

Cooperative Banks/Societies

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At the time of Partition (1947), there were two laws operative in the area of cooperative movement. The next 12-13 years were dominated by the promulgation of a number of new legislations as under:

- i) Extension of the jurisdiction of the Sindh Cooperative Societies Act of 1925 to whole of present Pakistan with effect from 30th April, 1965 under the title of Cooperative Societies Act, 1925.
- ii) Promulgation of the West Pakistan Cooperative Societies and Cooperative Banks (Repayment of Loans) Ordinance, 1966.
- iii) Reforms Order of 1972.

Except the Reforms Order, 1972 all other provided for more powers to the Cooperative Department for recovery of loans. On December 14, 1976 the Federal Bank for Cooperatives (FBC) was established under FBC Ordinance, 1976 to take over the functions hitherto performed by the State Bank of Pakistan, to regularize the working of defunct Central Cooperative Banks, streamline the flow of financial resources to the satisfaction of Cooperative Societies, to identify the problem areas with respect to Organization, Management and Financing of Cooperatives and to provide guidelines to be used as corrective measures. According to Charter, the Bank was to function as the principal financial institution for meeting the credit needs of Provincial Banks and Multi-unit Cooperative Societies. It also performed supervisory and regulatory functions in respect of Provincial Cooperative Banks. The Bank was bankers' bank and the supervisory authority for Cooperative Banks in the areas of its operation. The Bank has authorized capital of Rs.200 million divided into 2000 fully paid-up shares of the nominal value of Rs.100,000 each contributed in varying amounts by Government of Pakistan (20 million), State Bank (150 million), Government of Punjab (10 million), Government of Sindh (10 million), Government of NWFP (5 million) and Government of Baluchistan (5 million). The charter of the Bank authorized it to finance all type of business activities through the Cooperatives. However, the FBC has been concentrating on loans to the agricultural sector, specially for purchase of crop inputs. In view of the importance of the credit for agricultural productivity, the emphasis of bank's policy was on the provision of short-term/seasonal production credit for agricultural inputs while not neglecting the legitimate credit needs for medium/long term development purposes.

The FBC was allowed by its statutes to accept money on deposit, borrow funds from the Federal Government and financial institutions and raise funds for the purpose of bank's operations through issue and sale of bonds and debentures. The FBC was not a cooperative institution

because: (i) it was established by the Government and not by the Cooperative Institutions existing in the country; (ii) its share capital was subscribed by the Federal and Provincial Governments and not by the members (Cooperatives); (iii) it was established as a banking institution to serve the cooperative movement under special legislation and not under the Cooperative Societies act.

State Bank of Pakistan has been the exclusive source of its funding. The credit target/allocation of agricultural credit loans were set by the NCCC and were based on the recommendations of Agricultural Credit Advisory Committee (ACAC). The allocation/target were generally recommended by the committee on the basis of Annual Credit Plan furnished by the FBC. The State Bank's lending rates to FBC remained as under:

Up to 31-12-1982	7%
From 11-1-1983 to 31-3-1985	6%
From 1-4-1985 to 24-7-2001	0.5% (Service charge basis)
From 25-7-2001 to date	T-Bill rate

The FBC provided finance to the Cooperative Societies through the network of four Provincial Cooperative Banks (PCBs) (one in each province) and two affiliates viz. Azad Kashmir Government Cooperative Bank and Northern Areas Provincial Cooperative Bank. By the end of fiscal year 1999-2000, the six Cooperative Banks had branch network of 236 branches, which cater to the needs of about 60,000 cooperative societies having a membership of 3.45 million in the country.

Around 52,485 Cooperatives are affiliated through the Provincial Cooperative Banks and out of these 30,508 are active borrowing societies. FBC is a refinancing institution and provide soft loans to PCBs at service charges, which ranged from 1.29% in 1991-92 to 1.84% in 1997-98 and 2.59% (provisional) in 2000-2001. The rate of markup charged for short-term loans since 1995 is given as under:

Period	FBC to PCBs (%)	PCBs to Coop. Societies (%)	Cooperatives to Members (%)
06-11-1995 to 30-6-1996	1.79	09.80	14.00
01-7-1996 to 30-6-1997	1.69	09.80	14.00
01-7-1997 to 30-6-1998	1.84	09.80	14.00
01-7-1998 to 30-6-1999	1.79	10.00	14.00
01-7-1999 to 30-6-2000	1.73	10.00	14.00
01-7-2000 to 30-6-2001	2.59 (provisional)	10.00	14.00

The PCBs were only intermediaries and for this simple role they charged over 8% on the amount. Cooperative Societies were additionally charging 4%. While the State Bank charged only 0.5%, the ultimate borrowers were getting loan at 14%. Intermediaries were taking away 13.5%. The FBC lent to the PCBs against Provincial Governments' guarantees. This ensured that a great bulk of the loan was recovered.

Winding-up of FBC and State Bank's policy of lending directly to PCBs at more realistic rates of return has been a step in the right direction. However, the entire problem needs to be revisited. Cooperatives as a movement have not taken off.