The Economic Journal of Nepal
Vol. II, No. 4. October 1979 EIC—TU

Sajha Societies in Nepal

(FINANCIAL VIABILITY AND COVERAGE)

—Sriram Poudyal *

1 Introduction:

This paper analyzes the financial viability and the operation and coverage of Sajha Societies in Nepal. It seeks to answer whether the Sajha Societies are financially sound and whether they are effective in providing credit to the majority of farmers for enhancing agricultural production. Unfortunately, time series data on Sajha's loan disbursement, loan realization and other financial accounts are not available and the Sajha's functioning is so complex that rigorous conclusions are not possible. However, I have attempted here to put the problem in perspective.

One of the major government efforts to develop agriculture during the last 20 years has been the provision of credit to rural farmers through co-operative schemes.The co- operative societies, recently known as the Sajha Societies, have through time, expanded their scope from financial to other non-financial and commercial activities like provision of different kinds of agricultural inputs, supplying essential consumer goods and marketing of agricultural produce.

*Mr. Poudyal is associated with the Research Centre for Nepal and Asian Studies, Tribhuvan University, Kathmandu.

The Societies receive the required capital from the Agricultural Development Bank at concessional interest rates, agricultural inputs from the Agricultural Inputs Corporation and the essential consumer goods from the Salt Trading Corporation. In mid-July 1976, the government launched a comprehensive Sajha Programme and started converting the existing co-operative institutions into Sajha Societies in a phase-wise manner. The programme is to evolve the Sajha Societies as the most powerful and effective grass roots level institutions for helping the farmers through providing financial and physical inputs, and marketing facilities.

The required data for analyzing the financial strength and the operation of the Sajha Societies in Nepal are not available. However, the issue can be approached on through information contained in the survey studies conducted by the Nepal Rastra Bank in Dec/Jan, Jan/Feb, Feb/March and March/April of 1977. These surveys cover respectively five, six, seven and eight months operation of the Sajha Societies since their reformation in July 1976.

2 Financial Viability

Since the Sajha Societies are engaged in performing a number of tasks which could have quite an impact on village upliftment, it is highly desirable that these societies should have a fair degree of financial viability. By 'financial viability, we mean the economic strength or the capability of the institution to stand on its own resources. The importance of financial viability stems from the fact that institutions without it are susceptible to political influence if they survive at all. The dependence on annual appropriations from the government to help cover costs endangers the very existence of the institutions. Whenever the government is unwilling to provide adequate transfers, the society runs the risk of paralysis and ultimately of closure.

The measurement of financial viability presents a severe problem. As there are no set measures we must take recourse to very elementary approaches hoping that these will at least serve the purpose of explaining the financial soundness. The approaches are, in fact, ratio analysis concerned with the financial strength in the near future and in the long run. The long term financial strength is measured by the stock-equity ratio and the short term strength is given by the current ratio.

The ratio of equity to total assets shows the portion of assets or long term capital contributed by the stock holders. A higher ratio indicates greater long term financial strength because less reliance is placed on borrowed capital. Any institution may be said financially unsound if its stock–equity ratio is less than the desired ratio. Symbolically, the relationship can be explained by r 7//∠r*, where r is the actual ratio and r* is the desired ratio. What would be the desired stock equity ratio varies depending upon the type and size of business, business cycle fluctuations, etc. For a steel company r* should probably be well above 50 percent, while for an electric company it might be as low as 30 percent. In the case of credit institutions the proper ratio would be 50 percent.

As regards short term financial strength measures, the current ratio which is the ratio of current assets to current liabilities is believed to offer a reliable pictural of financial soundness In the short run one would be interested in knowing the current assets, particularly cash, short term securities, accounts receivable etc., for debt paying ability.

These ratios will simply reveal the current position at a point in time without any indication of the phases through which the institution has passed. Hence, what is required is a comparision of these ratios over time. This shows not only the direction towards which the institution is heading for but also helps in detecting any financial problems that seem to be developing.

Table 1 provides a summary view of the total assets, the equity capital, the borrowed capital and the ratios of equity and borrowed capital to the total assets of Sajha Societies.

Table 1: Total assets, share capital and borrowed capital of the Sajha Societies.

Survey	Period covered	Coverage		(Rupees in thousands)				
		District	Sajha Societies	Total Assets (A)	Share Capital (S)	Barrowed Capital (B)	$\frac{S}{A} \times 100$	$\frac{B}{A} \times 100$
I	mid– Dec 1976	7	31	5400	353	4085	6.5	75.6
II	mid–Jan 1977	6	33	7977	1806	3935	22.6	49.3
III	mid-Feb 1977	5	26	4899	377	3216	15.0	65.6
IV	mid–march 1977	10	45	8849	1509	5209	17.1	58.9

Table 1 does not show the trend in equity asset and borrowing asset ratios; but it does indicate that the equity asset ratio is very low while the borrowing asset ratio is very high. The heavy dependence on borrowings for resources suggests that the Sajha Societies are financially too weak to run their activities. And the low equity asset ratio reflects that people are quite unwilling to accept Sajha Societies within the country's economic structure to provide financial and physical inputs to them. There are three major reasons for this. The first stems from the lack of people's confidence in government policies and programs. Second, the large farmers who are able to get maximum advantage without much pressure to repay find no benefit in investing on equities. Third, for the poor and small farmers, Sajha Societies do not mean anything; even if they mean something, the farmers have very little means for contributing to the equity capital.

3. Operation and coverage

The Survey findings indicate that most of the population has remained virtually untouched by the operations of the Sajha Societies. Table 2 shows that despite eight months' operation, the 45 Sajha Societies covering 10 districts could avail credit to only 1.44 percent of the total population. The average amount of loan per borrowing member turns out to be about Rs. 600. Thus, neither the proportion of population covered by the loan operation nor the average amount of loan per borrowing member is encouraging. What is even more discouraging, the credit need of the small and marginal farmers who constitute the majority remained neglected while most of the facilities were used by a priviledged minority.

Table 1: Total populalion, population taking loan and the average amount of loan per borrowing person.

Survey	Total Population	Population taking loan	percentage of people borrowing	Loan Disbursed	Loan per person
I	2,27,289	1,964	0.87	15,60,642	794
II	2,20,075	2,684	1.2	17,79,006	662
III	64,584	1,729	1.06	10,91,499	631
IV	2,64,584	3,817	1.44	22,25,187	590

This suggests that the Sajha Societies have failed to achieve the objective for which they were established. Very much against the basic objectives, these societies have contributed further to the well being of minority groups–the large and rich farmers who weild the social and political power. These large farmers often use the loan for purposes other than those concerned with agricultural development and make a deliberate effort not to repay the loan using political power to protect themselves against the penalties of non-repayment. As a result, the Societies suffer from high defaults and the other undesirable consequences that stem from them. The high cost of administration and the slow turnover of resources put the societies in undue financial stress which in turn, further increases the dependence of these institutions on borrowing or government transfers for the resources. On the other hand, the small and marginal farmers and the unsecure tenants seem to have remained in the same condition as they were twenty years ago. Because of their inferior position in the social order and lack of illiteracy or education these farmers are helpless and are hopelessly squeezed by the landlords and money lenders. It seems that the concern for the small and the marginal farmers has simply become an intellectual and political fashion rather than a serious move toward reform.

4. Conclusion

Our analysis thus indicates that the Sajha Societies in Nepal are neither financially viable nor effective in developing the country's agricultural sector. The major beneficiaries have been the few privileged farmers who have not only misused the credit but also pushed the societies into severe financial stress, imposing a serious cost to the country as a whole. In the view of this, sustaining these societies through a number of concessions like lower interest rates, lower prices for agricultural inputs, subsidies and transfer of funds is highly objectionable. If anything could be achieved by continuing the programme in the present framework, it is the maintenance of neo-feudalistic economic structure which would support and further strengthen the status quo. Hence, it is time that we take a fresh look at the entire structure and operation of Sajha Societies.