

Dhukuti Associations in the Western Hills of Nepal : A Case Study of Pumdi Bhumdi Village[@]

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Definition

Dhukuti association is a kind of credit cooperative managed by the members themselves in order to gather a certain amount of money (funds) and provide it to each of them in turn basis (Rotating credit cooperative). The participants in an association pay regular instalments at a predetermined rate and frequency (mainly monthly)¹. The combined instalments contribute the capital of the association which is available for individual investment once. The profit of the cooperative coming from interests procedures come back equitably to each shareholder.

Origin

Dhukuti associations are particularly numerous among *Thakali* people. This ethnic group, common in western Nepal, is famous for business enterprise and trade². In *Pumdi Bhumdi* Panchayat, *dhukuti* association started in 2037 B. S. (1981). A new teacher coming from another area brought it with him and launched it in the Panchayat. In 2042 B. S. (1985), there are 15 on-going *dhukuti* associations with about 15 to 25 members per group. The instalments to be provided by shareholders vary from group to group between Rs.100 and Rs.500 (monthly *dhukuti*). The duration of a *dhukuti* association corresponds to the number of members involved in the group on the basis that one member is equal to 1 turn of the *dhukuti* life.

For example, an association of 22 members functioning on monthly basis will exist during 22 months. After each member has received the *dhukuti* fund, the association will be dissolved and a new one may take place with the same participants or with others.

Functioning Procedure

The procedures for getting *dhukuti* credits are quite complex. We will hereby discuss

[@] Extracted from "le systeme du Dhukuti a Pumdi Bhumdi" 35 pages. By T.C. Delobel, July, 1985

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only the main aspects. The figure in Appendix I summarizes those procedures. In *Pumdi Bhumdi's* dhukuti associations members can get two kinds of credits coming from the total fund collected in one period (round) : Main credit and auxiliary credit.

For explaining the functioning procedures consider the following example as a typical *dhukuti* association.

Basic Characteristics

- round (monthly)
- number of members: 20 (Duration of association: 20 rounds)
- basic contribution per head: Rs. 200
- Initial association fund: Rs. $200 \times 20 =$ Rs. 4,000
- Incremental interest: Rs. 5 per month³.

Main Credit Provision

The main credit is given in each period to one member by secret bidding. This bidding is organized among persons who want to obtain the money from the fund. The person who leaves the maximum amount of money in the *dhukuti* wins the secret bidding. Thus, he will get the sum corresponding to the difference between the fund of the *dhukuti* and the amount of money that he leaves in the *dhukuti*. A member is allowed to get a main credit only once. Starting in the following month, he should pay incremental interest on it. Members whose turns fall towards the end of *dhukuti* have to pay less incremental interest : the disadvantage of having to wait longer for getting main credit is then reduced.

Auxiliary Credit Provision

The amount of money left in the *dhukuti* is available for an auxiliary credit. This credit is given to any member of the association who agrees to pay the maximum rate of interest on it (open bidding). The person who gets the auxiliary credit should repay it (with interest) in the next round. One member is allowed to get auxiliary credits several times if he wins the biddings.

Instalments of Dhukuti : Procedure of Repayment

In every round, members of *dhukuti* groups have to pay instalments in order to reconstitute the initial fund. In a given round, the instalments to be paid are basically determined as follows:

- For a member having not got credit at all : he will pay only the basic contribution fixed in the beginning of the *dhukuti* establishment (e.g. Rs. 200).
- For a member not having got auxiliary credit, but having got main credit : he will pay the basic contribution (Rs. 200) plus the total incremental interest on the main credit (e.g. Rs. 5 per round times the number of rounds passed).
- For a member not having got main credit, but having got auxiliary credit : he will pay the basic contribution (Rs. 200) plus the auxiliary credit that he had got in the previous round with interest included. (e.g. Auxiliary credit: Rs.1000 + 10 percent interest:Rs.100)

- For a member having got both main and auxiliary credits : he will pay the basic contribution (Rs. 200) plus the total incremental interest on the main credit and the auxiliary credit that he had got in the previous round with interest included.

It is important to note that in a given round the amount of money and interest of the auxiliary credit to be repaid by the taker come in subtraction from the basic contribution of each member (even for auxiliary credit taker). The total sum is divided by the number of members in the group and then the result is deducted from the basic contribution as in the following example:

$$\frac{\text{Rs. 1000 (Auxiliary credit)} + \text{Rs. 100 (Interest 10\%)}}{20 \text{ (Number of member in the association)}} = \text{Rs. 55}$$

Thus, we have:

$$\text{Rs. 200 (Basic contribution)} - \text{Rs. 145.}$$

That means that each member of a dhukuti association is able to profit by interests on auxiliary credits.

Rationality of Dhukuti Associations

In the framework of our research about Farming Systems at *Pumdi Bhumdi* several reasons made us interested in *Dhukuti* Associations.

1. The first reason is related with the nature itself of this informal credit organization which sometimes comes in substitution to the official credit agencies (Agricultural Development Bank and Institutionalized Credit Cooperatives). The official credit agencies are not always appropriate to the farmers' situations especially for those who are below the subsistence level.⁴ According to the interviewed members of *dhukuti* associations, the main advantages of this credit system are as follows:

- access to credit is fairly easy (cooperatives settled in the villages) and rapid (rotating procedure).
- no need to give guarantee in kind (unlike Bank).
- no supervision in the use of the credit : A member can use the money as he wants.
- any member has equal chances to get credits.
- profits from loans (interests) come back to each members.

Nevertheless, there are also some constraints in the system. The most important problem concerns the ability of the members to repay on time the auxiliary credits or to contribute for the instalments every month. At *Pumdi Bhumdi*, certain *dhukuti* associations have instalments around Rs. 500 per month⁵ Sometimes, farmers are also involved in associations whose level of contribution is too high for them. Those farmers have many difficulties to gather enough money for the instalments or to repay auxiliary credits. Thus, most of the time they are obliged to borrow the required money from other villagers with generally high rates of interest.

2. The second reason why we are interested in *dhukuti* associations at *Pumdi Bhumdi* is that it represents a relevant criterion for approaching the monetization degree either at the community level or at the household one.

Community level

In comparison with Brahmin farmers we can see very few Gurung farmers involved in *dhukuti* associations⁶. In fact, Gurung households have generally less shortage of money (salaries and allowances coming from military services) and invest less in agriculture than Brahmin ones. Thus, the need for money appears more important for the *Brahmin* households of *Pumdi Bhumdi*.⁷

In the same way, *dhukuti* association may denote the tendency of one community to go ahead in the general process of monetization of the Nepalese society and also shows the stage in the evolution from a subsistence economy to a commercial one. This evolution can be mainly examined in regard to either the decrease of instalment frequencies⁷ or increase in the amount of money involved in *dhukuti* associations.

- *Household level*

At the household level as above to approach *dhukuti* associations can help us to determine individually the monetization degree of each particular household. Indeed, depending on whether a farmer is involved in several *dhukuti* associations or not or whether he participates in a strongly monetized association or not. The importance of his financial viability could fairly be ascertained. In the same way, it is important to know where the money for the instalments comes from and also how people use the credits. In order to answer these two questions we have interviewed 30 members of *dhukuti* associations. It appears not a very significant correlation ($r = 40.8\%$) between interviewed farmers' cultivated area (lowland + upland) and the amount of money which they engaged in *dhukuti* associations (See Appendix 4). In fact, this money mostly comes from non-farm employment which procures more or less regular salaries to the farmers (minor government officials, clerks, teachers, guards etc.)

Except for purchasing dairy animals (mainly she-buffalo) because of the importance of milk production at *Pumdi Bhumdi*⁹. There is no real tendency towards the use of *dhukuti* credits¹⁰. Farmers use them for any kind of purposes according to their needs (See Appendix 3). One interesting thing is that farmers do not wait for the moment when the credits of *dhukuti* associations are available to buy something that they need. In fact, they are accustomed to borrow money from other villagers to get goods or to delay the payment of purchases.

The last main point about *dhukuti* associations concerns the relationships which may be established among the members in the same group. As there is a meeting every round members have more contacts between them. Those contacts certainly influence the economic strategies of each farmer.

Conclusion

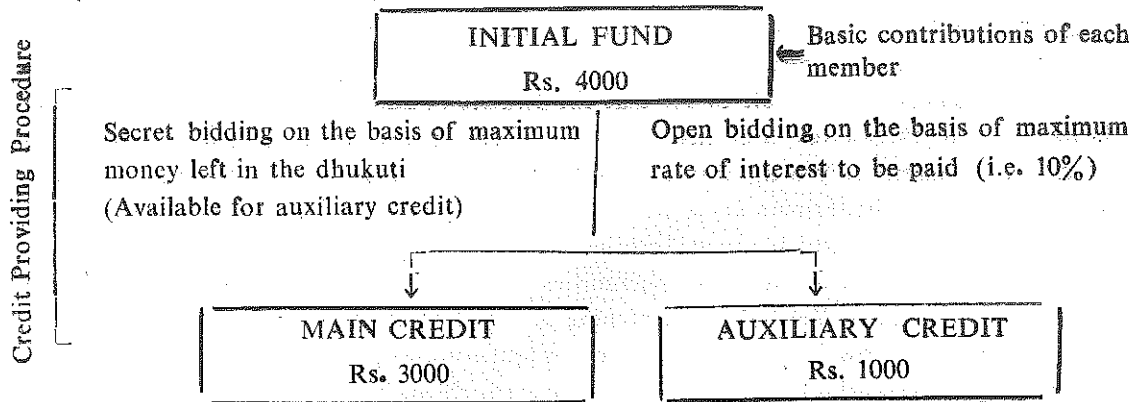
We have hereby presented quite rapidly the *dhukuti* associations in *Pumdi Bhumdi*. We have examined them as a part of the farming systems research that we are developing in this site, even when they are not directly concerned with crop-livestock activities in the farms. As a result of more cash availability for the farmers, they may influence greatly their development. Otherwise we are able to say that the farmers of *Pumdi Bhumdi* (namely *Brahmins*) have found by themselves a means to try to overcome the shortage of cash availability. Perhaps, this means only temporary and other ways are possible or even better. In fact, the main thing is that the farmers know what is profitable for them. When they get opportunities, most of the time they are able to make a good choice. The main concern for researchers of any kind of subjects is to provide opportunities to farmers in order to help them to overcome their constraints. Yet before intervening in rural areas, to examine those constraints and to understand how farmers manage them is quite necessary. Perhaps, the *dhukuti* system may undergo interventions in order to be improved. If such interventions are possible we must keep in mind that they should go along with a better control of rural economy by the farmers themselves.

Appendix 1

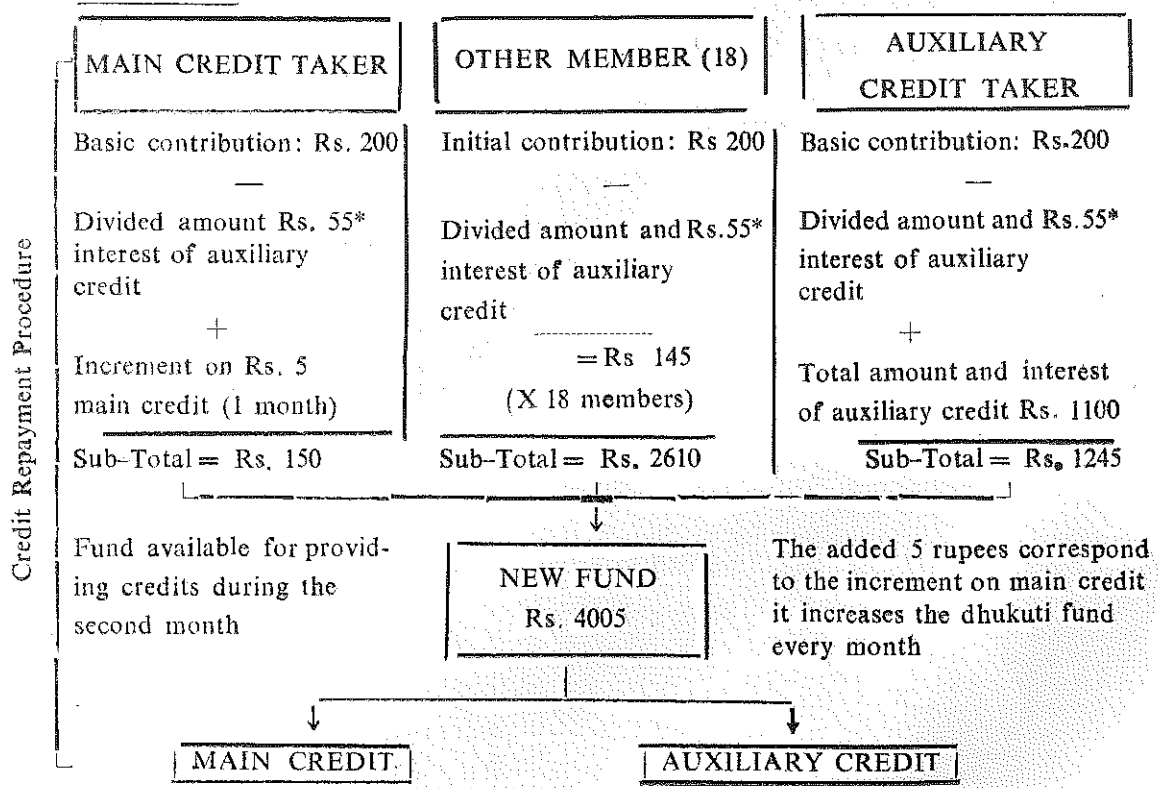
Simple Example of Functioning Procedure

First Month

(Association starting date)



Second Month



* $\frac{Rs. 1000 + Rs. 100}{20} = Rs. 55$

Appendix 2
Dhukuti Groups Existing at Pundi Bhumdi in May 1985

No. Name	Location	Starting Date	No. of Participant	Basic Contribution	Total Amount(Rs.)	Remarks
01 Bistroupia Ko Sukrabare	Lukunswara	Jan. 1985	28	20	560	Weekly =80Rs./Month
02 Annapurna	"	Sep/Oct 84	17	200	3,400	
03 Pragati	Thulibidi	Nov. 1984	18	200	3,600	
04 Bhabisya Nirman	Ghumti	Sep/Oct 84	27	100	2,700	
05 Pragati	Thulibidi	Nov. 1984	23	200	4,600	
06 Ghumti Ko	Ghumti	Jan/Feb 85	18	200	3,200	
07 ?	Chaina Chock	Jul/Aug 84	14	500	7,000	No Auxiliary loan
08 Manakamana	Thulibidi	Mar/Apr 84	21	200	4,200	
09 Bhome	Dandathok	Sep/Oct 84	15	100	1,500	
10 Bara-Suttais Pandrudine	Lukunswara	Jan. 14, 85	20	30	600	Twice a month =60Rs./Month
11 Sartanema	Thulibidi	Dec. 24, 83	22	500	11,000	
12 Upakar	Ukala	Oct/Nov 84	18	100	1,800	
13 Shivashakti	Matepani	Dec/Jan. 1983/84	30	500	15,000	
14 Dhale Pipal	Lukunswara	Mar. 1984	16	100	1,600	
15 Purano Gbaderi	Thuloswara	Dec. 1984/Jan. 1985	18	200	3,600	

Appendix 3

Use of Money from Dhukuti Credits

- Sample of 30 members of *dhukuti* associations (interviewed in May 1985)
 1. Twenty-five participants having already got main credits namely 35 main credits taken (some farmers are involved in several *dhukuti* associations).
 2. Seven participants having already got auxiliary credits namely 10 auxiliary credits taken (see above).

Use of Main Credits

- Livestock purchase : 11 (mainly she buffalo)
- Land buying: 2 (lowland)
- Building investments: 4 (Houses, shed, shop)
- Clothes: 3
- Food stuffs: 4 (especially rice, with 1 for speculative purposes)
- Social expenses: 3 (Wedding, education, travel)
- Household goods: 2 (radio, gun)
- Others (or not specified): 6.

Use of Auxiliary Credits

- Livestock purchase: 1 (She buffalo)
- Clothes: 2
- Household goods: 3
- Saving money for *dhukuti* instalments: 2
- Others (or not specified): 2.

Nota Bene: Purchase of Livestock represents about 30% of main credits utilization.

Foot Notes

1. At *Pumdi Bhumdi* there are also 2 weekly *dhukutis* and 1 fortnightly one with lower instalments (see Appendix 2).
2. See "*Dhikurs* : Rotating Credit Association" By Donald Messerschmidt.
3. Incremental investment: Simple interest which increases by addition e.g. Rs.5 in first round; $2 \times \text{Rs.}5 = \text{Rs.}10$ in second round and $3 \times \text{Rs.}5 = \text{Rs.}15$ in third round and so on...
4. Nevertheless, in Nepal there are some interesting governmental initiatives as the "Small Farmers Development Program" which tries to provide to groups of small farmers more facilities for getting loans according to their needs.
5. See Appendix 2.
6. At *Pumdi Bhumdi* there are are both *Gurung* and Indo-Nepalese (mainly *Brahmins*) ethnic groups. Indo Nepalese occupational castes do not participate in *Pumdi Bhumdi's dhukuti* associations.
7. In *Pumdi Bhumdi*, about 30% of the *Brahmin* households have at least one member involved in *dhukuti* Associations.
8. In *Thakali* communities, instead of annual or biannual rounds we can find now three-monthly rounds.
9. There is a "Milk Collection Center" at *Pumdi Bhumdi*. Also, many farmers sell the milk directly to hotels in Pokhara (8 km).
10. Nevertheless, it seems that farmers do not use credits from *dhukuti* associations for purchasing cultivation inputs (seeds, fertilizers). If they need credits for that, they go to the *Sajha* Cooperative.