

CHAPTER – 1

INTRODUCTION

1.1. Background of Study

Small farmers numerically abound in Punjab's Agriculture. According to 1980 Agricultural Census of Pakistan, out of 2.54 million farms, 71 per cent were small having operational area less than 12.5 acres. While managing Limited resource base, they are hardly in a position to adopt modern technology which needs investment of additional funds. Unless they are able to apply modern technology, they cannot make optimum use of their resources, In such a situation agricultural credit is one of the most effective means by which their invest able fund could e enhanced.

There are two main sources of agricultural credit: Institutional and non-institutional. The non-institutional sources are neither sufficient nor reliable to meet credit needs of farmer making it necessary for the Government to operate in this field and extend credit to farmers through its agencies. The Government agencies which provide credit to farmers are (i) the Revenue Department: (ii) the agricultural Development Bank of Pakistan; (iii) commercial Banks; and (iv) the federal bank for Cooperatives.

In 1979, the Government introduced interest-free credit programme. Subsequently, it was replaced by mark-up free credit for small farmers. The share of mark-up free loans in total agricultural loans going to small farmers in Pakistan was 01 per cent in 1984-85 (Govt. of Pakistan, 1985 and 1986). The revenue Department did not involve itself in this activity as it was loaning basically at the time of famine and distress. The Agricultural Development Bank Pakistan also did not extend any interest-free loan to farmers as it is heavily involved in development loans, whereas the needs of small and marginal farmers differ from the objectives of development loans. The small farmers primarily need funds to meet their production requirements, and commercial banks and cooperatives are the only sources of mark-up free production credit for them.

The commercial banks came in the field for agricultural credit in 1972-73. During the first tow years of their operation, their contribution rose from zero to 31 per cent in total agricultural credit in Pakistan (ibid). Moreover, their share in 1984-85 was 45 per cent (ibid)

Cooperative societies are concentrated in Punjab (e.g.) in 1984-45, 92 per cent of total agricultural cooperative societies were in Punjab. Punjab's share in cooperative agricultural credit disbursement in the country was 93 per cent. The amount of such loans disbursed in Punjab was Rs.1495.92 Million in 1984 –85, (ibid) details are five in Annexure.

The mark-up free credit disbursed by commercial Banks has already been examined by the Punjab Economic Research Institute. The study (Khan and Sarwar, 1986) discovered that al most all the credit disbursed by commercial banks to agriculture was mark-up free, and in it, the share of 'genuine loans' was only 23 percent. Although commercial banks' mark-up free credit was

meant for small farmers, but the small farmers could acquire only 40 per cent of it. The rest was pre-empted by different influential persons in the rural areas.

In the light of the findings about commercial banks, as mentioned above, it was considered worthwhile to examine whether the mark-up free cooperative agricultural credit was reaching the small farmers – the target group. Since the Punjab was the main recipient of this credit, the present study was done in this province. The Punjab Economic Research Institute undertook this study with due deference to the directive of the Planning and Development Department, Government of Punjab, to find out as to whom the benefits of the cooperative loans accrued, i.e. whether these loans actually benefited the loanees and achieved the purpose for which these were granted. The Institute had also received a request from the Cooperatives Department, Government of the Punjab to conduct a study on interest free credit through Agricultural Cooperative Credit Societies in the Punjab.

1.2. Objectives of the Study

The specific objectives for the study are outlined as follow:

- to estimate the proportion of cooperative loans reaching the small farmers in Punjab
- to identify the shortcomings, if any, in the flow of cooperative credit to the small farmers
- to see the impact of cooperative loans on the fertilizer use levels of the small farmers
- to evaluate the impact of cooperative loans on the crop yields of the loanees
- to suggest policy measures to improve the system of cooperative loans in Punjab

Since this study is going to see the flow of cooperative credit, it seems appropriate to explain here the procedure of getting a society registered and obtaining a loan. Thus the next section gives information in this regard.

1.3. Procedure for Establishing Primary Cooperative Credit Society

At present, the function of agricultural credit disbursement is being done mainly by primary ‘cooperative thrift and credit societies’ which are established on single village basis. The procedure for setting up new cooperative credit societies is explained step by step as below:-

Step-1

Most important step in establishing a new agricultural credit cooperative society is ‘cooperation among farmers’. Once at least 10 farm households are ready to join together to solve their Economic (related to agricultural production) problems on self-help basis they can form an agricultural credit cooperative society.

Step-2

When at least 10 farm households are ready to join together to form an agricultural cooperative society and to buy shares of the society worth at least Rs.1000 and are also willing to pay membership fee, they can fill application form for the registration of the society and apply to the

Circle Registrar. The application from is in Urdu and explains in detail the purposes and functions of the society.

Step-3

Before the application is considered for registration of the society, the Sub-Inspector or Inspector of Cooperatives of the area visits the village and calls meeting of the members of the groups intending to form a society. This meeting is held at some common place so that other households from the village could also participate. In this meeting he collects information about the members and the accuracy of the entries regarding their farm size.

Step-4

After the Sub-Inspector's or Inspector's report either the Assistant Registrar of the area or the concerned Circle Registrar registers the society. The society then affiliates itself with the Provincial Cooperative Bank for the purpose of obtaining loans.

1.4. Procedures for obtaining Cooperative Credit

The amount of credit given to a society by the Provincial Cooperative Bank (PCB) determined by adding up MCL's of its individual members. Whereas the limit of a member mainly depends on its crop-input needs, the maximum is Rs.10,000 for a farm of 12.5 acres for two crop seasons in a year. Crop input needs of members differed by season so do their MCL's. Thus MCL's of cooperative members and of societies are fixed in each season. Once the MCL of a society is fixed, it can apply for a loan up to its MCL from the concerned branch of PCB. Theoretically, the procedure is so simplified that the representative of the society can get its loan sanctioned within a short time. The loan to a society is given in kind, generally in the form of chemical fertilizers. After getting delivery of fertilizer, the society is supposed to distribute the fertilizer among its members.

1.5. Organization of Study

The study is organized into 7 chapters. Chapter 2, which follows the introduction, examines the cooperative movement in Pakistan in historical perspective. Chapter 3 explains the methodology followed for data collection for this study, and briefly introduces methods of data analysis applied in this study. Chapter 4 presents a profile of sample agricultural cooperative credit societies, and Chapter 5 examines the flow of cooperative credit to agriculture. Chapter 6 deals with the economic impact of the credit, specially on the sue of fertilizer and crop yields. In Chapter 7 a summary of the major findings and policy recommendations of the study has been given.