

Annex – VIIc

Co-operative Credit System

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Working of co-operative credit system not satisfactory:

- i. Three out of six co-operative banks have suspended their operations.
- ii. Mis-utilization of credit is a common feature.
- iii. A heavy amount of loan is stuck up;
- iv. The co-operative credit system has become inefficient.
 - a. Loan portfolio of Rs. 5.951 billion is being administered at a cost of Rs. 651 million by PCBs (i.e. 11%)
- v. When the cost of Rs. 274 million, incurred on Provincial Co-operative Societies Departments, is added the total cost of the system rises to Rs. 925 million (i.e. 15.54%)
- vi. After including the intermediary costs of societies, i.e. 4% the total cost comes to an unacceptable figure of 20% per annum.

The unfettered powers of the co-operative bureaucracy have posed the major obstacle, which is in utter disregard to its developmental and promotional role. The Co-operative Department, in contravention of Co-operatives Societies Act, has established its stronghold on co-operatives, jeopardizing autonomy and hampering operations. The Co-operative law, itself, has become stringent and inflexible and does not allow co-operative to grow as independent business enterprises. The Department has not monitored and supervised the working of Co-operatives – yielded inefficiencies, even scams. Departments have lost their orientation and skills to motivate and organize co-operative enterprises – lost every justification for their existence against heavy expenditure. Departments' manpower of 5,012 (excluding Northern Areas) is being used to carryout financing functions of the Provincial Co-operatives Banks in utter disregard of its own duties of Audit, Inspection and Supervision as stipulated in the Co-operatives Societies Act 1925.

A. Cost of Provincial Co-operative Banks			
Punjab	3.78	4.57	8.35
Sindh	1.52	1.50	3.01
Frontier	-	-	-
Balouchistan	1.12	3.30	4.43
Azad Kashmir	1.79	2.54	4.33
Northern Areas	7.42	3.34	10.76

B. Cost of Co-operative System

Operational Cost of PCBs	623.449	70%
Operational Cost of Prov. Co-op Departments	274.000	30%
Total Operational Cost of the System	897.000	100%
Financial Cost on PCBs	316.297	
Financial Cost of Prov. Co-op. Depts.	-	
Total Financial Cost	316.297	
Total Loan Portfolio of PCBs	4,028.293	
Total Assets of PCBs	8,073.044	
Operational Cost as a %age of Total Assets	7.720	
Operational Cost as a %age of Total Loan Portfolio	15.480	
Margin retained by Societies	4.000	
Total Cost	19.480	
Financial Cost as a %age of Loan Portfolio	7.850	

PERI's study, conducted on behalf of the SBP, gives a dismal picture of co-operatives. The genuine co-operatives are only 4%, whereas 22% have been termed as fictitious. About 35% are one man family co-operatives. The co-operative credit system has yielded inefficiencies when looked at from the operating costs. Loan portfolio of Rs. 5.951 billion is being administered at a cost of Rs. 651 million by PCBs (i.e. 11%). When the cost of Rs. 274 million incurred on Provincial Co-operative Societies Departments, responsible for evaluation of credit demands and recoveries, is added the total cost of the system rises to Rs. 925 million (i.e. 15.54%). After including the intermediary cost of Societies, i.e. 4%, the total cost comes to an unacceptable figure of 20%.