

# The Impact of the Supervised Sajha Program on the Credit Function of the Sajha Societies

(A CASE STUDY OF NEPALESE COOPERATIVES)

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## 1. The Sajha Program

The cooperative movement in Nepal started in 1953 as a government support program. The first Agricultural Cooperative Society was organized in the Rapti valley in 1956 with an executive order issued by His Majesty's Government (HMG) to provide credit and the supply of inputs to the settlers in order to reclaim the forest area for cultivation. The first Cooperative Society Act was enacted in 1959, in which the powers of organization, registration and liquidation are entrusted to the Registrar by law.

Nepalese agriculture is considered predominantly a traditional subsistence sector consisting of small and fragmented holdings with a low level of productivity. The main source of credit to these subsistence farmers is still non-institutional sources. The formal lending institutions have come into operation very recently and the majority of the rural masses might not

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have known its prime importance. Cooperation in the form of mutual help like Parma and Manka-Guthi (group farming), Dharam Bhakari (Grain Bank) and Dhikuri (a cash bank) have been operating in a traditional way for a long time but their socio-economic impact and further improvements have not been studied yet.

The objectives of the agricultural cooperative system in Nepal are two fold: firstly to enable the member farmers to have access to credit, goods and inputs to enhance their productive capacity and improve their level of living and secondly to develop self reliance for both individuals and the cooperatives to advance by government support.

Nepal has launched five 'Five Year Plans' since 1956 but the achievements in the cooperative sector during the first three plans were negligible due to over ambitious targets for these plans. The Panchayat system of government was introduced in 1962 and the cooperatives were linked with this. A land reform program was introduced in 1963 and a system of compulsory savings was initiated to accumulate capital for agricultural financing through rural savings by the institutions. A Cooperative Bank was established in 1963 as an institution for cooperative credit.

The idea of supervised cooperative credit was introduced in 1968, after the conversion of the Cooperative Bank into the Agricultural Development Bank in 1967. His Majesty's Government approved the supervised credit program at the beginning of the Fourth plan in 1971; the management aspects were entrusted to the Agricultural Development Bank, Nepal (ADB/N) and the power of Registrar was transferred (management powers only) to the ADB to make the cooperative efficiently operative and responsive to the needs of the rural people.

The target of re-organization or setting up of supervised cooperatives fixed at 251, to be organized over a phase of four years. The initial costs of cooperatives were subsidized by HMG as 100%, 75%, 50% and 25% for the succeeding years. At the end of the Fourth Five Year Plan the number of supervised cooperatives operating in different parts of the country was 289.

The achievements during this period were encouraging in the sense that most of them were operating at break-even point. The supervised cooperative program was implemented in 28 selected districts where transportation and irrigation facilities were available and the districts

where the Intensive Agricultural Development program had been launched. The extension service, cooperative credit and input supplies were linked together. The District Coordination Committee was formed to look after the implementation of the program and it has been receiving broad policy guidelines from the central government. These committees prepare the Agricultural Development program in the district and establish coordination among the various departments and agencies involved in agricultural development in the district; make arrangements for credit, input supplies and form an implementation team to help the farmers at the villages.

The Sajha program on which this study concentrates was introduced in 1976, at the beginning of the Fifth plan as a part of the Rural Development program to provide access to credit, inputs, marketing outlays and banking facilities in the rural areas for the benefit of small farmers. The compulsory savings so far collected during the Land Reform program were transferred into the share capital of the Sajhas. The Sajha Societies provide credit to those farmers who are willing to adopt improved methods of cultivation. Small farmers have to depend on borrowed funds from the institutions for purchase of new inputs. The input supply institutions are the Agricultural Input Corporation (monopolized government agency) for imports and distribution at the apex and the District Cooperative Unions and the Sajhas at the village.

## **2. Performance of the Sajha Program**

The main objective of this study is to evaluate the performance of the Sajha program. The study has devised a number of performance indicators and these indicators are tested according to the hypotheses proposed.

A sample of 30 Sajha Societies selected by a stratified random sampling method, covering all districts of the Sajha area have been used in this study. The study is based on a comparison of two periods, before and after the Sajha program. Activity comparisons are made of the Sajhas in different regions (Hills/plains) for both the periods in performing various credit functions. Efficiency indicators like membership, area and household coverage, share capital, lendings, repayment, overdues and the distribution of loans among various sizes of holding, financial profits and the annual financial turnover have been proposed for evaluation purposes. Non-parametric and parametric techniques have been used to analyse the performance. The sign test was conducted to determine whether or not a change has occurred with the introduction of

the Sajha program. The magnitude and the significance of the change have been carried out by conducting a paired t-test and the analysis of variance with the group mean as the basis of comparisons. The Chi-square test has been used to determine the differences among the groups most benefitted by Sajha credit; the coefficients of variation and statistical averages are compared to study the differences among groups.

To examine the operational procedures and the functioning of the Sajha and its social and economic impact, member farmers, non-borrowers and Sajha managers were asked a series of questions during data collection and their views on the Sajhas were analysed.

### 3. Statistical Results

It is too early to evaluate the Sajha program comprehensively after only two years of operation. However, the major statistical findings of comparisons with pre-Sajha period are as follows :

- a. **Area Coverage:** The area coverage with the introduction of the Sajha has been reduced from an average of 4.8 to 2.48 Panchayats. The household coverage has increased with an average of 696 households since the introduction of the Sajha program.
- b. **Membership:** Membership prior to the Shajha program was voluntary but membership now is obligatory due to the transfer of compulsory savings into share capital. The introduction of the Shaja program has increased membership with an average of 519 members, nearly twice as large as the pre-Shaja situation. Regional variability exists in membership, the Plains having a higher membership.
- c. **Share Capital:** The transfer of compulsory savings into share capital has drastically increased the amount of share capital with an average of Rs. 132,464, nearly double the pre-Shaja situation. The share capital per member is Rs. 255 which is nearly five times greater than that of pre-Shaja.
- d. **Lending and Delinquency:** Lending has increased with an average of Rs. 201, 380 per society but the loan per member has decreased slightly because

of an increase in membership. Delinquency has also increased proportionately with an average of Rs 72,505 per society but the delinquency per member has decreased in the post-Sajha period.

- e. **Financial Turnover:** The financial turnover has increased with an average per society being Rs. 446,000 nearly twice that of pre-Sajha.
- f. **Profit and Loss:** The cooperatives on average recorded losses of Rs. 1,500, but with the introduction of the Sajha program the Sajhas are recording an average profit of Rs. 5,400, although some of them are still running at a loss.

The first two hypotheses that 'the introduction of the supervised Sajha Program has improved the credit function of the Sajha Societies' and that 'the improved functioning has led to greater use of credit, profitability and the financial turnover of the Society' have been confirmed by the sign test indicating that there has been an improvement in the credit function of the society with the introduction of the Sajha Program.

The magnitude of the change has been measured and there has been a decrease in the **area coverage** meaning thereby that the Sajhas are concentrating on a smaller area but with greater efficiency and an increase in **membership, share capital and current lendings** in the post-Sajha period. There are also changes in profits, overdue position and financial turnover but they are not significant.

The third hypothesis that "the Sajhas in different regions with different lines of activities differ in their efficiency" has been tested by using the analysis of variance. The results obtained show that the Sajhas located in the Plains differ significantly from those of the Hills in **share capital, lending and area coverage** due to an uneven rate of growth, and large and uneconomic infrastructure. But the Sajhas in the Hills are equally as efficient as those of the Plains in **membership, profit making, financial turnover and repayments**, and in conducting all their business operations.

The fourth and the fifth hypotheses that "larger farmers dominate the Advisory Committee" and that "default rates are higher for those dominant groups" have been tested by using the Chi-square test. The results reveal that the large farmers dominate the Advisory

Committee and their default rates are higher. They have also borrowed a greater amount of loan from the Sajha and are more reluctant to repay it in due time.

Average borrowing per member per Bigha increases with an increase in size of farm holding. The variation is higher among the larger sizes of farm holding indicating that the larger farmers have borrowed more from the Sajha than the small farmers.

The average per Bigha needs of credit are found to decrease with an increase of farm size in both the regions. The smaller size of farm holding needs more credit than the larger size because larger size farms can generate sufficient funds for future investment.

The average distribution of loan per unit area increases with the decrease of farm size. This is true in both the regions. The average repayment per member also increases as the size of farm holding increases. The proportion of repayments from current production is higher than the investment loan for all sizes of farm holding in both the regions. The repayment records are better in the Hills than in the Plains.

The delinquency rates per society are higher among the larger size of farm holding in both the regions indicating that as the size of farm increases the delinquency increases and this is higher in the Plains than in the Hills.

The majority of members had joined the society prior to the Sajha Program and generally observed that the Sajha Program is no different from the cooperative system in its functions. All the members are interested in the Sajha Program but the procedure of getting a loan is cumbersome and could be improved in the following ways: (i) by providing investment loans through the Sajha; (ii) by collecting loans in kind and introducing marketing of members' agricultural produce through the Sajha; (iii) by constructing a warehouse in each society; (iv) by electing a management board of members for better management; and (v) by educating continuously through conducting seminars and training staff and members.

All the farmers in the rural areas know about the Sajhas but they are unaware of their importance. Most of the non-borrowers are reluctant to take loans from the Sajha because the procedures are long and cumbersome with the completion of many formalities. This could be remedied by making easier terms and conditions which would be more attractive to the rural masses such as providing agricultural technicians in each society and collecting loans in kind and providing consumption loans to the needy farmers.

Members suggested in the interviews that legal action against the default loans should be taken quickly through the Sajhas and penalty interest rates could be imposed.

The majority of the Sajha managers are inexperienced and have only been appointed for between one and two years. Most of the Sajhas are lending only production loans and for the purchase of bullocks; these functions are not adequate for a viable society. A wide range of agricultural lending should be conducted through the Sajha to make them viable in the long run. According to the cooperative managers interviewed the Sajhas are poorly staffed with very few incentives; they need clerks and technicians for proper record keeping and proper supervision follow up and loan collection. All the Sajhas are facing problems of loan collection, storage difficulties which could be improved through collection in kind, godown construction and training for the staff.

Relaxation in the terms and conditions of loan should be made, particularly to small farmers, distributing loans on productive capacity with personal guarantees.

#### **4. Conclusion and Policy Implications**

Most of the small farmers have not received Sajha credit due to lack of collateral, complicated and cumbersome procedures and formality requirements. A larger proportion of the Sajha credit has gone to the larger farmers. If the small farmers are the target groups of the program then a proportionate percentage of loans should be allocated to the small farmers for current production as well as investment purposes. The terms and conditions of the loan should be relaxed making it within easy reach of the small farmers.

To mobilize and encourage rural savings, higher interest rates should be given in **time saving**, providing a banking facility in each Sajha Society.

Timely supply of agricultural inputs at a subsidy rate and the collection of loan in kind from the members with marketing, pledging and storage facilities through the Sajha could encourage the farmers to borrow and repay loans in time. Legal action against the default loans should be taken promptly and penal interest rates could be imposed.

The Sajhas should be made free from political influence by conducting a free election to make the Sajha more democratic and service oriented in the interests of the small farmers rather than keeping the Sajha linked to the **Panchayat** system.

The Advisory Committee after election should be representative of each category of the farmer members, if the objective of the Sajha Program is to help the small farmers of the agricultural sector.

It is generally assumed that cooperative education is needed for improving the performance in different lines of activity. Another way of improving the efficiency of the staff is to provide incentives to them in the form of higher salaries, bonuses, housing, higher training and security of job.

Record keeping in most of the Sajhas has been found to be very poor; training for record keeping and other technical matters would enhance the efficiency of the Sajhas.

Follow up and supervision of the loans and the Program as a whole should be conducted from the district (and from the centre periodically) but the problems arising during implementation of the Program should be solved immediately which could be done by entrusting certain levels of power to the staff engaged in the implementation at grass root level.

Coordination and responsibilities of the agencies involved in the Agricultural Development Program should be assigned strictly from the central level.

This study has evaluated the Sajha Program since its inception in 1976, and has developed methods which can be used in further research or for continuing assessment. More extensive research on cooperative credit should be carried out every year to see if the small farmers are benefitting from the supervised Sajha Program in accordance with government and Cooperative aims.

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