do – vary, another distinction is more important: credit may be obtained for productive or non-productive purposes. It is the near absence of formal sources of agricultural credit and the seemingly convenient facility offered by the money-lender that draws the agriculturist into a vicious economic trap from which he cannot extricate himself. Even his heirs find themselves starting their agricultural careers with the burden of ancestral debts. The uncertain nature of agriculture, the rigid and inflexible demand of government dues, the demands of an inelastic and custom-ridden rural society, the adverse terms of trade for agricultural products (particularly during the Depression between the two World Wars) and, compounding all these problems, widespread illiteracy contributed to the perpetuation of indebtedness and also aggravated it.[7]

In 1932, the Punjab government appointed a 'Committee on Indebtedness' (hereafter called the COI) whose specific objective was to study the earlier reports and make recommendations on the problem of indebtedness. In its report, the COI observed that '... the continued fall in the prices of agricultural produce has made the pressure of debt on the cultivator heavier than it was then and the problem correspondingly more acute'.[8] The report recognised that the institution of the money-lender could not be eliminated and that legislation could at best partially assist in 'controlling' and 'regulating' money-lenders to prevent the repetition of the system's 'worst abuses'.[9] It recommended measures strictly within a context where there could be 'no question of attempting to stop lending of money to impecunious people with little or no security to offer'.[10]

When the COI rounded off its examination of the earlier recommendations and made its own proposals on how best to provide relief to the debt-ridden agriculturists, it observed that 'the Commissions and Committees whose reports we have been directed to study unanimously recommend cooperation as one of the surest remedies, if not the most important, for indebtedness'. It also stated that 'nothing that can be done by Government to encourage thrift should be left undone, since it is primarily the lack of that virtue which leads to perpetual need for credit among cultivators of this Province, and credit, being almost invariably misused, is the fore-runner of chronic indebtedness'.[11]

The COI report made two other important recommendations which are both significant and interesting in so far as they looked far into the future and are no less valid today. Firstly, it suggested that safeguards should be provided against the misuse of cooperative funds by persons with influence in managing the cooperatives. Secondly, it highlighted the need for 'remunerative occupation as an alternative to or in conjunction with agriculture . . .', without which '. . . there will be little prospect of permanent relief from debt'.[12]

In 1929, the Punjab Provincial Banking Enquiry Committee assessed the agricultural debt of the province for that year. It came up with a staggering figure of Rs 1,350 million.[13] Two factors made this figure even more formidable. First, there was an identifiable sharp rise in indebtedness: between 1921 and 1929 the debt had increased by 50%. This increase was found to be related to a sudden rise in the general standard of living, falling prices of agricultural produce and a number of poor harvests.[14] It was related to 'excessively wide credit being combined with excessively dear money'.[15]

Usurious rates may be rather difficult to define, but the money-lender, in order to offset the insecurity of the loans being extended, stepped up the interest rates. The borrower was willing to pay these high rates since he was aware that he was not eligible to receive credit from formal institutions at short notice. While the rates varied from province to province and area to area, they were usually around 18½% in Punjab, but they were considerably higher if the loan was not adequately secure.[16]

The situation as it was in 1929 had developed in a gradual manner and had not escaped the notice of the government. However, the measures initiated by the government to release the agriculturist from the strangulating grip of the money-lender took time to take effect. During this period, the population increased faster than was estimated, the standard of living rose, and prices of agricultural products fell while the operations of commercial banks in rural areas were limited.

The Enquiry Committee found that among all the sources of credit – i.e. money-lenders, agriculturists, the government, the commercial banks and friends or relatives – the banks played a 'negligible' role.[17] This was because the small land-owners' operations were too small to be handled, and the larger operations were too risky in view of the Land Alienation Act, which restricted the transfer of secured land to non-agricultural castes. The most important source, according to the Committee, was the village money-lender, while the agriculturists with large land holdings were quickly beginning to assume the money-lender's role and combine it with their other activities.

The Beginning of the Cooperative Movement

The cooperative movement started to receive government sponsorship around the close of the nineteenth century. Rather than explaining the history of indigenous cooperation as it existed before British rule or before 1904, this paper will study the cooperatives in their more recent form. It will, therefore, not be necessary here to go far back into Indian history.

By the beginning of the twentieth century, the institution of the money-lender had apparently reduced the agriculturist, especially the small one, to crippling economic dependence. Because of the positive experience in Europe with cooperatives, they were strongly recommended as the remedy for the Indian situation, as was highlighted by the official enquiries mentioned above (despite the dissimilarity between the two situations).

The work of the Committee on Cooperation in India, which was appointed in 1915, should be mentioned here because it represents perhaps the most authoritative official government view on the beginning of the Indian cooperative movement. The official view is important because the governments in India before independence and in Pakistan thereafter have sponsored and regulated the cooperatives very closely from the start to the present time. In 1897 and 1899, Sir Frederick Nicholson presented to the Madras government his reports on how the system of agricultural and land banks existing in Europe could be extended to India. In 1900, similar studies were made in the United Provinces. The earliest cooperative societies were established under the Companies Act of 1882, but this Act soon proved unsuitable for the type of societies that were to be organised and developed. Special legislation therefore had to be enacted, and in 1904 the Cooperative Credit Societies Act was promulgated.[18]

It is interesting to note that the first legislation on cooperatives provided for the establishment of 'credit societies'. This fact makes it clear that credit disbursement (and hence the generation of savings) was the most important – if not the only – pressing need which the cooperatives were originally intended to satisfy.

The provincial governments took steps to realise the intentions of the federal law. Although differences in local conditions led to various types of societies and different forms of growth, nowhere 'did the new doctrine fail to strike root'.[19] The report of the Committee provides figures, shown in Table 1, on the growth in number of cooperatives between 1906 and 1912.

*Table 1. Growth of the Cooperative Movement in India: 1906-12**

Year	*No. of societies*	*No. of members*	*Amount of working capital (in Rs)*
1906-07	853	90,844	2,371,683
1907-08	1,357	149,160	4,414,083
1908-09	1,963	180,338	8,232,225
1909-10	3,428	224,397	12,408,312
1910-11	5,321	305,058	23,305,500
1911-12	8,177	403,318	33,574,162

* These are the figures for all of India. The first year excludes information on the Indian Princely States. Capital lent and borrowed between societies has been shown twice in the last column.

Source: Report . . . Committee on Cooperation . . ., p. 4.

The speed with which the credit societies proliferated indicates the need that these apparently fulfilled. The beginning was modest, but the general trends were encouraging. It was in 1927 that Sir Malcolm Darling, at that time Commissioner of Income Tax for Punjab, stated (in his evidence before the Royal Commission on Agriculture in India) that his department had observed that the 'Professional money-lender is gradually reducing his business in the village'.[20] He considered 'the rapid growth of cooperative credit societies'[21] as one of the obvious reasons for this. The expansion of credit and the reasons for this is a large subject in itself: it should therefore suffice to say here that credit expanded at a fast rate, and the professional money-lender found that he was no longer practically the only source of rural credit (the foremost competitor being the larger land-owners themselves, followed by the cooperative credit societies).

In 1912, the original Cooperative Credit Societies Act was replaced by new legislation which provided for:

(a) non-credit cooperative societies which could not be organised under 1904 law, since the latter only provided for credit societies; and

(b) higher tiers of cooperative credit societies (i.e. the Central Cooperative Banks and central banking unions, the latter of which were functioning without any legal provisions and were needed to supervise, finance and control the original credit societies).[22]

In Punjab, the movement was a little slower in expanding than in certain other parts of India, notably Madras and Bombay. The money-lender was well entrenched and clearly saw the new challenge. In 1912, there were 1,749 societies in Punjab, their total menbership being 93,169 with a working capital of Rs 7.3 million. These figures do not, however, tell the whole story. Although all twenty-four districts were covered, in nine of these the total number of societies was less than ten.[23] During the First World War, when prices of agricultural products increased and the money-lender could develop additional avenues of business, solid government support for cooperatives led to their rapid expansion. By 1918, the number of societies had increased to 4,028, and their total membership was 135,027 and working capital was Rs 19.7 million.[24]

At the end of the First World War, the return of the demobilised soldiers to the villages created a climate favourable to the cooperative movement. Liberal ideas, the desire for a better standard of living and resistance to exploitation were demonstrated by the soldiers who had served abroad. The Punjab Usurious Act of 1918 also placed severe restrictions on the money-lenders' opportunities to exploit the agriculturists. Between 1919 and 1929, the movement expanded and grew as never before in the Punjab.[25]

During the Depression in the 1930s, the recovery of debts due to money-lenders led to even more hardships for the agriculturalists. The government introduced legislation to protect them, but since this was also applicable to the recovery of debts due to cooperative credit societies, the rate of recovery for cooperative dues fell to as low as 13.6%.[26]

During the Second World War, the cooperatives took on a new and important role. The government entrusted the movement with the tasks of purchasing wheat and wholesaling sugar, kerosene oil, salt and cloth. For the government, the idea was to use a reliable trading agency that would not aggravate or misuse the crises, while for the cooperatives this arrangement yielded large and reliable profits. The Central Cooperative Banks found these operations far more lucrative than rural credit operations. Thus it was not surprising that the financial institutions of the movement emphasised this more profitable field of operation.[27]

At the time of independence (1947), the Indian Punjab – which became part of Pakistan – had an elaborate network of cooperative institutions, as is shown by Table 2. This table also shows the situation seven years later.

Table 2. Growth of the Cooperative Movement in Punjab after Independence, 1947-54

Type of societies	*Year*	*No. of societies*	*No. of members*	*Working capital (in Rs)*
Provincial banks	1947	1	11,210	40.1 million
	1954	1	10,937	61.9 million
Central cooperative credit societies/banks	1947	50	11,724	61.9 million
	1954	61	14,893	129.4 million
Agricultural societies	1947	9,920	315,081	25.2 million
	1951	11,096	401,765	48.3 million

Source: The Cooperative Enquiry Committee Report, pp. 13 and 18.

Non-Muslims had dominated trade, industry, commerce and banking in the Indian Punjab. When they migrated to India at the time of independence, they left a vacuum that Pakistan was hard pressed to fill. The cooperative infrastructure was chosen to fill the void. The societies and banks handled the purchasing of food grains and husking of rice, the purchasing and ginning of cotton, and the import and wholesaling of cloth on behalf of the government. These were, however, only some of the functions undertaken by cooperatives in the crisis situation: they also helped with initial industrialisation and set up Pakistan's first textile, wool and sugar industries.[28]

The profits from these new operations were sizeable, but vital damage was being done in disguise. Amidst the eagerness to undertake these new profitable ventures, cooperative principles were set aside. The operations of the Central Cooperative Banks became very widely extended, but their dealings were mainly with individuals and, worse than that, with non-members. Trained personnel in the cooperatives began to operate the new ventures, thus leaving a void that was filled by quasi-trained staff.[29] In 1955 the report of the Cooperative Enquiry Committee concluded that 'while the new undertakings helped in restoration of trade and commerce in the country, these not only caused a very heavy strain on the already depleted resources of the Department but also turned their attention from the rural to the commercial side'.[30]

The Structure of Cooperative Banking

The cooperative movement was initiated in 1904 'with the express object of supplying credit to rural masses at a reasonable rate of interest'[31] and to promote thrift. These agricultural cooperative credit societies functioned as 'elementary banks in the sense that these received deposits, advanced loans and opened accounts for their members'.[32] In the course of time, some of these primary societies accumulated more deposits than could be gainfully utilised, while others were short of deposits. As the number of societies grew, it became quite impossible for the government to operate a system for transferring resources from the richer societies to the poorer ones. It was also seen that the Joint Stock Banks were reluctant to advance money to the societies. Secondary cooperative societies therefore had to be created to meet the credit requirements of needy primary societies.

Ordinarily, membership in the secondary societies would have been confined to primary societies. (This was the case only for cooperative banking unions which had small areas of operation.) The Central Cooperative Banks were meant to provide credit to primary societies either in a district or a *tehsil* (an administrative unit of which there are about four to a district). These Banks pursued a policy of selectively admitting individual members, primarily with the object of attracting deposits.[33]

It soon became necessary to establish a balance between the Central Cooperative Banks with a surplus and those with a deficit. To do this, a third tier was added to the banking structure in 1924. The Punjab Provincial Cooperative Bank was created as the 'apex financial institution which could coordinate the finances of secondary institutions, receive surplus funds from certain central banks and advance loans to those which needed financial assistance'.[34] In addition to the secondary societies (i.e. the Central Cooperative Banks and banking unions), certain primary societies also became affiliates of the Punjab Provincial Bank.

One other kind of cooperative financial institution was the mortgage bank. Experience with the performance of these varied from province to province. These banks provided long-term loans for redeeming mortgages, improving land and methods of cultivation, liquidating old debts and purchasing land in special cases.[35] In the Punjab, some of the mortgage banks relied on their own resources, while others drew on the Central Cooperative Banks, as did the ordinary primary societies. The mortgage banks had only a fractional impact on total cooperative finance in the Province.

This three-tier cooperative banking structure functioned to balance out the varying needs and capabilities of the affiliated primary and secondary societies and operated as such until 1976. This simple system, which is illustrated in Figure 1, was arranged in a loose hierarchical order with each tier depending and drawing upon the others to the extent that it needed to and the others could accommodate. There were no elements of regulation or control, and in a sense each tier was autonomous.

The internal structure of the primary, secondary and apex cooperative societies was essentially similar in so far as these had very widely based electorates for choosing their managing committees. All these tiers functioned under the Cooperative Societies Act of 1925, which was a modified version of the 1912 legislation mentioned earlier. The 1912 legislation was repealed by the 1925 law, but a number of its aspects were maintained by Section 72 of the 1925 law for the societies already existing under the repealed law. Both the law and the regulations emanating from it were revised and amended from time to time, but the basic structure remained essentially unchanged.

All the cooperative societies were (and still are) required to be registered with the Registrar, who was the principal provincial government officer assigned the responsibility of developing, supervising and regulating cooperatives in a given province. He was (and is) the head of the bureaucracy dealing with cooperatives and was able to exercise vast powers under the laws on cooperatives.

At the time of its application for registration, each society was required

Provided credit control throughout the economy and advanced funds to the Provincial Cooperative Banks for cooperative credit; also inspected, and ensured that regulations, and established policy guidelines were being observed.	STATE BANK OF PAKISTAN	
Held deposits from the Central Cooperative Banks, acted as a balance among the Central Cooperative Banks in the provinces, provided a link between the cooperative and national money markets, and promoted cooperative activities.	PROVINCIAL COOPERATIVE BANKS (apex societies, established in 1924)	third tier
Attracted deposits from cooperative societies and promoted credit transactions with these societies (and with individuals); also promoted cooperative activities and cooperative education.	CENTRAL COOPERATIVE BANKS and CENTRAL BANKING UNIONS (secondary societies, established in 1912)	second tier
Generated savings, absorbed and utilised credit, and obtained credit to achieve individual or collective objectives (members were individuals engaged in agriculture).	AGRICULTURAL COOPERATIVE CREDIT SOCIETIES (primary societies, established by laws passed in 1882 and 1904)	first tier

Figure 1. The Three-Tier Cooperative Banking Structure in Pakistan as it Existed until 19 October 1976

to submit a copy of its proposed Rules of Business (i.e. its bye-laws) to the Registrar. These had to be in line with the government's laws, rules and general policies for cooperatives. Although each cooperative society was free to frame its own rules within these broad limits, they generally drew upon standard guidelines. In the primary societies, the managing committees are elected directly. The committee members hold office for a specified period of time and are responsible for running the society in accordance with the objectives set out in its bye-laws.

In order to understand how the secondary societies functioned, the constitution of one of them – the Central Cooperative Bank in Lahore – will be discussed here (this bank was dissolved in 1976). The Bank's functioning was broadly typical of similar secondary societies. Each member had one vote in the general meeting of the Bank, and the membership was open to all registered cooperative societies in the area of operation of the Bank, those individuals who sponsored the Bank at the time of its registration, and all other individuals who were approved for admission as members by the managing committee of the Bank. All members were required to have a financial interest in the Bank equivalent to at least one share. In 1961 the value of each share was Rs 25.[36]

Given what is to be discussed later in this paper, two important aspects of banking operations deserve mention here. First, the objectives of the Central Cooperative Bank in Lahore will be considered; second, some functions of its managing committee will be explained. The performance of a Central Cooperative Bank can be best evaluated by referring to these two functions. The objectives listed in the Bank's constitution were: to facilitate the operations of registered cooperative societies; to advance loans to individual members for 'necessary purposes', subject to certain limits; and to grant loans to non-members on certain specified terms and conditions.[37] Its objectives also included supervising and auditing registered cooperative societies which had financial dealings with the Bank; providing education about cooperative activities to members of such societies; and taking 'other measures designed to improve the work and extend usefulness of such societies'.[38]

The functions of the managing committee of the Central Cooperative Bank in Lahore included examining the maximum credit limit fixed for each cooperative society by the Registrar or his subordinate officials, and the committee could reduce this limit but could not raise it. It could also determine the conditions on which loans were advanced to individual shareholders. It had the power to decide on the repayment periods for loans and their interest rates and to arrange for the recovery of loans and interest.[39] Within the limits of its bye-laws and those prescribed by the Registrar, the Bank had a fair degree of operational independence.

The Punjab Provincial Cooperative Bank was established in 1924.[40] Its objectives were largely the same *vis-à-vis* the secondary cooperative societies (and also *vis-à-vis* some primary societies which became directly affiliated to it) as were the objectives of the Central Cooperative Banks *vis-à-vis* the primary societies. In addition, it aimed to act as a 'balancing centre', in financial terms, for the cooperatives in the province.[41] The functions of its executive committee, which sat for a term of three years, were essentially the same as those of the managing committees of the Central Cooperative Banks.[42]

The regulations for membership of the Punjab Provincial Cooperative Bank and its executive committee differed from those of the Central Cooperative Banks. Membership of the former was open to all cooperative societies in the province which owned at least one share of the Provincial Bank. The Registrar and Chief Auditor of Cooperatives in Punjab province, as representatives of the government, were on the executive committee by virtue of the offices they held.[43] The Registrar was the *ex officio* President of the Bank. He presided over the general meeting of the Provincial Bank and over its executive committee.[44]

The general meeting of the Punjab Provincial Cooperative Bank included all *ex officio* and appointed members and the members representing the cooperative societies, who were elected at the district meetings.[45] Thus there was an element of indirect representation. Meetings of all the member cooperative societies in each district were convened to elect delegates for the general meeting of the Provincial Bank. One delegate was elected for every fifty member societies or less.[46] The general meeting elected the members of the executive committee (one for each district), discussed the financial situation of the Bank and declared dividends, received and considered the audit reports.[47] The important powers of approving the budget and fixing a maximum limit on liabilities that could be incurred during the next year could be exercised by the general meeting only with the approval of the Registrar.

The most significant aspect that demands emphasis here is the provincial government's direct control over the Punjab Provincial Bank through its President and appointed members. The provincial government, through the Registrar, exercised extensive powers to control and regulate all types of societies, including the Provincial Cooperative Bank. This is in line with the original thinking of the British government at the time when the cooperative system was initiated. While the British ruled India, they always placed very strong emphasis on government sponsorship of the cooperatives – without which, it was felt, these would fail to grow and would be stunted by individual interests and personal motivations.

E.M. Hough made a scholarly study of cooperatives in India in 1950. He wrote that:

> official nurture is not the ideal method of sustaining a cooperative movement, but in the Indian context the choice was, as it has been largely ever since, between a government initiated and government fostered effort and leaving the impoverished and often apathetic people without the alleviation of the wretchedness which most agree, cooperation can bring about. What has, however, been imperfectly realised in general is the vast responsibility which the underwriting of the cooperative effort involved and implied. There was no overpowering obligation to start the movement in the absence of full conviction as to its possibilities but, having started it, there was, and is, an inescapable moral responsibility for its development on sound lines. That the responsibility has been discharged with varying degrees of inadequacy must be apparent to any serious student of the movement.[48]

This extract admirably sums up the situation. That the movement was neither spontaneous nor popularly launched should be all too obvious from the discussion so far. However, it would not be entirely correct to think that the British government had many alternatives to establishing cooperatives in 1904. The problem of rural indebtedness and of its effects on agriculture and on rural society meant that the British government could do little else. As was already mentioned, the numerous government enquiries had concluded that cooperatives were the single most important solution to the problem. Cooperatives thus became a development-oriented relief programme initiated by the government. The will of government officials to effectively develop cooperative efforts need not be doubted here, but it seems that while government officials created the societies, they did little in terms of creating a genuinely popular movement. Yet the number of societies, the memberships, the amount of cooperative funds and the cooperative network continued to expand, and that process is continuing even now. Such a situation might seem to be inherently inconsistent, but hopefully further discussion will shed some light on this point.

In closing this section, it should be pointed out that cooperative efforts in the informal sector have deliberately been kept outside the purview of this discussion. Apart from the fact that such efforts generally remained at a low level, they also remained confined to dealings with informal and non-government sources of finance. At best, cooperative banking could deal with these informal and unregistered societies as they did with individuals, because these societies were not provided for in the cooperative laws.

3. THE FEDERALISATION OF COOPERATIVE BANKING

The adoption of the concept of cooperation as a government policy and the background to that decision was briefly reviewed in the previous section. The growth in cooperative activities from 1904 to 1976 was described, and in so doing it was shown that first the British and subsequently the Pakistan governments tended to use the cooperative infrastructure to implement some of their new programmes and also to perform some of their routine operations. It was also emphasised that the cooperative institutions which provided finance took on new, but not strictly cooperative, functions. The most important point, however, was that the government had direct control over each tier of the three-tier banking system.

It was within this setting that on 9 October 1976, the President of Pakistan, Mr Zulfiqar Ali Bhutto, promulgated *Presidential Ordinance* No. XL to federalise cooperative banking. (An ordinance, rather than some other form of legislation, was found necessary because the National Assembly was not in session, and the President was 'satisfied that circumstances exist which render it necessary to take immediate action', as was stated in the Preamble of the Ordinance.) Although cooperative activities were supposed to be dealt with by the provincial governments under the 1973 Constitution, the provincial assemblies had previously passed resolutions authorising the Federal Parliament to legislate on and regulate cooperative banking (as the Preamble of the Ordinance also stated).

The Ordinance made legal provision for the following:

(a) establishment of a corporation to be called 'the Federal Bank for Cooperatives';[49]

(b) subscription to the share capital of the new Federal Bank exclusively and entirely by the government, i.e. by the federal government, the State Bank and the four provincial governments;[50]

(c) reorganisation of the Provincial Cooperative Banks;[51] and

(d) dissolution of the secondary cooperative credit societies (i.e. the Central Cooperative Banks and the Banking Unions) and provision for their undertakings to be transferred to and vested in the provincial cooperative bank of the province within which such cooperative banks are registered.[52]

Before describing the circumstances which led to federalisation and the manner in which the new law was enforced, a few words should be said about the new cooperative banking structure. This sequence of description is preferred, because an explanation of the new organisational set-up will hopefully help in gaining a better understanding of the old one and of the motivations for changing it (see points [a-d] on page 2).

Under Section 17(2) of the *Presidential Ordinance* of 1976, which is still in effect, the Federal Bank for Cooperatives exercises the powers to:

(i) 'make secured loans and advances to provincial cooperative banks, multi-unit cooperative societies and, subject to the regulations framed for the purpose, to the officers and staff of the Bank';[53]

(ii) 'assist the Federal Government and the Provincial Governments in formulating schemes for development and revitalisation for the cooperative movement in the country in general and the Provincial Cooperative Banks in particular';[54]

(iii) 'assist provincial cooperative banks in preparing their seasonal and developmental loaning programmes and conduct appraisal and undertake feasibility study of projects covered by such loaning programmes';[55]

(iv) 'encourage the development of special cooperative projects the objects or area of operation of which may extend to more than one province';[56]

(v) 'organise training in cooperation and cooperative banking for the employees of the provincial cooperative banks and other cooperative societies';[57]

(vi) 'ensure proper utilisation of loans obtained from the Bank';[58] and

(vii) 'carry out research on problems of rural credit and on such other matters as have a bearing on the development of the cooperative movement in the country'.[59]

Besides these important powers, the Federal Bank also has the power to inspect the four Provincial Cooperative Banks and to lay down policy guidelines and give directives with regard to banking business. It may even supercede the Board of Directors of a Provincial Cooperative Bank. Acting through the State Bank of Pakistan, the Federal Bank also has the power to prohibit a Provincial Cooperative Bank from accepting deposits or to restrict the acceptance of deposits when it is felt that a Provincial Cooperative Bank is acting to the detriment of the interests of the public, the depositors or itself.

The composition of the Board of Directors of the Federal Bank ensures that the federal government has a large representation on it. Only five of the directors who are appointed to it are not government officials. The cooperatives themselves do not elect representatives to the Board (as they do to the Boards of the Provincial Cooperative Banks). Thirteen of the eighteen directors are *ex officio*: i.e. they include the Governor of the State Bank (one member), all the directors of the State Bank (six members), the Managing Director of the Federal Bank and one representative of the federal Ministry dealing with cooperatives (two more members). Two directors are taken from each province, and one of each of these is not a government official. The federal government additionally appoints one person as director who is also not a government official. Thus the breakdown of the Board is as follows:[60]

- nine directors holding other official positions within the federal government;
- four directors holding other official positions in the four provincial governments; and
- five directors who hold no official positions in the federal or provincial governments but are appointed by the Federal Government either directly or on the recommendations of provincial governments.

The composition of the Board obviously shows the following aspects of cooperative activities in Pakistan.

(a) The government of Pakistan has complete control over the management of the Federal Bank. Even in the unlikely event that the four official directors from the provinces were to join with the four directors from the provinces who are not government officials, the government of Pakistan would still be able to put across its views. Such an eventuality is, however, quite unlikely, since the provincial viewpoint can only be put forward within recognised limits.

(b) Normally, the five directors who do not hold official positions are drawn from among those who are known to be active and prominent in cooperative activities. They are in no way dependent upon an electorate of members of cooperatives in the provinces by which they are nominated.[61] The fact that they are appointed rather than elected leads them to remain independent of the views and pressures from the cooperatives in their provinces.

(c) There is a high level of government influence and 'bureaucratisation' at the policy-making level.

As was explained in section 1 above, until 9 October 1976 the Provincial Cooperative Banks were the apex financial institutions in the cooperative structure. Since then, this has no longer been the case. In the provinces, the Provincial Cooperative Banks are now the upper tier in a two-tier system, and all the primary societies deal directly with them. The Provincial Banks are now similar to the provincial head offices of any other commercial bank operating with a network of branches. The former Central Cooperative Banks and banking unions, which used to be the most important tier in cooperative finance, are now the branches of the Provincial Cooperative Banks and have no independent or distinct identity. The local character of the Central Cooperative Banks has been lost: their successors-in-interest are bank branches which are not familiar with and are cut off from the local environment in which banking operations take place.

In Pakistan before 1976, cooperative banking had a 'two tier system in Sind and the Northwestern Frontier Provinces and a three-tier system in other areas'. Thus the two-tier cooperative banking system was not new: it already existed in two of the four provinces. 'In the two-tier system the primary societies were directly affiliated with apex banks, while in the three-tier system the apex banks were at the top, the central cooperative banks or central multi-purpose societies were in the middle and the primary societies at the base.'[62] It is, however, not merely the elimination of one tier but the effect of this change and the essential characteristics of the new structure which provokes both curiosity and interest.

On 10 July 1982, I was able to have a long and interesting discussion with two senior officials in the Cooperatives Department in Punjab province. Both of them had been working with cooperatives in Punjab for the last thirty years and had held high positions throughout the periods before and after federalisation. At the time of the discussion, one of them was a top cooperative bureaucrat in the Punjab government; the other was a high official in the Federal Bank for Cooperatives. More importantly, however, the latter had held a key appointment in cooperatives in Punjab during federalisation. The information provided to me was, of course, an account of the officials' own personal impressions; nevertheless, it was the actual experience of those who participated in decision-making and who were exposed to the important 'behind-the-scenes' factors that led to a drastic reorganisation of cooperative banking in Pakistan. As was stated in section 1, one must be cautious about relying on such information, but in a sense it is necessary material for analysing and understanding government data in its true perspective.

During the discussion with these two officials, one could not escape the impression that for them, federalisation was intended to and actually did affect cooperative finance in Punjab more substantially than in all the other provinces. Punjab province was (and still is – see point [b] on page 2) considerably more developed in terms of cooperative institutions and operations, as is evidenced by the information in Table 3.

Table 3. A Comparison by Province of the Development of Agricultural Cooperative Societies Immediately before Federalisation

1975-76	*Punjab*	*Sind*	*N.W.F.P.**	*Baluchistan*
No. of societies	12,579	421	2,672	79
No.of members	604,000	80,000	116,000	2,000
Credit (in millions of Rs)	79.90	5.15	6.78	negligible

* Northwestern Frontier Province.

Source: *Agricultural Statistics of Pakistan, 1980*, Ministry of Food and Agriculture, Government of Pakistan, 1981, p. 137.

The performance of the Provincial and Central Cooperative Banks in other provinces, notably in Sind and Baluchistan, was in marked contrast to their performance in Punjab. In comparative terms, however, both the performance and impact of the Punjab Central Cooperative Banks on the rural economy were far wider and also far deeper. The administrative infrastructure in Punjab had also been considerably more developed since before independence. The Central Cooperative Banks had been the most vital link in the cooperative credit structure before federalisation.

The two senior officials of the Punjab Cooperatives Department observed that the State Bank of Pakistan was exceedingly critical of the commercial operations of the Central Cooperative Banks outside the cooperative sector. It prescribed restrictions on cooperative credit, but for a long time Punjab province resisted the State Bank's attempts to assert its authority as the main credit planner for the economy.

At a later stage, the officials observed, the State Bank managed to assert its authority to inspect the Provincial and Central Cooperative Banks. This aggravated the situation: the State Bank's inspection revealed not only that there were irregularities but also that the commercial operations of these banks were not conducted along the secure lines characteristic of commercial banking. These banks' hazardously insecure operations became the justification for further State Bank intervention. In 1958, Punjab had agreed to and asked for the appointment of a Banking Advisor from the State Bank. This appointment seems to have generated intense ill will, and the hostile atmosphere pre-empted all chances of an objective working relationship. The intention here is not to apportion blame for the lack of good working relations: this situation is mentioned only because the two officers felt very strongly about it. The State Bank had further cause to complain when the Banking Advisor was removed from office under rather unpleasant circumstances within a year of his appointment.

A word should be said here about what the two senior officers told me about Sind province. Cooperative institutions in Pakistan, and especially the Central Cooperative Banks, were the political havens of the influential elements in rural society. There was an undefined but clearly discernable connection between large land-owners and control over the Central Cooperative Banks, and both of these kinds of control opened doors to political power. Those exercising this control invariably had political ambitions. Cooperative banking gave them avenues to exercise tremendous patronage, which helped in building political careers. In Sind, as in Punjab, the Provincial and Central Cooperative Banks were strongholds of the rural élite. While it may be true that they did not owe their wealth and influence to their control over those banks, the latter tremendously strengthened their domination in rural society, which is essentially factional in composition.

When Mr Bhutto started his political campaign against the government of Field Marshal Ayub Khan in 1966, he faced hostility – or at least indifference – from the rural élite. In Sind, the province where Mr Bhutto owned large estates, he ran into a wall of opposition. His foremost opponents and those who supported the government in rural Sind also controlled the Central Cooperative Banks, and Mr Bhutto soon got a fair idea of the immense political power that this entailed for the incumbents. The manifesto of Mr Bhutto's party, the Pakistan People's Party, therefore understandably included a proposal, *inter alia*, to reorganise the cooperative banking structure. This fitted well into his programme of promoting social justice and redistributing economic opportunities to make them more equitable. This proposal was put forth owing to the fact that the cooperative societies and banks tended, by and large, to be inequitous in distributing benefits. In fact, they truly replicated the distributional and power structures in the society in general and in rural society in particular, so that the benefits they distributed were largely monopolised by the dominant factions.

Soon after assuming power as President in December 1971, Mr Bhutto brought about the first change in the cooperative banking structure. A Presidential order was promulgated on 15 March 1972[63] which put the following important changes into effect:

(a) All individual members of the Provincial and Central Cooperative Banks were expelled. They were reimbursed for the bank shares they held.[64]

(b) All members of the managing committees of these Central and Provincial Banks who had held office for two consecutive terms were removed from their positions and became ineligible for re-election for a specified period.[65]

(c) If the number of members who lost their seats on managing committees exceeded one third of the total membership of the committee, the latter was dissolved and replaced by an administrator appointed by the government until a new committee was elected.[66]

(d) Persons who were engaged in trade as a profession became ineligible to remain or become members of agricultural credit and agricultural marketing societies.[67]

The Presidential order appears to have been clearly pointed in an unmistakable direction. The idea behind it was to overthrow the class which had used or misused the cooperative credit institutions as personal fiefs to strengthen and underwrite their own dominant role in rural society. That this was the intention was confirmed by the effect of the order. The official who held a key appointment in the cooperatives informed me, during a meeting, that in Punjab all of the twenty-nine Central Cooperative Banks were affected by the order: all the managing committees were dissolved as a result of removal of the old guard. He also said that new elections were held amid fierce politicking. As a result, nominees of the political party in power gained effective control over the managing committees in all the Central Cooperative Banks in Punjab (except Jhelum District).

President Bhutto may have been motivated to take his actions by a genuine desire to give cooperative banking a new orientation, but in the process he seriously hurt the feudalistic old guard, who had withheld their support from him at a time when he asked for and needed it. One cannot help feeling that although it may be simplistic to explain the beginning of a certain process in terms of revenge and bitterness, this explanation seems to strengthen points (a) and (b) on page 2. However, federalisation came fifty-four months after the old guard had been removed and replaced.

The key official of the cooperatives was of the opinion that the Punjab Provincial and Central Cooperative Banks were functioning well and that it was the weakness of the Sind cooperative banks which corroborated and deserved the criticism of the State Bank. The Sind government was unwilling to guarantee the borrowing of its Provincial Cooperative Bank, and the State Bank did not find the Sind Bank sound enough to be eligible for large credits. That this was the case is borne out by Table 4, which shows cooperative finance in Punjab and Sind in 1973-74, i.e. approximately the time presently under discussion. It also indicates the relative financial soundness of cooperative banking in the two provinces. Even though this takes us back to hypothesis (b) on page 2, the only – and indeed the best – course is to examine the performance of cooperative finance in Punjab and in the other provinces, notably Sind. Table 4, taken together with Table 3, highlights the inter-provincial disparities, but it provides no further information.

Table 4. Comparison of Cooperative Finance in Punjab and Sind Provinces, 1973-74 (in millions of Rs)

	Cooperative finance	
	Punjab	*Sind*
Share capital	45.14	25.42
Reserves and other funds	41.40	13.85
Loans and deposits held	140.65	75.94
Credit advanced	208.61	10.30
Profit during the year	2.93	0.388

Source: *Agricultural Statistics of Pakistan, 1975*, Ministry of Food and Agriculture, Government of Pakistan, 1981.

Table 4 seems to validate the pride which Punjab took in the vigorous viability of its Provincial and Central Cooperative Banks. During this period, the State Bank (according to what I was told by the key official) recommended a merger of the Central Cooperative Banks into the Provincial Cooperative Bank rather than their dissolution. Even a merger was considered 'inadvisable' by the provincial government, since it tended to undermine the cooperative character of the movement.

The legislation for federalisation was sent to all the provinces in order to learn their views before it was enforced. The Punjab Cooperatives Department opposed the proposed legislation. (I shall not divulge the deliberations of the provincial cabinet, since these have a confidential status which must be respected.) A Working Paper prepared by the Cooperatives Department[68] adequately sets out the views of the Department, which was the official and specialised agency for developing, controlling and managing cooperative institutions.

The proposed legislation was opposed by the cooperative bureaucracy in Punjab on the grounds mentioned below.

(a) The resolution to authorise the Federal Parliament to regulate and legislate on cooperative banking was passed by the Punjab Legislative Assembly on 30 March 1976. At that time, a number of members – from all of the political parties – were concerned that the cooperative movement might come under the control of the federal bureaucracy as a result of the proposed law. In response to this concern, the Minister of Finance assured these members of the provincial Assembly that the new law would provide for 'decentralization and democratization'.[69]

(b) The new structure was to 'eliminate local leadership'[70] and deprive most of the people involved in cooperative activities of participating in decision-making.

(c) The new structure would 'retard capital formation at the grass roots'[71] and would be of little help to small farmers. Members of cooperatives who had small land holdings would have little say in activities at the level of the Provincial Cooperative Bank.

(d) The proposed structure would allow the Provincial Cooperative Bank little freedom to take initiatives *vis-à-vis* the most vital powers concentrated in the Federal Bank. The latter, in formulating policies, might not give due consideration to special local and regional requirements.

(e) The proposed structure did not recognise the inter-provincial differences in population, in the numbers of cooperatives and of members in societies, and in the volume of operations undertaken by these. If these were recognised, Punjab would have deserved larger representation on the Board of Directors.

No noticeable modification was made in the proposed law. The Provincial Coordination Committee, in its meeting held at Murree on 28 July 1976, recommended that this legislation be enforced. The *Presidential Ordinance* on federalisation was promulgated on October 9 and enforced on 19 October 1976.

The manner in which the new law was enforced deserves attention. In a letter to the government dated 4 October 1976, the Registrar of Cooperatives had warned that the dissolution of the Central Cooperative Banks could create panic amongst the depositors and the employees of the banks and might create a rush for withdrawals of deposits.[72] Although this possibility was discussed with the Minister, no action was considered possible or necessary.

Officials of the Cooperatives Department were assigned to various banks to physically enforce the dissolution and to change the character of the Central Cooperative Banks and Banking Unions. Magisterial and police assistance was also sought to physically enforce the new system.[73] The task assigned to the officials deputed by the Department amounted to a virtual take-over of the banks. Detailed instructions[74] were given to these officials to ensure that on the appointed day, all business was closed so as to facilitate a new beginning under the new system. Special police guards were requested to be present at the banks for fear that depositors might create a problem.[75]

The dissolution took place on 19 October, and on 29 November 1976 a certain percentage of the deposits could be withdrawn from the new branches of the Provincial Cooperative Bank. The instructions issued by the latter on that date were prepared after a study of the realisable assets and liabilities of each Central Cooperative Bank. Depending on the viability of each bank, the permissible percentage varied between 0% and 88%.[76] No government guarantee was extended to the depositors under the new law, as was done when the commercial banks were nationalised in 1974. Thus no withdrawals were allowed, nor was any assurance handed out to the depositors until one month and eleven days after dissolution. Even then, a depositor could withdraw only a specified percentage of his total deposit. This percentage was revised from time to time as the amount of realisable assets was more clearly evaluated. By January 1977, some of the dissolved banks were permitted to pay back their depositors completely.

The General Manager of the Punjab Provincial Cooperative Bank informed me, during a discussion in his office in Lahore on 27 July 1982, that there were still three banks whose depositors have not yet been paid back. All the other Central Cooperative Banks had fully discharged their liabilities. The Manager seemed to take considerable pride in this achievement: according to him, this had been possible only because of the continued confidence of the cooperatives' members, who did not rush to the banks, and because of the sound investments in real estate made by the dissolved banks during the past fifty years or so.

The General Manager did, however, complain about the discriminatory government policy, which was inadvertent to the effect that such unilateral and abrupt restructuring would have on a popular movement. He felt that the government should have guaranteed the discharge of liabilities, as it did when the commercial banks were nationalised in 1974. He believed that this omission seriously undermined the confidence of the people in cooperative institutions. In his opinion it was only the resourcefulness of the officials in the Cooperatives Department, and the deep confidence that the members of the cooperatives put in them, that saved the structure from collapsing. He felt that the high public standing of the official agents in the field had rescued the cooperative institutions. (In fact, he kept repeating to me that even in those dark days, when no withdrawals were possible and deposits were frozen, he was able to attract deposits amounting to Rs 0.5 million to his branch; at the time he was Manager of the dissolved Multan Central Cooperative Bank which, after federalisation, had been turned into a branch of the Punjab Provincial Cooperative Bank.)

The Punjab Provincial Cooperative Bank, operating through its branches, is now the only cooperative bank functioning in the province. It is interesting to note that the Federal Bank for Cooperatives is *not* a cooperative institution and was *not* established under the cooperative law. It is a company and was brought into existence through special legislation (see page 16). In a certain sense, the three-tier system still exists, so that the new structure is in no way simpler or more streamlined. The lines along which the cooperative banking structure has been organised, since it was enforced on 19 October 1976, are shown in Figure 2.

The senior cooperative official gave the distinct impression that the Federal Bank for Cooperatives used its vast powers to cripple the operational efficiency of the second tier and reduce it to total dependency. Before federalisation, the Provincial Cooperative Banks borrowed directly from the State Bank and passed on the funds to the Central Cooperative Banks for their credit programmes. At present, the Federal Bank borrows from the State Bank and adds its own handling and agency charges to the lending rate of the latter when it passes on the funds to a Provincial Cooperative Bank. The officials in the Cooperatives Department (and many

Exercises the functions listed in Figure 1 (i.e. the same functions as before federalisation), except that regulatory controls are now more direct and firm.	STATE BANK OF PAKISTAN	
Forms a link between the cooperative and national money markets, regulates and establishes policy for cooperative credit etc.	FEDERAL BANK FOR COOPERATIVES (apex society, establishment enforced 19 October 1976)	
Functions as provincial head office for the branches in the province; also finances credit programmes through its own resources and through loans from the Federal Bank for Cooperatives.	PUNJAB PROVINCIAL COOPERATIVE BANK (establishment enforced 19 October 1976)	second tier
Disburses credit through bank staff on the recommendation of officials in the Cooperatives Department.	BRANCHES OF THE PUNJAB PROVINCIAL COOPERATIVE BANK (establishment enforced 19 October 1976)	
Exercises the functions listed in Figure 1.	AGRICULTURAL CREDIT SOCIETIES (primary societies)	first tier

Figure 2. The Cooperative Banking Structure in Pakistan as from 19 October 1976

of those to whom I spoke held senior positions) were convinced that federalisation was intended to take away control over cooperative finance from the provinces and concentrate it at the federal level. Such an intention has a certain smell of conspiracy, but this could well be a simplistic explanation. Since the provincial cooperative bureaucracy generally believed that there *was* a conspiracy, co-existence and cooperation with the Federal Bank was fraught with problems. In the initial years, there was striking unanimity in the disapproval of the new system and in the condemnation of the role of the Federal Bank *vis-à-vis* Punjab province.

Since the management and operations of cooperative institutions are highly 'officialised', the way the bureaucracy receives, reacts and adapts to a new idea largely determines the future usefulness and success of that idea. This certainly applies to an idea such as federalisation, which the cooperative bureaucracy in Punjab opposed but stopped resisting when it became a *fait accompli*. However, it was never quite accepted. In the initial years, and more specifically during the tenure of the first Managing Director of the Federal Bank (i.e. the Banking Advisor whose appointment was referred to on page 21), there was an atmosphere of mutual suspicion, lack of understanding and accommodation leading to an unsatisfactory working relationship. I must emphasise that it is certainly not my intention to apportion responsibility for this, but this impression is inescapable.

Federal control over cooperative banking was thus inaugurated amidst an atmosphere charged with mutual distrust, low confidence in the movement, apprehension about the future and a sense of loss among those who controlled the dissolved Central Cooperative Banks. Those who believed in decision-making at the local level, where cooperative finance was generated, needed and utilised, also shared these feelings. Senior officials in the Cooperatives Department were clearly of the opinion that this was the true nature of the situation in October 1976.

4. THE IMPACT OF FEDERALISATION ON RURAL COOPERATIVES

The restructuring of cooperative banking as a result of federalisation, the circumstances leading up to it and the way the change was carried out were described in the last section. This background information was sketched in order to facilitate a study of the impact of federalisation on rural cooperatives. However, two preliminary observations should be made first.

(a) Through the establishment of the Federal Bank for Cooperatives, cooperative banking was brought under the direct control and regulation of the federal government for the first time. Until then, the Provincial Cooperative Banks were the top tier in the cooperative system, and hence most decisions on cooperative credit (except for those slightly restricted by limits imposed on loans from the State Bank) were taken at the levels of either the Central or the Provincial Cooperative Banks. Federalisation transferred most of this decision-making to the federal level. Previously, the Provincial Cooperative Banks provided the vital link between the Central Cooperative Banks and the national money and credit markets. This link has now been eliminated, since the Provincial Cooperative Banks are now connected to the national money market through the Federal Bank. As far as cooperative credit is concerned, the State Bank now deals only through the Federal Bank for Cooperatives.

(b) The new law did not alter any organisational or operational aspects of the primary agricultural cooperative societies, but it drastically restructured the financial institutions on which most operations of these societies depended. It is only logical that this would lead to a quantitative or/and qualitative change in the operations of these societies.

Let us first examine the trends in cooperative credit before federalisation. In order to show the real importance of credit in the rural cooperative sector, some figures are presented in Table 5 that should demonstrate the relative importance to the rural population of the various types of cooper-

Table 5. Comparative Strengths before and after Federalisation of the Various Types of Agricultural Cooperative Societies in Punjab Province

	Credit	*Service*	*Development*	*Marketing*
On 30 June 1976				
– No. of cooperatives	12,658	1,923	522	66
– No. of members	633,674	95,456	57,573	4,786
On 30 June 1981				
– No. of cooperatives	20,054	1,858	468	32
– No. of members	780,812	72,129	47,794	3,358

Source: For 1976, *Annual Report on the Working of Cooperative Societies in the Punjab 1975-76*, Government Press, Lahore, 1979, pp. 7-14. For 1981, *Cooperatives in Punjab – an Overview*, Punjab Cooperatives Department and Punjab Cooperative Union, Ferozons, Lahore, 1981, p. 3.

atives. The first set of figures relates to 1976, which was the year in which federalisation occurred. The second set relates to 1981, when the impact of federalisation had stabilised and firmed up. This comparison of the major types of agricultural cooperatives shows that the numbers and memberships of all types of societies, except credit societies, has declined since federalisation. This suggests that the credit societies continue to serve their purpose – i.e. they are still a satisfactory channel for a vital agricultural input. One must hasten to add, however, that this is only one possible conclusion: another important and possible explanation could be that while the number and memberships of the credit societies grew, some of the older societies became dormant due to unsound operations and defaults in repayments. One should add that this is quite common, and the cooperative statutes specifically refer to such ailing societies. (The classification by the government of societies in terms of their financial strength dates back to the 1920s.)

The financial viability of societies is thus an important part of each annual report on the cooperatives. The 12,658 credit societies that were in existence on 30 June 1976 could be broken down into six classes as follows.[77]

– Class A societies, which could function independently and had never defaulted on repayments; these societies could approach cooperative banks directly without departmental recommendations:	547
– Class B societies, which were short of funds and had defaulted to the extent that less than 33% of their members were in debt; these societies had not paid interest or principal for 12-24 months:	2,506
– Class C societies, which had defaulted on repayments but were capable of maintaining accounts and recovering loans and were generally sound:	7,752
– Class D societies, which were dormant after defaulting on repayments for at least three years and were not eligible to receive further loans:	427
– New societies which had been operating for less than a year and therefore were not classified:	520
– Societies which were being liquidated:	906
Total	12,658

Another comparison which helps to identify trends and supplements the data in Table 5 is a comparison of the volume of cooperative credit from year to year before and after federalisation. Table 6 shows the cooperative credit disbursed in the agricultural sector three years before and three years after federalisation.

Table 6. Cooperative Agricultural Credit: a Comparison of the Volume before and after Federalisation (in millions of Rs)

Pre-federalisation		*Post-federalisation*	
1973-74	132.63*	1977-78	111.80
1974-75	70.56	1978-79	334.23
1975-76	79.90	1979-80	580.02

* Includes special federal funds for repairing damage done by floods.

Source: *Agricultural Statistics of Pakistan, 1980*, pp. 137-138.

Trends in Cooperative Agricultural Credit

As is shown by Table 6, the volume of cooperative credit has consistently increased over the years, but it would be too hasty to conclude that this is solely attributable to the federalisation of cooperative banking. It is important that one should also look at the government policies on agriculture and agricultural credit. In section 1, some basic statistics were provided to show the importance of agriculture for Pakistan's economy. Agricultural development is also important for producing sufficient food grains for the growing population and for boosting exports, since Pakistan is essentially an exporter of primary products. Table 7 is highly illustrative of how the credit policy works.

Table 8 shows the cooperative performance of the three main credit agencies in Punjab province and also shows how this compares with credit disbursement in other provinces. It is clear from this table that the Federal Bank for Cooperatives participated very significantly in credit disbursement in Punjab. Production loans were short term and were advanced for purchasing inputs. In fact, 94.24% of the Federal Bank's total lending for production purposes was disbursed in Punjab province, while only 5.76% was disbursed in all the other provinces. It is also obvious from Table 8 that the commercial banks, and more specifically the Agricultural Development Bank of Pakistan (ADBP), have assumed responsibility for providing

Table 7. Shares of the Agricultural Credit Agencies in Total Loans, 1955/1980-81 (in millions of Rs)

Years	*ADBP**		*Cooperative banks*		*Commercial banks*		
	Period average	*%*	*Period average*	*%*	*Period average*	*%*	*Total*
1955-60	7.35		32.00		—	—	52.00
1960-65	40.30	31	72.00	56	—	—	128.00
1965-70	89.62	55	59.00	36	—	—	164.00
1970-75	230.46	46	73.00	14	179.00	36	504.00
1975-80	545.68	29	290.00	16	1,206.00	65	1,855.00
1979-80	711.55	24	708.64	23	1,580.00	53	3,008.97
1980-81	1,066.00	27	1,127.00	28	1,800.00	45	4,003.23

* Agricultural Development Bank of Pakistan.

Source: *Pakistan Economic Survey 1980-81* and State Bank of Pakistan, produced in S.H. Pasha, 'Agricultural Credit – a Detailed Survey', in *Journal of Pakistan Administrative Staff College* (Lahore) XIX (Jan.-June 1982), p. 58.

development credit. It is interesting to note that 72.18% of the production loans from all the banks was advanced in Punjab, while 61.75% of the development loans was disbursed in this province. It is worth noting that Sind, which is the next largest recipient of credit from these banks, got 9.36% of the total production credit and 21.34% of the total development

*Table 8. Disbursement of Agricultural Credit in Punjab, 1980-81 (in millions of Rs)**

	Production loans (% of total)	*Development loans (% of total)*
Federal Bank for Cooperatives	1,048.58 (94.24)	—
Commercial banks	297.78 (42.66)	158.17 (37.30)
ADBP	68.53 (45.82)	602.30 (75.60)

* The fourth source of agricultural credit – direct government loans – has not been shown owing to its nominal volume.

Source: Pasha, 'Agricultural Credit . . .', pp. 60-61.

credit.[78] This very seriously weakens point (b) on page 2. Table 9 further weakens point (b) by showing the importance of Punjab for the credit agencies.

Table 9. Distribution of Agricultural Credit among Provinces, 1980-81 (in millions of Rs)

1980-81	*Punjab*	*Sind*	*NWFP**	*Baluchistan*	*Total*
Production	1,414.89	383.44	139.83	22.16	1,900.22
Development	760.47	261.54	188.21	21.17	1,231.39
Total loans	2,175.36	644.98	328.04	43.33	3,191.71
(%)	(68.16)	(20.21)	(10.28)	(1.36)	(100)

* Northwestern Frontier Province.

Source: Pasha, 'Agricultural Credit . . .', p. 62.

The prominent features of agricultural credit can only be discussed briefly here, but they have to be mentioned because the expansion of agricultural credit and the policy behind that expansion is the dynamic framework within which cooperative credit has developed. The latter directly depends on the credit policy followed by the government since 1976. The prominent features of agricultural credit are listed below.

(a) Such credit has expanded at a tremendous rate in all four provinces in Pakistan, which is indicative of a deliberate government policy of credit expansion.

(b) The two earliest institutional arrangements made by the government for this expansion were the establishment of the ADBP and the initiation of commercial banks into the agricultural credit system in 1972-73.

(c) The third institutional arrangement was the setting up of the Federal Bank for Cooperatives, which meant that the cooperative sector was also merged into the agricultural credit market. This market is now directly controlled and regulated by the federal government.

(d) The formulation of agricultural-credit policy was no longer *ad hoc* but became deliberate and comprehensive. In 1972, a National Consultative Credit Council was established and was given very considerable powers. The Council is chaired by the Governor of the State Bank, and it advises the government on 'credit expansion within safe limits' and sets specific targets for agricultural loans.[79] The Agricultural Credit Advisory Committee of the Council is also chaired by the Governor of the State Bank, and this is what gives the Committee its importance. The Committee comprises federal and provincial experts, representatives of credit agencies and agricultirusts.[80]

(e) The State Bank has special lending rates designed to encourage investments in agriculture. Lower rates of interest make operations using agricultural credit attractive for the credit agencies and also offer advantageous concessions for agriculturists. To ensure that targets are achieved, the State Bank requires a special interest-free deposit equivalent to the shortfall of a bank when it defaults in achieving its mandatory target.[81]

(f) The major objectives of the agricultural-credit policy continue to be:[82] reaching a larger percentage of the farmers; increasing the availability of credit for small farmers; simplifying procedures, making credit more economical and ensuring that it is used to raise productivity; and revitalising cooperative credit.

(g) During 1979-80, the federal government decided to advance interest-free credit to small farmers in order to increase production. The volume of such loans has become sizeable: the Federal Bank for Cooperatives alone advanced Rs 816,670,000 free of interest during 1980-81, compared to Rs 461,650,000 in the preceding year.[83]

Within the framework of the National Agricultural Credit Policy, Punjab province is the foremost beneficiary because it has such a large agricultural sector. Table 9 shows its massive share in the total credit advanced in the agricultural sector. One point that I hope to have put across by presenting the data and discussion in this paper is that the national monetary policy has consistently been one of expanding agricultural credit. The data also shows that all along, Punjab has received by far the largest share of that ever-expanding credit, and that the Federal Bank for Cooperatives is only one of the three most important sources of institutional agricultural credit. The volume of agricultural credit coming from all three agencies has clearly increased.

In the years preceding federalisation (1970-75), the average annual credit disbursement in the cooperative sector was 14% of the average annual credit disbursed by *all* agencies. It is worth noting that this share of the total was as high as 85% during 1950-53, 56% during 1960-65 and 36% during 1965-70.[84] After federalisation, the trend in the figures for this share was as follows:[85]

1975-80: 16% of the total
1979-80: 23% " " "
1980-81: 28% " " "

Thus is is clear that in Pakistan, cooperative credit has steadily increased in absolute and relative terms since 1975-76. This steady increase coincides very closely with federalisation, but it should be seen in the total context of agricultural credit and not in isolation. It would be too hypothetical te presume or argue that the situation would be different if the Federal Bank for Cooperatives had not been established, or if the old structure of cooperative banking had not risen to the demands of the national credit policies had it been allowed to continue. Either presumption would be difficult to substantiate, especially since cooperative banking is only one part of a larger whole which was being propelled upwards by a tremendous boost from the government. This seems to strengthen the hypothesis (see point [d] on page 2) that the motivation behind federalisation was development.

Local and Centralised Banking for Rural Cooperatives

Under the Presidential order issued on 15 March 1972 (referred to on page 22), all individual members of secondary cooperative societies were excluded from membership. As a result, even before 1976 only societies –and not individuals – were affiliated with the Central and Provincial Cooperative Banks. Thus since 1972, cooperative agricultural credit has been disbursed *only* among societies. It is the growing number of agricultural cooperative societies that has benefitted from the expansion of credit. It appears that since federalisation, the agricultural cooperative societies have had much better access to credit than before. One has, nevertheless, little basis for suggesting that this is solely or mostly due to federalisation. The discussion which is to follow will shed some light on this point.

Let us now consider whether the new structure of cooperative banking was superior to the old one. One good way of analysing the new situation is to elicit the views of those who have worked with both structures. My aim here is to analyse this in conjunction with my own personal appraisal of the extent to which the new system is organisationally more suitable for achieving its objectives. I had the opportunity to have long discussions, on 29 and 31 July, with the Vice-President of the Punjab Provincial

Cooperative Bank, who holds the highest office available in the Provincial Cooperative Bank to a member of the cooperative movement who is not a government official. Given his position his views deserve serious consideration.

Before discussing the Vice-President's views, it may be useful to briefly describe his background. First, one should mention that he is highly typical of the class that dominates cooperatives in Punjab province and that had controlled the Central Cooperative Banks when these existed. His record is strikingly similar to those of countless others in Punjab. He is a scion of a prominent and influential rural family. His father was President of a Central Cooperative Bank from 1950 to 1972, when the Presidential order placed limits on tenures and he had to step down. He himself was elected President in his father's place and continued in this position until the Central Cooperative Banks were dissolved in 1976. He was elected Vice-President of the Provincial Cooperative Bank of Punjab in 1978. Since he is required by law (an Order issued in 1972) to step down for three years after two terms, he has planned to have a close relative to step in while he waits for the three years to pass before he can return to his old job. He is as confident of his own re-election as he is of the election of anyone else he sponsors. His past performance seems to show that this confidence is not undue. He enjoys solid support from influential members of cooperatives who will rally behind him when called upon, as they did for his father. The solidarity of his faction, which is based on common interests, is the best guarantee of its dominance, as experience over the last thirty years has shown.

Such are the loyalties and affiliations of the class that dominates cooperative activities in Punjab. These have been built up deliberately and consciously – through a series of good turns and politicking – to cultivate, consolidate and retain permanent support. All the districts in Punjab, and their subdivisions, have comparable stalwarts who have dominated the cooperative scene from the start. The management is either directly in their hands, or it is with by other members of their group. To discuss these loyalties further one would have to present basic facts about the power and class structure in rural society in Punjab, as this is the only way to provide a comprehensive explanation of a phenomenon such as the personality described here.

On 31 July, while in the Vice-President's office, I met an old gentleman who had been involved in cooperative activities for many years. He said that he had been Director and Vice-President of a Central Cooperative Bank from 1940 to 1972 and that he was also appointed Director of the Federal Bank for Cooperatives for a three-year term. He regretted that the bureaucracy 'disliked' his candid views and explained that this was why he was out of office at the time. One need not go into the relationship between cooperatives and politics, since in Punjab these go hand in hand: the one is the means, and the other the end and *vice versa.*

In my discussions with the Vice-President, two points were discussed primarily. The first was what the objective of federalisation was and what effect this has had on cooperative societies. The second was what advantages the present system offers and how it compares with the earlier structure in terms of usefulness to cooperative societies. The Vice-President's views are listed below, and they were generally shared by the former Director of the Federal Bank.

(a) Mr Bhutto wanted to gain complete control over the patronage that could be exercised through cooperative banking. He was keen on building up and strengthening his support in the countryside. Cooperative banking was a very effective source of rural credit that had a well-developed and elaborate infrastructure in the rural areas. The potential for helping the members of his party, and for attracting others through use of cooperative finance, was promising. In other words, the cooperative financial institutions were dissolved (and replaced by a new and a different system) in order to use the new system to generate political support for the regime. Hence, the decision to dissolve these institutions was predominantly political rather than economic or developmental. There was, however, also a punitive element inherent in it: Mr Bhutto resented those who had opposed him or had refused to support him in his struggle for power. He was not willing to let them continue to control institutions of such political importance.

(b) The effect of federalisation on cooperative societies has been mostly qualitative. As far as the availability of credit goes, this has increased greatly since the establishment of the Federal Bank for Cooperatives. In fact, there is so much pressure to meet mandatory credit targets that the entire official cooperative structure strives to meet them at all costs, even if this involves making compromises about the security of loans. Because achieving targets is the foremost consideration, other economic and banking considerations are neglected. Since federalisation, the cooperative societies have done remarkably well in terms of credit absorption (as distinct from the proper utilisation of credit).

According to the Vice-President's cautious estimate, about 30% of the cooperative societies in Punjab were 'one-man societies'. This implies that one person, or a group of two or three members, would monopolise the benefits accruing to the society. Other members were only names on paper which were provided to meet procedural requirements. The former Director thought that the number of such societies was as high at 90% of the total. Both men thought that such societies had flourished since federalisation, because the post-federalisation system was remarkably conducive to the proliferation of such societies.

Although figures on the non-agricultural operations of the Federal Bank for Cooperatives are not readily available, it is known that its operations are primarily agricultural. From the beginning, the policy of the Board of Directors of the Bank has been to discourage non-agricultural operations, and the Bank has focussed its resources on the agricultural sector. The Chief Auditor of cooperatives, during a discussion in his office on 31 July, informed me that even the viable industrial units run by cooperatives have to turn to commercial banks in order to meet their financial requirements, and the Federal Bank refuses to commit funds even to profitable and safe industrial operations of cooperatives.

(c) From a purely economic standpoint, federalisation was a sound decision, even though it was not necessary to dissolve the Central Cooperative Banks. These could have been retained, and in so doing the local character of these financial institutions would not have been lost to the cooperative movement. By integrating cooperative banking into the national credit market, the former has been exposed to modern banking practices and procedures. Until this occurred, cooperative banking had functioned in isolation, i.e. there was little outside control or supervision applied by the State Bank, and it still retained its early twentieth-century character. In this sense, it was in no way suited to the modern times, and the Provincial and Central Cooperative Bank officials, despite their practical experience, were less than half-educated as to what modern banking is. This is still the case, since it was not possible to remove most of the higher staff without causing human hardship and relocating jobs, and at the same time the pressure to extend loans needed for cultivating crops continued.

There was a complete lack of harmony and cooperation between the Federal Bank for Cooperatives and the cooperative bureaucracy in Punjab. The first Managing Director of the Federal Bank had serious difficulties because of the hostility and suspicion among the Punjab bureaucrats, and the Federal Bank was reduced to a state of helplessness with the result that none of its resolutions were allowed to be implemented in Punjab. The Bank wanted the local branch managers to participate more actively in arranging loans, but its efforts were blunted by the Punjab bureaucracy. The Bank laid down a new loaning procedure in order to bring the existing procedure somewhat in line with the requirements for adequately ensuring the security of loans. To date, this has not been enforced, because the Punjab bureaucracy considers the procedure too cumbersome.

The Vice-President of the Punjab Provincial Cooperative Bank supplied me with a copy of a memorandum prepared by the Federal Bank for Cooperatives on 11 September 1978 on the 'Inspection Report of Punjab Provincial Cooperative Bank Limited'. The memorandum lists various examples of the lack of a working relationship between these two institutions, both of which are important for cooperative finance. The memorandum states (on page 1) that 'The inspection was started on 24th February 1978. Its progress remained slow because of the unwilling attitude of the staff in furnishing books, records and other information required for completing inspection.'

The memorandum also mentions instances of mismanagement, unsound investments, poor record-keeping and unsatisfactory banking procedures, despite the fact that the Federal Bank had repeatedly given advice on these points. The Bank expressed its regret (on page 12) that the Provincial Cooperative Bank 'does not have a team of qualified and competent officers at his Head Office, most of the Zonal Offices and the branches. The staff has miserably failed to reorganise any aspect of the Bank, be it administration, accounts, personnel, branches, loaning or any other important portfolio.'

I also had the opportunity to study a note[86] prepared by the Punjab Cooperatives Department and intended to record a history of excesses on the part of the Federal Bank for Cooperatives against the Punjab Provincial Cooperative Bank. In concluding, the note observes that 'the Managing Director (of the Federal Bank) perhaps has some old grudge and is out to destroy the entire cooperative movement in the Punjab. The note reads essentially as a denunciation of the Managing Director of the Federal Bank.

The mention of these two official documents here is intended to emphasise the nature and extent of the confrontation between the cooperative bureaucracy in Punjab and the Federal Bank – or, more specifically, its Managing Director. Its intensity remained unabated until the first Managing Director completed his tenure and left office in 1981. The result of this confrontation was a reduction in operational efficiency of both institutions, which meant that they would not offer their best services to their clients, the cooperative (i.e. primary) societies. Ultimately, it was these societies which suffered the consequences: at least their benefits were reduced by the squabbles between the two institutions.

The Vice-President felt that the local character of the dissolved Central Cooperative Banks was lost when these banks became branches of the Punjab Provincial Cooperative Bank. The bye-laws of the Provincial Bank provide (in sections 43 and 44) for a District Advisory Committee, the membership of which are largely appointed, but its advisory role is very loosely expressed in respect of the branches in its district. It is in no way an adequate substitute for efficient management by the locally elected managing committees which were dissolved when the Central Cooperative Banks were dissolved. These committees, which comprised leading members of local cooperatives, not only exercised power effectively in relation to banking operations but were deeply familiar with local conditions and requirements; they had little need to rely on bureaucratic decisions, as unfortunately is now the case.

(d) The Vice-President sketched a pessimistic scenario of the present role of bureaucrats in the cooperative movement. He complained of malpractices in most operations and felt that federalisation had enhanced the incidence of malpractice and bureaucratic excesses. Because management powers were passed from the locally elected members of cooperatives (i.e. in practice the cooperative élite) to the cooperative bureaucracy, loan operations have come to depend on whether bureaucratic discretion is exercised, rather than on local knowledge about eligibility for loans, the genuineness of the need, the performance of the cooperative society etc. At present, whether or not a loan will be granted depends largely on the indulgence of the local cooperative bureaucracy.

The maximum credit limit that is sanctioned, on application for a loan, by the Inspector of Coöperatives or Assistant Registrar is Rs 100,000. This sanction is presented to the local branch Manager, who does nothing more than issue a bank draft. This is brought to the supplier of the agricultural input required by the society. Beyond this procedure, the branch Manager has no rôle in the loaning operation, and he bears no responsibility for recovery. The field staff of the Cooperatives Department are fully aware of the status of the cooperative societies and especially of these 'one-man societies'.

The Vice-President observed that in Punjab, many traders in agricultural inputs are in business because the inputs originally supplied to cooperatives on credit are commonly sold to the traders at very favourable rates. Fertiliser, for instance, is supplied to the cooperatives at special reduced rates. The trader, when retailing such fertiliser, is confident of making a sizeable profit, but while this fertiliser is recorded as being supplied on credit in the cooperative sector, it is in fact used outside it. The credit disbursed in kind is thus converted into cash and unproductively used to purchase cars or finance marriages etc. The Vice-President thought that cooperative credit was commonly being utilised outside the sector because there is little popular participation and control. Petty cooperative officials were being used by local traders who were keen to earn easy money and had no qualms about the propriety of their means. In this way, cooperative loan operations have come to be used for personal aggrandisement. The Vice-President was bitter about this situation, because the members of cooperatives were helpless owing to the high degree of bureaucratisation in the system.

Another example of how the bureaucracy appeared to be misusing the system by twisting facts and distorting statistics was the recovery of loans. Since 1977, only one crop has had a low recovery rate, of 76.06%, on credit advanced. For the remaining seven crops, the recovery rates for that period varied between 93.27% to 96.88%.[87] The recovery rate on loans advanced in Punjab by commercial banks in the farming sector in 1982 was as low as 32%![88] During 1973-74 and 1974-75, the recovery rates for cooperative loans in the agricultural sector were 30.02% and 34.11% respectively.[89] During 1972-73 the rate was 35.89%.[90] It was 30.5% and 31.8% during 1971-72 and 1970-71 respectively.[91] In 1975, the last year before federalisation, the rate of recovery was no more than 35.37%.

It is clear that between 1970-71 and 1974-75, the recovery rates for cooperative loans in the agricultural sector varied between 30.02% and

35.89%. The question arises of how they jumped to a rate steadily above 90% in two years, when such other loaning agencies as commercial banks were still struggling at 32%. (While I was an executive officer in the field between 1978 and 1981, I am not aware of any special efforts by the cooperatives to recover their loans.)

The ADBP and the commercial banks had made far more elaborate arrangements for recovering loans. They paid the provincial government to appoint special recovery staff and to give them major incentives and organisational support. In comparison, the cooperative banks' efforts pale into insignificance. This situation intrigued me, the more so because I was not getting direct answers to my queries.

It is not my intention here to belittle the efforts by the Cooperatives Department to step up recovery rates. One need not doubt that these efforts were well meant and comprehensive, yet one has to close one's eyes to the hard realities of the rural situation if one is to believe that the improvements in efforts to recover loans could make a difference of nearly 300% in a matter of months.

I learnt later, on the authority of the Vice-President, that this situation could be quite easily explained. The funds for loans were received from the Federal Bank for Cooperatives *in addition to* the Provincial Cooperative Bank's own resources. A target for recovery had already been fixed, and to achieve this the defaulting societies were sanctioned another loan, but instead of actually disbursing it this was diverted and reflected under recoveries. The Vice-President revealed that sometimes a part of the funds received from the Federal Bank was returned after a few days and recorded as recoveries on previous loans. Thus every year, a cooperative credit was shown as disbursed, but actually it was only disbursed on paper, and in fact it was used to pay off outstanding loans to the Federal Bank. The Vice-President felt that such manipulations were characteristic of the bureaucratic way of functioning. The bureaucrats employed these devious machinations without reluctance, simply to show that the cooperatives were consistently doing better than before.

Previously, the cooperative bureaucracy did not have such direct control over cooperative banking, and the Central Cooperative Banks had considerable operational independence. At present, the Cooperatives Department is directly responsible for the performance of cooperative banking. The Vice-President suggested that the bureaucracy cannot afford to let it be known that their performance is less outstanding than that of the privately run cooperative banking system, which, at least to the extent that it had its own resources, acted independently. The new system makes no allowance for such a possibility, and the operations of rural cooperatives depend on that system.

The views of the Vice-President seem cynical, but it must be kept in mind that he has by no means lost everything owing to the initiation of the new system. As long as he retains his position (which will be for ten or fifteen years, according to him), there will be a place for him in the present system. The rest – and most – of the former 'heavyweights' in cooperative banking have found positions on advisory committees in the districts and are mostly concentrated at the level of the primary societies. The question arises of whether they are acting as spearheads for the malpractices discussed above, and it is difficult to get an authoritative answer on this issue. This is because the bureaucracy will not admit to or substantiate the malpractices in a system controlled by itself. If one were to make a direct probe on one's own, which would involve bypassing the bureaucratic set-up, the inquiry would have to be carried out at the village level and hence would be a huge task. This question will therefore have to remain unanswered. However, given the power structure and strong factional commitments, it would not be unreasonable to assume that those exercising power could still be claiming a disproportionately large share of the benefits emanating from the expanding finance. One indication of this is the difference in recovery rates before and after federalisation. This may largely represent the disguised benefits accruing to the powerful factions under the new system. The ends may have undergone little change, but the means were bound to undergo changes with the restructuring of the formal institutions.

Conclusions

The discussion presented here and the conversations with individuals with long and meaningful associations with cooperatives, either as government officials or as members of cooperatives, lead one to arrive at the following conclusions on the federalisation of cooperative banking in Pakistan.

Cooperatives and the Rural Élite. – The cooperative movement was started by the British in order to relieve the problems of the debt-ridden peasantry. The colonial administration governed the countryside through the active help of the rural élite. Without this solid support, a handful of British and native officers could not have dreamt of governing a country so vast as India. The support of the élite was inevitably sought for all government programmes and was rarely denied, be it for rural re-construction, control of rural crime, a Viceroy's Relief Fund or a contribution to a war effort. In order to be successful in rural areas, the cooperatives had to have the support of the élite. In the course of time, the advantages accruing to this class from the cooperative movement, and the support which that class had initially given it, came to be justified because the government had decided to popularise the movement, and hence there was a gradual take-over by the rural élite.

The rural power structure has obvious imbalances, as does the national one. Cooperative institutions were therefore monopolised by the élite. The financial institutions were sources of massive patronage, in addition to being financially rewarding for those who controlled them. In cooperative institutions other than banks, the privileged class was able to claim and usurp what was due to the less privileged classes, and the socio-economic system facilitated this process.

Cooperatives and the Bureaucracy. – The cooperative movement was initiated under close government supervision. The rural population was not considered sufficiently motivated or capable to organise and manage modern cooperatives independent of the government. This led to the movement being run by government officials. The bureaucratic organisation, therefore, expanded rapidly over the years. The number of cooperative societies grew nevertheless, and so did their memberships. All along, progress was computed in numerical terms, and in the official estimates the development of the cooperative movement was seen as synonymous with the growth in the number of societies. From a typically bureaucratic viewpoint, the increases in the number of societies, in the memberships and in the volume of financial operations were considered adequate measures of the development of the cooperative movement. There is nothing that I observed or heard from veterans in the cooperative movement that even vaguely suggested that a distinction was seen between the two.

Given this scheme of things, every field officer in the cooperative bureaucracy had to ensure that the number of societies, the volume of financial operations etc. progressively increased, since any decrease would have to be explained. No connection was drawn between organising new cooperative societies on the one hand and the need for cooperative education and for motivating people to cooperate on the other. Between 1978-79 and 1979-80, 10,314 new societies were registered, which meant an increase in the number of societies of 41.59% within a year.[92] This campaign was launched to introduce cooperatives in every village of the province, but the important fact to note here is that cooperative education and motivating people to cooperate were *not* a part of this campaign.[93] It was carried out as a typically administrative task that had to be accomplished within a specified period of time.

The point to be emphasised here is that by and large, there is a well organised and large bureaucratic machinery at the forefront, while the movement itself is tucked away in the background. From the beginning, the role of the bureaucracy has been dominant, and the bureaucracy has always 'administered' the cooperatives. There is an obvious conceptual contradiction inherent in this situation, and it is difficult to see how it can be reconciled. One cannot help feeling that bureaucratisation has been carried too far to allow a popular and voluntary movement to function and grow as such.

It would be difficult to say that cooperative banking was popularly run. The managers were not government officials, but control was concentrated among a handful of prominent families. It would be erroneous, therefore, to consider the managements of the dissolved Central Cooperative Banks as even remotely popular. What was certainly true is that these managements were more susceptible to popular pressures and more alive to local situations, and the bureaucracy in Pakistan cannot be credited with such responsiveness. In fact, this is the most common criticism of the bureaucracy, whether it be in the cooperative sector or any other sector.

It is obvious from the discussion in sections 2 and 3 that the new banking structure is highly bureaucratised. The bureaucracy cannot function if the cooperative societies do not exist, and the latter have not been allowed to function without the former since 1904. Therefore, a working relationship has been forged between the two not so much in the interest of the cooperative movement but in order to continue a system which offers some advantages for both in terms of finance and employment.

There was indignation among leading members of the cooperatives, and particularly the élite, about federalisation because the banks which they controlled were dissolved. Furthermore, there were no other opportunities for them to exercise authority in the new banking structure. The cooperative bureaucracy was hostile because the new law seemed to transfer power out of Punjab province and to the Federal Bank for Cooperatives. The cooperative bureaucracy consolidated their control over the new system by insisting that provincial interests be protected and by severely criticising the Federal Bank for its hostility towards the cooperative movement in Punjab and for asserting its authority in an area of which the fullest knowledge was available only with the provincial bureaucracy.

There were, of course, allegations and countercharges, but the simple truth appears to be that the Federal Bank for Cooperatives was endeavouring to enter a new field, and since the cooperative bureaucracy was already well entrenched in that field it was unwilling to let its authority slip through its fingers. The only serious defect in the new system was that the local character of cooperative banking was lost. It is true that the managers, though selected locally, tended to be predominantly from the socially and economically powerful rural families. The new situation did not remedy this problem, but it did eliminate and replace it with bureaucratised control. It is also true that the grip of the élite on the cooperatives could only be broken by transforming the overall rural power structure. Yet, such measures as the legislation passed in 1972 and 1976 were able to go a long way in diminishing the élite's control and creating conditions for participation by the rank-and-file in the cooperatives. The new structure offers few possibilities for effective participation by those who are not government officials. It appears unlikely, therefore, that a structure that is intensely bureaucratised at the top would contribute to the growth of the popular, participative and voluntary organisations under its aegis. It is not surprising that there were opportunities for establishing 'one-man societies' and other instances of misuses of cooperative resources.

Why Was Cooperative Banking Federalised? – By 1973, Mr Bhutto had succeeded in installing his own supporters on the managing committees of almost all the Central Cooperative Banks. Thus, he had exercised patronage and could continue to exercise it through the members of his party who occupied key positions in these banks. The problem of gathering support was, therefore, no longer an issue in 1976: if it was revenge that Mr

Bhutto sought to take on the élite, he had more than wreaked it. It appears highly improbable that there were any significant emotional considerations behind the federalisation of cooperative banking (see points [a] and [c] on page 2).

What seems more reasonable is that Mr Bhutto was aiming at an extensive accrual of the benefits emanating from cooperative credit. He had received massive support from the peasantry in the elections and took great pride in having the broadly based support of the poor. The élite supported him after his initial successes, but he always preferred to be identified with the less privileged. The truth of this statement is emphasised by his decision to induct commercial banking into the agricultural-credit system in 1973. There are clear indications that he wanted to rapidly expand the volume of agricultural credit with a definite bias towards helping the small farmers. Before 1976, cooperative banking was not closely integrated into national agricultural-credit operations. After the nationalisation of commercial banks in 1974, the cooperative banking system 'stuck out like a sore thumb' as far as those who planned and implemented the agricultural-credit policies were concerned. It therefore had to be made a part of the government machine in order to make it more responsive to official policies on agricultural credit (see point [d] on page 2).

It seems highly unfair to make federalisation look as if it were a conspiracy against Punjab province. The statistics and discussions presented in section 3 clearly demonstrate that Punjab continues to absorb a very large proportion of the total credit in the cooperative sector. Despite the serious problems which the Punjab bureaucracy has faced in working with the Federal Bank for Cooperatives, Punjab continues to be the major recipient of cooperative agricultural credit (see point [b] on page 2.).

Rural Cooperation Under the New Banking System. – Cooperative credit in the agricultural sector in Punjab expanded abruptly from Rs 38,690,000 for the summer ('KHARIF') crop in 1978 to Rs 364,530,000[94] for the same crop in 1981. Obviously, it was the rural cooperative societies that benefitted from this credit. The number of cooperative societies (including all types) also rose during this period, from 22,289 to 41,037.[95] The trend in membership was roughly the same. Quantitatively,the cooperative societies in the rural areas should therefore have been providing vastly more efficient services to their members since federalisation. However, as was already mentioned, it is difficult to attribute the expansion in cooperative credit to federalisation.

The cooperative movement as such has, in my judgement, apparently suffered a qualitative setback since federalisation. There is little basis for lauding the cooperative character of the societies before federalisation. It is no secret that their character was hardly that of a cooperative and that the distribution of benefits was inequitous. As far as the primary societies were concerned, federalisation brought no organisational or operational changes. In banking, the élitist character of management was eliminated by dissolving the local (i.e. Central Cooperative) banks.

Decision-making at the level of the Provincial Cooperative Banks and Federal Bank for Cooperatives has become overwhelmingly bureaucratised. Bureaucracy tends to strongly identify with and lean towards the dominant interests in society. Direct bureaucratic control over the new institutions for cooperative finance has rendered the cooperative societies, their development and their operations clearly subordinate to the policies of the Federal Bank, which finances their operations. The government has pursued a deliberate policy of expanding the cooperative sector with a view to stepping up the use of modern agricultural inputs, but *without* backing this up with corresponding educational and motivational programmes. This has led to serious inadequacies in the cooperative societies. The fact that a certain number of persons have joined together, or that they are shown in official records as having formed a cooperative society, is by no means sufficient to indicate the presence of the spirit of cooperation. The fact that the bureaucracy dominates and controls all operations – from registration to liquidation – detracts seriously from the cooperative spirit.

The cooperatives are being used primarily as vehicles for extending the use of modern agricultural inputs and for agricultural development. There is no evidence suggesting that the government is keen on giving any other role to the rural cooperatives. The new banking system assists the government in promoting whatever function it chooses for the cooperatives (see hypothesis [d] on page 2).

One cannot help concluding that the new banking system has completed the process of spreading bureaucratic control over all aspects of the rural cooperatives, which is leading to further qualitative deterioration in what should be described as 'cooperation'. A distinction must, however, be made between the expansion of cooperation as a movement and the huge infusion of agricultural credit through the official and officially controlled infrastructure – an infrastructure which can be aptly described as 'cooperative organisation' and which is quite distinct from the institutions in a 'cooperative movement'. Whatever rural 'cooperative movement' had survived seventy-two years of growing bureaucratisation was administered a rude shock by federalisation. As a result of the federalisation of its finance, the cooperative movement lost more ground to official organisation than it lost during all the earlier crises and setbacks.

Return to the Hypotheses. – Throughout the latter part of this paper, references have been made to the four hypotheses set out on page 2. While Mr Bhutto may originally have been driven by a desire to seek vengeance, this should have been satisfied by the legislation which became effective in 1972. Thereafter, the veteran élite transferred their support to him, and he had placed supporters of his own party on the managing committees of the Central Cooperative Banks. Furthermore, the statistics presented in section 3 demonstrate that Punjab province continued to receive the largest share of the benefits of the cooperative credit programmes. Thus, there is little ground for supporting the theory that there were provincial preferences. The fourth hypothesis appears to come closest to the real objectives of the government. The points discussed in the previous subsection strengthen this impression, but they do *not* detract from the validity of what has been said in this section. They also do not in any way reflect the degree and intensity of the bureaucratisation of cooperative institutions, and in particular of the financial institutions.

NOTES

1. *Statistical Pocket Book of the Punjab*, 1981, Bureau of Statistics, Lahore, 1982, p. 310.

2. *Ibidem.*

3. *Ibidem, p. 311.*

4. *Agricultural Statistics of Pakistan, 1980*, Ministry of Food and Agriculture, Islamabad, Printing Corporation of Pakistan Press, Lahore.

5. *Pakistan Economic Survey 1980-81*, Government of Pakistan, Finance Division, Islamabad.

6. Darling, M.L., *The Punjab Peasant in Prosperity and Debt*, Oxford University Press, Bombay, 1925, p. 253.

7. Munshi, M.C., 'Rural Indebtedness', in: H.L. Kaji (ed.), *Cooperation in India*, All India Cooperative Institutes Association, Bombay, 1932, pp. 326-327.

8. *Report of the Committee on Indebtedness*, Government of the Punjab, Lahore, 1932, part I, page 1.

9. *Ibidem.*

10. *Ibidem.*

11. *Ibidem*, part VI, p. 14.

12. *Ibidem*, p. 15.

13. *Report of the Punjab Provincial Banking Enquiry Committee*, Government Printing Press, Lahore, 1930, vol. I, p. 16.

14. *Ibidem.*

15. *Ibidem*, p. 20.

16. *Ibidem*, p. 33.

17. *Ibidem*, p. 24.

18. *Report of the Committee on Cooperation in India*, Government Press, Simla, 1915, vol. VII, pp. 2-3.

19. *Ibidem*, p. 4.

20. *Report of the Royal Commission on Agriculture in India*, Government Publication Branch, Calcutta, 1927, vol. VII, p. 592.

21. *Report . . . Committee on Cooperation . . .* , vol. VII, p. 4.

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