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SOME ASPECTS OF RURAL CREDIT IN

EAST PAKISTAN.

Thesis submitted for the Degree of
M.A. in Economics in the
University of Durham

By

JAHAN ARA HUQ

Department of Economics,
Old Elvet, Durham.

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ABSTRACT

The poverty of farmers and the backwardness of agriculture are both cause and effect of a lack of capital and credit in the rural areas of East-Pakistan. They are cause because they make it almost inevitable that when loans are obtained they are mis-used, and consequently potential lenders are chary of putting their money into agriculture. They are the effect of a lack of credit and capital in the sense that changes in methods which might increase agricultural productivity have been held up for lack of finance. These considerations have not, however, prevented farmers from becoming heavily indebted and this study examines the purposes for which money is borrowed in the rural areas and the sources of finance. It shows that most of the rural debt is owed to non-institutional lenders of one kind or another and that the institutional lenders - banks, agricultural credit institutions, co-operative credit institutions etc. - have made very little contribution to the total supply of credit. The study concludes with an estimate of total credit requirements and argues that if the gap between supply and requirements is to be met, institutional lending will have to be greatly increased.

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INTRODUCTION.

In today's world, the question of how to promote economic development is of great importance for both the developed and less developed countries. The problem in the less developed countries is more intractable however, in the sense that while it is often possible to obtain a certain rate of growth, its maintenance at a level at which it remains greater than the growth rate of population over a period is infinitely more difficult. Yet such an achievement is absolutely necessary in order to put a typical underdeveloped country on the road to self-sustaining growth.

In most underdeveloped countries, the main offsetting force against attaining economic development has been the high rate of population growth. With limited domestic resources and restricted prospects in international markets for their industries, the problem of how to promote growth has proved very intractable. An increase in output which might have otherwise contributed to the building up of real income per head tends to be absorbed in supporting an increase in numbers, either with no increase or only a very small increase in real income per head.

In most underdeveloped economies, agriculture is the largest single industry, contributing from 50 to 80 p.c. to the G.N.P. besides providing food for their inhabitants. In fact a satisfactory rate of growth in agriculture is a sine-qua-non of over-all growth,

and the transformation of traditional agriculture is a pre-condition for a satisfactory rate of overall growth. Agriculture thus plays an important role in accelerating or retarding the economic development of a particular region.

From the general mass of literature on development it would not be difficult however to draw the conclusion that improvement in the agricultural sector has been assigned a lesser importance in the overall consideration of the development process.⁽¹⁾ The developing countries would seem, in fact, to have paid insufficient attention to the goal of increasing agricultural productivity.⁽²⁾ In Pakistan, planned expenditure on agriculture as a proportion of total spending has risen from 9% in the First Five Year Plan to some 15% in the Second and Third Five Year Plans, whilst actual expenditure was only 7% in the First Five Year Plan and 13% in the Second Five Year Plan.⁽³⁾

The Department of Agriculture in Pakistan, as in most underdeveloped countries is still regarded as a minor and unimportant government department and there is less "glamour" attached to being

- (1) Eicher, C. and Witt, L., Agriculture in Economic Development, McGraw Hill, London, 1964, p.2.
- (2) Baldwin, R.E., Economic Development and Growth, John Wiley and Sons, New York, 1966, p.85.
- (3) Huq, M., The Strategy of Economic Planning, A Case Study of Pakistan, Oxford University Press, Pakistan Branch, Second impression 1966, p.237. and Planning Commission, Government of Pakistan, The Third Five Year Plan, (1965-70), p.41.

an officer in that department. Government and public support has been in the main, more closely devoted to the problem of industrialisation.⁽¹⁾ This has been true basically because underdeveloped countries have a craving for "symbolic modernisation". As Galbraith has pointed out, any claim to nationhood is thought to require a decent airport, a capital city with pavements and impressive buildings.⁽²⁾ No doubt as an emerging nation the prestige value of a steel industry, supermarkets, atomic reactors and luxurious air-conditioned hotels, are of immense appeal. However, such fascination for modernisation results in a strain on the balance of payments with chronic deficits. The relative neglect of the agricultural sector tends to lead to food crises. Economic history is eloquent with instances of nations where preoccupation with such "symbolic modernisation" only delayed "take-off". So thought and action are needed to make agriculture viable and self-sustaining:

Unfortunately economists of developing countries have not paid much attention to identifying the agricultural problems and very little has been published by them on this subject. They have, in fact preferred to do research on development planning with more specific reference to industries and power or macro-economic relationships,

(1) Nath, S.K., 'Indian Economic Development', in Planning and Growth in Rich and Poor Countries, George Allen and Unwin Ltd, London, 1966, p.153.

(2) Galbraith, G.K., Economic Development, Oxford University Press, London, 1965, p.4.

although many such endeavours have little practical implication.

This study is an attempt to examine one particular, but very important agricultural problem viz. the need for credit and the sources from which farmers borrow.

Agriculture in East Pakistan is undertaken mainly for family consumption and the methods of farming are determined by tradition. It is beset by multifarious problems in recent decades and there has been very little improvement in productivity. One of the main bottlenecks in agriculture has been lack of investment and this in turn has been due in part to the lack of rural credit. Rural credit is vital, because it enables a farmer to practise improved agricultural techniques. Farmers in East Pakistan are miserably poor : about 50 to 80 p.c. of them probably need credit but most of them are ineligible for loans from institutional lenders, because their holdings are less than 2.5 acres. A recent study has revealed that smaller farms yield higher output per acre than larger farms.⁽¹⁾ So a worthwhile rural development programme cannot justifiably ignore the interests of small farmers who constitute about half or more of the total.

Thus, for the amelioration of rural poverty and an increase in productivity a substantial flow of funds to the farmers is needed. The net inflow of institutional credit has been desperately low and

(1) An unpublished study made by the East Pakistan Bureau of Statistics.

inadequate. During the five years of the second plan, total institutional credit has been about Rs 500 million or an average of Rs 100 million per year.⁽¹⁾ This is only a microscopic proportion of the total requirement as estimated in this study. This is partly due to the paucity of resources at their disposal and partly because of the criteria used by institutional lenders to determine for what purposes credit is to be made available. These criteria place a very narrow definition on 'productive purposes', as we shall see, and institutional lenders will not make loans for anything else.

The main problem therefore lies in the fact that the institutional credit supply is meagre in relation to total requirement. This at once poses a problem and forms a target for solution. The real challenge lies not in advancing credit to uncreditworthy borrowers, but in their transformation into creditworthy ones. This is what the study proposes to show.

The study can be roughly divided into two parts. Part I deals with the general economic situation and the demand for rural credit. Part II discusses at greater length the supply from both private and institutional sources, aiming to show the inadequacy of the contribution made by institutional credit to the total requirement of agricultural credit.

(1) Government of East Pakistan, Finance Department, Economic Survey of East Pakistan, 1966-67, p.15.

The first part consists of two chapters. Chapter one examines some salient characteristics of the rural economy and attempts to highlight some of the main economic reasons for stagnation and backwardness in agriculture. Chapter two covers the demand for rural credit and includes some estimates of indebtedness. Part II starts with the third chapter which discusses the provision of credit from private and institutional sources in turn and also discusses the role of the State Bank of Pakistan. One important institutional source, the co-operative movement, has been left over for separate treatment in chapter four. The main emphasis of the study has been on institutional sources, their overall impact on the economy, their achievements and failures, and one particular experiment in institutional credit, the Comilla system, is examined in chapter five.

Finally, in the sixth chapter an attempt has been made to estimate the total credit requirements of agriculture for the province. After trying to evaluate the existing estimates of credit, an attempt has been made to show the actual gap between institutional credit supply and the total requirement. In the study, extensive use has been made of official documents but the study also relies heavily on some unofficial surveys and studies.

PART I.

CHAPTER ONE.SALIENT CHARACTERISTICS OF THE RURALECONOMY.1. Some vital economic indicators of East-Pakistan.

The province of East Pakistan came into existence as a result of the partition of British India into two states, India and Pakistan following its dissolution in 1947.

Located between 20° - $30'$ and 26° - $45'$ North latitudes and between 88° and 92° - $56'$ East longitudes, it has a total area of 55,126 square miles. The area excluding rivers is 51,921 square miles.

The climate of East Pakistan is typically a tropical monsoon one, with hot and humid summers and dry, relatively cold winters without rains.

The normal temperature ranges between 44° F in winter and 104° in summer. The highest temperature is experienced in Bogra and lowest in Sylhet. Normal annual rainfall is 81" ranging from 40" in Rajshahi to 235" in Sylhet. 85 p.c. of the rainfall occurs during the monsoon, covering the months from May to September. (1)

(1) Government of East-Pakistan, East Pakistan Bureau of Statistics, Statistical digest of East-Pakistan, No.3, 1965, p.2 & No.2 1964, p.49.

In 1961 East-Pakistan had a population of 50 million of whom 85 p.c. were engaged in agriculture. Out of a total of the 16.86 million in the labour force 14.34 millions were agriculturists. (1)

East-Pakistan has 17 districts, 54 subdivisions, 408 thanas and 64,523 villages.

About 96 p.c. of population lives in rural areas and agriculture is the main contributor to the gross domestic product of the province accounting for just under 60 p.c. of the total. The principal export crop is jute.

The major components of diet in East-Pakistan are rice, and to a lesser extent, wheat. Such cereals provide a low cost diet and poverty confines the people of East-Pakistan to a grain diet. Even so, domestic food production is not sufficient to provide its people with what is considered a minimum diet of 2300 calories per day; the current national average is 1855 calories per day, (2) and per capita food grain consumption in East-Pakistan is about 14 ounces a day. (3) Domestic food supplies are supplemented by imported cereals;

(1) Office of the Census Commissioner, Population Census of Pakistan, Census Bulletin No.5, p.1. By now it will be 70 millions, assuming a compound rate of growth of 2.7 p.c. per year, East Pakistan Bureau of Statistics, Statistical Digest Nos.2 & 3.

(2) Government of Pakistan, Planning Commission, The Third Five Year Plan, (1965-70), p.14.

(3) Government of East-Pakistan, East Pakistan Bureau of Statistics, Handbook of Economic Indicators, of East-Pakistan 1965, p.45.

but imports have never yet exceeded $1\frac{1}{2}$ million tons in any one year.

The following table shows the relative growth rates of population and food production.

TABLE 1.1 : Index of food production and the growth of population in East-Pakistan.

Year	Index of population growth (1951-52 = 100)	Cumulative Effect	Index of food production (1951-52 = 100)	Cumulative Effect
1949-50	96	-	103	-
1950-51	98	2	102	- 1
1951-52	100	4	100	- 3
1952-53	102	6	104	+ 1
1953-54	104	8	116	+13
1954-55	107	11	108	+ 5
1955-56	109	13	92	-11
1956-57	111	15	114	+11
1957-58	113	17	106	+ 3
1958-59	116	20	98	- 5
1959-60	118	22	117	+14
1960-61	121	25	132	+29
1961-62	124	28	131	+28
1962-63	128	32	124	+21
1963-64	131	35	129	+26

Source: Handbook of Economic Indicators of East-Pakistan
op.cit., p.35.

It shows that population has grown faster than food production. It also shows that the rate of growth of population is steady and less erratic than the relative growth in food supply in East-Pakistan. It would appear from the table that the increase in population was 2 p.c. up to 1954-55, 2.4 p.c. up to 1961. In recent years it has jumped to the alarming rate of 2.6 or 2.7 p.c. The ups and downs in production levels of food grains reflect the vulnerability of agricultural crops to the vagaries of nature, against which flood and water control schemes provide very little protection.

Yield per acre of rice, which accounts for 90% of cereal production, and of the other crops, is one of the lowest in the world. Table 1.2 shows the yield per acre of rice in a number of different countries in 1963.

TABLE 1.2 : Yield per acre of rice in some selected countries in 1963.

Country	Yield per acre (in lbs)
1. Italy	4575
2. Spain	5557
3. Egypt	4397
4. China, Taiwan	3125
5. Japan	4679
6. East Pakistan	1578

Source: Handbook of Economic Indicators of East-Pakistan, op.cit., p.43.

East-Pakistan produced 15.7 million tons of rice in 1963-64, out of a world total of 169 million tons, whilst out of the total world acreage of 214 million acres under rice, East Pakistan accounted for 21.5 million acres. (1)

Rice is grown in 3 varieties. Aman is a summer rice sown by broadcast or by transplantation during the months of June-July and harvested in November-December. It is grown in 70 p.c. of the area. Boro is the winter rice transplanted during November to January and is harvested during the months from March to May. It occupies about 5 p.c. of the total land. Aus is the spring crop, depending on spring rains and it occupies about 25 p.c. of the area. (2)

Jute, the export cash crop covers only 7 to 9 p.c. of the cropped area. (3)

The following table provides some rough indicators of some of the main variables with which this study is concerned. They have been assembled from a variety of sources and may therefore be not strictly comparable.

(1) Statistical Digest No.2, Table 3.10, pp.64-67. The table shows that excepting India, East-Pakistan has the largest acreage under rice.

(2) Government of Pakistan, Ministry of Food and Agriculture, Report of the Food and Agriculture Commission, 1960, p.36.

(3) Ibid, p.36.

TABLE 1.3 : The size of holdings, size of family, income and indebtedness in East-Pakistan.

1. Average size of holdings (in acres)	3
2. Average size of holdings per family (in acres)	3.5
3. Average size of family (in numbers)	6 to 7
4. Per capita income (in rupees)	315
5. Per capita farm income (in rupees)	191
6. Indebtedness per household (in rupees)	309
7. Families in debt (in percent)	54
<p>Source:</p> <ol style="list-style-type: none"> 1. Farouk, A., <u>Irrigation in a Monsoon Land</u>, (mimeographed copy) Bureau of Economic Research, Dacca University, 1968, p.3. 2. <u>Report of the Food and Agriculture Commission</u>, op.cit., pp.26 and 37. 3. Government of East-Pakistan, Co-operative Statistics and Research Organisation, <u>Agricultural Credit in East-Pakistan, A Survey Report, 1967*</u>, pp. 80 and 83. 4. <u>Statistical Digest No.4, 1966</u>. The figure is related to the year 1964-65 at constant factor costs from 1959-60 to 1964-65, p.223. 	

* Henceforth referred to as 'The Co-operative Survey'.

Table 1.3 bears eloquent witness to the rural poverty of East Pakistan. Despite more than 150 years of close association with the West, farming methods have changed very little. Most of the implements used are made by the farmer himself or bought from the village craftsmen. The wooden scratch plough (langal) often is not tipped with iron and is drawn by a pair of bullocks. Seeds are broadcast by hand, and seedlings are transplanted without following a definite pattern. Cultivation is mostly rain-fed or by irrigation from rivers or Khals.⁽¹⁾

The only possibility of raising a third crop is from irrigation facility in winter. An effort has been made during the Second Five Year Plan to make use of low lift pump irrigation in northern districts. The total irrigated land is about 2.2% of the cultivated area.⁽²⁾

2. Leading features of the agricultural situation in East-Pakistan.

Having discussed some of the main indicators in the preceding section, let us now discuss the leading features in the agricultural situation in East-Pakistan.

(1) A Khal is a natural canal.

(2) Irrigation in a monsoon land, op.cit., p.3.

(a) Density of population.

With limited scope for urban employment,⁽¹⁾ the increasing population has to fall back on agriculture. The joint family system is common and families covering three generations are not unknown.⁽²⁾

To a farmer, land is the only source of living, the only object of interest. To him its security is unquestioned. This attachment to land is both real and psychological, based on dependance on land for generations.

With a high rate of growth of population the overall density is 979 persons per square mile. In some fertile areas of the Dacca District the average density varies from 10,000 to 26,000 per square mile.⁽³⁾

The density of the rural population or the average man-soil ratio in terms of the total cultivated area is a more meaningful concept than the average density. The overall man-land ratio was 0.60 acres in 1960-61 which came down to 0.55 acres in 1963-64.⁽⁴⁾

-
- (1) The rate of urbanisation in East-Pakistan is very low about 4.4 p.c., vide The Second Five Year Plan, op.cit., p.333.
- (2) Hussain, A.F.A., Human and Social Impact of Technological Change in Pakistan, Volume I, Oxford University Press, 1956, p.75.
- (3) In the village Panam, the density is 26,000 persons per square mile, 'Irrigation in East-Pakistan', A paper read by Tamjida Begum in The All Pakistan Science Conference in Hyderabad in 1967.
- (4) Government of East Pakistan, The East-Pakistan Bureau of Statistics, Abstract of Agricultural Statistics of East-Pakistan (Land and Crop Statistics) Volume I, p.8. and Statistical Digest, No.3, op.cit., pp.17,76 and 77.

The actual pressure on land is still greater when the land-labour ratio is estimated in terms of area under actual cultivation. This ratio was 0.49 acres in 1961 and 0.46 acres in 1963-64 despite some increased acreage.

High density of population has led to high intensity of land use. About 96 p.c. of the cultivable area has been put to agricultural use.⁽¹⁾ Intensity of cropping which is the ratio between total area cropped and net area sown, likewise has been very high: it was as high as 148 in 1960.

These high ratios of intensity of land use and intensity of cropping explain the limit to the possibilities of extensive cultivation as there is little scope left for horizontal expansion, the solution for food shortage has to be sought in vertical expansion with the help of irrigation, fertilizers and better managed crops. Multiple cropping is only possible through winter irrigation.

(b) Sub-division and fragmentation of holdings.

One of the main problems in agriculture is the low average size of agricultural holdings, which has resulted from

(1) Intensity of land use is the percentage net sown area of cultivable land. Government of Pakistan, Agricultural Census Organisation, Pakistan Census of Agriculture, 1960, Volume I, Table 13, p.114.

population increase and institutional factors, and especially from the Muslim law of inheritance which provides for the division of property equally among the number of heirs. The problem is not only confined to East-Pakistan, as a recent United Nations report shows.⁽¹⁾ The small average size of holdings is the outcome of successive sub-division and fragmentation. Fragmentation is a form of sub-division, occurring when a single farm consists of a number of discrete pieces of land scattered over wide areas.⁽²⁾ The average size of holding is $3\frac{1}{2}$ acres but instead of being compact, these holdings in East-Pakistan are usually divided into anything between 5 and 10 non-contiguous plots.⁽³⁾ Some of the economic consequences of this are that plots become small and of uneconomic sizes.⁽⁴⁾ Scattered over wide areas, they are difficult to improve, to supervise, to irrigate or to fence.

-
- (1) United Nations, Department of Economic Affairs, Land Reform : Defects in Agrarian Structure as Obstacles to Economic Development, New York, 1951, p.11.
- (2) F.A.O. The Consolidation of Fragmented Agricultural Holdings, Rome, 1950, p.5.
- (3) Huda, M.N., and others, Rural Credit and Unemployment in East Pakistan, 1956, Dacca University, Socio-Economic Survey Board, Dacca, 1958. (Hereafter referred to as the 'Dacca University Rural Survey'), Appendix B, p.19.
- (4) The size of an economic holding in East-Pakistan is 8 acres, The Third Five Year Plan, op.cit., p.409.

Land is wasted in providing boundaries and there is wastage of man-hours and work animals in moving from one plot to another. Small plots of irregular shapes make them unsuitable for rotation of crops. The maintenance of grazing animals on such plots becomes difficult. In extreme cases fragmentation may lead to quarrels and consequent litigation over the possession of boundaries between plots.

In effect then, the average number of acres per agricultural worker is about 2⁽¹⁾ and acreage in terms of actual cultivated land per head is as low as 0.46. The average farm holding per family is 3.5 acres, but 80 p.c. of farm families have less than 3 acres and 1.5 million people are landless.⁽²⁾ Most holdings are so scattered that the use of improved methods of farming is virtually ruled out.

(c) Low Capital formation in agriculture.

Agriculture by and large is deficient in one major input, that is capital,⁽³⁾ however one chooses to define and measure it. Whether one restricts the term capital to physical assets or

(1) Human and Social Impact of Technological Change in Pakistan, op.cit., p.46.

(2) The Report of Food and Agriculture Commission, op.cit., p.37.

(3) The total value of a farmer's equipments in Comilla is on average between Rs. 13 to Rs 19. Farouk, A., and Rahim, S.A., Modernising Subsistence Agriculture, Oxford University Press, Dacca, 1967, pp.83-84.

includes expenditure on e.g. agricultural education, it is clear that one must include both public and private expenditures. Thus government outlays on irrigation, land reclamation or coastal embankments have to be included in estimating capital formation no less than a farmers expenditure on a hoe. If one treats the Development Budget as comprising most of the public sector's capital formation, then Table 1.4 shows that out of a total Development Budget of Rs 2260 million in 1966/67 only 11% went on agriculture though some other heads must also be regarded as contributing more or less directly to capital formation in agriculture.

Private capital formation is however more difficult to estimate. It can be done either by family budget studies in which all receipts and expenditures are recorded, or alternatively, by asking about expenditure on capital goods. The latter method is usually more successful as major items of expenditure are more easily remembered. This method has been used by Mr. Habibullah in estimating private capital formation in rural areas in the monetized sector.⁽¹⁾ In this study the rural capital formation in two of the five unions surveyed was negative and in the rest it was negligible. The main reasons were the absence of institutional facilities for credit, high rates of interest charged by private lenders and the low income level of the

(1) Habibullah, M., Some Aspects of Rural Capital Formation in East-Pakistan. Bureau of Economic Research, Dacca University, 1963. (passim).

rural masses. Lack of savings appeared to be the main cause of low capital formation. Habibullah found that 80% of the farm families surveyed had no surplus for the period covered by the survey. (1)

It was also observed that during social and religious ceremonies like marriage and naming, and also for litigations the more prosperous farmers were relatively extravagant. A sum of Rs 100,000 was spent on these occasions because it was customary for farmers to entertain friends, relatives and neighbours with a sumptuous dinner. Every rural marriage was invariably accompanied by a debt, mortgage of property or sale of assets. (2)

The lack of savings is due on the one hand to low income levels and on the other, to the absence of institutional facilities for saving. Difficulties of communication inhibit saving if farmers have to travel some distance to the nearest post-office or a branch of the Agricultural Development Bank. In some cases their very existence is not known. Finally, a fatalistic philosophy affects their willingness to sacrifice present comfort for the future.

(d) Underemployment and Disguised Unemployment in Agriculture.

Countries like India and Pakistan with heavy population pressure, are often instanced as surplus labour economies.

(1) Some Aspects of Rural Capital Formation in East-Pakistan, op.cit., p.97.

(2) ibid, p.91 and Human and Social Impact of Technological Changes in Pakistan, op.cit., p.81.

It is said that 25 p.c. of the agricultural labour force is underemployed in India and Pakistan.⁽¹⁾ Majumdar in his 9 village study in India says, "about 71% of the farmers are affected by disguised unemployment".⁽²⁾

Agriculture cannot easily absorb additional numbers but in the manufacturing sector the capital intensity is high which sets a limit to the capacity to employ more labour. Manufacturing in East-Pakistan has not yet gained much ground compared with West-Pakistan.

Statistical measurement of unemployment in agriculture is difficult because, it is in a disguised form. Any such measurement needs to take into account the following.

(i) Farming is carried on by self-employed labourers who may spend a part of their labour time in non-farm activities and may themselves hire labour in addition to the members of their family during a peak season.

(ii) The farm operations for crops like jute and rice are seasonal in character. The time table of a farmer if he does not grow jute shows three months of hard work and nine months of idleness.⁽³⁾

(1) F.A.O. Agricultural Credit in Economically Underdeveloped Countries, Rome, 1959, p.27.

(2) Majumdar, D.'s chapter in (ed.) Eicher C. and Witt, L. op.cit., p.137.

(3) Jack, J.C, The Economic Life of a Bengal District, A Study, Oxford University Press, London, 1916, p.39.

(iii) Certain processes like weeding transplanting and harvesting of rice are laborious, because some of these processes are to be carried on in mud and under the blazing sun, wherein a farmer needs longer hours of rest than in the case of other crops.

(iv) The farmers are illiterate and do not keep any regular account reporting their man-days accurately. Even if reported, full utilization might not have been made.

(v) The potential labour-time should be distinguished from actual labour-time. The former depends on physical ability while the latter on willingness and preference for leisure as against work.

(vi) A certain number of work-days are lost due to vacations, festival days or heavy rainfall and other natural calamities each year.

The man power survey conducted in 1959 estimated that 3.5 p.c. of the existing labour force ^{were unemployed.} or 17 p.c. of the total number at work were underemployed. The actual number of the underemployed was estimated to be 2.5 million. (1)

The rate of under-employment as found by the study was the highest among the unpaid workers. Seasonal fluctuations were

(1) Underemployment was assumed to exist when the average working time per week was less than 50 hours. 'Unemployment, Underemployment in India, Indonesia, Pakistan and Phillipines', International Labour Review, Volume LXXXVI, No.4, Oct.1962, pp.379 and 381.

pronounced in agriculture. About 48 p.c. of the labour force covered by the survey reported that they had a slack season during which almost two thirds of them worked for less than 30 hours per week. The majority of the casual labourers found it difficult to obtain work for more than 15 to 20 days per month during the slack seasons.

The standard or norm period for full-employment of a farmer in East-Pakistan as formulated by Colin Clark, was 2500 man hours, per year; he also needed 300 hours a year to look after 1.7 cattle. On this basis an East-Pakistani farmer needs roughly 4 acres in addition to his cattle to keep himself fully employed with the use of existing manual techniques.⁽¹⁾ On these assumptions, it can be calculated that 7.4 millions or about 50 p.c. of the total labour engaged in agriculture in 1961 were surplus.⁽²⁾

The survey carried out by Dacca University revealed that although unemployment was widespread the percentage of active members among farm families completely unemployed was negligible.⁽³⁾

(1) Huq, M., The Strategy of Economic Planning, op.cit., pp.240-241.

(2) This calculation of surplus labour in agriculture is on the same basis as the calculation by Mahbubul Huq for 1949-50. The Strategy of Economic Planning, op.cit., pp.240-241.

(3) Dacca University Rural Survey 1956, op.cit., p.100.

A significant peculiarity of unemployment in East-Pakistan is that during the peak seasons (sowing and harvesting) there is a shortage of labour in some parts of the province. In these periods hired labour is employed in addition to family labour. Apparently this reflects a shortage of labour and the absence of any visible unemployment. During off-seasons a farmer has no work at his farm and may be engaged in some non-farm activities. So under-utilization of labour time during non-peak seasons is consistent with the shortage of labour in peak seasons. A farmer during a non-peak season may still spend his time in the upkeep of his farm, like fencing or weeding and may pay greater attention to his livestock in making them ready for the next cultivating season. In such a season he might seem unemployed but in fact he is not, as would be normally estimated.

(e) Land Tenure

At present there are three types of land tenure in East-Pakistan; (a) Owner-farmers or Owner-operators who own land and operate their own farms; (b) tenants who cultivate land belonging to others and pay fixed rent in cash or in kind; (c) owner-cum-tenants who own a part of their farms and have the rest as tenants. Besides these, there are "Bargadars" or "Share Croppers" who cultivate the land of a peasant proprietor. All labour, implements and seeds are

supplied by them and in addition, for the use of land they pay a part of the crop to the landlord. This share is usually as high as 50 p.c. of the total yield. Over and above this, there are landless rural labourers who work on daily remuneration.

During the Hindu rule in undivided Bengal, the cultivators' rights to their land were inalienable and hereditary so long as they continued to pay their tax to the village headman or zamindar. Payment was made in kind at the rate of one sixth of the total crop.⁽¹⁾ The Muslim rulers of the later period did not disturb the existing pattern except that the share of the Crown was increased.

By the middle of the 17th century the Zamindars, strengthened their position. The emergence of the East-India Company as Diwan (revenue collector) in some parts led to widespread confusion about the position of the Zamindars and the Company.⁽²⁾ This confusion was sought to be resolved by the Permanent Settlement in 1793.

As a result of the Permanent Settlement responsibility for collection of revenues was given to the Zamindars who were to obtain and transmit a permanently fixed cash fee to the state each year. The share of the state was to be 9/10ths of the cash revenue collected by them for the tenant, the rest to be retained by the Zamindars as

(1) Tepper, E., Changing Patterns of Administration in Rural East-Pakistan, Asian studies Centre, occasional paper No.5, Michigan State University, Chapter 1, p.1.

(2) Mukherjee, R.K., 'Land Tenure in India', The Encyclopaedia of Social Sciences, Volume IX, p.111.

their payment. Besides, the Zamindars were allowed to take additional funds from new lands brought under cultivation.⁽¹⁾

This arrangement soon made the Zamindars not only revenue collectors but de-facto proprietors and masters over the tenants. By the Permanent Settlement it was intended to confirm the customary rights of occupancy and prevent the enhancement of tax rates or imposition of any arbitrary assessment. But enforcement of protection of the rights of the "rai-yats" (peasant proprietors) as originally intended, was difficult because the settlement was with the Zamindars and clearly the "rai-yats" were out of the picture. As no definite provisions were made in the system for such protection, the peasants suffered from oppressive exactions like "abwabs" (special additional taxes) and other illegal assessments.⁽²⁾ Moreover, the "Haptam Regulation" of 1799 gave wide and arbitrary powers to the Zamindars.⁽³⁾

The Permanent Settlement was an outcome of the Government's overriding concern for a trouble-free, fixed revenue. But it turned out to have undesirable side effects for both the Government and the farmers. It led to "absentee landlordism" as the landlords

(1) Tepper, E., op.cit., p.5.

(2) Mukherjee, R.K., 'Land Tenure in India', op.cit., p.111.

(3) Tepper, E., op.cit., p.6.

abused power, neglected their duties towards irrigation, levied illegal cesses and displayed little practical interest in the upkeep of farms or improving the conditions of the peasantry, The Government lost touch with rural conditions and the increased revenue did not in fact materialise.⁽¹⁾ The peasants were guaranteed very little and were placed at the mercy of the landlord.⁽²⁾

The most serious outcome of the Permanent Settlement was perhaps the sub-division and sub-infeudation of the rights on land. With the growth of population and more intensive cultivation, land values and rents increased, and with them, the absolute margin between "rent" and "revenue". This soon led to an influx of intermediaries between the Zamindars and the cultivators. A long chain of rent receivers, such as "patnidars", "dar-patnidars", "se-patnidars", intervened between the state and the cultivators.⁽³⁾ Sub-infeudation of such a nature reached "fantastic proportions" in some districts where fifty or more intermediaries were found to exist.⁽⁴⁾

Poverty, the transfer of land to money lenders and the multiplication in the class of intermediaries led to an increase

(1) Ibid, pp.7-8.

(2) Government of Bengal, The Land Revenue Commission Report of 1940 under the Chairmanship of Sir Francis Floud) p.36.

(3) Mukherjee, R.K., 'Land Revenue in India', op.cit., p.111.

(4) Tepper, E., op.cit., p.8.

in the number of landless rural labourers. The effects of the Permanent Settlement were such as to defeat its very purpose and in 1940 the "Floud Commission" recommended its abolition.⁽¹⁾

The system came under further attack later on,⁽²⁾ but it was not until 1950, more than a hundred and fifty years after its inception that the Permanent Settlement was finally abolished.⁽³⁾

The provisions and objectives of the Act of 1950 were: (i) the elimination of all intermediary rent receiving rights and interests; (ii) the acquisition of all rights and interests for the State on payment of compensation to Zamindars in instalments; (iii) the distribution of land over and above the ceiling (3.3 acres for an individual and 33.3 acres⁽⁴⁾ for a family) among the cultivators owning uneconomic holdings and landless agriculture.

The implementation of the Act has started and is expected to be completed during the Third Five Year Plan period. The

(1) Ibid, p.9.

(2) The Bengal Administrative Enquiry Committee 1944-45 and Rowlands Committee later disfavoured the Permanent Settlement. Tepper, E., op.cit., p.9.

(3) In February 1950, the East Bengal State Acquisition and Tenancy Act was passed. The actual implementation started in May 1951. Ibid, pp.9-10.

(4) The ceiling was subsequently modified in 1961 and increased to 12.5 acres and 125 acres per family as recommended by the Land Revenue Commission 1958. Limits to the subsistence and Economic holdings were fixed at 3 and 8 acres respectively. See: The Third Five Year Plan, op.cit., p.409.

revisional settlement will take about 14 years to complete.⁽¹⁾

Land reform in East Pakistan came earlier than in the other parts of the sub-continent but it has not greatly improved the position of the peasants. Despite the abolition of the Permanent Settlement a significant area under cultivation is under "Bargadars" or share-croppers and "tenants-at-will" who have no legal rights on land. The landless labourers are not covered by the Act. Over the whole province 38 p.c. of the landholders farming 44 p.c. of the land are share-croppers.⁽²⁾

The fixing of ceilings and redistribution of excess land proved to be easy to evade. Partition of property on paper only and the system of "Benami" or nominees are prevalent and consequently many owners still have land well in excess of the fixed ceilings. Even the permitted ceilings are high. The Act does not require the holders to cultivate the soil, thus leaving plenty of latitude for the persistence of "petty absentee landlordism".⁽³⁾

(1) Ibid, p.410.

(2) The Report of Food and Agricultural Commission, op.cit., p.39.

(3) Landlords after the Act have less land and consequently less power than they used to enjoy under the Permanent Settlement.

CHAPTER TWO.

RURAL CREDIT AND INDEBTEDNESS.

1. Rural Credit : Enquiries and legislation.

In the last chapter we saw how the prevalence of the Zamindari system contributed to the creation of an impoverished agrarian population. Private money lending at high rates of interest further added to the poverty of the farmers. In the course of sale or mortgage of land to the money lenders, the number of landless peasants increased. All these conditions taken together increased the poverty and burden of indebtedness to such an extent that it has been remarked that the population in India "at any known period has never been free from debt".⁽¹⁾

Frequent famines from the last quarter of the nineteenth century⁽²⁾ onwards, led to various enquiries into the causes, nature and volume of indebtedness. These have been summarised by the Dacca University Rural Survey Report and the outline account given here is based on their summary.

(1) Government of India, Famine Enquiry Committee, 1879, p.16.

(2) Famines occurred in India during the years, 1861, 1866, 1868, 1876-78, 1896 and 1899.

G.B. HMSO, Report of the Indian Famine Commission, 1901, pp.1-3.

The Bengal Banking Enquiry Committee 1929 was the first to carry out a comprehensive enquiry into rural finance with the twofold objective of (i) suggesting ways and means by which farmers could obtain credit for land improvement and for the marketing of the produce; and (ii) suggesting ways to stimulate the habit of investment. Its findings on the level and distribution of indebtedness formed the basis of most dependable data for further comparisons. ⁽¹⁾

A large scale village survey covering all the districts of Bengal was conducted by the Board of Economic Enquiry in 1934. The report gave valuable information about the size of holdings, as well as the income and expenditure of rural families.

In this period various other enactments were adopted for the control and regulation of money lending with a view to providing relief to the indebted farmers. The Usurious Loans Act of 1926 provided some cover to the farmers against excessive rates of interest and unfair transactions of the money lenders. All its provisions were incorporated into the Bengal Money Lenders' Act 1933. This Act fixed maximum rates of interest ⁽²⁾ and made provision for

(1) Dacca University Rural Survey, op.cit., p.13 and passim.

(2) The simple rate of interest was fixed at 15 p.c. on secured and 25 p.c. of unsecured loans. The maximum compound rate of interest was fixed at 10 p.c. for all loans.

debtors to sue the creditors against their dishonest manipulation of accounts.

Later this Act was replaced by the Act of 1939, which had provisions for checking the mal-practices of money lenders. Under this Act, if the lenders avoided receipts for payments, the debtor could now deposit the sum in the court. To achieve success, the Act made it obligatory for the lenders to (i) keep accounts of their transactions and (ii) get themselves registered and licensed.

Under an earlier Act of 1935, known as the Bengal Agricultural Debtor's Act, Debt Settlement Boards were created for the reduction and amicable settlement of any disputed amount between debtors and creditors.⁽¹⁾

During the Second World War, there were only minor legislative changes but an attempt was made in this period to carry out a plot by plot enumeration in 77 randomly selected villages. This was conducted by S.M.Ishaque along with the agricultural census.⁽²⁾

After independence in 1947 the partition of the province caused a mass exodus of the non-muslim money-lenders resulting in a shortage of capital for agriculture. In 1951 the Agricultural

(1) By the end of March 1944, a total debt of Rs 50 million was reduced to Rs 18 million. This was over 64 p.c. of the total cases pending. Wadia P.A., and Merchant, K.T., Our Economic Problem, New Book Co, Bombay, 1946, pp.198-199.

(2) Dacca University Rural Survey, op.cit., p.15.

Enquiry Committee was set up to review the state of agriculture and the existing institutions of credit, their workings and their effectiveness. In 1952 the Economic Appraisal Committee was set up to study general economic problems including problems of rural credit. In this period the Agricultural Development Finance Corporation the first institution of its kind in Pakistan was set up.

The period since 1956 has witnessed a marked increase in official concern. Although no attempt has been made to carry out a survey on the scale of the All India Rural Credit Survey, a number of smaller official and non-official surveys and studies have been undertaken. Some positive steps were taken such as the establishment of the Agricultural Bank of Pakistan and later its merger into The Agricultural Development Bank of Pakistan to solve the problems of rural credit.

In 1956 a survey on rural credit and unemployment was conducted by the Dacca University Socio-Economic Survey Board under the joint sponsorship and financing of the State Bank of Pakistan and the Asia Foundation. It was conducted on the basis of a random sample of 3,144 households from 41 unions, in four selected sub-divisions.⁽¹⁾ It attempted to survey both the demand for and supply of credit. The demand for credit was inferred from information about e.g. the size of holdings, the level of living and the extent and distribution of

(1) Dacca University Rural Survey, op.cit., p.7.

indebtedness. The supply side of credit was elicited by questionnaires, interviews and discussions about the practice of money lending by private and institutional lenders.

This study was the first of its kind, as it consisted of extensive personal interviews of selected households using sophisticated statistical techniques.

In 1957, the Agricultural Bank of Pakistan was created and it co-existed with the Agricultural Development Finance Corporation until 1961 when the two institutions were merged. This followed the recommendation of the Credit Enquiry Commission in 1959 which had inquired into the provision of credit to agriculture, trade and industry. The Food and Agriculture Commission⁽¹⁾ in 1960 prepared a comprehensive compilation of official statistics on various aspects of agricultural production.

In the same year a 'Rural Credit Fund' was started by the State Bank of Pakistan. In 1962 an 'Action Plan' for the co-operatives was prepared by the State Bank.

In 1965, a committee on agricultural credit was set up under the chairmanship of S.M.Hasan, with the following objectives viz. (i) to assess the agricultural credit needs of the province and

(1) It had the distinguished membership of Dr.A.G.Black and Gaitskell. It also secured advisory services from experts of the World Bank, the FAO, the ICA and the Colombo Plan.
Report of the Food and Agriculture Commission, op.cit., p.4.

to suggest programmes for the distribution of loans; (ii) to make improvements in the distribution of loans offered by the existing agencies; (iii) to find out reasons for the poor recovery of loans and (iv) suggest concrete measures for improved recoveries. (1)

Finally in 1966 a survey was made by the Co-operative Statistical and Research Organisation which provides up to date information about indebtedness and matters related to rural credit. (2)

2. Rural indebtedness:

Borrowing among the farmers is common and in most agrarian economies the proportion of debt free farmers is very small. In 43 out of 75 districts studied in India, in 1951-52, 50 to 96 p.c. of the families of small farmers reported having borrowed during the year. In Thailand in 1953, one third to two fifths of the small farmers in the central plain reported having borrowed during the preceding five years. (3)

(1) The Committee was set up under government notification no.V - 12-19 64/75 dated January 1965, hereafter referred to as Hasan Committee Report. Hasan Committee Report (unpublished mimeographed copy), Preface, p.1.

(2) The Co-operative Survey, January 1966. (Passim).

(3) ECAFE/FAO Credit Problems of Small Farmers in Asia and the Far East, United Nations Agricultural Division, Bangkok 1957, p.6.

Farmers borrow not only for productive purposes like buying seeds, implements or bullocks but also because on their small farms they frequently fail to grow enough to survive. A cultivator may also borrow to tide him over natural calamities. Rural indebtedness is a direct outcome of the poverty of the rural areas. The onset of famines during the last century and the depression of 1929, (by affecting the prices of agricultural crops unfavourably) accentuated the poverty so much that, to quote the words of the Royal Commission on Agriculture, "the majority of the cultivators were born in debt, lived in debt and died in debt passing the burden on to those who followed them". This shows that the burden was not only great but was also hereditary in nature. Even at present the heir of a farmer inherits his fathers debt and obligations along with the share of the property. Debts may often pass down several generations as farming and money-lending are both hereditary professions and are operated accordingly.

A large part of the rural loans was provided in the past by the money lenders. Since the partition money-lending by professional money-lenders has more or less ceased and it has been taken over mostly by the landlords and other well to do rural people.

Usury has always been condemned as it is prohibited by religion. Nevertheless, the lenders have found ingenious ways of getting round the sentiments against usury. One of the common

practices is that, loans are granted in terms of paddy before the harvest, (the price is calculated in terms of money) and the repayment of such loans has to be made in terms of paddy just after the harvest when crop prices are relatively lower.

The farmers may sometimes borrow from several money-lenders. Instead of borrowing from one, a farmer might mortgage his land with one pledge his jewellerys with another and borrow on the security of crops from still another. (1)

In the case of loans advanced by the traders and dealers, these are contracted without any interest charge, on the promise of the borrower to sell his crops to the lender. These "advance purchase prices" appear as though they were interest free loans but if one looks more closely a kind of "disguised interest" can be detected because the lender pays a much smaller price for crops. In the absence of storage, the farmers dare not offend the lenders, and are compelled to sell the crops to them. The peasants on many occasions are cheated by the trader in weights and measures.

(1) Jack, J.C., The Economic life of a Bengal District, op.cit., p.97.

The Extent of Indebtedness:

In 1928/9 total rural indebtedness was estimated to be Rs 1,000 million in Undivided Bengal. The Dacca University Rural Survey found in 1956 that between 66 and 87 p.c. of families in the different villages surveyed were in debt.⁽¹⁾ The recent Co-operative Survey has found that indebtedness is present in about 54 p.c. of the total rural families surveyed.⁽²⁾ The average outstanding loan per indebted family was found to be Rs.275 and the average requirement per indebted household was Rs 309.⁽³⁾

A comparison between the levels of indebtedness in the past and the present as found by the various studies is given in Table 2.1. The figures are not, of course, strictly speaking comparable as they relate to different periods and have been collected by different methods over different areas. For instance the earlier enquiries were made for the entire district whereas in the surveys conducted by the Dacca University and the Co-operative Directorate, the sub-division was chosen as the unit. Also average price levels have greatly changed over the period and this vitiates any comparison. Nevertheless, the table makes it clear that indebtedness has been

(1) Dacca University Rural Survey, 1956, op.cit., Appendix B, Table 7(C), p.26.

(2) The Co-operative Survey 1966, op.cit., p.28.

(3) Ibid, p.29 and p.83.

TABLE 2.1 : Average indebtedness per family in four districts.
(in Rupees)

Sources and Year	District			
	Dacca	Noakhali	Rangpur	Faridpur
1. The Banking Enquiry Committee 1929.	228	194	189	80
2. Dacca University Rural Survey 1956.	200	310	106	137
3. The Co-operative Survey 1966.	209	399	42	124

Sources: Dacca University Rural Survey, 1956, op.cit., p.47 and The Co-operative Survey 1966, op.cit., p.27.

persistent and despite the rise of agricultural prices there has not been any significant improvement in the farmers' conditions and as such there has not been any steady decline in indebtedness of the farm families. The exception is Rangpur where it appears that the growing use of low lift pump irrigation has brought greater stability to harvests which may explain a significant fall in indebtedness.

The Dacca University Rural Survey has revealed some important new facts. For instance it shows that old debts were roughly one third of the outstanding debt and that the ratio of

disinvestment to outstanding debt per family was roughly one third of the total.⁽¹⁾ It also revealed that one way in which indebtedness was sometimes reduced was by the bankruptcy of the lenders ! Lastly, the higher level of indebtedness in some districts reflected greater vulnerability of these areas to the vagaries of nature.

A large part of the money borrowed - often as much as 70 p.c.⁽²⁾ is spent on family maintenance. This is because in the tight budget of a farmer the questions of "subsistence" and "survival" get priority over development. As institutional lenders are unwilling to lend for such purposes it helps to explain, as we shall see, why institutional sources are responsible for only an insignificant part of the total rural loans.⁽³⁾

The following table shows how loans were distributed between different purposes in the two recent surveys and brings out clearly how much of the money borrowed is for family expenditure.

It also shows that non-farm business expenditures covered a significant part of total debts. A small percentage of loans went towards the repayment of previous loans.

(1) Dacca University Rural Survey, op.cit., pp.46-47.

(2) Report of the Pakistan Agricultural Enquiry Committee 1951-52 op.cit., p.76 and, Dacca University Rural Survey, op.cit., p.61.

(3) In 1956 as surveyed by the Dacca University study 0.6 p.c. of the total loans was supplied by Co-operatives.

TABLE 2.2 : Percentage of Loans spent for different purposes.

	Dacca University Survey 1956				The Co-operative Survey 1966			
	Narayan gunj	Rangpur	Rajbari	Feni	Narayan gunj (Dacca)	Rangpur (Rajshahi)	Narail (Khulna)	Feni (Chittagong)
	%	%	%	%	%	%	%	%
1. Capital expenditure on farming.	8	12	8	8	2	22	17	23
2. Current expenditure on farming	10	9	13	12	5	19	4	11
3. Non-farm expenditure	12	3	10	6	46	19	2	2
4. Family expenditure	67	75	64	70	47	40	77	64
5. Re-payment of debt.	2	1	4	3	-	-	-	-
6. Other miscellaneous purposes.	1	-	1	1	-	-	-	-
Total	100	100	100	100	100	100	100	100

Sources: Dacca University Rural Survey, op.cit., p.61. Co-operative Survey, op.cit., p.52.

As in the case of Table 2.1, it would be wrong to attach much significance to the changes between 1956 and 1966 because the surveys were not conducted on a comparable basis; nor should one read too much into the difference between, e.g. Rangpur and Narail in 1966. The table is presented only to highlight what a high proportion of loans went on non-farm and family expenditures as distinct from expenditure on farming. In neither year and in no District did this account for less than about 60% of the money borrowed.

Cheap and easy availability of credit is a prime necessity for a cultivator. But due to the scarcity of sources it is the cultivator who pays the highest of premiums whereas credit is relatively cheap for business and other enterprises.

As the capital market is not well developed, there are only few institutions and these cover an insignificant part of the rural areas. As a result a cultivator has no alternative but to borrow from money-lenders, traders, shop-keepers, and landlords at very high rates of

interest.⁽¹⁾ In private borrowing or borrowing from private sources, rates of interest are high, much higher than on loans from institutional agencies. The cost of such loans is very high in all agricultural countries. Thus in India rates of interest on private loans range from 25 to 75 p.c.⁽²⁾ For unsecured loans the rate may be up to 300 p.c. per annum.⁽³⁾ The Philippines have rates varying from 25 p.c. to 400 p.c. per year.⁽⁴⁾ In Ceylon the private traders charge interest as high as 50 p.c. per annum and in Indonesia between 3 and 4 p.c. per month.⁽⁵⁾

(1) Land Reform, op.cit., p.38.

(2) All India Rural Credit Survey as quoted by Agricultural Credit in Economically Underdeveloped Countries, op.cit., p.61.

(3) Land Reform, op.cit., p.38.

(4) Credit Problems of Small Farmers of Asia and the Far East, op.cit., pp.10-11.

(5) Agricultural Credit in Economically Underdeveloped Countries, op.cit., p.61.

In Pakistan the rates charged by private lenders vary from 30 to 300 p.c. per annum⁽¹⁾ but the institutional agencies charge much lower rates of interest. Among the latter, Co-operatives charge from 6 to 9 p.c.⁽²⁾ The rates charged by the Revenue Department on Taccavi loans in East-Pakistan are 6½ to 7 p.c.⁽³⁾ while the A.D.B.P. charges 7 p.c. on short and medium term loans and 6 p.c. for long term loans.⁽⁴⁾

The Dacca University Survey has found that the money-lenders charged rates between 46 to 69 p.c. per annum. Loans by marketing intermediaries and itinerant traders were found to be at between 38 and 81 p.c. Rates on loans from friends and relatives ranged from 33 to 62 p.c. whereas the village well-to-do people granted loans at 31 to 89 p.c. a year. The shop-keepers were found to maintain their rates between 38 to 100 p.c. per year.⁽⁵⁾ Thus as found by the survey, the rates charged by the well-to-do villagers, shop-keepers and marketing intermediaries were higher than the rates charged by the money lenders.

(1) Report of the Pakistan Agricultural Enquiry Committee, op.cit., p.80.

(2) State Bank of Pakistan, Agricultural Credit Department. Agricultural Credit in Pakistan, Karachi, Dec.1962, p.50.

(3) Ibid, p.32.

(4) Government of Pakistan, Ministry of Finance, Pakistan Economic Survey, 1965-66, p.136.

(5) Dacca University Rural Survey, op.cit., Appendix B, table 15(a) p.43.

This finding conflicts with the common belief that money lenders charge the highest rates of interest. It may be due to the fact that the money lenders are subject to legal maxima while for other lenders no ceiling is fixed and they can charge arbitrary rates irrespective of the ceiling in the Money Lenders' Act.

Some loans are made at compound interest. Once such a debt is incurred, it mounts with amazing rapidity. In 1906-1910 half of the total debt throughout Faridpur district was really the result of compounded rates of interest. (1)

A large part of the loans is contracted at interest of a non-monetary form. The interest in such cases is either paid in terms of some crop in addition to the principal sum, or by a transfer of the use of land from the borrower to the lender, interest being realised out of the use of land. The possession of land is retained by the lender until the loan is fully repaid. Generally speaking, friends and relatives offer loans on such terms.

In case of transfer of the use or possession of land two types are prevalent. The first, "Khaikhalashi" or usufructuary mortgage, is a system in which a borrower transfers his right to use the plot to the lender for a stated period. At the end of the period (which is generally 15 years), both the principal and the interest are

(1) Jack, J.C., The Economic Life of a Bengal District, op.cit., pp.100-101.

considered as repaid. A second variant is mortgage by conditional sale. Under this system, the borrower executes a mortgage deed in favour of the lender. The condition of the mortgage is that if the money is repaid within the stipulated time, the borrower gets his land back, but in case he cannot do so, it remains permanently in the possession of the lender. This system is locally known as 'Saf-Kahala - Chukti Kahala' which means "clean sale and conditional mortgage". It is a conditional mortgage because if the borrower repays the loan, he recovers his land, otherwise, it goes to the permanent possession of the lender as in the case of a clean sale.

Conditional sales sometimes may be in 'Kot' or unwritten form. Formerly under this system, a transfer of the possession of land to the lender could be legally effected if the borrower failed to repay at the expiry of the contract. Through this system there has been a continuous transfer of land to the professional money-lenders, until with the amendment of the Bengal Tenancy Act of 1940, a check was given to such a transfer and it legalised only usufructuary mortgage. It also put a check to the malpractice of the money-lenders who evaded repayment of loans, with a view to getting the possession of land.⁽¹⁾ The system of 'Kot Kabala' or unwritten mortgage is still prevalent in East-Pakistan under which transfer of

(1) Dacca University Rural Survey, op.cit., Appendix A-2, p.7.

land takes place by verbal contract, inspite of the fact that such transfers have no legal basis. (1)

Besides there are cases when the borrower is obliged to promise the standing crop to the lender, who advances a loan on such commitments. The local name of such an advance is 'dadon'.

Sometimes a shop-keeper or a dealer charges a higher price for goods sold on credit. Over and above these, there are interest free loans which may be termed as 'mutual loans'. (2) About 29 to 56 p.c. of the total loans in surveyed areas were interest-free in 1956. (3)

As regards interest in non-monetary form, it is even more harmful than high money rates. Under such terms of lending, land ultimately passes into the possession of the lenders. In the case of a usufructuary mortgage, the agreed period being too long, is virtually tantamount to a sale, especially when the loan is large and the borrower is never in a position to repay. (4) In the case of a

(1) Dacca University Rural Survey, op.cit., Appendix A-2, p.7.

(2) Farmer A borrows from farmer B and repays back when he is well-off and may lend to farmer B, when and if asked.

(3) Dacca University Rural Survey, op.cit., p.74.

(4) Ibid, Appendix A-2, p.7.

mortgage by conditional sale in 'Kot' the contract is unwritten, verbal and cannot be legally enforced.⁽¹⁾

Sale of crops to the dealer sometimes involves a farmer in great losses. This happens because the borrower is compelled to sell his crop just after the harvest, but when buying, he buys at a higher price from the same dealer. The lender is mostly a person who markets the crops. In the absence of storage facilities a borrower dare not offend the lender, because if he does, he not only loses his future prospects of loans but also a marketing agent for his crop.

These are only some of the ways in which a farmer is exploited. Such exploitation brings a large margin of profit to the lenders. The borrowers in these ways become "tied to the merchant, landlord or money-lender and lose their individual freedom of manoeuvre".⁽²⁾ Nevertheless, and even though they cost more, farmers have always preferred loans from private sources, rather than borrow from institutional lenders. The reason is that the private lenders have been more responsive to their particular needs and have asked fewer questions about the uses to which the loans were to be

(1) Ibid, Appendix A-2, p.7.

(2) Agricultural Credit in Economically Underdeveloped Countries, op.cit., p.63.

put. Since no one need know about a private loan, the farmers' "izzat" (prestige) is not jeopardized.

The reasons why private lenders charge high rates of interest are as follows:- Firstly, the cost of managing small accounts is high, secondly, the interest includes an element of insurance against the risks normally associated with agriculture and against default; thirdly, the money-lenders are in a strong bargaining position; finally given the scarcity of institutional credit in rural areas, the high interest on private loans is a reflection of the relative demand and supply for loans.

The nature of security a borrower can offer is important in affecting the demand for and the supply of credit. Clearly the more creditworthy a borrower and the greater value of any assets he might be able to pledge, the better are the terms on which he can borrow. Small farmers who lack tangible assets, often have to borrow on personal security and are thus forced to pay higher interest. In India it was found that 70 p.c. of all loans were secured on this basis.

Land is generally the only asset a cultivator can offer as security. For a lender it has the advantage of being immovable and is therefore preferred to any other form of security.

Sometimes it is not merely the title to the land which is pledged but also the right to cultivate it. In some cases,

transfer of the right to use the land in favour of the lender, includes both the principal as well as the interest rate. In other cases, a more rigorous custom is followed where the principal and the interest are paid over and above the right to use land and enjoy the crop. Khaikhakshi or usufructuary mortgage is a variant of the former type.

Mortgages in the guise of a sale or lease as has been explained earlier, are also common and are a variant of the latter type.

In addition, there are other types of securities or guarantees that are accepted. There is the simple mortgage under which the borrower forfeits any right to the use of land until the last bit of loan is repaid. In the case of default the lender can seek legal redress and get a decree from the court for the realization of the loan. Then there is the mortgage of movable property. Although not very common there are cases when ornaments and other valuables are pledged which are received back by the borrower on payment of the dues.

Finally, bonds are sometimes executed giving the lender the right to use the borrower's land on the basis of share cropping until the loan has been repaid. ⁽¹⁾

(1) Dacca University Rural Survey, op.cit., p.84.

We saw earlier that most loans are unsecured and advanced by friends and relatives. Ties of friendship and family are then regarded as collateral for the loans. Where land is pledged, usufructuary mortgages or khaikhalashi are the most common type prevalent in East-Pakistan.

The use of land as security has now been circumscribed by land reform which has restricted the alienation of land. Land can therefore no longer be pledged and consequently it is reasonable to expect still higher money rates of interest on loans from private sources.

PART II

CHAPTER THREE

SUPPLY OF CREDIT

The previous chapter dealt essentially with the demand for credit, and examined various aspects of rural indebtedness such as its extent, the distribution of loans, rates of interest and the securities offered.

This chapter deals with the supply of credit.

1. Needs for Credit.

Credit is needed by farmers for production, processing and marketing of crops. As has been mentioned earlier, the majority of the farmers in East-Pakistan are not usually in a position to maintain themselves from one harvest to another without having recourse to borrowing.

Commercial banking in East-Pakistan caters for the needs of the urban populations and cannot provide a service for people in rural areas who are generally not in a position to offer the kind of security and collateral normally expected by banks. A credit institution serving the farmers needs to have a special understanding of agriculture and of

what goes on in a village. Commercial banks are not well adapted to this need.

Assuming that the farmers borrow in order to produce, process and market the crops and cover intercrop maintenance, the types of credit needed by farmers are as follows:

- (i) Seasonal credit which is required year after year to tide farmers over the period between sowing and harvesting.
- (ii) Developmental credit needed for permanent improvements of land, e.g. fencing, embankments or the levelling of land.
- (iii) In addition, farmers borrow to pay for intercrop maintenance, to pay medical expenses, school fees, and even ordinary day to day purchases of consumer goods.

Another way of classifying what farmers borrow is to distinguish between short, medium and long term loans.

Short term loans of from twelve to eighteen months are mostly seasonal in character, needed for growing a particular crop. A farmer needs such a loan for raising or harvesting "kharif" (summer) and "Rabi" (winter) crops.

Short term loans are also needed to buy seeds and fertilisers or to pay hired labour. Sometimes loans are even used for the ordinary expenses of living or for house repairs. They are also needed for socio-religious ceremonies or to pay land revenue and irrigation charges. In some cases loans are needed for buying plough cattle where the

farmer is too poor to maintain cattle during the idle period.

Medium term loans normally cover a period from 18 months to 5 years. These loans are required for meeting developmental expenses such as the purchase of cattle, implements, installation of tube-wells, land improvements, small irrigation schemes, repair of wells etc. Medium term loans in fact are spent on fixed assets and help fixed capital formation.

Small farmers cannot normally borrow for such purposes because they are not in a position either to pay the interest or to repay the loans. The main recipients of such loans are medium and large-sized farmers.

A long term loan is advanced for five years or more. These are needed for the purchase or reclamation of land or for making permanent improvements such as the construction of embankments, irrigation channels or tube wells.

In East-Pakistan, the basic need of a small farmer is essentially for short term loans. Sometimes he may ask for a medium term loan to buy a plough or an implement. Longer term loans are totally out of his reach, because he is not in a position to initiate improvements like the construction of embankments and irrigation channels for his small plot. Moreover it is worthwhile for him to rely on short and medium term loans, making improvements which are immediate. The small farmer generally cannot offer the kind

of security needed for longer term loans.

We have seen that a good deal of borrowing takes place to finance consumption rather than directly for productive activities.

In 1956 more than two-thirds of the loans incurred by farm families in East Pakistan were ^{applied to} made on household expenditures.⁽¹⁾ It is generally argued that loans incurred for other than productive purposes are wasteful. But one needs to remember that in most underdeveloped countries agricultural operations are family-based and accordingly credit used to finance consumption may be indistinguishable from loans raised to pay for (hired) family labour. Consequently it is often impossible to distinguish between working expenses on the farm and living expenses for the family.⁽²⁾

2. Private Credit.

In East Pakistan the cultivators borrow either from private or institutional sources.

Private loans are taken from the following sources -

- (i) Money lenders, Banias or Mahajans⁽³⁾.
- (ii) Well-to-do rural people.

(1) Dacca University Rural Survey, op.cit., p.61.

(2) F.A.O. Guide to the Methods and Procedures of Rural Credit Surveys. Rome 1962, p.11.

(3) Banias or Mahajans are mostly village traders who are also professional money lenders.

- (iii) Friends and relatives.
- (iv) Shop-keepers.
- (v) Faria, Bepari or itinerant traders.

Let us look at each in turn.

(i) Money lenders may or may not be registered. In the past (before partition) they had been the most important source of credit in the whole of the sub-continent. This position, however, has changed as a result of partition.⁽¹⁾ These money lenders used to enjoy a lot of power, prestige and influence over the villagers. Mostly located in the villages, they had the advantage of having intimate knowledge about the integrity of the borrower and his personal belongings. Often the terms and conditions on which they granted loans to the cultivators were "onerous" and "extortionate".⁽²⁾ Very often before a debt had finally been redeemed a borrower had paid many times the amount originally borrowed.⁽³⁾ These money lenders enjoyed certain circumstantial advantages over other sources for which the village farmers were drawn to borrow from them.

Money lenders were supposed to be registered under the Bengal Money Lenders' Act 1939, but some unregistered money lenders

(1) Even after partition in India 69.7% of the total credit is supplied by the money lenders - Report of the Committee of Directions Vols. I and II. All India Rural Credit Survey. (Passim).

(2) Agricultural Credit in Economically Underdeveloped Countries, op.cit., pp.62 and 131.

(3) Agricultural Credit in Pakistan, op.cit., p.17.

were found in business.

In some villages travelling money lenders from Afghanistan⁽¹⁾ are still found lending money at very high rates of interest.⁽²⁾ Lending at such high and extortionate rates of interest usually implies urgency of need and indispensability of credit for marketing.

The money lenders advanced credit against the mortgage of land, on the pledge of ornaments and other movable properties. Sometimes they lent without security; the Provincial Banking Enquiry Committee reported that during the 'thirties 80 per cent of the lendings by the village Mahajans were secured and the rest were unsecured.⁽³⁾

The high rate of interest charged by the money lenders indicated their superior bargaining power. It is also explained by the urgency of need for credit by farmers and the lack of institutional credit. The money lenders themselves borrowed from the banks and re-lent at higher rates to earn a living and to cover themselves against the risk of default. It is incorrect to condemn the money lenders as mere exploiters. In fact they adapted to situations

(1) They are generally known as Kabuliwalas.

(2) All these rates vary from 30 to 300 p.c. Report of Pakistan Agricultural Enquiry Committee 1951-52, op.cit., p.80.

(3) Dacca University Rural Survey, op.cit., p.85.

and local needs. Their adaptability indeed explains their survival, despite all the legislation to control them. They were willing to lend without asking too many questions and were able to assure borrowers of complete privacy. Consequently farmers liked borrowing from them despite the high interest which they were asked to pay.

However, some of the money lenders engaged in illegal practices. These included demanding interest on loans in advance or asking for a 'present' for doing business; money lenders were also known to take thumb impressions on blank paper and then enter arbitrary amounts afterwards. Sometimes they demanded conditional sale deeds as a safeguard against later evasion of repayment by debtors.⁽¹⁾

This was the most important source of rural credit before the second world war. After Partition the non-muslim money lenders mostly left and there was a sharp decline in lending from this source. By 1956 the Dacca University survey showed that money lenders were supplying only about 4 per cent of the total rural credit.⁽²⁾ The rates of interest charged by them varied between 46 to 69 per cent per annum.⁽³⁾

(ii) Well-to-do rural people who are not officially 'money lenders' are the second source of non-institutional credit. This source is fast

(1) Agricultural Credit in Economically Underdeveloped Countries, op.cit., p.62.

(2) The First Five Year Plan, op.cit., p.304, Dacca University Rural Survey, op.cit., p.57.

(3) As mentioned earlier in chapter two.

becoming prominent and popular among the villagers. They are mostly from the rent-receiving class like a 'Zotdar' or a 'Talukdar',⁽¹⁾ who possessed much land in the past but then received cash compensation after land reform. They have found in money lending a most lucrative and fruitful alternative to owning land.

Sometimes such lenders, instead of charging money rates of interest, receive a share of the crop as a servicing charge and in addition they force borrowers to sell the rest of their crop to them below market prices. But generally they prefer to lend against the mortgage of land and against the payment of interest.⁽²⁾

The 1956 survey showed that this type of lender supplied 22 per cent of the total rural credit⁽³⁾ in the surveyed areas.⁽³⁾ By 1966, according to the Co-operative survey, this proportion had risen to 52 per cent.⁽⁴⁾

(iii) Friends and Relatives are a third, and indeed most important, source of credit. The loans from friends and relatives are mostly unsecured but sometimes are given against the mortgage of land in the guise of sale or lease discussed in detail in the previous chapter. A

(1) Those people who have excess of landed property.

(2) Dacca University Rural Survey, op.cit., p.60.

(3) Dacca University Rural Survey, op.cit., p.57 and The First Five Year Plan, op.cit., p.304.

(4) The Co-operative Survey, op.cit.; p.49.

guarantee or security of gold or other movable assets are also accepted by friends and relatives. Interest is usually charged indirectly either by way of a share in the produce or by asking farmers to make over part of their land.⁽¹⁾

Credit from such sources is not offered from any philanthropic or personal feelings for the borrowers' needs. Practically there is no difference between 'friends and relatives' or the 'well-to-do' class in their preference for 'kot' and mortgage in the guise of sale on the one hand and 'khaikhalashi' or usufructuary mortgage on the other.⁽²⁾ But at the same time it is true that they may lend without asking for any other security than may be expected from the 'well-to-do' rural people. Out of the total loans obtained from various sources, this source supplied about 53 per cent in 1956.⁽³⁾

(iv) Shop-keepers also lend by selling to villagers on credit. The rate of interest is added in the end to be paid in lump sums. This system gives ample scope for harassing the illiterate villagers who are not in the habit of keeping daily accounts. There is scope

(1) Agricultural Credit in Pakistan, op.cit., p.21.

(2) Dacca University Rural Survey, op.cit., p.85.

(3) The First Five Year Plan, op.cit. p.304.

enough for entering inflated amounts in the books. This source supplied on average about 11.2 per cent of total credit in the surveyed areas in 1956.⁽¹⁾

(v) Finally, there are Faria, Bepari or itinerant traders, who are marketing intermediaries and traders moving from one village to another. They make a sizeable contribution in areas where jute or cash crops are grown and in those places where markets for these crops are better organised. Lendings from such sources are extended to the farmers for jute, sugar cane and tobacco without any monetary rate of interest. Instead, farmers who have borrowed from them on the security of their crops pay hidden interest by being obliged to sell to them below the market price. In some cases, a Faria or a Bepari may run a shop. Loans are generally made before sowing and realised after harvest. The cost of borrowing may be as high as 100 per cent per annum.⁽²⁾ On average about 2.6 per cent of the total credit was supplied by this source in 1956.⁽³⁾

In retrospect, of all the private sources of credit, the status and position enjoyed by the money lenders before the second world war was almost unchangeable. The legislative measures during

(1) Dacca University Rural Survey, op.cit., Chapter VI, p.57.

(2) Ibid.

(3) Ibid, Chapter VI, p.57.

the 'thirties gradually caused their steady decline. The effect of a measure like the registration of money lenders had been to restrict entry into the profession. Thus the shortage in the supply of credit and legislation for the regulation of the rate of interest led to the rise of a class of unregistered money lenders. In fact, the actual decline as a source is far less in importance than it is thought to be. Money lending is still practised although the lenders refuse to allow themselves to be identified as one of the class. Most of them go undetected because they are non-registered.⁽¹⁾ The legal measures of the 'thirties against money lenders gave rise to the familiar but legally unrecognised practices such as 'kot kabala' or unwritten mortgage.⁽²⁾ As legal recognition was given only to usufructuary mortgages, legislation against the widely prevalent system of unwritten, verbal mortgages could not be made effective.⁽³⁾ In some cases, to get the possession of lands belonging to borrowers, the money lenders purposively avoided receiving repayments of loans. Such intentional avoidance of repayments of dues from farmers is still prevalent.

A very recent development in outlook and interpretation of the concept of interest rate by private lenders is of much

(1) This has been revealed by a supplementary investigation conducted by the Survey team. Dacca University Rural Survey, op.cit., p.86.

(2) Ibid, p.92.

(3) Ibid, p.92.

significance. They have endeavoured to introduce a rational interpretation of religious values (against accepting interest) suitable to their need for money lending. It has been pointed out earlier that usury or interest is prohibited by religion. For justifying their practice of lending money and taking interest the lenders prefer to call it 'profit' instead of 'rate of interest'. Money lenders claim to 'serve' the villagers, who in turn permit them to make some profit on their investments after the expiry of a year.⁽¹⁾

It is often not really possible to make hard and fast distinctions between various types of lenders. For instance, 'friends and relatives' may also be 'well-to-do'; a dealer or a marketing intermediary may also be a 'shop-keeper' or 'money-lender' by profession.

'Marketing intermediaries' are the people most directly in touch with the growers. The 'traders' themselves borrow from higher intermediaries or from 'friends and relatives' to provide loans to the cultivators.

In the absence of a proper structure for providing credit from institutional agencies, the private lenders in the past had been, and still at present are, an important source of credit. Their success is mainly due to the circumstantial or environmental

(1) Khan, A.A., Rural Credit in Gazipur Village, Pakistan Academy for Rural Development, 1968, p.33.

advantages they enjoy. Although they charge high rates for such loans, these are at present and will be some of the easiest sources of credit for farmers. The institutional sources have yet to achieve a long series of successes before they are likely to be regarded as a complete substitute for private money lending.

It is widely believed that money lenders have exploited the farmers. Attempts to control and regulate money lending at extortionate rates were not very successful however. Instead of a policy of rigorous control and outright suppression of money lenders, measures need to be taken to integrate money lending class with institutional lendings. Regulation of private credit has not been and will not be successful unless it is accompanied by a major reorganisation in institutional credit in competition with private credit. The borrowers must be given a choice of alternatives in the initial stage of reorganisation. Ultimately they will be convinced about the benefits of institutional credit and facilities of co-operation. So, on the whole, instead of a policy of rigorous control of private money lending, an attempt to absorb and integrate the practices of private lenders with institutional agencies would appear to be more in line with the steps which should be taken to improve the situation.

3. Institutional Credit.

In the preceding section we have seen how private agencies supply credit to the villagers. Let us now proceed to discuss

various institutional sources providing credit to the agriculturists.

After partition, Pakistan inherited an almost moribund and decaying co-operative credit structure.⁽¹⁾ Apart from that and the Government loans during natural calamities, the country had virtually no institutional arrangements for the supply of rural credit. Since 1952 various statutory agencies have been sponsored or established by the Government with a view to supplementing the existing supply of credit in agriculture. These agencies have played important roles in the overall credit structure of the economy. Let us now try to elucidate and examine the progress and influence of each of these agencies separately.

(i) State Credit:

The oldest of the institutionalized forms of credit provided to the farmers, was from the Government. Since the end of the last century, the Government had been providing loans to the farmers. This system of advance, known as 'taccavi' or 'takavi' was regulated by the Land Improvement Loans Act of 1883 and the Agriculturists' Loans Act of 1884. Both these Acts are still in force, although relatively speaking, the former is much less in use in East-Pakistan.

(1) Co-operatives are discussed in Chapter Four.

The Act of 1883 mainly sanctions the provision of long-term loans for the construction and repair of wells; for irrigation, drainage, reclamation and land enclosure.⁽¹⁾ The Agriculturists' Loans Act 1884, authorises loans for improvements, the relief of distress and the purchase of seeds or cattle. The provincial revenue department is entrusted with the responsibility for making these loans, as well as for their recovery. Land is required as security and recoveries are effected as arrears of land revenue. The loans provided by the Act are mainly for short terms, to be repaid within one or two main harvests. The rate of interest which was $6\frac{1}{2}$ per cent until 1962 is now 7 per cent.⁽²⁾

At one time the Agricultural Department was responsible for administering loans in normal times and the Revenue Department was supposed to administer distress loans in the event of natural calamities. In 1963 it was decided to abolish the distinction between distress and productive loans and the Agriculture Department is now solely entrusted with controlling and administering all Government loans under these two Acts.⁽³⁾

More than 80 per cent of the total Government loans are now given in the shape of fertilizers, seeds, seedlings and

(1) Agricultural Credit in Pakistan, op.cit., p.31.

(2) Hasan Committee Report, op.cit., p.26.

(3) Ibid. p.30.

agricultural implements, to ensure that they are used for the purposes intended. Out of this, fertilizers constitute more than 50 per cent of the total amount each year.⁽¹⁾ The following table shows total amount of Government loans from 1958-59 to 1965-66 along with the percentage of overall recovery.

The percentage of overall recovery has been poor and has never been 30 per cent of the total advancements. The recovery of distress and relief loans has been still poorer and was 3.6 per cent of the total outstanding in 1964-65.⁽²⁾ Such poor recoveries have been partly due to the widespread notion among farmers that these funds are the State's generous refunds of a part of the land taxes and are not to be repaid as such.⁽³⁾ Moreover, the departments concerned have been so overburdened with other responsibilities that the machinery for recovery has not been effective.⁽⁴⁾ There are floods and droughts every year in East-Pakistan which impair the peasants' capacity for repayment.

One complaint against Government loans is that, in ordinary times they reach only the solvent section of the cultivators

(1) Hasan Committee Report, op.cit., p.26.

(2) Ibid, pp.28 and 32.

(3) Trade, Finance and Development in Pakistan, op.cit., p.148.

(4) In some cases few years passed without any notice for recovery from the Government when the recipients believed that the money was given for relief, when all of a sudden warrant notices for non-repayment of dues were issued.

Rural Credit in Gazipur village, op.cit., p.36.

TABLE 3.1 : Distribution and Recovery of Agricultural Loans.

(Rupees in millions).

Year	Amount distributed	Amount recovered	Total amount due for recovery since 1958-59.	Total amount recovered since 1958-59.	Percentage of overall recovery
1958-59	24.05	7.84	30.49	7.84	25
1959-60	9.80	3.00	56.87	10.84	19.2
1960-61	13.48	8.31	66.25	19.15	28.9
1961-62	21.45	6.04	83.16	25.19	30.3
1962-63	29.00	2.38	103.51	27.57	26.6
1963-64	38.45	4.56	124.79	32.13	25.7
1964-65	30.23	6.97	151.27	39.10	25.8
1965-66	17.79	7.40	191.69	46.50	24.7

Source: The data given in Hasan Committee Report, op.cit., p.28.

Slight discrepancies may occur due to rounding off.

who are in least need of them.⁽¹⁾ Even so, to obtain a loan involves cumbersome formalities, and there is always much delay in disbursements so that the money rarely reaches the borrowers in time, besides being inadequate in amount. Added to these, official corruption and high handedness are not uncommon.⁽²⁾

It is therefore sometimes argued that the State ought perhaps to confine itself to lending in periods of distress and to leave lending at normal times to other agencies. The State's role, so it is argued, ought to be to support other institutional lenders rather than to compete with them.⁽³⁾ The Government, instead, should try to strengthen the monetary base of the existing agencies such as the co-operatives or the Agricultural Development Bank of Pakistan (the A.D.B.P.). And this has in fact been increasingly done in recent years. The Government instead of lending directly to farmers has emerged as an indirect lender. The capital of the A.D.B.P. has been contributed by the provincial and central Governments and the co-operatives in East-Pakistan were allocated some Rs 14 million

(1) H.M.S.O. Report of the Indian Famine Enquiry Commission, 1901, p.105.

(2) The First Five Year Plan, op.cit., p.289.

(3) The Report of the Credit Enquiry Commission, op.cit., p.17.

by way of loans and advances in 1961-62.⁽¹⁾ Yet it continues also to lend directly; at present although sums advanced are small in relation to total needs of the farm population, they are not small in relation to the total credit flow from institutional sources taken together. Such advances are still on the increase and in the absence of other well-established institutions the Government loans continue to be an important source of institutional credit.

(ii) Statutory Credit Agencies.

Let us now examine the operation of three statutory agencies that were created by the Government in an attempt to provide medium and long term capital.

Prior to the establishment in 1961 of the Agricultural Development Bank of Pakistan (or A.D.B.P.) there were two separate organisations:- the Agricultural Development Finance Corporation (or ADFC) and the Agricultural Bank of Pakistan (or ABP).

The Agricultural Development Finance Corporation or ADFC was set up in 1952 with an authorised capital of Rs 50 million which was subscribed by the Central Government. Its main purpose was to be the promotion of agriculture. This institution was found inadequate and as a result in 1957, the Agricultural

(1) Agricultural Credit in Pakistan, op.cit., p.35.

Bank of Pakistan or ABP was established with identical objectives but wider scope and special responsibilities to function as a super-apex institution for the co-operative system.⁽¹⁾ It started with an authorised capital of Rs 200 million.

The following table shows loans advanced by the former ADFC and ABP in the years 1952 to 1961.

TABLE 3.2 : Loans made by the ADFC and ABP in East-Pakistan.

(Rs in million)

Year	ADFC	ABP
1952-53	-	
1953-54	.19	
1954-55	.42	
1955-56	.68	
1956-57	1.65	
1957-58	3.72	
1958-59	6.15	2.45
1959-60	7.93	11.14
1960-61 (Feb 1961)	10.42	11.48

Source : Hasan Committee Report, op.cit., p.37.

(1) Trade, Finance and Development in Pakistan, op.cit., p.149.

During its eight years of operation the Corporation made a cumulative loss of Rs 1.36 millions even after the Central Government had written off the interest on loans advanced by it.⁽¹⁾ The ABP made a cumulative loss of Rs 1.56 millions in the three and a half years of existence.⁽²⁾

The joint operation of the ADFC and ABP was not very effective. The existence of these two agencies with no apparent distinction of functions led to the duplication and overlapping of staff and services, which ultimately led to their merger. The merger was also felt to be necessary for initiating greater efficiency in the servicing of loans.

The Agricultural Development Bank of Pakistan started its operation on the 18th of February 1961 with the merger of the former ADFC and ABP as recommended by the Credit Enquiry Commission. The Bank was set up with the purpose of affording credit facilities to farmers for agriculture and cottage industries.⁽³⁾ Loans were

(1) Agricultural Credit in Pakistan, op.cit., p.90.

(2) Ibid, p.92.

(3) Agricultural purposes include purposes like raising of crops, horticulture, forestry, fisheries, animal husbandry, poultry farming, dairy farming, bee-keeping and sericulture. The Central Government and each of the provincial governments contributed at the rate of Rs 95 million and Rs 5 million respectively.

to be granted to individuals as well as to public or private limited companies engaged in such activities.

The Bank has an authorised capital of Rs 200 million. The paid up value of share-capital of Rs 105 million has been fully subscribed by the central and provincial governments.

In addition to its share capital, the Bank is authorised to accept fixed and savings deposits and float debentures in order to increase its resources. Up to the 31st December 1966, the borrowings from the State Bank of Pakistan stood at Rs 255 millions. From 1961 to December 1967, the State Bank of Pakistan has made available to the ADBP loans of a total sum of Rs 330 millions.⁽¹⁾ The deposits of the Bank as in June 1967 stood at Rs 11.80 millions.⁽²⁾ By the end of June 1967, the Bank had a network of 53 offices in East-Pakistan.

The Bank grants short, medium and long-term loans. Medium term loans are granted in the form of plough cattle and tools for cottage industries to be paid within a period of eighteen months to five years. Long term loans are for periods of 5 years or over made for major improvements. Short term loans are generally

(1) Uzair, M. 'The role of ADBP in Economic Development of Pakistan', Pakistan Observer, February 18th, 1968.

(2) ADBP, Annual Report 1967, p.3.

advanced against the mortgage of movable and immovable property and against the surety or guarantee of a scheduled bank. Loans are also issued by drawing, accepting, discounting and re-discounting bills of exchange and other negotiable instruments. Some loans are advanced against hypothecation of crops. Medium and longer term loans are to be secured by mortgages of immovable property but in suitable cases the Bank may accept pledges of Government securities or of life insurance policies in lieu of such mortgages.

The rates of interest charged are 7 per cent on short and medium term loans, and 6 per cent on longer term loans.

Loans are distributed from branch and pay-offices located at the district or sub-divisional headquarters. The investigation officers collect applications from the villages with the assistance of the chairman of the local union council. The applications, after proper scrutiny, are recommended to the manager of their headquarters for sanction and payment.

The Government is anxious to encourage food production and the Bank has therefore decided to lend to larger numbers of farmers by reducing the minimum amounts of loan admissible from Rs 100 to Rs 50.

In the case of security loans the applicant has to furnish documents for clean title and up to date rent receipts.

While the collection, investigation and processing of the applications are in progress the Bank has to seek the opinion of the legal advisors about the title of the applicants.

In the case of surety loans, such formalities are avoided, but the borrower has to find someone as his guarantor and this person will expect to be paid and well paid - for standing as surety. Moreover the chairman of his Union Council has in turn to certify the probity of the guarantor. Usually the borrower has to take his guarantor a long way to the Bank office. The travel cost, incidental charges, loss of working days and the money given to the guarantor have been estimated to be about Rs 17.5 per hundred.⁽¹⁾

Loan applications are either directly received at the Bank or collected by the investigation staff on tour. These applications are kept pending till the Bank's investigation staff visits the area and depends on the reports given by the investigation staff.

The following table shows the consolidated position of loans advanced by the ADFC, ABP and ADBP since 1952-53 in East-Pakistan.

(1) Shahjahan, M. 'Measurement of Effectiveness of Rural Credit' Economic Observer, September 1966, Volume I No.4, p.8.

TABLE 3.3. : Loans advanced by ADFC, ABP and ADBP.

YEAR	AMOUNT (Rs in million)
1952-53	-
1953-54	0.19
1954-55	0.41
1955-56	0.68
1956-57	1.65
1957-58	3.72
1958-59	8.60
1959-60	19.08
1960-61	38.19
1961-62	37.38
1962-63	37.67
1963-64	38.34
1964-65	36.48
1965-66	41.55
1966-67	47.08
Total	311.03
Source : 'Problems of Agricultural Credit in East-Pakistan' an article by A.M.Salimullah and 'The Role of ADBP in Economic Development of Pakistan', an article by Md.Uzair.	

We saw in Table 3.2. that the ADFC and ABP had only advanced a total of 56.23 million rupees between 1952 and February 1961. The operations of ADBP after that period can therefore be seen to have added greatly to the total.

During its six years of operation up to 1967, the Bank has advanced Rs 248.5 million, that is on an average 41 million rupees a year. From Table 3.3 it can be seen that during 1966-67 an increase of 13.3 per cent over previous years disbursements has taken place. This increase has occurred despite what is often regarded as an excessive delay.

TABLE 3.4. : Number and Amount of Loans applied for Sanctioned and Disbursed.

Period	Number		Amount (Rs in million)	
	Sanctioned	Disbursed	Sanctioned	Disbursed
1966-67	69,155	61,171	75.95	47.08
Since Commencement	723,812	672,826	377.29	311.03

Source:- ADBP, Annual Report, 1967, p.7.

But Table 3.4 shows that these delays may have been exaggerated since it commenced operations, the Bank sanctioned a sum of Rs 377.29 millions and disbursed Rs 311.03 millions. During the year 1966-67, a number of 69,155 loans were sanctioned out of which 61,171 cases were actually entertained corresponding to a disbursement of Rs 47 million out of a total of Rs 75.95 millions

sanctioned, but this difference in one particular year is not to be interpreted as excessive delay, but rather as a reflection of the increasing number of loans being made.

The following table shows the distribution of loans between short, medium and long-term.

TABLE 3.5. : Short, Medium and Long-term Loans by ADBP.

(Rs. in million:).

YEAR	SHORT-TERM	MEDIUM-TERM	LONG-TERM	TOTAL
1961-62	31.11 (69.9)	11.59 (26.1)	1.79 (4.0)	44.49 (100)
1962-63	23.56 (61.5)	13.56 (35.4)	1.16 (3.1)	38.20 (100)
1963-64	23.64 (58.6)	15.94 (39.5)	0.75 (1.9)	40.33 (100)
1964-65	24.45 (56.6)	15.45 (35.8)	3.27 (7.6)	43.17 (100)
1965-66	25.19 (53.6)	19.19 (40.9)	2.59 (5.5)	46.97 (100)
1966-67	24.73 (32.5)	44.04 (58.0)	7.19 (9.5)	75.95 (100)

Source: ADBP Annual Reports 1961 to 1967, Bracketted figures are percentages.

The table shows that most of the loans were short-term in the earlier period but that there has been a definite shift towards medium and long term loans since.

The Bank has been making loans against hypothecation of crops. In such loans no mortgage of property is involved and sureties are not required, so that these loans have been found simpler and more convenient by both lenders and borrowers. In 1966-67 loans against hypothecation of paddy, sugarcane and tea crops amounted to Rs 12.4 millions.⁽¹⁾

The following statement shows the loans disbursed by the Bank according to the size of the holdings during the year 1966-67.

TABLE 3.6. : Loans disbursed according to size of holdings, during 1966-67.

(Amount in thousand rupees)

Size of holdings	Number	Percentage	Amount	Percentage
Landless	3,248	5.3	773	1.7
Up to 3 acres	16,333	26.7	6,105	13.0
Over 3 acres to 12½ acres.	30,561	50.0	17,910	38.0
Over 12½ to 50 acres.	9,795	16.0	11,016	23.4
Over 50 to 100 acres.	746	1.2	1,145	2.4
Over 100 to 200 acres.	79	0.1	321	0.7
Over 200 to 400 acres.	2	negligible	19	negligible
Over 400 acres.	407	0.7	9,795	20.8

Source: ADBP, Annual Report, 1967, p.13.

(1) ADBP, Annual Report, 1967, p.16.

The above table shows that half the loans and just under 40 per cent of the amount lent went to medium sized farmers cultivating 3 to 12½ acres. The very small farmers only obtained 13 per cent of the amount lent though over a quarter of the loans were made to them. Rather surprisingly one fifth of the amount lent went to big landholders having over 400 acres.

The recovery figures have been satisfactory all along. In spite of all the natural calamities the clients have been good borrowers and the Bank claims that no more than a quarter of repayments and interest were overdue in 1966-67. (1)

How effective has ADBP credit been ?

Being a development bank it is restricted in its activities. With the expansion of activities its lending commitments rise year by year and this tempo cannot be maintained unless new capital resources are made available to the Bank.

The Bank claims that it only takes 15 days to sanction a loan, but in practice only 16 per cent of borrowers received loans within one month and there were cases where branches had taken over a year to process applications. Formalities like the production of documents, testifying to title

(1) Salimullah, A.M., 'Problems of Agricultural Credit in Pakistan', Agricultural Development Bank of Pakistan, (mimeographed) 1967, p.9.

of land with recent rent receipts or production of mortgage deeds by the co-sharers slow down the expansion of the Bank's loaning operations. These operations are cumbersome, time consuming and expensive.⁽¹⁾

According to its charter the Bank is supposed to give preferences to the needs of small cultivators. This is far from what it has done in actual practice. As can be seen in Table 3.6. 85 per cent of the total amount lent in 1966-67 went to farmers having over three acres.

Thus the unavoidable conclusion must be that the ADBP has reached mainly the affluent section of the farm community. All borrowers whether borrowing on security of real property or on personal surety have usually to spend a good part of the loan before the loan money is at their disposal.

The ADBP is supposed to make sure that loans are only used for productive purposes. But this has in practice been found almost impossible to enforce.

Although as we saw earlier, the Bank has been rather successful in obtaining repayments and interest on time, some of its debtors are much behind hand with their payments. Thus a recent

(1) Shahjahan, M. 'Measurement of Effectiveness of Rural Credit', op.cit., p.7.

inspection carried out by the State Bank of some of the ADBP branches, revealed that about one third of the payments which were overdue had in fact been overdue for more than six months, and some for more than three years. Cases were found where land kept as security could not be sold by auction because the farmers refused to bid for it⁽¹⁾ and some borrowers had emigrated to India thus making recovery very unlikely.

The Bank has all along been very cautious in its loan operations, because of the many risks involved in lending to isolated farmers and because even now it is short of properly trained staff for efficient supervision of loans. Given the great risks faced by any lender in East-Pakistan it is little wonder that instead of being able to lower the rate of interest which it had hoped to do, it has on the contrary had to increase its long term rate from 6 to 7 per cent per annum.

The working of the Bank in its rural areas has evoked mixed reactions.⁽²⁾ For the poorer section loans are expensive and they cannot provide securities to the satisfaction of the Bank's regulations. The richer section complains that the procedures for loans are time consuming and cumbersome. The

(1) Trade, Finance and Development in Pakistan, op.cit., p.153.

(2) Hasan Committee Report, op.cit., p.12.

main beneficiaries have probably been the 'Farias' and 'Beparis' (traders and middlemen) who have used these loans for sub-lending and are accordingly happy about the functioning of the Bank. (1)

In a vast region like East-Pakistan, with only an insignificant number of branches, located far from the farmers' doors, the Bank's activities have not been very accessible to those farmers for whom it was created. As a result it has not yet been able to create any lasting impact on the credit situation in rural areas.

4. Role of the State Bank of Pakistan in the field of Agricultural Credit. (2)

The role of the State Bank in the field of rural credit, though indirect, has been a very significant one. Its role is indirect as it does not participate in direct lending operations to the cultivators. In providing funds to specialised agencies, it plays an important role in financing agricultural operations. In 1951, a small cell was established in the Research Department of the Bank and this formed the basis of a full-fledged

(1) Hasan Committee Report, op.cit., p.12.

(2) The State Bank of Pakistan is the central bank of the country. Herein after referred to as the State Bank.

agricultural credit department in 1953. With the enactment of the State Bank Act of 1956 it became obligatory for the Bank to maintain an expert staff to study the problems of rural credit.

The State Bank's provision of agricultural credit is principally via the co-operatives and the A.D.B.P.

The loans from the State Bank to the Co-operatives are channelled through the three tiers of the Co-operatives in the following way :- The State Bank lends to the Provincial Co-operative Bank or the 'Apex Bank' (as it is commonly referred to). This in turn lends to the Central Co-operative Banks. These then lend to the primary Co-operative societies which are the agencies lending directly to the cultivator.

The provincial government has to stand as the guarantor for repayment of loans.

The State Bank grants loans to the Apex Bank at a concessional rate of 3 per cent per annum i.e. 2 per cent below the present 'bank-rate'. The Apex Bank in turn advances to the Central Co-operative banks and the societies at 4 per cent per annum. These loans are granted to the primary societies by the Central banks at 6 per cent while at the recipient level the rate becomes 9 per cent per annum. This shows that the operational costs at all levels are ultimately borne by farmers who have to bear the entire brunt of it.

The following table shows short-term advances made by the State Bank for the country as a whole.

TABLE 3.7. : State Bank Loans. (Rupees in millions).

Years	Loans through Co-operatives	Loans through A.D.B.P.	Total
1961-62	126.5	61.2	187.7
1962-63	145.0	102.6	247.6
1963-64	154.4	136.4	290.8
1964-65	102.5	177.6	280.2
1965-66	171.9	222.0	393.9
1966-67	201.3	298.5	499.8

Source: Communication from the State Bank.

The above table shows that the State Bank advances to the Co-operatives and the A.D.B.P. have steadily increased year after year. Starting from Rs 187.7 million in 1961-62, the sum advanced in 1966-67 has risen to Rs 499.8 million. This means a rise of 166 per cent over the period. The table also explains that up to 1963-64, the Co-operatives received greater allocations from the State Bank, thereafter there has been a gradual rise in the allocations for the A.D.B.P.

In order to shoulder ever increasing responsibilities for providing medium and long-term credit, and supported by a recommendation of the Credit Enquiry Commission, a separate fund known as the 'Rural Credit Fund' was created in 1960 in the State Bank. (1)

The main purpose of the fund was to enable medium term advances to be made to the Co-operatives, and to make long-term advances to agencies. It was also created to convert and write off losses on short-term lending to the Co-operatives when they were unable to repay in time.

At present, a sum of Rs 750 million has been accumulated in the fund, though so far this has not been utilized, pending the drawing up of some rules governing the use of this fund.

The Co-operatives enjoy some special privileges under the 'Remittance Facilities Scheme'. Thus the Provincial Co-operative Bank is only required to maintain reserves of 1 per cent of its time and $2\frac{1}{2}$ per cent of its demand liabilities whilst other scheduled banks have to maintain reserve ratios of 2 per cent and 5 per cent respectively.

In 1961 a Rural and Co-operative Credit Advisory Committee was set up under the chairmanship of the State Bank Governor to co-ordinate the activities of rural credit agencies.

(1) The State Bank of Pakistan Act 1956, Clause 17A.

Rural Credit Advisers were appointed by the State Bank in both the provinces who will prepare and examine working plans for the rapid and orderly expansion of the co-operatives. They will also advise the Bank on other related problems.

In times of natural calamities a greater financial assistance is required however, by the Co-operatives. To act as a cover for such situations a proposal for the establishment of a 'Stabilization Fund' for the co-operatives was originally drawn up in April 1965.⁽¹⁾ The creation of such a fund with contributions from the Government and the State Bank is still under consideration.

The State Bank has agreed to contribute to the extent of $\frac{1}{2}$ per cent of the total amount of interest which it earns on its lending to the co-operatives. But it has felt that the ultimate responsibility for help in the case of natural calamities ought to rest on the Government and that the State Bank ought therefore not to be asked to contribute more than in a marginal way. However the actual terms are not yet agreed upon and the 'stabilization fund' has not yet been set up.

(1) The fund was proposed by the Registrar of Co-operative Societies, East Pakistan to be set up during the Third Five Year Plan period with an initial corpus of Rs 54.5 millions with the State Bank contribution of Rs 14.5 millions. Thereafter the contribution of the State Bank and the Provincial Government will have to be on a 50:50 basis. The original scheme has later been revised and the size of the fund has been proposed to be Rs 100.93 millions.

CHAPTER FOUR

THE CO-OPERATIVE MOVEMENT AND

THE SUPPLY OF CREDIT.

We saw in the previous chapter how part of the State Bank's provision of credit for farmers is channelled via the 'Apex Bank' into the co-operatives. This chapter examines the way in which the co-operatives administer credit to farmers.

The co-operative movement started under Government aegis in India and was basically a credit movement. It started in 1904 following the recommendations of Sir Fredrick Nicholson for setting up co-operatives of the 'Raiffeisen' type. The Act of 1904 provided a legal framework for the registration of primary societies with unlimited liability for members. The Act of 1912 included non-credit activities and introduced a three tier system of co-operative institutions;⁽¹⁾ (a) Primary societies at the village as the base; (b) Central banks at the

(1) Henceforth 'primary societies or simply 'societies' would be used to mean 'primary co-operative societies', 'Central banks' to denote 'Central Co-operative banks and Provincial or the Apex bank for the Provincial Co-operative Bank Ltd.

secondary tier, and (c) the Provincial bank as the Apex. In 1918 co-operation was made a provincial subject.

The movement expanded under the impetus of rising agricultural prices and land values during and after the first world war but soon suffered from a chain of set-backs such as (a) the depression of the thirties, (b) debt legislation during the late thirties, and (c) the partition of the subcontinent.

The depression resulted in the failure of a large number of primary societies due to the falling prices of agricultural crops.

The application of the Bengal Debtors' Act and the constitution of Debt Settlement Boards posed serious threats to the movement since these legislations compulsorily reduced the loan recoveries of the societies.

The partition of the sub-continent affected the movement at all levels because it created a vacuum in the management and administration due to the mass exodus of the non-muslim community. The entire base was shaken to its roots as the Provincial Bank had its headquarters in Calcutta and the province was left without an Apex. Many central banks became insolvent because recoveries across the border were not possible. After Partition the membership of the primary societies fell off sharply and by the mid-fifties only 150 societies remained active, whilst

the rest were in a miserable state.⁽¹⁾ Since primary societies did not enjoy the legal privilege of limited liability, anyone who was solvent steered clear of them. In 1959 it was decided to reorganise the societies and to amalgamate 24,000 village based societies into 4,000 societies each covering a union instead of merely a village. Moreover these new union societies were to embrace all purposes, including marketing and the provision of credit, instead of being single-purpose as had been the case with the village-based primary societies. This step led to some recovery of membership (see Table 4.1) and indeed by 1960 total membership exceeded that at the time of Partition.

TABLE 4.1 : Membership of primary societies.

Year	Membership
1948-49	777,000
1955-56	615,000
1959-60	783,000
Source: <u>Agricultural Credit in Pakistan</u> , op.cit., p.46.	

(1) Report of the Credit Enquiry Commission, op.cit., p.26.

After Partition there was a steady deterioration in the financial position of the societies due to large number of liquidations, but this was later arrested. In 1959-60 the average working capital for each society was Rs 9,952 or Rs 50 per member.⁽¹⁾ Throughout the 1950's the societies were badly affected by the fact that more than three quarters of the amount due for repayment to them was overdue. Some of this debt had been taken over from defunct societies. Although the Government brought their rate of interest down from 12% to 9% and despite all the other adverse factors, the primary societies succeeded in turning a loss of some 7 lakhs rupees just after the War into a profit of over Rs 3 lakh in 1955/6.

The Co-operative movement started under Government aegis and was basically a credit movement. Although functioning for more than half a century, the performance has not been satisfactory. The movement expanded rapidly during the first world war and decidedly showed vitality during the late twenties. The movement then suffered from serious set-backs consequent to the depression of the early thirties. By 1940 the movement was virtually at a standstill and by 1945 the movement was 'almost a corpse'.⁽²⁾ Added to these the partition of the sub-continent posed a serious threat to the movement.

(1) Agricultural Credit in Pakistan, op.cit., p.48.

(2) Tepper, E., op.cit., p.28.

At the lowest tier as we have seen the old village societies were eventually transformed into multi-purpose union based societies to avoid the risk of instability. It was thought that the larger base of operation would make the societies viable by providing adequate funds to employ paid managers. But this step did not bring the desired result as power went to a handful of influential members who monopolised the loans.

The reasons for the failure of the co-operative movement are not hard to find. The McLagan Committee pointed out that it had not grown as a spontaneous movement from below and attributed its failure to that fact. The Credit Enquiry Commission on the other hand, attributed the movement's failure to a lack of consistent government support. It observed that co-operatives in fact were 'underfinanced but over administered'.⁽¹⁾ In other words, it agreed that the movement was too much imposed from above but attributed its failure more to lack of Government financial support than to its lack of sponteneity.

The movement clearly suffered from lack of leadership at the village level where abuse of power was common. Lack of general education and of instruction in co-operative principles also contributed to failure. Frequently co-operative

(1) Report of the Credit Enquiry Commission, op.cit., p,28.

loans were not effectively utilized due to the absence of any machinery of supervision. The untimely distribution of loans to the cultivators when the sowing is already underway, led to the diversion of funds to unproductive uses.

The creation of union based societies was done to make them more viable but even the union has proved to be too small. As will be shown in chapter five, a thana is probably a more suitable unit to organising the supply of credit under the present administrative arrangement.

Many take the view that despite past inadequacies the movement should not now be abandoned. The Gadgil Committee in 1945 remarked that co-operation was the best and most lasting solution for the problem of agricultural credit in particular and the rural economy in general.⁽¹⁾

Co-operation despite its past performance seems to have a prospect in a country like Pakistan because it seeks to combine collective effort with individual freedom of choice thereby promoting the common well-being through a process of voluntary collaboration. We shall show in the next chapter that, given a different approach, co-operatives can function much more satisfactorily than past experience would lead one to suppose.

(1) Hough, E.M., The Co-operative Movement in India, Oxford University Press, Fifth Edition 1966, p.370.

In a vast region like East-Pakistan no official organisation can ever hope to fully administer an area covering more than 60,000 villages and including about 8 million farm families. By the co-operative method alone consumers and producers can pool their resources and make joint endeavours for using improved farm techniques which an individual farmer may not be able to do.

The spirit of joint venture is innate because of the institution of extended families and the tradition of living in communities. The spirit of co-operation is thus manifested through attitudes towards life and social values preserved for generations, and so it is said that co-operation is 'well-suited' to the genius of the people.⁽¹⁾ The different approach exemplified in the Comilla system to be described in the next chapter may give the co-operative movement a new lease of life.

(1) Hough, E.M., op.cit., p.368.

CHAPTER FIVE.

SUPERVISED CREDIT AND THE COMILLA

APPROACH.

One of the basic inadequacies of the institutional credit agencies discussed so far has been that they are not equipped with the machinery of providing supervised credit. In a subsistence oriented economy providing credit to the farmers covers half of the problem, but ensuring effective use of credit is the other half. In such economies there is always a distinct danger of diversion of credit to unproductive purposes at the farmers' level. This in the past has contributed to the stagnation of agricultural production.

It has long been recognised that for a breakthrough of the 'vicious circle' in agriculture effective utilization of credit is needed, and this means that credit must be supervised. Generally 'supervised credit' has come to mean a system which aims at improving production as well as the living conditions of the users of credit at the village level. It aims to link up credit with extension services. Extension introduces farmers to new ideas but supervised credit encourages them to try them out; it

gives an extra 'thrust' to the extension programme.⁽¹⁾ Supervision of credit is generally more effective through a village extension worker than an agent from outside. He can make the farmer alter his cropping pattern or change the input combinations so as to maximise output. Some extension programmes supervise mainly the farming plan of the borrowers; the more thorough-going programmes necessarily include controlled supplies of inputs in order to ensure that the utilization of the loan accords with the production plan.

An experiment along these lines has been tried in Comilla and it is this which we shall now examine in greater detail.

1. THE COMILLA SYSTEM :

The Comilla Co-operative project was started in 1959-60 on an experimental basis by the Pakistan Academy for Rural Development, situated at Comilla. The main aim of the project was to promote the modernisation of agriculture through village primary societies.

The village was made the basic operational unit and all loans were channelled through village based primary societies. To support these primary units a thana central association known as 'Kotwali Thana

(1) For an excellent study about extension through stages from simple awareness to final adoption of a particular technology one may refer to 'Supervised Credit system in Comilla' by Blake Smith, unpublished research work, PARD, Comilla.

Central Co-operative Association' (or KTCCA) was organised.

This project was started as a part of the comprehensive programme of rural development where the academy has acted as a laboratory for research on various socio-economic problems.

In this system the thana (administrative unit) is used as the unit where the results of such experiments are tried out. The main objective of the project has been to bring together the local administrations⁽¹⁾ and the nation building departments⁽²⁾ (though not directly related with management and business transactions of the co-operatives) in order to contribute to the economic development of the area.

Structure:

The Comilla Co-operative System constitutes a two-tier structure; the village co-operative societies at the base federated and covered at the thana level.⁽³⁾

Under the present system a village is the base of operation. It has been recognised that a village is a self contained

(1) Thana and Union Councils.

(2) Thana Agriculture Office, Thana Irrigation Office, Thana Fisheries Office etc;

(3) In 1965 a separate federation known as Agricultural Co-operative Federation or ACF has been created in between. The KTCCA still continues to be a confederating unit rendering support for services and supplies to the primary societies.

unit where the villagers usually have more intimate knowledge of each other and have mutual confidence. Moreover, they have common problems and similar interests. As a result a village is a more suitable unit to forming a cohesive group for purposes of development. But being a small area, it does not possess adequate resources in terms of men and materials so as to run a society as a self-supporting agency. This fact reflects that there is a great need for a strong central unit for the purpose of covering and providing necessary support. The KTCCA is acting as the central agency for supervising and providing guidance and finance to the primary societies. It also renders training services to selected members of the societies. These village representatives are trained by officers of the Thana Development Departments as well as by some foreign agricultural experts. In the past the village based societies under the traditional co-operatives failed because of the lack of supporting agencies, and were left as isolated entities. Thus under the new system the KTCCA has been able to meet the need of a central agency for the village based co-operatives. ⁽¹⁾

Through a marketing programme the KTCCA seeks to ensure a fair price for the agricultural produce and to supply consumer goods at reasonable prices. The mechanization programme

(1) The structure of the village based co-operatives is to be discussed later.

runs a maintenance and repair shop, trains the mechanics and stores agricultural machinery. The extension section of the central association provides technical advice and guidance to the members of village societies. The irrigation section is in charge of the sinking of deep tubewells and providing power pumps for lift irrigation. Training facilities are provided for managerial staff and for other skilled workers.

The village primary societies:

In order to form a society a group of farmers has to agree to hold weekly meetings with compulsory attendance of all the members and to select one or two persons to receive training once a week at the academy and who then become the managers, organisers and teachers for the group.⁽¹⁾ In addition one farmer is given training and is expected to disseminate what he has learnt to his fellow villagers. Each member is expected to save regularly and to make a weekly savings deposit in cash or kind thus enhancing the group's credit worthiness. The assurance of complete safety for these deposits helps to explain the success in raising a large sum of Rs 800,000 in five years,⁽²⁾ but the major part of the explanation is probably that without these savings there would be no

(1) PARD, A New Rural Co-operative System for Comilla Thana, Sixth Annual Report, 1966, p.12.

(2) Haq, M.N., Comilla Co-operative Experiment, PARD, November 1966, p.6.

loans from the Central Association.

These loans are granted to members through the primary society on the basis of members' savings at a rate of interest of 15% which includes 5% service charge. A member must submit a production plan carefully prepared and thoroughly discussed in the weekly meetings before he can obtain a loan. No cash is allowed direct to members by the Central Association. After the Central Association is satisfied with the feasibility of the production plan, a loan is sanctioned and credited to the account of the society. The individual borrowers draw on that account according to the allocations made in the production plan. Every withdrawal must be supported by a resolution of the members.

The credit worthiness under this system is not judged on the basis of conventional tangible assets, but is judged by the tests of productivity, deposits, and the record of repayment of loans in the past.

Marketing facilities are provided by the central association along with storage of the produce. The members can secure advances from the Central Association at a rate of 60 p.c. of the value of produce stored.⁽¹⁾ The Central association arranges for transport and sale of crops to the marketing centres. Current

(1) Comilla Co-operative Experiment, op.cit., p.8.

market informations are obtained by a committee organised to acquire knowledge of market prices. The members meanwhile (from the advance loan) are able to pay the land revenue and meet other expenses. Such an operation brings at least a margin of Rs 3 to 4 per maund to the growers which otherwise would have gone to middlemen. (1)

The Central Association:

This institution acts as a servicing agency and an educational centre for agricultural extension, where village representatives and model farmers receive training in the techniques of management and planning. Originally it also acted as the bankers, but these banking functions, and responsibility for the 'supervised credit' scheme have been delegated to one of the scheduled banks since 1962. (2)

The Central Association now acts as the connecting link between rural credit and commercial banking in Comilla Thana. Each society now deposits its savings with the bank, which in turn sends receipts to the Central Association and the society concerned.

(1) Ibid, p.9.

(2) The United Bank Ltd, has opened a branch at the 'Abhay Ashram' the office of the Central Association, as the banker of K.T.C.C.A.

The transactions are entered in the pass-books and are furnished to the society. The society in its turn issues pass books to its members and maintains a savings ledger. Thus the Central Association is operating now more as a guarantor and a real supervising agent for the effective utilization of credit than as a banker.

In 1965 a separate federation was created to look after the agricultural societies. Under this new development the KTCCA has assumed the position of a larger central organisation, a co-ordination and a confederation of the two federating units. (1)

Progress of Societies in five years:

The growth of the primary agricultural societies, although falling short of targets, has all the same been remarkable from 1961 to 1966. The target of total societies was set up at 240 with a membership of 12,000 i.e. on average 50 members per society. This target (as can be seen from the table below) has not been fulfilled but the short-fall is not to be viewed with concern, as the inherent strength and effectiveness of a society is thought to be more important than mere members. Moreover practical

(1) A separate federation known as Special Co-operative Societies Federation or SCSF was created in 1964 to cover non-agricultural societies.

TABLE 5.1 : Numbers and Membership of primary societies 1961-66.

Period	Number of societies enrolled.	Number of drop-outs	Number of members enrolled.	Number of members dropped out.	Number of societies added during the year.	Number of members added during the year.
1961-62	59	Nil	1860	Nil	59	1860
1962-63	51	Nil	1296	Nil	51	1296
1963-64	25	13	915	238	12	677
1964-65	31	1	1350	273	30	1077
1965-66	10	4	1272	472	6	800
Total	176	18	6693	983	158 + 5* = 163.	5710

Source: Sixth Annual Report, op.cit., p.67.

* During 1964-65 transfer of five societies from Special to Agricultural Federation took place.

experience has shown that in some small villages the existence of a society may not be necessary. Thus the existing agricultural societies have found a way out of the dilemma between small and weak village societies and large union based societies lacking psychological cohesion.

The following table (5.2). may explain the financial position of the agricultural societies and also the volume of business made by them during 1961-66.

The overall financial position signifies substantial improvement over 1961-62. The position with regard to loans and repayments shows that on 30th June 1966, the total amount overdue from societies was Rs 244,062. This was approximately 9.46 p.c. of the total loans contracted up to 30th June 1966. ⁽¹⁾

In conclusion Table 5.3. expressed the growth of savings and deposits per society and per member. The table shows that the societies have gradually increased in numbers and strength. The members have formed their own assets in the form of creation of savings deposits.

(1) Sixth Annual Report, op.cit., p.69.

TABLE 5.2. : Growth of Savings, Share purchase, Reserve Funds and Loans and Advances made by the Agricultural Societies.

(Amount in Rupees)

Period	Cash Savings	Share Purchase	Reserve	Total	Loans made	Loans repaid
1961-62	83,553	8033	5870	97,457	235,664	60,162
1962-63	190,837	28,310	12,484	231,631	365,875	216,592
1963-64	259,281	49,104	19,574	327,959	303,456	286,756
1964-65	369,466	105,485	29,454	504,405	877,836	552,069
1965-66	489,624	176,551	37,060	703,235	795,984	659,542*
					2578,815	1775,121

Source: Sixth Annual Report, 1966, p.68 and 69.

* The Balance between total loans advanced and repaid was Rs 803,694 including Rs 559,632 for which repayment was not due until June 1966.

TABLE 5.3. : Growth of Savings and Deposits of Agricultural Societies.

	1961-62	1962-63	1963-64	1964-65	1965-66
Per capita cash savings (in rupees)	44.92	60.46	67.64	75.24	79.72
Per society deposits (in rupees)	1625.00	2106.00	2688.00	3318.00	4314.33
Per member deposits (in rupees)	52.39	73.39	85.08	102.73	114.73

Source: Sixth Annual Report, 1966, pp.69 and 48.

The deposits per member are on the increase each year, which shows signs of economic well-being of the people.

The continued training at the Central Association has created a basic understanding of co-operative principles. Thus the Comilla system has successfully developed a well-integrated supervised credit with extension services.

2. An Appraisal of the Comilla System of Co-operatives:

The great merit of the Comilla Co-operative System is that it combines extension services with supervised credit.

The failure of the earlier co-operatives led to the view that co-operation must grow from below and should not be organised and imposed from above. So the type evolved by the Comilla system is one in which a society is organised by members who agree to abide by certain common rules and principles. The management of such societies is left to them because they themselves decide who is to be manager, organiser and representative farmer.

To have the Central Association at the thana level has the dual advantage of being located within five miles of the village and at the same time being in a position to avail itself of the services offered by the Provincial Government Departments.

This facilitates their advisory functions vis-a-vis the primary societies and at the same time ensures that the training they provide is kept up to date by close contact with the experts at the Provincial Government. Proximity to the village has the further advantage that training can be provided on a non-residential basis.

One of the significant achievements of the KTCCA is that it has been successful in bringing a commercial bank into the field of rural credit. The Central Association now stands as a guarantor against loans to the societies by the bank. It helps the bank in administering the loans to the members of societies.

The joint operation of these two agencies has at least two effects; first the regular savings of members have created a source of funds for self-financing; and secondly, the existence of these savings has increased the credit worthiness of the borrowers.

Thus the Comilla system of Co-operatives has succeeded in developing a regular banking procedure from the mere rudiments of thrift deposits.

In the Comilla system a pattern has been evolved which combines 'economic viability' with structural

cohesiveness. (1) The primary village-based societies in the traditional type had been economically weak and vulnerable, while the large union-based multi-village societies lacked 'social and psychological cohesion'. Thus by establishing a system which has a combination of the two systems, a solution has been found for both problems.

For the primary societies, their working has become viable and they have achieved efficiency. The members of a village society known to each other, living in contiguous areas, can keep vigilance amongst themselves. These factors have made the village co-operatives into self-sustaining units. The members now use modern machinery, use improved inputs and save money for capital formation. In the weekly meetings the savings are collected and the names and amount are read out. This has two psychological effects:- it makes the non-savers feel guilty while group approval encourages the savers to save more.

A significant characteristic in the system is that while the private ownership of land is fully retained and normal social conditions continue, farm machinery, fertilizers and irrigation are jointly used by the members.

(1) Khan, A.A., Comilla Co-operative Pilot Project, PARD, 1961-65, p.3.

The principle of weekly meetings with compulsory attendance is immensely helpful in promoting discipline and disseminating improved farm techniques. In a matter of two to three years, the project has created among many villagers new attitudes to saving, and has led to a better understanding of what constitutes proper uses of borrowed money.

The fundamental reason for these achievements lies in the complementarity between village based societies and the central association.

The average per capita savings in the Comilla system has been Rs 115⁽¹⁾ while in the traditional system per member working capital has been Rs 50 (in 1959-60).⁽²⁾ This shows that the Comilla system has attained a commendable achievement in respect of savings and member participation which the traditional co-operative system has failed to do even in a life of more than fifty years.

The record of repayments has been excellent. The amount of overdues in the first four years has been almost nil.⁽³⁾ In quite recent years overdues have once more appeared owing to a relaxation of the vigilance exercised by the Central Association over the primary societies. Even so overdues still only accounted for 9.46% of total loans outstanding.⁽⁴⁾

(1) See Table 5.3. page 105.

(2) Agricultural Credit in Pakistan, op.cit., p.48.

(3) PARD, The Fifth Annual Report, op.cit., p.37.

(4) PARD, The Sixth Annual Report, op.cit., p.69.

The proportion of families covered by the Comilla co-operatives is about 30 p.c. ; it is expected to reach 60 p.c. very soon. The annual rate of savings and deposits is expected to exceed Rs 800,000 in the near future. ⁽¹⁾

One of the significant achievements of the Comilla co-operatives is in the linking of credit with marketing. Through the facilities of cold storage and processing, the members can now enjoy credit facilities both for the procurement of inputs and distribution of outputs. Where the Comilla system has operated the yield per acre of Aman and Aus crop has increased by 40 to 50 p.c. ⁽²⁾ It is reported that the farmers have been able to produce 3,000 tons of additional rice, additional winter crops and vegetables valued at Rs 2 million, besides providing 4 million additional man-days of employment during the dry season annually. ⁽³⁾

It is a remarkable achievement. How much of the success is to be attributed to inspiration provided by the presence of a dynamic personality like Akhtar Hameed Khan, is

(1) Khan, A.H., Inaugural Speech at the Comilla District Integrated Rural Development Programme, June 27th, 1965.

(2) PARD, Fifth Annual Report, op.cit., p.12.

(3) KTCCA, in a reply to a questionnaire in 1968.

difficult to assume. The success of the experiment largely has depended on the high standard of integrity and sincere participation and interest of the officers concerned. The encouraging results of success in three thanas in three other districts ⁽¹⁾ having similar projects have proved it to be so.

The success of the type has proved that it is the ideal type of co-operative structure with its integrated effort for amelioration of poverty and making agriculture self-sustained. It is now for the authorities to appreciate such spectacular results and start implementation of such co-operatives in the entire province. The course for the new areas to start with such co-operatives will be easier because the necessary experiments and research have already been undertaken in the Comilla project. Enough care should be taken to maintain the standard of performance already achieved in Comilla.

(1) The project areas have been selected at Gouripur in Mymensingh, Gaibandha in Rangpur and Natore in Rajshahi.

CHAPTER SIX.

PROBLEM OF ESTIMATING THE CREDIT REQUIREMENTS
OF AGRICULTURE IN EAST-PAKISTAN.

The process of estimating credit requirements of agriculture within a subsistence and individualistic framework is beset with difficulties. Estimates ought to be based on detailed surveys of agricultural activities. One needs information about farm incomes in relation to the size of holdings and the volume of outstanding loans per family. But due to widespread illiteracy, the response to sample surveys has often been disappointing. Even when co-operation has been shown by the sample population, the answers to the questionnaires have often been very inaccurate, in view of the fact that subsistence farmers rarely maintain any written records. Besides, the quality of interviewers has often left much to be desired. As a result, the findings of the surveys so far carried out have been very unreliable, especially as regards the extent of indebtedness in East Pakistan.

There is no point in using refined statistical techniques for the analysis of primary data unless these data are reasonably reliable.

Conceptually, there are two ways of estimating credit requirements. First, one can take it to mean the volume of credit needed for additional production. This implies that the requirement can be measured in terms of the computed value of inputs for a particular target of production. Such an estimate assumes that credit will be used only for the purpose for which it has been obtained, viz. to increase output. It therefore distinguishes 'credit' from 'charity' and 'production credit' from 'consumption or maintenance credit'. But such credit does not, of course, cover all the working expenses of the farm population because working expenses cannot be separated from living expenses. Moreover, a considerable part of maintenance expenses is indirectly helpful for farm productivity, and as such cannot be regarded as wholly unproductive. That part of credit which is spent by a farmer for thatching his homestead, or for health or sanitation, keeps him fit to offer his services for cultivation. In other words, such expenses as a whole are helpful for the sustenance of the labour force. Nor would such an estimate make any allowance for the need for credit if there has been some natural calamity - something that unfortunately happens all too regularly.

Besides, the agricultural operations by nature have a time lag between sowing and harvesting when a farmer requires financial assistance for subsistence.

As 69 per cent of the total rural borrowings are made for family expenses, this consideration cannot be disregarded outright. It is arguable that institutional lenders should confine themselves to meeting the more specific needs, but an estimate of total credit requirements should not omit the many purposes for which credit is at present used.

A second but even more difficult way to estimate credit requirements is to calculate the requirement on the basis of the cost of various crops. This would involve a calculation of the cost of the input-mix of various crops to be modified later by adding maintenance credit to the estimate. Such a method is very difficult to undertake because the cost of production of the same crop varies from area to area depending on soil fertility and arrangements of irrigation.

1. Some approaches to the problem:

A number of attempts have been made in East Pakistan to estimate credit requirements, though none of them could be described as comprehensive.

The earliest of these was that made by the Credit Enquiry Commission, which found that the total credit requirement in 1959 for Pakistan as a whole was in the region of Rs 3,000

million.⁽¹⁾ This estimate was based on the assumption that there is a certain ratio of credit to output flow, though the report did not indicate precisely how it arrived at its estimate.

The 'Action Plan'⁽²⁾ estimated that the total short and medium term institutional credit required by the farmers would be Rs 510 millions per annum. This estimate was based on the following assumptions:- first, that half the farmers would have to be provided with short-term credit, leaving the other half to be supplied by outside sources; secondly, that the number of families needing credit would be approximately 4.15 million in 1960; and thirdly that Rs 100 was the minimum amount needed by an average farmer (holding between 2.8 to 3 acres). The 'Action Plan' may well have underestimated credit requirements, partly by assuming that only half the farmers had to be provided for; small farmers have the greatest need for credit and one knows that three quarters of all farmers in East Pakistan cultivate less than five acres.

It has also been estimated that farm families in East Pakistan annually contract loans of about Rs 903.6 millions,

(1) The Report of the Credit Enquiry Commission, op.cit., p.7.

(2) This plan was prepared by the State Bank of Pakistan in 1962.

and, in addition, disinvest their assets to the extent of another Rs 524.4 millions. On this reckoning the annual credit utilization by the farm community would come to Rs 1,428 millions.⁽¹⁾

The most recent estimate of credit requirements is that of the Agricultural Policy Committee. This estimate was prepared as a part of the programme for the attainment of self-sufficiency in food production by 1970. (See Table 6.1). It anticipates that to attain this objective the amount of credit required will need to rise from some Rs 220 million in 1967/68 to some Rs 365 million in 1969/70.

Presumably the estimate measures the requirement of productive credit only. It is computed on the basis of utilization of certain inputs for target food production made available to some of the farmers on credit. The Committee has also discussed the question of availability of credit from institutional sources and yearly shortfalls arising therefrom as shown below. (Table 6.2.)

(1) Hasan Committee Report, op.cit., p.47.

TABLE 6.1 : Requirement of credit for various inputsin Agriculture.

(Rs in millions).

Items	1967/8	1968/9	1969/70
(a) Water @ Rs 30 per acre for 50% of the area.	7.81	11.93	18.30
(b) Fertilizer @ Rs 270 per ton for 50% of the targets.	35.91	65.35	87.75
(c) Improved seeds (irri and local) @ Rs 10 per acre.	1.14 (114,000 mds).	3.09 (309,000 mds).	3.24 (324,000 mds)
(d) Labour @ Rs 25 per acre for 25% of the cultivated area.	125.00	137.50	162.50
(e) Cattle and indigenous implements @ Rs 50 for 10% holdings.	33.00 (6.6 lakh holdings)	34.00 (6.8 lakh holdings)	35.00 (7.0 lakh holdings)
(f) Machineries, i.e. power tillers, fractional pumps, private tube-wells, etc.	15.00	30.00	55.00
(g) Loans to co-operatives	3.00	3.00	4.00
TOTAL	220.86	284.87	365.79

Source: Programme for Attainment of Self-Sufficiency in Food Production in East Pakistan by 1969/70, Government of East-Pakistan, Agriculture Department, October 1967, p.25.

TABLE 6.2 : Annual requirement and availability of institutional credit and shortfall.

(Rs in millions)

	1967/68	1968/69	1969/70	Total
Requirement	220.86	284.87	365.79	871.52
Availability	172.50	190.50	200.50	563.50
Shortfall	48.36	94.37	165.29	308.02

Source: Programme for the attainment of self-sufficiency in food production in East-Pakistan by 1969-70, op.cit., pp.25 and 26.

The table above shows that over the period of three years they anticipate a deficiency of some Rs 300 millions. This figure is obtained on the basis of the estimate of credit requirement for food crops only. If we include non-food crops like jute, tea, sugarcane, etc., the amount of deficiency will be still greater. Added to this is the fact that the committee did not take into account the regional or seasonal variation in factor cost in agricultural production and if an allowance is made for this the figure provided by them would appear to be an under-estimate of the requirement.

2. Towards an estimate of credit requirement of the Province:

A suggested method :

We shall now attempt an estimate of credit requirement ourselves, taking account of the main purposes for which money is borrowed by farmers.

The requirement can be put in the form:

$CR = Fd \times AL$; where CR = total credit requirement.

Fd = total number of farm families having outstanding loans.

AL = average annual requirement of loans per family.

This estimate is made under the following assumptions:

- (i) an annual rise of 3% in the number of farm families.
- (ii) 54% of the farm families will need to borrow.
- (iii) the size of loan required per family requiring loans is Rs 309.

On this basis the total credit requirements for the years from 1966 to 1970 work out as follows:-

TABLE 6.3 : Total number of farm families, families requiring loans and total credit requirements of the Province.

1	2	3	4
Years	Number of farm families (in millions)	Number of families requiring loans (in millions) (54% of Col.2)	Total credit requirement or CR (Col. 3 x Rs 309) (Rs in millions)
1965/66	7.76	4.19	1,294
1966/67	7.99	4.32	1,333
1967/68	8.23	4.44	1,373
1968/69	8.48	4.58	1,415
1969/70	8.73	4.72	1,457

This estimate includes credit needed for family maintenance between harvests, and expenses relating to natural calamities.

Let us now compare these totals of credit requirements with the amount of institutional credit likely to become available.

* TABLE 6.4 : Comparison of Availability of Institutional Credit with our Estimate of Requirements.

(Rs in millions)

Name of Agency	1967/68	1968/69	1969/70
A.D.B.P.	100	100	100
Co-operatives	50	70	80
Taccavi	20	20	20
Total availability	170	190	200
Total requirement	1,373	1,415	1,457
Shortfall	-1,203	-1,225	-1,257
*Computed from Table 12 from <u>The Programme For Attainment of Self-Sufficiency in Food Production in East Pakistan</u> by 1969/70, op.cit., p.26 and Table 6.3.			

Compared with the shortfall estimated by the Committee our own presents a very bleak picture indeed. On their assumptions of availability we must conclude that institutional credit over the period will meet only 13% of total requirements. But even that may be optimistic in that it relies on their forecasts of institutional credit which may turn out to have been too sanguine.

Table 6.5. shows how little institutional credit has risen in the 1960's and it is not clear why a marked deviation from this trend is to be expected.

TABLE 6.5. : Total inflow of institutional credit.

(Rs in millions)

Year	Co-operatives	A.D.B.P.	Taccavi	Total
1960/61	42.00	38.19	13.84	94.03
1961/62	42.55	40.54	21.45	104.54
1962/63	30.32	37.67	29.00	96.99
1963/64	36.24	38.34	38.23	112.81
1964/65	25.32	36.48	29.95	91.75
1965/66	11.64	41.55	17.79	70.98
1966/67	21.47	70.00	18.00	108.47

Source: Economic Survey of East Pakistan 1966-67, op.cit., p.15.

The latest figures indicated that for 1967/68 the agencies might be able to advance about Rs 150 million.⁽¹⁾ This would leave a shortfall at Rs 70 millions on the Committee's estimates of requirements compared with their anticipated shortfall of Rs 50 millions. On our estimates of requirements the shortfall will of course be very much greater.

(1) State Bank of Pakistan, Agriculture Credit Department.

This implies that in the absence of adequate institutional credit, the rest of the requirement, i.e. about 87% of the total, would have to be met from non-institutional private sources.

There would seem to be, even on conservative estimates, a great need to increase the supply of institutional credit.

CONCLUSION.

In most under-developed countries a major problem is how to break out of the vicious circle of poverty of the masses, and low capital formation in agriculture. Because it is overwhelmingly the largest sector of the economy, agriculture can either accelerate or arrest the development of the economy as a whole.

Agriculture in East Pakistan has remained depressed, traditional and subsistence-oriented, resulting in low productivity and low per capita incomes.

One among many reasons for this state of affairs is the shortage of credit. Money savings within agriculture have remained meagre because large sections of farming continue to be non-monetised. Similarly, the inflow of capital from outside the sector has been found to be negligible.

But, as has been stressed, for a transformation of traditional agriculture, credit is needed by farmers to enable them to embark on improved farm practices. Credit alone will not be enough for its lack is by no means the only thing holding back development, but without it little progress is possible. Moreover,

to be useful it needs to be cheap. What is required is an adequate supply of cheap credit as part of a drive to turn subsistence cultivators into modern farmers who will eventually know how to conduct their affairs in a business-like manner, having learnt that loans can only be repaid if they have been productively invested.

In this study an attempt has been made to identify the problems related to rural credit in East Pakistan and to derive some lessons for future policy.

Experience seems to indicate that the Comilla system is superior to the traditional co-operatives and has indeed been well recognised as an "example of success". How to transform the traditional co-operatives and introduce the Comilla type all over the province is at present under government consideration. It will not be possible to do so very quickly because it would involve fairly considerable expenditure on the training of people to undertake the functions of management, supervision and extension. The success of the Comilla system, however, also owed much to the enthusiasm and devoted leadership of Dr. Akhtar Hameed Khan and the extension of this system will therefore also be dependent on finding others who share his qualities. Consequently it would be rash to expect a very rapid spread of the Comilla system, but there is little doubt that where it does take hold it will improve the economic condition of the small farmers and make them less dependent on outside help in future.

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