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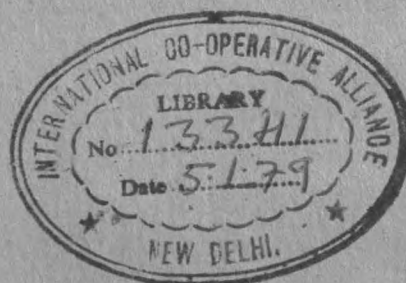
**COUNTRY STUDY ON  
INCREASING AGRICULTURAL PRODUCTION  
THROUGH CO-OPERATIVE ACTION  
(AGGREGATE STUDY - NEPAL)**



**SUBMITTED TO :-  
INTERNATIONAL CO-OPERATIVE ALLIANCE  
REGIONAL OFFICE AND EDUCATION CENTRE  
NEW DELHI**

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KATHMANDU, JULY, 1978.



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## Preface and Acknowledgement

The role of Co-operative Sector in increasing agricultural productivity and its performance in the past had been a very interesting issue in Nepal. Different people seem to have their own biases and in the absence of objective evaluation it was not known whether the co-operative societies were achieving their goals effectively or not. The magnitude and degree of social benefits provided, along with the social costs incurred by them is not yet known.

This research work can be claimed to be one of the first attempts to know this. The time period taken for the study, however, was only of two months and therefore, the limitation of the study can be noticed. Nevertheless, International Co-operative Alliance has helped Nepal by sponsoring this research work, which we earnestly believe, will help understand the workings and performance of Co-operative societies in Nepal.

We are very grateful to Mr. Vasudeva Pyakurel, Secretary, Mr. Narain Bikram Shah, Joint Secretary, Ministry of Land Reform and Mr. Narendra Kumar Basnyet, Registrar of Department of Co-operatives, for providing us valuable information, help and guidance. We would like to acknowledge our gratitude specially to Mr. Bal Gopal Adhikari, Deputy Registrar, Mr. Shiva Prasad Acharya, Mr. Krishna Prashad Manandhar, Mr. Vishwo Prashad Shrestha and Mr. B.J. Poudel, Officer of Co-operative Department.

We are also thankful to Mrs. Urmila Shrestha, Principal and Mr. Surya Ratna Shakya, Instructor of Co-operative Training Centre.

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We appreciate the valuable secretarial assistance of Miss Bini Shah and Miss Shova Basnyet who had to work under severe time constraints.

Last, but not the least, we acknowledge our gratitude to the distinguished member of National Planning Commission, Dr. Mohan Man Sainju and other senior officials of HMG/N and public enterprises for sparing us with their valuable time during the course of interviews and for imparting us with useful and pertinent information.

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12 July 1978

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## APPROACH SCOPE METHODOLOGY AND LIMITATIONS OF THE STUDY

### 1. Approach

"Agricultural Country are generally found to be poor not because they are agricultural, but because their agriculture is backwards"  
-- Jacob Viner.

There is an urgent need to bring "Green Revolution" in countries like Nepal. Unless small farmers, who comprise a vast majority of total house holds, take part in this task of development the much cherished national goal of creating a dynamic, prosperous and exploitationless society may not be achieved quickly. By joining together various types of cooperatives to suit their needs, they can increase their productivity and production by using scientific methods, inputs and common facilities. They can obtain cheper credits, inputs, insurance and other services; gain benefits of warehousing and product marketing, saving schemes and consumer stores, without sacrificing independence, sense of self reliance and motivating factors of a small farmer or artisan. Thus, the problem is as to - "how to obtain some of the benefits of the economics of large scale operations while at the same time preserving the benefits arising from the stronger motivation of producers when they have their own farms or workshops"  
--is solved by the effective and efficient cooperatives form of

(ii)

enterprises, particularly in agriculture. Besides, it should be noted that a complete cooperative philosophy is equally concerned with high rational, social moral and cultural values. It is a way of life and an effective instrument of educating its members and through them the larger society.

Thus, it is believed that cooperative enterprises are not only a form of entrepreneurship and business organisation to gain economic benefit to its owners (the members) but also a social organisation to bring about attitudinal changes in the society, without which there can not be a real improvement in productivity, production, income redistribution and quality of life.

## 2. Statement of the Problem

Within the given independent physical variables such as quality and size of land, climatic conditions, technical know-how management capability of the farmers and motivational factors such as land ownership, secured tenancy rights, the independent variables of cooperative credit, marketing and other services can greatly determine the level of production and net income of the farmers. But, as stated earlier the social benefits and costs of the farmers are influenced by the level of efficiency of the cooperative societies themselves. The



(iii)

commercial or social efficiency is function of effective management under the given external environmental opportunities and constraints (economic, politico-administrative, social-cultural etc.) and also the strengths and weaknesses of the cooperative societies themselves. As there is a need to determine long term objective of developing cooperatives for the upliftment of small farmers by increasing their production and income; the confusion and inconsistency of policies have to be removed and integration of organisational efforts are to be made to make cooperative societies working at grass root level more effective as expected in optimal conditions.

But, even within these constraints, due to certain opportunities provided by HMG/N investment outlays, favourable climate and hard working habits of farmers in general, the high yielding varieties of seeds, use of chemical fertilizer etc., the performance of cooperative societies may be found quite encouraging. But, this may be much lower than the optimal level.

Thus, it is important to identify and analyse these constraints and organisational weaknesses, so that corrective measures may be taken.

(iv)

### 3. Objective of the study

#### 3.1 Prime objectives of the study are determined as follows:

(a) To help government to formulate a comprehensive long term and strategic Co-operative Sector Plan, to help farmers in increasing their income and quality of life through cooperative movement, in accordance with Agriculture, Land Reform and other sector development plans.

(b) To study the actuation viz. farmers' participation, incentive to members, leadership, tools and techniques used, management capacity etc. in the areas of cooperative extension services, credit, production/service, material, marketing, finance and personnel management. With a view to study how the management was facing problems in these areas and how they were solving these problems.

(c) To measure the impact of their effective or ineffective management in goal achievement (in the provision of social benefits to the farmers to the cooperative societies themselves and to the community in general).

### 4. Scope of the study

As this is a very vast field, the focus is directed towards the study of organisations, policies of the various controlling

Agencies, management of cooperatives and their effectiveness in goal achievement related with providing benefits to farmers and the Nepalese society/economy at large.

5. Methodology

(a) Desk research of all the relevant publications along with the interview techniques have been used to establish manifested and latent objectives and policies of controlling agencies and cooperative societies.

(b) For the analysis of commercial efficiency (benefit to the cooperative itself) and other benefits related with growth and process of institution building relevant data/information are used. The profitability and other ratios are also computed, analysed and used. The opinion of members of Sajha societies, policy-makers and managers have also been taken into account.

(c) Questionnaire responses and data collected from the service areas of six primary societies have been used to estimate the magnitudes of benefits to farmers. The opinion of the respondents and the observation of the researchers is used to estimate the social benefits provided to the society and national economy. All the six cooperative societies were selected on the basis of purposive sampling representing "sajha"

and "guided cooperative" societies functioning in Hill and Tarai areas of four Development Regions. (The list of these six societies is presented in Chapter - 4)

Since, from the national policy point of view recent trends and current problems are more important, a period of recent three years have been covered. In this study altogether 60 heads of the families who had joined these societies in 1975/76 were interviewed. Stratified sampling of the families representing small and big farmers in the Hill and Tarai areas have been done. Most of these farmers were not using any improved agricultural techniques, chemical fertilizers, improved seeds etc., before joining these societies specially in the Hills. They were neither taking full advantage of institutional credit nor making use of cooperative/institutional marketing facilities. Out of total 60 families surveyed 32 were small farm families having less than 0.5 ha. in the Hills and 2.68 ha. in Tarai. Rest of the 28 families owned more than this quantity of land.

#### 6. Limitations of the Study

Within a given time constraints, the methodology adopted here can fairly ensure objective evaluation of the Sajha (societies)

(vii)

even with a small sample size. The study, is an aggregate study which, it is hoped, can represent the comparative picture of the state of affairs in cooperative sector. For a study of this nature, "Social Benefit/Cost Analysis" and use of "Production Function" techniques would have been more appropriate but due to the limitation of time it was not possible and the researchers had to rely more on the qualitative analysis, observation and their own judgement.

## 1-CHAPTER

### 1 BACKGROUND INFORMATION ON AGRICULTURE AND COOPERATIVE DEVELOPMENT

#### 1.1 Agriculture - The Backbone of Nepalese Economy

##### 1.1.1 General

Economic development of Nepal, in the present context is basically the development of agricultural sector. The major areas for policy concerns in Nepal regarding raising the level of production, and income, employment, capital formation, income distribution and balance of payment are heavily influenced by the process of agriculture development. Given the high existing weight of the agriculture sector in the total economy the autonomous growth in this sector will substantially contribute to the national growth in terms of direct contribution, and indirectly through outflow-inflow linkages that affect growth in other sectors. The above statement can be substantiated by the following data.<sup>1/</sup>

At the end of the Fourth Plan Period (1974):-

1. Population dependent on agriculture	--	94%
2. Contribution of agriculture on GDP	--	70%
3. Contribution of agriculture on export trade	--	66%
4. Employment ratio in agriculture sector	--	90% <sup>2/</sup>
5. Percentage of agro-based industry (more than)		50%

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<sup>1/</sup> "Achievement Evaluation of Fourth Plan", National Planning Commission (N.P.C. henceforth), Kathmandu, pp.10-19.

<sup>2/</sup> Dhital, B.P. "Impact of Agrisicn Reform on Employment and Productivity in Nepal" Food and Agriculture Organization (FAO henceforth), Geneva, Dec. 1973, p. 1.

Cultivated land in the country amounts to 2.3 million hectares (i.e. 16% of the total land area) of which about 38% lies in the hilly and mountainous region, where about 62% of the total population resides. The remaining 62% of the cultivated land is in the Terai belt (Himalayan foot hill plains) where approximately 38% of the population resides. Land distribution pattern indicates the fact that 75% of the total households hold less than one hectare of land. Conversely as much as 39% of the total cultivated area is owned by a mere 8%, with holdings in excess of 3 ha, 17% of the total households hold 36% of the cultivated area and their holding falls in between 1 to 3 hectares.

Per capita land holding varies in terms of geographical distribution which constitutes 0.8 ha. in the Mountain, 0.10 ha. in the Hills and 0.3 ha. in the Terai. Average national per capita land holding has declined from 0.20 ha. in 1961 to 0.17 ha. in 1971 due to increasing population.<sup>3/</sup>

Notwithstanding, the role of the agriculture sector in the national economy, the average product per worker engaged in agriculture is estimated as low as one-sixth of the per worker product of those engaged in the non-agricultural sector. The GDP estimates for 1970/71 show a per capita income of Rs.804.<sup>4/</sup>

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<sup>3/</sup>Yadav, R.P. "Application of Science and Technology for Food and Agriculture Development in Nepal" National Council for Science and Technology, Kathmandu, May 1978, p. 1.

<sup>4/</sup>Dhital, B.P., op.cit., p. 2.

In agricultural sector the national per capita income is estimated as Rs. 580 as against Rs. 3,355 in non-agricultural sector.<sup>5/</sup> The per capita agricultural income in the Hills and Terai was Rs. 304 and Rs. 1045 respectively.<sup>6/</sup>

#### 1.1.2 Plan Targets and Achievement in the Recent Past

Despite heavy investment made in the agriculture sector, the production has not gone up substantially in relation to the rise of population (2.3%). The sectoral allocation and target achievement of Fourth Plan Period (1970-74) is given below:

Financial allocation (in N.Rs.)	% of total outlay	Physical growth target %	Achievement (%)	Gap in (%)
1. Agriculture 600 million	26	--	--	--
(a) Food crop	--	16	9.57	6.43
(b) Cash crop	--	40.3	10.22	30.08

Source: Achievement Evaluation of Fourth Plan, NPC, Kathmandu.

Yield rates for most of the crops have remained constant over the decade. The availability of food grain per person for these years has thus decreased from 220 kg. in 1964 to 203 kg. in 1974.

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<sup>5/</sup>Dhital, B.P., op.cit., p. 2.

<sup>6/</sup>Dhital, B.P., op.cit., p. 2.



A significant amount of exportable surplus has declined from 552,000 tons in 1970/71 of food grains to 100,000 tons in 1976/77.<sup>7/</sup> If this decline is to persist in future, by 1985, Nepal will become food deficit country.

### 1.1.3 Fifth Five Year Plan Objectives of Agricultural Development

Realising this, His Majesty's Government of Nepal (HMG/N henceforth) has placed very high priority for agricultural development in the Fifth Five Year Plan (1975-80). It is stated that 'in order to step-up the GDP growth rate to the extent of 5% per annum agricultural production should be pushed up to 3.5% a year. With a view to meet the growing demand for food and also to raise the level of export the target of food grains production over the Plan period is determined at 16.72%, where as the target of cash crops production is set at 68.08%, partly to meet the growing needs of the domestic industries and partly to expand our exportable capacity.'<sup>8/</sup> Likewise, the output of fruits, fish, meat and milk will also go up significantly. However, the planners also realise that no matter how we set the targets for agricultural production in the Plan, actual output will, however, be determined and dictated by two factors. One is weather and the other is drive and decision of millions of farmers working on the land".<sup>9/</sup> The allocation of Fifth Plan outlay for agriculture, irrigation, land reform and forest

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<sup>7/</sup>Yadav, R.P., op.cit., p. 2.

<sup>8/</sup>Nepal Fifth Plan (1975-80), NPC, HMG/N, Kathmandu, 1975.

<sup>9/</sup>Ibid.

sector is presented below:

- a. Government sector Rs.2,278.7 million
- b. Panchayat (local government bodies) sector Rs.356.1 million
- c. Private sector Rs.1,336 million.
- d. Total Rs.3570 million (34.8% of the total allocation).

Fully realising the fact that "... there will be hardly any incentive and improvement in productivity of farmers, so long as they fail to enjoy fully the fruits of their labour or if the process of exploitation continues in the agricultural sector...." also realising that "... however sound and attractive a government agricultural development programmes may be at the top or central level, it turns out to be utterly ineffective, if not fully implemented at the village and farmer levels" HMG/N has emphasised the need to 'strengthen the organisational net-work necessary to funnel down to the village level the agricultural education, research, extension, credit, fertiliser, seeds, etc. in a coordinated and synchronised manner. The organisations selected to accomplish this challenging task were proposed 573 'guided co-operatives' and 453 'guided village committees' (pre-co-operative institutions).

## 1.2 History of the Co-operative Development in Nepal

A glimpse of the history of co-operative movement will help us to understand the characteristics of traditional as well as formalised modern co-operative institutions of Nepal; established trends and determine the capability of these

institutions, so as to judge, whether, they can undertake the formidable task of "influencing and inspiring the decisions" of millions of farmers for increasing agricultural production, productivity and quality of life in Nepal within a given period of time.

#### 1.2.1 Traditional Form of Co-operation

Co-operation in its simplest form was not unknown in the ancient villages of Nepal. Since ages in the past the people have set up some sort of the usage of the co-operative principles. The best example of voluntary co-operation is the 'Dhikur' of the Thakalis of the Thak Khola region in Western Nepal. The next type is the 'Dharma Bhakari' which literally means religious store. It is a voluntary rural co-operative, where, after the end of the harvest season people put aside certain quantities of grain under the supervision of the village headman. During scarcity it is advanced to the farm families. After the scarcity is over it is given as a 'loan in kind'. In Kathmandu valley there still exists a system of voluntary cooperation in farming called 'Manka guthi'. 'Parma' is yet another form of voluntary cooperation.

#### 1.2.2 Modern Co-operative Movement

But for a detailed historical enquiry into the 20th century origin of the co-operative movement in Nepal, one would have to go back to a little more than two decades only. In spite of many drawbacks in the early stages the past initial movement has laid the foundation of future co-operation in Nepal.

A multi-purpose pilot project was started for the development of Rapti Valley in 1956 with the purpose of cultivating fallow land, resettle the flood victims and landless people both from the Hills and Terai. This would provide more profitable source of income and increase agricultural production. So it was planned that credit and other facilities would be provided through co-operative societies. "To avoid the legal technicalities an executive order was issued by HMG/N in 1956 authorising the organisation, registration and other activities relating to operational works and procedures of co-operatives societies. Then co-operative credit societies with unlimited liability were organised in the Rapti Valley".<sup>10/</sup>

The Act of 1959:-

The co-operative movement in Nepal in the true sense was effectively established in 1959 with the coming into force of the Co-operative Societies Act. It was enacted for the ultimate economic upliftment of the farmers, craftsmen and people with low capital base by inculcating in them the spirit of self-reliance, mutual co-operation and thrift. The Co-operative Department which was established in 1953, was empowered to register, inspect and supervise the co-operative societies. One of the relevant features of the Act of 1959 was that it did not provide for state participation in the share capital of a society.<sup>11/</sup> The

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<sup>10/</sup>Basnyat, Narendra B. "Brief History of Co-operative Movement In Nepal" paper presented at the National Seminar on "Integrated Approach to Agriculture Co-operative Development in Nepal" Kathmandu 1976, p. 1.

<sup>11/</sup>It was only through 1970 amendment of the Act (clause 4) which empowers HMG/N to buy shares and become member of any co-operative society.

preamble was not comprehensive enough to give a more specific definition of the principles, ideals and role of co-operative movement.

### 1.2.3 First (Five Year) Plan Period:

In the First Five Year Plan (1956-61) co-operatives were considered to be important instruments for economic and social development. A target figure of 4,500 societies was set for the five year period. Each co-operative society would have about a population of 2000 to provide service. The agricultural co-operatives such as credit, marketing societies, co-operative dairy, multi-purpose societies and co-operative education were given priority. No financial out-lay was, however, made in the Plan. The reason behind this was perhaps the formative structure of the movement which "made it advisable to allocate necessary funds as and when the need arose".<sup>12/</sup> By the end of the Plan period only 378 co-operative societies of different type were organised. The total membership reached to 11,059 and share capital was Rs. .362 millions while Rs.1.957 million was advanced as loans to the societies.

(See Table 1-1)

The above mentioned figures clearly depict that the target was too ambitious and the planners were lead away by their over enthusiasm for co-operative movement. Instead of the pre-organisational education and understanding of the co-operative system it emphasized numerical increase. Yet

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<sup>12/</sup>Prabasi, Satish C. "Nepalese Co-operative Movement"  
HMG/N Co-operative Department, Kathmandu 1966, p.45.

the Plan period did witness some positive development with regard to the working of co-operative system in Nepal. As stated earlier, the foremost landmark was the legislation of the Co-operative Society Act of 1959. This Act ironed out several contradiction which had begun to crop up in the daily work mechanism of the societies in different parts of the country.<sup>13/</sup> Thus, it gave a coordinated approach to systematic development of the co-operatives in the country at large.

#### 1.2.4 The Second (Three Year) Plan Period

The Second Plan also known as the 'Three Year Plan' (1962-64) was formulated by HMG/N.

The Plan in particular aims at 'increasing agricultural production, employment opportunities and income of the people ninety per cent of whom depend in the land.'<sup>14/</sup> The Plan, thus recognised that development of the country was closely linked with 'land reform and extension of co-operatives'. Hence, agricultural credit was increased through the setting up of a co-operative bank and co-operative societies also. A closer link with production, marketing, processing of agriculture products was also envisaged. Training programme was given high priority and a Co-operative Training Centre was established in 1963. Within the planned period, in view of the short fall in the First Plan, it was decided to reach a target of at least 2,200 primary societies and 14 co-operative credit cum sales and marketing unions and a national

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<sup>13/</sup> Ibid., p. 46.

<sup>14/</sup> Second Plan, HMG/N, National Planning Commission, 1961, p.33.

Co-operative Bank. By the end of the Second Plan period there were 542 different types of co-operative societies in operation. The number of co-operatives increased and total share capital showed a remarkable sum of Rs.1.76 million. But, the increase in the share capital has not been proportional. Sajha Transport Society and Sajha Health Service Societies contributed Rs. 0.95 million and 408 other societies accounted for Rs. .236 million only. Apart from this there was a decline in loan sanctioned to the societies (Rs.1.62 millions against the sum of Rs. 1.957 million in the First Plan period). The membership was just 13,916 a mere 2,500 persons more. But, there are some noteworthy landmarks of this Plan, e.g., establishment of the Co-operative Bank, introduction of supervised credit system, implementation of saving programme, land re-organisation programme and expansion of training programme.

#### 1.2.5 The Third (Five Year) Plan Period:

The Third (Five Year) Plan was initiated from (1965-1969) In this plan period the Land Reform Programme and the Compulsory Saving Scheme under it, was fully and forcefully implemented. But, in the year 1968 the Co-operative Bank was converted to the Agriculture Development Bank (ADB/N). Another noteworthy change the same year was the government decision to shift the responsibility of promotion organisation and supervision from the Co-operative Department to the Land Reform Department. As a result 442 trained sub-inspectors were transferred to Land Reform Department who were used mostly in maintaining the accounts of compulsory savings.

"Thus, most of the trained manpower was diverted to other areas and people with inadequate knowledge and experience of co-operative principles were entrusted with the responsibility of co-operative development. Naturally even the active societies became inactive and negligent. Realising this mistake in the latter half of 1969, HMG/N decided to assign once again the Co-operative Department its previous functions. <sup>15/</sup>

By 1969 there were 1,300 societies registered but only 366 were functioning. There were 41,365 members and shares worth Rs.1.06 million and loan worth Rs.1.062 million was given away to the societies.<sup>16/</sup> If the progress of the first fifteen year is appraised it may be observed that the preceding years were preparatory in nature. The period is marked by swift quantitative increase in respect of number, membership share capital and loans. In absolute terms the gain is impressive but in terms of average, the progress has not been encouraging excepting the continuous increase in membership number. But considering the fact that during these years there was complete absence of awareness among the farmers. Agriculture and Community Development Extension Services had just began. Co-operative Societies had started the distribution of agriculture inputs and communications was a severe constraint;

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<sup>15/</sup> Adhikari, Bal Gopal. "Nepal Ma Sahakari Vikas Ko Ek Jhalak" Paper presented in CEDA seminar 1975 (in Nepali).

<sup>16/</sup> "Nirdeshit Sahakari Sanstha Tatha Gram Samitiharuko Gatividi" (Survey Report), Nepal Rastra Bank, Kathmandu 1976, p. 8. (in Nepali).



the performance of the co-operative sector can not be termed as a failure.

#### 1.2.6 Fourth (Five Year) Plan Period

Of approximately 1,100 Co-operatives registered during the Fourth Plan (1970-74) nearly all were multi-purpose and their main function was supplying of agricultural inputs and administration of credit. However, by the end of Fourth Plan only 251 societies (including 16 unions) with 71,431 members were in operation in the newly created four Development Regions.

The Total share was 2.66 million while ADB/N loan to the societies reached a peak of 83.616 million.<sup>17/</sup> Amongst these 179 were 'guided societies' that were managed by ADB/N. These were located in the 61 districts, which had launched an intensive agricultural development programme. The reason why HMG/N had to introduce 'guided co-operative' concept is to be found in the decision of HMG/N (in 1969) which says the limited resources and geographical constraints are so overwhelming that it is impossible to cover all areas and functions all over Nepal. Therefore, some selected and viable societies would be run, concentrating mainly in the agricultural sector. It was conceived that the inactive societies would be liquidated and the 'Compulsory Saving' funds would be converted into share capital of the guided societies gradually. In actuality it was tried out only in two districts, viz.,

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<sup>17/</sup>Source: Department of Co-operatives, HMG/N, Kathmandu.

Palpa and Bhaktapur. Later on it was also decided that the elected boards would be dissolved and ADB/N would nominate the advisory committees and appoint the managers. Although it is not mentioned anywhere in the official documents, we were told, in the course of our discussion with some knowledgeable policy makers, that the elected board members mostly were big farmers/money lenders. Thus, the co-operative inspectors (appointed as managers) and managers appointed by ADB/N were expected to function as change-agents and prepare small farmers/tenants to take over the management in due course of time. But this reduced the role of the co-operatives in the sense that they became mainly agents of ADB/N which was the one and only loan giving source for the co-operatives and distributors of Agricultural Inputs Corporation (AIC).

Active member participation was rather limited in the guided societies as the manager appointed by ADB/N had the overall executive power. The district unions who were actually sales and distribution agents for the AIC had not been able to manage to undertake complete distribution of agricultural inputs even for various reasons.

#### 1.2.7 Fifth (Five Year) Plan Period

The Fifth Plan (1975-80) like all the other previous plans has set the target of providing agricultural loan to the extent of Rs.1,423 millions through 573 co-operatives and 453 guided village committees covering more than 3,000 village panchayat.<sup>18/</sup> (See table 1-2). The planners have noted with

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<sup>18/</sup>NPC, op.cit., p. 15.

satisfaction the workings of guided co-operatives and have proclaimed that the system of 'guided co-operatives' and 'Village Committees' will be continued for some time to come. The remarkable decision was to allow the elected members of some selected 'guided co-operatives' to take over the management during this Plan period.

1.2.8 New Sajha (Co-operative) Programme under the Institutional Arrangement for Rural Development

As stated earlier, the policy makers had been feeling a severe constraint of not having any synchronised and co-ordinated policy and an integrated and well developed organisation capable of transmitting and implementing national policies in the grass-root level, and also capable of providing systematic and timely feed-back. As on 3rd May 1976 HMG/N introduced new Co-operative (henceforth Sajha Programme) with the objectives mainly directed for the benefit of the small farmers. The important objectives manifested was firstly to increase GNP (Gross National Product) and thus the income of the farmers through improved system of farming by providing the facility of institutional loan to small farmers and small occupanists in the village level and by marketing the agricultural inputs. Secondly to 'mobilise the rural saving and invest them in development works by providing the farmers the banking facility in the village'.

The main landmark of the programme was to convert the Compulsory Saving collected so far into the share capital of the Sajha societies in the 27 and subsequently in 30 districts.

HMG/N also decided in unequivocal terms that these societies will act as sole-selling distributors of Agricultural Inputs Corporation, National Trading Ltd., Salt Trading Ltd., Nepal Oil Corporation, Food Corporation and Rice Import Company, etc. It was also decided that only if the Sajha societies are not in a position to work as their sole distributors/agents these public enterprise could appoint sub-dealers through Sajha societies. Under the new programme 1827 panchayats are covered by 1163 co-operatives in 30 districts.<sup>19/</sup> The then existing co-operatives and village committees have been converted into Sajha and new Sajha societies were organised where there were no such institutions. The programme is to create please see table 1-3A for detail attached at the end of this chapter. One Sajha in each Village Panchayat ultimately. However, 114 'guided Cooperatives in 33 districts were still functioning satisfactorily by the end of June 1978. Thus, 'guided Co-operatives' and 'Sajha Programme' were providing services in 63 districts out of 75 administrative/developmental districts of Nepal.

According to some policy makers it was decided that in each Village Panchayat Sajha society should be one and only one institution to handle or develop supply of credit and agricultural inputs, merit goods, marketing and cottage industry. Some national policy makers strongly feel that small farmers/tenants must have majority control over these Sajha societies and to

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<sup>19/</sup> Source: Department of Co-operatives and Department of Land Reform, HMG/N, Kathmandu.

to avoid the class struggle the absentee land lords and money lenders should be provided opportunities to divert their investment in non-agricultural enterprise. It is also known that the decision makers in the national level then, were convinced that unless co-operative movement is galvanised and run as a part of socio-political development programme under 'Back to the Village National Campaign' and as a very important part of panchayat polity, the vested interest which are the ruling elite in almost all the rural communities will never let Sajha movement grow because cooperatives will have to function within the existing rural credit and marketing super structure. But the ultimate decision was to take the gradualist and compromising approach, which can be seen from the composition of various Sajha committees and Board as presented in Chapter 3.

TABLE 1-1

Development of Co-operatives in Nepal

Particulars Years	Total Number of co-operative	Total Number of members	Total Shares (In million Rupees)	Total ADB/N or Co-opera- tive Dept. Loan (In million rupees)
First (Five Year) Plan Period 1956-1961	378	11,059	.362	1.957
Second (Three Year) Plan period 1962-1964	542	13,916	1.176	1.162
Third (Five Year) Plan period 1965-1969	366	41,365	1.062	1.062
Fourth (Five Year) Plan Period 1970-1974	251	71,431	2.661	83.616

Source: Department of Co-operatives, HMG/N, Kathmandu.

TABLE 1-2

Targets Set for Guided Co-operatives During the Fifth Five Year Plan Period (1975-1980)

Particular	Total Numbers of Co-operatives at the end of fourth plan	Total additional Co-operatives during fifth plan period	Total Number of Co-operatives at the end of fifth plan
Development Regions			
Far Western Region	42	43	85
Western Region	39	76	115
Central Region	107	122	229
Eastern Region	63	81	144
Total	251	322	573

Sources: Nepal Fifth Plan, NPC, HMG/N.

TABLE 1-3

Working of New Sajha Programme in 30 Districts During the First Three Years of Fifth (Five Year) Plan.

(Amount in million rupees)			
Fiscal Years	1975-76	1976-77	1977-78 (first half only)
Particulars			
1. Total number of Cooperatives (societies and District unions)	293	1,142	1,163
2. Total number of members	93,298	802,292	888,960
3. Total share capital	3.397	89.944	110.383
4. Total loan received	48.363	114.391	69.714
(a) From ADB/N	48.233	113.635	69.714
(b) From other sources	.130	.756	-
5. Total loans given to members	26.731	52.723	38.741
6. Total loan realised from members	16.080	26.900	5.900
7. Total sales of inputs and consumers goods	79.348	131.470	76.955
8. (a) Agriculture inputs	59.217	73.633	47.893
(b) Consumers goods	20.131	57.837	29.062
8. Co-operative marketing (total transaction)	9.445	15.413	.749

Source: Department of Co-operatives, HMG/N.



## CHAPTER - 2

### 2. GOVERNMENT POLICY ON AGRICULTURE AND COOPERATIVE DEVELOPMENT

#### 2.1 National Goals and Agriculture Sector Policy in Different Plan Periods

The goals and objectives of the economic development of the country is derived from the "Guiding Principles" of the constitution, which aims to establish a democratic, just, dynamic and egalitarian society. The directives from His Majesty the King to make development people oriented on the basis of regional balance provided a major policy orientation for the formulation of country's economic planning. The history of planning in Nepal seems to have begun in 1956.

##### 2.1.1 First Plan

When the First Five Year Plan was implemented in the country in 1956, its basic objective was:<sup>1/</sup>

1. to increase production and provide employment opportunities.
2. to raise the living standard of the people without any discrimination.
3. to built and promote necessary institutions for the success of planning in the country.
4. to create economic base and collect data for the future planning.

In line with these objectives the Plan had given priority to (1) transport and communication, (2) Power, (3) village development (4) industry, (5) health and education and (6) agriculture and cooperative. Although, the agriculture and cooperative development had been given low priority, the following policy pronouncement had been made for this sector:<sup>2/</sup>

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<sup>1/</sup> First Five Year Plan, NPC, HMG/N, 1956, p. 1.

<sup>2/</sup> Ibid., p. 20.

1. to increase agriculture production.
2. to collect data on different aspect of agriculture with due emphasis on research.
3. to promote coordination between various departments such as irrigation, village development, land reform and cooperative, which are responsible for increasing production in agriculture sector.
4. to make arrangement for the training of personnel associated with various departments of HMG/N.
5. to establish cooperative societies to extend credit, agricultural inputs, storage facilities, marketing and improved method of cultivation to their members.
6. provision in the Cooperative Act was made to provide HMG/N support for the smooth operation of the societies. Feasibility study for the location and economic viability, training for local personnel, publicity with regard to the necessity of the societies and the arrangement of the required capital through Nepal Rastra Bank (Central Bank) was to be done. Evaluation of the performance of the societies also was to be conducted by the HMG/N.

The policies related to the agricultural sector seems to have been developed without reliable data-base and the efforts of the Plan was geared towards creating more infrastructure for future planning in this sector. The state of agriculture sector at that period, and to what extent the production should be increased was not clear in the programming aspect of the Plan.

However, it was realised that coordinated approach of various departments responsible for agricultural development and the training of personnel is basic to effective implementation of the programme. The significant contribution of this Plan was the awareness of the fact that grass root level organization like co-operative societies is essential for providing services to the farmers. The function envisioned for such organization is broadly based and the elements like credit extension, input distribution, storage facilities, marketing and extension of improved method of cultivation through co-operative is linked with the whole program of village development. During this Plan period various institutions and departments for the development of this sector were established. The School of Agriculture was created in 1956 to train village level extension workers. Similarly, under the Department of Agriculture agriculture divisions, in operation by the end of the First Plan, were divisions of Agronomy. Plant pathology, Agriculture engineering, Horticulture, Livestock, Veterinary Sciences, Entomology, Fishery, Soil Services, Dairy development, Agriculture extension and Agriculture economics.

#### 2.1.2 Second Plan

The Second (3 year) Plan had put high emphasis for agricultural extension services. The strategy was to increase the farmers to use such varieties of crops, which need not thorough research and can easily be adopted by them along with the use of chemical fertiliser etc.<sup>3/</sup> This Plan not only envisages

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<sup>3/</sup>Three Year Plan, National Planning Council, HMG/N, 1962, p. 65

the co-operative movement as the appropriate instrument to help HMG/N to implement this policy but also sees the importance of co-operative movement in bringing about the change in the then prevailing land ownership system. The role of co-operative movement was visualised to be an instrument to remove economic and social inequality and to make (rural) populace development oriented.<sup>4/</sup>

### 2.1.3 Third Plan

The Third Five Year Plan which was implemented in 1965 had enumerated the following agriculture and cooperative policies:

1. to increase agriculture production by modernizing the agriculture sector,
2. to divert excess capital and labour force from agriculture sector to non-agriculture sector,
3. the cooperative sector was to be entrusted with additional functions than merely supplying credit and this programme was to be implemented primarily in those districts where the Land Reform Programme have been implemented.
4. Cooperative farming was to be encouraged on an experimental basis.
5. National cooperative federation along with district cooperative unions was to be established.<sup>5/</sup>

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<sup>4/</sup>Ibid., p. 94.

<sup>5/</sup>The Third Five Year Plan, NPC, HMG/N, 1965.

In consonance with these broad policies, the following specific strategy had been undertaken.

1. Specific measures and programmes were made to encourage land owners to invest more in the non-agricultural sector.
2. Agriculture supply corporation was to be established to make available agriculture inputs (seed, fertiliser, implements and pesticides) to the farmers at reasonable price and at a place convenient for effective distribution.
3. Cooperative Bank was to be converted into Agriculture Development Bank to make available the adequate amount of institutionalised form of credit for the promotion of commercialised type of farming.
4. Agriculture extension programmes were to be launched intensively to modernize the agriculture sector.
5. Land Reform Programme was to be vigorously launched and completed during the Plan period.
6. Resettlement programme was to be started in the Tarai and Inner Tarai belts to absorb the excess population of the Hills.
7. Specific measures would be taken to employ excess agriculture labour force in the various construction work.
8. Effective land use programme based on geographical specialization on various agriculture activities would be conducted.
9. Measures were to be taken to replace middlemen from the marketing process of food grains in the rural area.

In comparison to the First Plan, the Third Plan was more broadly based and the policies and strategies had been actually backed by programmes in most of the cases. Targets had been set for each specific programme. The co-operative programme and its networks from village to national level had been clearly envisioned and policy has gone even to the extent of encouraging co-operative farming on an experimental basis. But even after the completion of the Plan period, some of the programmes could not be implemented and the target remained unachieved. For instance the creation of national level cooperative organization was not even taken up.

During this Plan period Agriculture Development Bank, Agriculture Supply Corporation, Dairy Development Corporation, and Food Corporation were established.

#### 2.1.4 Fourth Plan

The Fourth Plan (1970-1975) made some specific objectives for agriculture development, viz.

1. maximization of output of each crop, yields per unit area, per capita yields:
  - (a) to ensure rising levels of consumptions;
  - (b) to provide greater exports;
  - (c) to supply adequate quantity of industrial raw material;
  - (d) to develop greater purchasing power among a large segment of the population; and
  - (e) to generate a capital base for savings and broader tax-base.<sup>6/</sup>

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<sup>6/</sup> Fourth Plan (1970-1975). NPC, HMG/N, p. 36.

In accordance with the above mentioned objectives and also on the basis of the present status of agriculture sector, the policy adopted in the Fourth Plan were the following:

1. Efforts were to be concentrated in a few selected fields so that the limited resources were not scattered thinly over to too many projects and over to many lines of production irrespective of their effectiveness. Accordingly the following modus-operandi was adopted for the formulation of programmes:
  - (a) "First, the country will be delineated into major agricultural areas according to potential for food grain production, cash-crop production, livestock development and dairy products, horticulture production, fishere etc.
  - (b) Second, areas or districts for each line of production where concentrated efforts will be made for providing the services and inputs required to achieve the targets in each line of production will be selected."
2. The many activities for agricultural development, like extension, research, irrigation etc., undertaken by the concerned Departments of the Ministry of Food and Agriculture, would be coordinated and integrated to make them mutually reinforcing. All the departments in the centre were to be streamlined to implement the programmes, while at the same time providing a network at the village level. All the extension activities in agriculture were to be channelled through one Department. Effort was to be made to make the villages the central point of all agricultural development programmes.

3. In order to increase agricultural production, it was necessary to make available adequately the numerous services and facilities such as improved seeds, fertilisers, pesticides, tools and implements to the farmers at the village level. With this objective, the programmes of the various Agencies such as ADB/N, ASC, Land Reform Savings Corporation, and the Co-operative Department would be operated in an integrated way.
4. Since it had become essential to consider measures to solve the problems of marketing, the agricultural development programme was expected to attempt to develop marketing channels through the reorganized co-operatives. Also, a marketing organization was to be established at the national level. In addition, emphasis was to be given to the adoption of an appropriate rent and land tax policy in order to generate additional savings and to broaden the tax-base in the agricultural sector.
5. It was realised that extensive feasibility studies are required if the goals of promoting agro-based industries and diversifying agriculture is to be achieved. Arrangement was to be made to provide the credit and technical assistance required by the land lords for the establishment of these industries. This credit was to be conditional to the sale of their land to the tillers. Similarly, appropriate programmes was to be implemented to increase production of food grains, fruits, vegetables, milk and livestock etc.



6. There were indications that the Tarai would face decreasing prices for its grain exports to India. Efforts were urgently required to increase future exports of the Tarai surplus to countries other than India. The market was also to be extended towards the Hills. This was possible only if the purchasing power of the Hill people increased. For these reasons, the policy was to invest in the Hills according to the potentiality of agricultural development.<sup>7/</sup>

#### 2.1.5 The Ten Year Plan

When these policies were in the process of implementation, in 1972, the Ten Year Agriculture Plan was formulated. It was realized that arbitrary re-structuring of the various Agricultural Departments in 1966 had created critical problems of coordination between departments and adversely affected their goal achievement, where by actual agriculture production vis-a-vis expectation remained dismal.

The Ten Year Plan had clearly stated the long term agriculture policy along with the complete organizational overhaul, in terms of the merger of these Agricultural Departments, introduction of Regional Directorates of Agriculture and incorporation of Department of Irrigation and Hydrology within the Ministry of Food and Agriculture. The long term agriculture policy laid down by this Plan was based on regional specialization, namely, livestock in the Mountains, horticulture in the Hills and cereal grains and cash crops in the Tarai.

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<sup>7/</sup> "Fourth Five Year Plan", NPC, HMG/N, 1970.

The policy pronouncement for the Ten Year Agriculture Sector Plan had generally emphasized the need to increase the production of food grains and industrial crops. The long-term policy guidelines highlighted in the Ten Year Plan were as follows:

1. Intensive development of cereal and cash crop in the Tarai, in the potential Hill districts and Mountain region would be developed in an intensive way and this Plan was to be implemented on a preliminary and interim basis in other districts.
2. Horticulture development programme was to be implemented intensively in the hilly regions on a commercial basis.
3. Livestock development programme was to be coordinated intensively in the mountainous regions on a commercial basis.

In line with the long term policy guidelines stated above, the basic objectives of the agriculture development were:

1. to bring about qualitative improvement and quantitative increase in agriculture production on a sustaining basis.
2. to develop agricultural production pattern on the basis of areas, representing similar geographic situations and climatic conditions in order to elevate regional economic imbalances and to integrate the national economic condition of one part of the country with that of the other.

3. to produce and supply adequate quantity of agriculture raw-materials and products for industries and help to promote and diversify trade.
4. to expand employment opportunities for the increased labour force and thereby help to uplift the living standard of the rural population.

#### 2.1.6 Fifth Five Year Plan

Fifth Five Year Plan has not only adopted the policies of the Ten Year Agriculture Plan, but have also been taken some specific measures for its effective implementation:

1. Expansion of irrigation facilities, both, minor and major and provision was made for financial and technical support to the local people for repair, renovation and extension of very small but remarkably useful and operational irrigation channels constructed through people's participation.
2. Strengthening the organizational network necessary to funnel-down to the village level, the agricultural education, research, extension, credit, fertiliser, seeds, etc., in a coordinated and synchronized manner.
3. The existing land reform programmes would be pursued with the objectives of ending exploitation and evolving gradually a system of farmer-ownership of the land.

4. Needed credit support would be made available to the small farmer, and the Plan has set the target of providing agricultural loan to the extent of Rs.1,420 million through 573 "Guided Co-operatives" and 453 "Guided Village Committees" as stated earlier.
5. Provision is made to subsidise the entire cost of transportation of seeds and chemical fertiliser to the hilly regions.
6. To maintain proper balance between population growth and natural resources (including land) especially in the Hills to step up GDP, provision is made to rehabilitate as many as 47,500 families on 62,900 ha. of the Tarai land. Similarly, significant outlay has been made for the conservation of soil and water resources.

Despite the specific measures taken in the Fifth Five Year Plan, along with the changes in government policies and priorities, incentives to modernize the agricultural sector largely depends upon the institutional network, that can reach the majority of the farmers at the grass-root level. As seventy five percent of the households in the country, own less than one ha. of land and live essentially at subsistence and/or below subsistence level, any effective agriculture programme will have to undertake the upliftment of this impoverished section of the population. Modernization of small farms will require greater efforts to provide extension, credit, and input services and possibly to develop techniques of production, that could be adopted at the conditions prevailing in traditional

agriculture with a view to improve the conditions of small farmers, the role of co-operative societies has been realised in all the Five Year Plan documents and in the Ten Year Agriculture Plan, it has been even more clearly pronounced and spelled out.

## 2.2 Constraints in the Development of Agriculture in Nepal

The agricultural development programme is at present beset by the following constraints:

1. There is no firm support for augmenting production by means of identifying improved seeds of agricultural crops that are suitable for adoption in different climatic conditions of the country, producing them on an experimental basis for a given period of time, and supplying them to the farmers in an extensive way.
2. Allocated budgets are not efficiently utilized due to the absence of a well-organized administrative machinery. There is a need for the timely release of funds and the allocation of personnel on the basis of the approved programme.
3. At the Centre, there are separate Agencies looking after different activities in the field of agriculture, but inter-departmental coordination and co-operation need to be mutually reinforcing. Similarly, at the district level each Department has its own administrative offices. At the district level Agricultural Development Coordination Committee has been formed. But the task of coordinating all the activities have not been done successfully.

4. At the village level, there is no administrative machinery other than some J.T.As., to look after agricultural extension and other development works. As a result, necessary inputs and services are not funnelled effectively from the centre to the village level and made available to the farmers. In fact, the underlying objectives of all the programmes undertaken by HMG/N is to encourage and enable farmers to increase production. It is, however, not unnatural that the agricultural development programme of the government has failed to make its anticipated impact at the village level since there has not been sufficient and effective network reaching the farmers.
5. Projects and activities in agriculture are scattered over many areas, thus preventing projects and activities from being mutually reinforcing. There may be a branch office of ADB/N but with poor support facilities. There may be an office of AIC with little stock of agri-inputs. Research works are confined in the centre or in a few farms and very little research has been adopted to local conditions.
6. A sense of responsibility is not acquired unless evaluation is based on the ability to implement specified programme in an efficient manner. As the technical personnel have to devote a great deal of time to administrative work, their expertise has not been fruitfully utilized. Similarly, the agricultural extension workers, who work at the village level, are not only inadequate in number, they are also less motivated in their jobs.

7. There is evidently duplication of efforts, in the activities of the various government organizations in the field of agriculture. This has caused wastage of resources. None of these organizations are able to function as an effective agent in the provision of credit and other inputs required for the development of agriculture. There is no effective system of supervised credit. Even more complex is the problem of collecting loans.
8. In order to increase agricultural production, it is essential to provide incentives to the farmers. To this end there is a need to ensure the availability of agricultural inputs timely in easy terms and also to fix an appropriate rent ceiling that would permit the farmers to receive a large part of the increased production. Moreover, sufficient efforts have not been made so far to provide marketing and warehousing facilities.<sup>8/</sup>

### 2.3 Conclusive Findings

The Agriculture and Co-operative sector policies adopted in the various plans, have emphasised constantly that the agriculture production must be increased. It is also stated in all the Plans that the effective network reaching the villages had not been properly developed and as a result the agriculture programmes of the government have failed to make its anticipated impact in the village. In other areas, the policies have changed from Plan to Plan and priorities have shifted accordingly. For example, the focus of first Five Year Plan was geared to the village development programme, making

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<sup>8/</sup> Fourth Plan (1970-1975) NPC, HMG/N, 1972, p. 32.

village the focal point of whole development process (not only agricultural development). This policy was completely abandoned in the successive plans. Similarly, the Third Five Year Plan had made a policy of promoting co-operative farming, in which the Fourth and Fifth plans remained salient. Some of these examples indicated the fact that the consistent policy has not been maintained from one Plan period to another Plan period.

Right from the First Five Year Plan, it has been accepted that no other organization except co-operative societies can play effective role in providing services and bring about changes in the village life. In this case, First Five Year Plan was more committed and it has firmly accepted the principle of cooperation as a guiding philosophy of changing the way of life. Therefore, the whole programme of village development was very much linked with the cooperative programme and cooperative institutions were made the focal point in bringing about changes in the rural life.

The Third Five Year Plan has made a policy of creating not only the grass-root level units, but also secondary and apex level organization together with the promotion of co-operative farming. When the programme was drawn up it was only limited to the creation and reorganization of village level unit. When the apex level organization was planned to be established the resources needs and specific functions etc. had not been spelled-out clearly. The Third Plan had changed



its tone with regard to the philosophy and style of operation of co-operative movement envisioned by the previous Plans. The specific programming had not been done to integrate the services of various national level agencies into the co-operative units. Only the function of extending credit and distribution of agriculture inputs have been given. In other words, the role of cooperatives was reduced to nothing more than the selling agents of ADB/N and AIC.

Fourth Five Year Plan has emphasized the need of streamlining the activities of all concerned Departments in the centre to implement their programme by making village the central point of agriculture development. It was also stated that the programmes of ADB/N, AIC, Land Reform Saving Corporation and the Cooperative Department will be operated in the integrated way. How and at what level this has to be integrated and what is going to be the state of cooperatives in this integration process was not clear. It was simply stated that "if the agriculture production is not marketed in accordance with cooperative principles and farmers are not guaranteed fair prices, agriculture production is likely to be adversely affected." The marketing functions which was provisioned for the cooperative societies has not been taken up in a wider scale. The reasons behind for not taking up this functions are:

1. absence of a mechanism for fixing prices and lack of information about market situation;

2. lack of adequate facilities for transportation, storage and processing;
3. absence of secondary and apex level cooperative organizations, and
4. shortage of capital at the disposal of cooperative units.

One of the apparent contradiction in the agriculture and cooperative policy is that the agricultural extension activities was not in any way linked with cooperative activities. The distribution of inputs should have been linked with the extension and dissemination of knowledge by the extension worker should have been integrated at primary cooperative society level.

In the conclusion, it can be said that, the policy related to cooperative societies has been changing from time to time. The given policy seems to have not been followed consistantly. The role of cooperative societies in providing employment opportunities, in the rural sector, dissemination of modern technology, the promotion of local technology, development of village level industries, management of irrigation facilities, management of rural transport system, and mobilization of capital and human resources for the village development, etc., were not properly conceived, when the cooperative policies were laid down.

## CHAPTER - 3

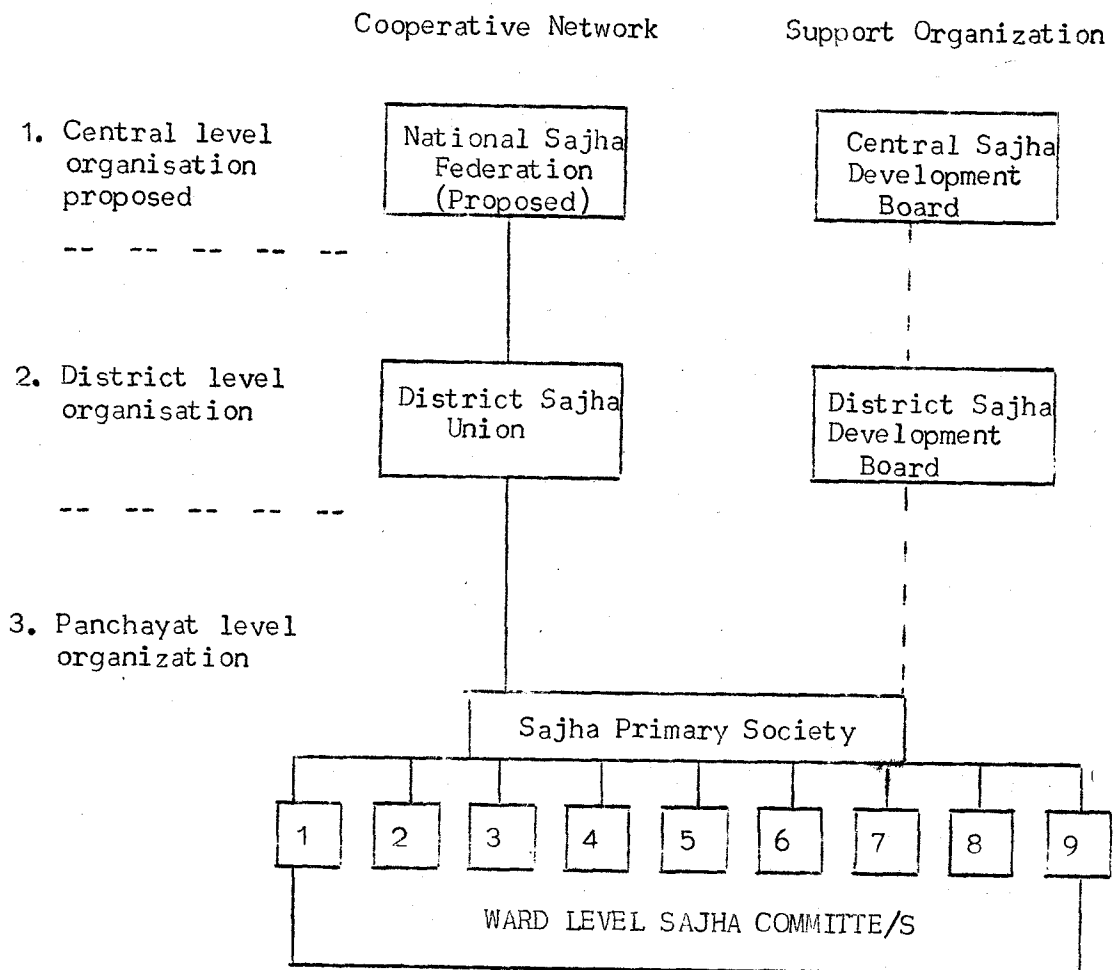
### 3 ORGANIZATION AND INTEGRATION OF SERVICES IN SAJHA SOCIETIES

#### 3.1 Sajha Organizational Network from Nation to Grass-root Level

Organizational network for carrying out essential functions of Sajha programme has been entrusted to the Sajha societies at the Village Panchayat level. This is the grass-root level unit, from where all the services flow to the farmers. National level institutions such as, Agricultural Development Bank of Nepal (ADB/N), Agriculture Supply Corporation (ASC), Food Corporation, National Trading Limited and Departments of various Ministries have their branches mostly up to the districts level. When it comes down to the village level, the services of these various institution are integrated into the functions of the village level Sajha enterprises and it is through these units that the services required for the farmers are made available. One Sajha society covers roughly three Village Panchayats, which almost constitutes little more than twelve thousand population. Physical features differ from Panchayat to Panchayat. In the case of hilly regions, the area in terms of population and Panchayats is quite uneven and in most of the cases, the command area exceeds more than three Panchayats. The chart presented below shows the organizational network from village to central level Sajha organization.

CHART - 1

SAJHA, CENTRAL, DISTRICT AND VILLAGE LEVEL ORGANIZATION



LEGEND

- -- -- Support organization
- \_\_\_\_\_ Cooperative organizational network.

### 3.2 Support Organizations

#### 3.2.1 Central Level Organisation (Central Sajha Development Board):

At the apex level Central Sajha Development Board has been formed under the chairmanship of Food, Agriculture, Irrigation and Land Reform Minister. Other members of the Board consists of two Assistant Ministers also. Virtually all the Secretaries of Ministries including Home and Panchayat, Director General of Irrigation, Land Reform, Agriculture Department, Registrar of Cooperative Department, Governor of Nepal Rashtra Bank, Member of National Planning Commission, Member-cum-Secretary of 'Back-to-the Village" National Campaign Central Committee, General Manager of Agriculture Supply Corporation, Chairman of National Trading Ltd., Food Corporation are its members. General Manager of ADB/N works as its member-secretary. The purpose of having such a wide and high level representation in the Board is to bring about coordination and consistency in the policy making as far as Sajha programme is concerned. It is felt that unless and until a realistic commitment and the policy consistent with this is being done by the various central level Agencies, the programme will fail to achieve its stated goals. It is also believed that the constant review and evaluation of the programme at the central level is also important to take corrective actions. Although no legislative measures were taken, however, it was imperative from the constitution of the body that any decision take at this level

will be binding to all the concerned agencies. The representation from the 'Back-to-the Village' National Campaign Central Committee was invited precisely to ensure that even at the political level, this program should assume priority. However, despite all these arrangements and high level representation the Central Sajha Organization has not been quite active. The basic reasons contributing to this situation are: (1) the proliferation of Sajha societies (more than 1,100) in thirty district at one time without developing proper mechanism for effective control and information feedback for corrective action; (2) Sajha societies have been established without proper feasibility studies and the assessment of the diverse situation existing at the grass root level; (3) the diverse nature of the programme and the involvement of cross sectional organization at different level, without having proper planning and programming of the functions and activities in line with the responsibility and authority of the respective organizations. The functioning of the central body was greatly hampered by the fact that the district level Development committees were in an infant stage and all the support services for their effective functioning were not developed properly.

### 3.2.2 District Sajha Development Board

District level Sajha Development Board has been formed under the Chairmanship of District Panchayat Chairman. Other members of the Board consists of:

1. Chief District Officer (CDO)
2. District Chief of Agricultural Input Supply Corporation
3. District Agriculture Development Officer (DADO)
4. District Cooperative Officer
5. District Land Reform Officer
6. Manager, Rice Exporting Co.
7. Manager, District Cooperative Union
8. District Agriculture Development Bank Manager as the member-cum-secretary of the Board.

The functions of District Sajha Development Board are:

1. to coordinate the activities of Sajha societies district level
2. to review and approve the individual program of every Sajha enterprises and make a consolidated program for the district as a whole
3. to evaluate the performance of Sajha programme at district level
4. to recommend the appropriate policy measures to be taken by the central body.

The composition of the District Sajha Development Board is quite similar to the composition of Central Sajha Development Board. All the functional Agencies of the central level organisations at the districts have been represented in this Board.

### 3.2.3 Problem of Coordination

The functions stated above clearly indicates the fact that at the district level this body assumes responsibility of coordinating not only the programme of individual Sajha societies, but also ensures that the programmes of various Agencies conform positively with the consolidated District Sajha Plan. This arrangement presupposes that the coordination among various Agencies must start from the early stage of program and plan formulation and joint responsibility must be accepted in the implementation phase as well. However in the actual operation this practice has not been followed. The reasons are the following:

1. The status of District Sajha Development Board has not been legally defined and as such the type of authority has not been spelled-out properly. In the absence of such legal definition, the decision taken by this body can not be mandatory to all the Agencies concerned.
2. The consolidation of yearly District Sajha Development Plan has been greatly handicapped by the limited capability of individual Sajha society to plan and programme their respective activities in time.
3. Policies taken by the different central level agencies such as ADB/N, ASC, etc., have not been properly co-ordinated and communicated to the district level agencies and as such, district level agencies can not adopt uniform measures for implementing those policies in time.



4. It has been observed that various Departments and Agencies involved in Sajha programme have taken isolated approach in designing their own programmes without giving due attention to the plan and programme of other concerned agencies.

### 3.3 Sajha (Co-operative) Organisational Net-work

#### 3.3.1 Proposed National Sajha Federation (NSF)

In the Fifth Plan a provision has been made for the formulation of a National Sajha Federation (NSF).

#### 3.3.2 District Sajha Unions

District Sajha Unions have been set up at the district level, where all the primary level Sajha societies have been represented. The Executive Committee of District Sajha Union is elected from the District Sajha Union assembly. The member of the Executive Committee varies from district to district and in most of the cases does not exceed 11 members. The District Panchayat Chairman is the ex-officio chairman and Union Manager assumes the position of secretary. The function of the DSU are:

- (1) to make available all the required inputs and consumer items, etc. to the primary societies.
- (2) to arrange transportation facilities for the movement of goods from district headquarters to the villages.

- (3) to coordinate the functional activities of district level Agencies (as shown in Chart 2) on behalf of primary level Sajha societies.
- (4) to help in developing the program of primary level Sajha societies.

### 3.3.3 Sajha Primary Societies:

#### (A) Objectives:

The prime objective of the society<sup>1/</sup> is to enhance the social and economic conditions of its members especially by

- (1) creating the sense of self-help, mutual cooperation and thrift and
- (2) making farmers adopt improved agriculture practices
- (3) encouraging all the members to save regularly and make them invest in profitable ventures
- (4) collecting foodgrains and cash on account of loans and savings and preserve them safely and arranging the sales of foodgrains
- (5) arranging for supply of food grains during the time of scarcity
- (6) purchasing the agricultural products of the members, collect, grade, process, transport and provide storage

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<sup>1/</sup>Extracted from Clause 2 of By-Laws of Sajha Enterprises.  
Published by Department of Co-operatives, HMG/N.

facilities along with the management of marketing of such products with a view to gain fair price on behalf of members

- (7) encouraging members for adopting improved agricultural methods by arranging the supply of improved seeds, tools, chemical fertilizers, insecticides and pesticides.
- (8) preparing agricultural development plans based on modern agricultural methods and encourage the farmers to use the prepared plans.
- (9) encouraging members to run cottage industries in their leisure time by supplying raw materials needed to the farmers
- (10) making available the daily-needed consumer items
- (11) providing member production loans mainly and for daily consumption if necessary.

In order to fulfill the above stated objectives, the functions of the societies have been classified into the following:

- 1. to provide production and consumption credit to farmers
- 2. to provide marketing services of Agriculture inputs and agricultural products
- 3. to sale the essential consumer goods of daily necessities

4. to mobilize capital by accepting deposits from the farmers
5. to make available membership certificate to the concerned farmers by transferring the compulsory savings.

(As stated earlier the Sajha enterprises are to be the sole dealers of various institution such as ASC, National Trading Ltd., Salt Trading, Nepal Oil Corporation, Jute Development and Trade Corporation, Tobacco Development Company, Dairy Development Corporation and Nepal Food Corporation, etc. at the village level).

All the Sajha societies have not taken up all the functions.

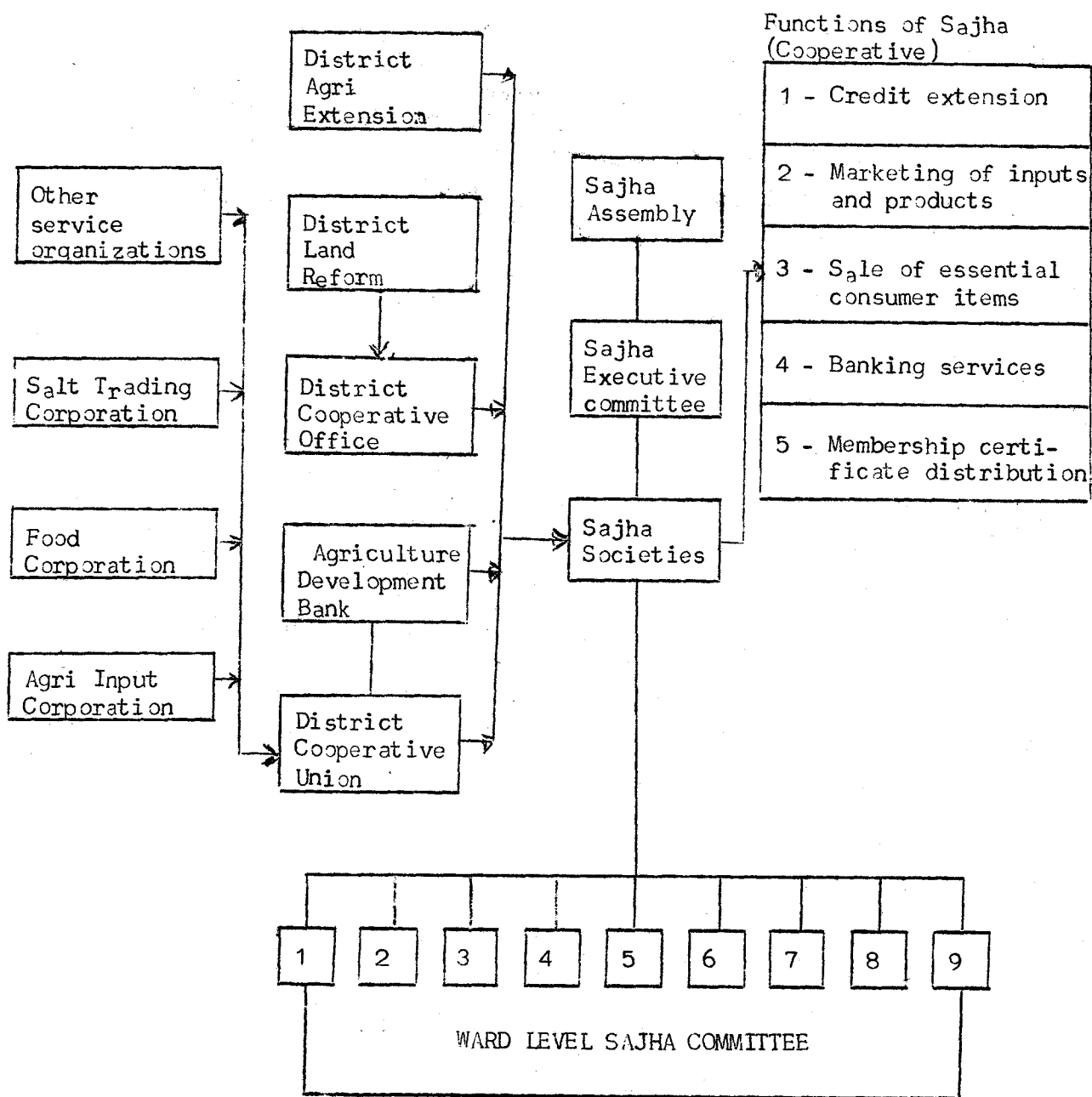
Those Sajha societies who have been performing well, have been allowed to take up all the functions stated above.

#### (B) Organisation and Integration of Function

The Chart presented below explains the integration of different functions at the primary Sajha society level.

CHART - 2

SAJHA VILLAGE LEVEL ORGANIZATION AND THE INTEGRATION OF SERVICES OF VARIOUS AGENCIES



(C) Ward Level Sajha Committee

In each and every wards of the Village Panchayat (under the command are of Sajha enterprises) a Ward level Sajha committee has been formed. The Ward Committee consists of three members and out of these three members two are nominated by the Registrar of the Cooperative Department of HMG/N. The chairman of the Panchayat Ward Committee automatically resumes the chairmanship of the Ward level Sajha Committee. This is a temporary arrangement made only to ensure the existence of such committee in the initial stage. The functions of the ward level Sajha committee are:

- (1) to collect savings from the farmers belonging to that particular ward.
- (2) to collect and assess the credit requirement and the program of the farmers and make recommendations for its approval.
- (3) to help to recollect the loan already extended by the Sajha society and ADB/N in that particular ward.
- (4) to perform other functions as directed by the Sajha Executive Committee.

The Ward Sajha Committee is a voluntary body which helps not only to funnel down the services of the Sajha societies to each and every members of the Sajha community, but also ensures, in the long run, the viability of the Sajha societies themselves.

The function of this committee is very much integrated with the functions of the Sajha societies at the Village Panchayat level and it is basically an extensions of the Sajha cooperative units at the ward level.

(D) Sajha Assembly

Sajha assembly consists of all the members of the Ward Sajha committees and the chairman and vice chairman of the Village Panchayat automatically become the chairman and vice-chairman respectively of the Sajha Assembly. In the case of Sajha societies, having two Village Panchayats as its command area, all the Ward Sajha Committee members become the members of the Sajha Assembly. In such circumstances, the chairman of the Sajha Assembly is elected from amongst the two chairmen of the two different Village Panchayats. The post of vice-chairman goes to the Vice-chairman of the Village Panchayat, from where the chairman is not elected by the Sajha Assembly members. This arrangement is made ensure adequate representation. The functions of Sajha Assemblies are:<sup>2/</sup>

- (1) to approve the annual program and budget of the Sajha societies,
- (2) to evaluate the performance of Sajha societies in accordance with the target,
- (3) to distribute the profit earned by the Sajha societies, after it is being approved by the Registrar of the Cooperative Department,

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<sup>2/</sup> Clause 19 of Bye-laws of Sajha Societies (Approved by HMG/N and Published by Department of Cooperatives) empowers "Sajha Assemblies" to act as "General Body Meetings" of Co-operative Societies as stated in Co-operative Act of 1959.

- (4) to review and approve, the auditor's report along with the comment of the executive committee on the financial transaction of the Sajha societies.
- (5) to take appropriate decisions on the performance of the executive committee of Sajha societies,
- (6) to conduct the election of the Sajha Executive Committee,
- (7) to fix the maximum amount of credit to be extended and the savings to be mobilized from the non-members of the Sajha societies,
- (8) to fix the maximum limit on the credit, to be extended to the individual member of the Sajha cooperative,
- (9) to examine the report given by the auditor or the Registrar or the persons authorised by him on the audit report of the Sajha societies.

(E) Sajha Executive Committee:

The Executive Committee consists of:

1 - Chairman of the Sajha Assembly	- 1, Chairman (Ex-officio)	
2 - Vice-Chairman of the Sajha Assembly	- 1, Vice-Chairman (Ex-officio)	
3 - One representative each from Sajha Ward Committees	-	9
Total Member	--	<u>11</u>



The manager of Sajha society is Secretary of this Committee.

Where Sajha society covers two Panchayats the composition of this committee is as follows:

- (1) Pradhan Panch (Head of the Panchayat) representing from the village Panchayat from where the Sajha Assembly Chairman has not been elected becomes Chairman of Sajha Executive Committee.
- (2) Upa-Pradhan Pancha (Deputy Head of Panchayat) of the Village Panchayat who has not been represented in the Village Assembly becomes vice-chairman.
- (3) Upa-Pradhan Pancha of another Panchayat becomes Member (Ex-officio).
- (4) Eight members of the Sajha Assembly representing two Panchayats (equally) become members of Sajha Executive Assembly.

#### 3.4. Functions and Problem in the Grass-root level:

##### 3.4.1 Credit Extension:

Sajha societies provide mainly two types of credit namely Production credit and consumption credit. The magnitude of production loan is much higher than consumption loan and majority of the Sajha societies have limited their operation

only in the field of production credit. The process adopted for granting credit starts from the preparation of the farm plans of the farmers. Junior technical assistant (JTA) and most cases manager of the Sajha societies help the farmers in the preparation of these plans. After it is prepared, the Ward Committees review and recommend the loan applications. In turn the Sajha managers in certain cases conduct field investigations and determine the actual credit requirements of the member-farmers and extend credit against collateral security of land and other assets after getting approval from ADB/N. The rate of interest to be charged on such credit varied from 4 to 14 per cent depending upon the purpose and duration of the credit extend. Despite this arrangement some problems have been noticed in the smooth operation of this credit function like:

- (1) lengthy and cumbersome procedure of financing.
- (2) lack of adequate technical support in the utilization of credit, and
- (3) high rate of interest.

#### 3.4.2 Distribution of Inputs

All the required inputs such as improved seeds, fertilizer, insecticides etc. are distributed by the Sajha societies.

Provision of both credit and cash sales have been made.

The procurement of such inputs at the national level is being

done by the AIC and distribution of such materials at the district is being handled by the District Offices of the AIC. Upon the demand of the Sajha societies, the AIC District offices supply these materials to the District Cooperative Unions and through district cooperative through it is channeled to the Sajha societies. Usually the part of the credit functions of the Sajha societies are tied up with the input distribution. This arrangement is done simply to ensure that the credit extended by the societies are used for agriculture development.

#### 3.4.3 Marketing Function

This function has been initiated to extend the marketing channels in the rural sector and ensure individual producer for better and competitive prices for their surplus output. If the credit programme of the Sajha societies have to be made a success, it is imperative that the Sajha societies find the market for the surplus product, resulted by any increase in the production. At present, only marketing of food grains have been taken up by the selected Sajha societies, on behalf of the purchasing institution like, Rice Exporting Companies and Food Corporation. The price at which the foodgrains have to be purchased is determined by Rice Exporting companies.

The financing of such business is partly met by the Rice Export Companies and ADB/N. As soon as the food grains are purchased it is handed over to the concerned Agencies. The smooth operation of this function has been handicapped by

the various problems which are:

- (1) lack of adequate facilities for transportation, storage and processing,
- (2) problem of regular and guaranteed delivery credit and inputs,
- (3) price fluctuations and lack of arrangement for provision of market information,
- (4) malpractices and unhealthy competition from the private sector,
- (5) absence of secondary (in some district) and apex level co-operatives.

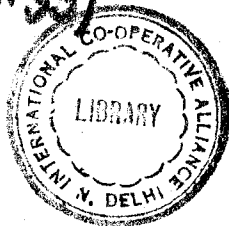
#### 3.4.4 Sales of Essential Commodities

Provision for the sales of essential commodities, like, kerosene, salt, sugar, coarse cloth, diesel, coarse rice, etc., have been made to facilitate the availability of such items at the village level. This business is also conducted in the selected Sajha societies.

#### 3.4.5 Banking Functions:

Banking functions for mobilizing the savings from the rural sector has been initiated on an experimental basis only in the selected few efficient Sajha societies.

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## CHAPTER - 4

### 4. INTERNAL MANAGEMENT STRENGTHS AND WEAKNESSES FOR MOBILISING AND MOTIVATING FARMERS FOR THEIR DEVELOPMENT

#### 4.1 Aggregate Profile of the Sample Cooperative Societies:

For indepth and aggregate study, the following (primary) societies were selected on the basis of purposive sampling representing Sajha Societies and Guided Cooperatives functioning in the Hills and Terai of the following four Development Regions:

- (1) Eastern Region: (Tarai) Dhulabari Sajha Society, (Jhapa District). Coverage 2 Panchayats.
- (2) Central Region:
  - (a) (Hills) Panchkhal Sajha Society (Guided Cooperative) (Kavre District) Coverage 6 Panchayats.
  - (b) (Tarai) Janakalyan Sajha Society (Chitwan District) Coverage 2 Panchayats.
- (3) Western Region:
  - (a) (Hills) Chakradevi Sajha Society (Kaski District) Coverage 5 Panchayats.
  - (b) (Tarai) Anandabana Sajha Society (Rupandehi District) Coverage 1 Panchayat.

(4) Far Western Region:

(Tarai) Hasuliya Sajha Society (Kailali District)  
Coverage 2 Panchayats.

In case of Anandaban Society the figures available were of 1976/77 only, because of the fact that this society started functioning only in this year.

(1) Maximum number of Panchayats served by one society (Panchkhal) was 6 and minimum of 1 (Anandaban). The average number of Panchayats served were 3.

(2) Average membership number of these six societies increased from 363 in 1974/75 to 405 in 1975/76 and 976 in 1976/77, suggesting that in the recent years the coverage had greatly enlarged in the service areas of these six societies. Out of new member enrolled in 1975/76 (a total of 2,060) only 469 (or 22.71%) were big farmers (holding more than 0.5 ha in Hills and 2.72 ha in Tarai) and rest of them (87.33%) were small farmers (tenants and onwer/tenants). This clearly shows that due to conversion of compulsory savings into cooperative shares the small farmers/tenants are now in majority.

(3) The average total share subscription had gone up from Rs 10,582 in the first year to Rs 12,050 in the 2nd year and then to Rs 120,660 in the 3rd year, Most dramatic change was observed in Hasulia where the share subscription went up from Rs 3,650 in the 1st year to Rs 357,192 in the third year.

This shows that the cooperative societies will not have to depend upon ADB/N totally for loans in the years to come.

(4) It was found that the following general and special functions were being conducted by these societies:<sup>1/</sup>

Common Functions:

1. Provision of credit facilities for different purposes (mostly short-term for crops and in a few cases mid-term for purchasing bullocks etc.)
2. Purchase and sales of agri-inputs (seeds, fertilizers, insecticides, agri-tools etc.)
3. Purchase and sales of essential commodities viz. salt, sugar, kerosene and in some cases edible oil, rice etc.

Special Functions:

Shisuwa Sajha: Services of power tiller, sprayer, pledging (of rice only).

Anandaban Sajha: Pledging facilities and Marketing of agri-products (paddy and wheat only).

Janakalyan Sajha: Sales of text books, Marketing of paddy, Sheat and oilseed.

Dhulabari Sajha: Renting of godown.

Hashuliya Sajha: Marketing of paddy and wheat.

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<sup>1/</sup>The general objectives/functions stated in the Byelaws of Sajha Societies has been presented in Chapter - 3.

Panchkhal Sajha: Consumers stores (started since 1976/77) selling all kinds of consumer goods.

4.2 Internal Organisational Strengths and Weaknesses observed in the Areas and Process of Management:

4.2.1 General Body of Members, Leadership and Organizational Development:

As can be seen from chapter - 3 the traditional role and authority of the General Body meeting of a co-operative society is vested with the Sajha Assemblies (consisting of all the members of Ward Committees and chairman and vice-chairman of the Village Panchayat, who are ex-officio and nominated members). In case of "Guided Co-operatives" the elected Board is suspended for the time being and there the managerial leadership functions is assigned to the managers appointed by ADB/N, and the responsibility of driving and influencing the decisions of the farmers lies in the hand of the manager, in case of Sajha Societies, however, a compromise has been brought by nominating one small farmer and one preferably literate tenant (engaged in social work) in all the ward committees who also form a part of the Sajha Assembly, which virtually acts as general meeting. Thus, in case of Sajha Societies the leadership function is partially assigned to these political and nominated village leaders. These arrangements although has brought closer Co-operation between the Panchayats and co-operatives society, but the desired results of motivating farmers for increasing their farm productivity, out-put and income has not been fulfilled satisfactorily.



The main reasons being the preoccupation of the Panchayat leaders with legal/administrative work and their inability to exercise power within the co-operative organisation. It is also being strongly realised that, since the members of the co-operatives are not only share holders but also personally and directly the users of their services; they must be encouraged to use their native common sense, knowledge of local situation, experience, good-will, vigilance and judgement as much as possible through General Body Meetings, and through other activities.

#### 4.2.2 Enterpreneural/Managerial Leadership:

To change the attitude of these hundreds of thousands of farmers; to unite them to take co-operative actions to get through the "toll gates"; create their own super system of supply and marketing, country like Nepal needs a good number of cooperative leaders, emerged locally and developed to take responsibility to solve the problems of their districts or of the nation. Similarly, a vast cadre of professional extension workers/managers is also equally needed. If we look into the problems from this point of view, we shall find that the "Guided Cooperatives" was not conducive for the growth of local cooperative leadership.

As far as the problem of developing a cadre of extension worker/managers, we find that the Cooperative Training Centre under the Department of Cooperatives, HMG/N, had done excellent job by providing various courses, within

its own limited resources. It was found that long-term perspective was not clear to the village leaders and managers due to absence of the system of articulating local expectations, needs, values and proper inventoring of natural and human resources etc. Fundamental socio economic purposes or basic motives of their society were not clear to them. The implications of concept of equality in a rural feudalistic, stratified social structure, or of "Rule of fair share" were not understood and the village leaders failed to encourage the cooperative movement as an organised effort of working class to free themselves "from social dominance and economic exploitation of those who hold the "toll gates" in the field of credit, supply of inputs, product marketing or other essential service areas.

#### 4.3 Comprehensive (Micro level) Planning:

##### (1) Goal Setting:

It was found that there had never been any discussion about the long-term or ultimate goals in the executive or advisory committees.

##### (2) Programming (Operation Plans, Long/Short Term):

In the absence of long term "Comprehensive Sectoral Policy Planning" it is unthinkable of cooperative societies and unions to have "Comprehensive" Long-Term Plans covering all the elements and dimensions, having qualitative and quantitative coordination of plans from top level down to operational levels; among major functional components viz. timing of deployment of resources, characteristics etc. Therefore, it was only natural to have annual plans, (budgets)<sup>2/</sup>

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<sup>2/</sup>ADB/N has implemented the System of Programme Budgeting from the F.Y. 1975/76. Although, it is in a very rudimentary form from the start is very encouraging.

which are not fully developed and installed to translate long term strategic prespective plans into feasible current actions.

As a whole, it can be concluded that the system of planning in the societies is in a rudimentary form and a system of Comprehensive and Scientific Planning needs to be installed for developing the organisational strength of the societies.

#### 4.4 Actuation:

##### (1) Member Education:

Systematic member education (which is one of the most important functions for any cooperative society) was found to be neglected by the managers/leaders in the micro level. No society under study had ever-set-aside any amount from their surplus for this purpose.<sup>3/</sup> Cooperative Training Centre had to fill this lecuana. As the Centre's main objective is to train the departmental personnel, managers and members of societies, it did its best to run "Member Education Camp Programme" within resource constraints. This programme was started in 1972/73. The details are presented below.

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<sup>3/</sup>The Byelaws in Clause 36 (4) makes provision of "Sajha Education Fund" to be created from net profits of the societies.

Years	Districts covered	Total Number of participant	Duration
1972/73	8	240	5 days
1973/74	11	280	3 days
1974/75	18	926	3 days
1975/76	12	348	3 days
1976/77	30	912	3 days
1977/78	30	1267	3 days

Source: Cooperative Training Centre, Kathmandu.

From the table presented above it can be seen that only 0.45% of the total members by 1977/78 had received 3 days training. This figure is largely due to phenomenal rise in the number of membership in recent years.

From the questionnaire administered to the selected farmers/ members of these six societies, it was found that they were mostly propogated by other members and in a few cases they were approached by cooperative managers also. The general impression of the farmers was that they had perceived the cooperatives as an organisation that would primarily help them to improve their farm output, but did not strongly feel as a part of the movement created to change the socio-economic conditions in their lives.

(2) (A) Internal Organisational Development and Personnel Management:

The internal organisational structure comprises of "Sajha Assembly", "Executive Committee" and Manager's office. The manager, not only has the general management function but he has to work often as accountant, cooperative and agricultural extension worker. The primary sajha societies are characterised by a very small organisation which does not provide the benefits of specialisation, standardisation, formalisation and confignation. Due to the constraints imposed on these societies (due to distribution and sales policy of some public enterprises) these societies have not been able to achieve sound organisational development. The presence of sub-branches ADB/N and Village Level Agency of Department of Agriculture<sup>4/</sup> instead of using Sajha societies as the only one organisation to reach the farmers, have created duplicaty. It is strongly felt that unless this type of dualism is removed and all the staff working at the grass-root level are put under one organisation and made responsible for the all-round agricultural development of the service area, the desired objectives of rapid agriculture growth may not be accomplished within the desired time.

(B) Personnel Management:

The goal achievement with efficiency in an organisation like Sajha can largely be the function of sincere human efforts.

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<sup>4/</sup> Although JTAs are attached to Sajha Societies they have other functions and priorities. They are also responsible to Agricultural Development Officers of the districts.

Although chemical fertilisers and hybrid seeds etc. can show miracles in the short-run but for the long-term and sustained development of agricultural sector, human resources can be most important input. It should be remembered that only the motivated leaders/officials can motivate the farmers. In this context the opinion survey revealed that there is a substantial motivational gap in the employees of the Sajha societies studied. It was found to be largely due to the limited chance of carrier progression. The other factor to be considered seriously is the degree of responsibility entrusted to the managers not commensurating with the authority deligated to them.

(3) Purchase, Storage and Sales Management:

As stated earlier, due to lack of reliable information on demand for credit, agri-inputs, essential consumer goods along with the forecasts of marketable surplus every season/year and their likely trend in future; no co-operative society had any long-term Sales and Material Management Plans and annual targets segregated into seasonal components.<sup>5/</sup> This task has become difficult due to lack of technical studies on soil and climatic conditions and marginal value of capital productivity in various co-operative service areas etc. Even if these studies were available (as in case of Sishuwa Sajha), these reports were not being used for

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<sup>5/</sup>ADB/N "Agricultural Institutions Manual, 1975" p. 10 mentions that with close coordination with ADB/N Branch/Sub-branch office and District Cooperative Union, co-operative societies should prepare "Joint Purchase Plan" - both for credit and cash sales; Such plans are not seriously prepared and can not be called "Comprehensive" and reliable.

developing farm plans and a master plan for the all round development of a certain area. Therefore, it was very common to know from the farmers and managers that sometime supply of agri-inputs of certain kinds were more than demand and vice-versa; a certain variety of improved seed was utterly unsuitable etc. etc. Although, almost all the societies had their own ware-houses they were not being fully utilised, largely due to working capital shortage and lack of purchase planning. Sometime when these societies have enough capital, the public enterprises would not sell them in enough quantities. It was noticed that as long as these societies have the stock of salt, kerosene, suger etc., there would not be any black marketing but the moment the stock was exhausted the prices would soar-up. But due to unplanned purchasing and inability of district unions to supply in bulk and in time, the cost of such essential goods are generally higher than the prevailing prices in the rural centres. The following table depicts uniniform and erratic trend in inventory to (Sales) turn over ratios, which are quite good even for the enterprises dealing with essential commodities and chemical fertiliser etc. The erratic trend also shows the uneven and unreliable supply situation.

Year	Hasulia	Shishwa	Janaka- lyan	Ananda- bana	Dhula- bari	Panchkhal
1975/76	1.41	32.12	13.12	--	15.65	29.91
1976/77	12.51	10.10	34.98	27.70	18.75	7.74

Source: P/L Accounts

The high turnover ratios in most of the societies prove the commercial capability of the management. The ratios of net sales to net worth could not give a correct picture of most of the societies due to unusual change in the figures of net worth, (because during the period of 1975-77 compulsory savings were being converted into share capital). However, in case of Sishuwa and Janakalyan (where the changes in net worth were nominal) the ratios were as follows:

Years	Shishuwa	Janakalyan
1975/76	16.34	11.04
1976/77	11.89	16.50

Source: P/L Accounts.

These ratios also depict very high merchandising capability of co-operatives, which should be regarded as a organisational strength. The steep rise in the trend of purchase and sales of these six societies also confirms this. The total purchase and sales figures are presented below:

Particulars	1974/75	1975/76	1976/77
Total Purchase	220,436	265,568	551,704
Total Sales	247,346	268,907	550,590

Source : P/L Accounts (Accounts in Rupees)



Regarding the quality of services 70% the respondents rated the services of agri-input sales and consumer stores as good, only 2% thought it to be hard and 28% failed to respond. The main four reasons for their satisfaction were (1) reasonable price (2) correct weight (3) no adulteration and (4) reliability in supply in case of agri-inputs. They suggested that regular supply of essential commodities and sales in holidays also should be guaranteed.

(4) Loan Administration:

Despite repeated pronouncements of developing co-operative societies as a village bank, the Sajha societies have been given very limited role of providing short term credit for crops and in few cases, medium term loans to buy bullocks and bullock-carts etc. Even for crops the co-operatives are instructed to issue coupons (for fertiliser and seeds) and current practice is to provide short-term cash loans of upto 20% (of the total loans) through co-operatives for wages etc. The farmers demand upto 100% of coupons as cash loans. ADB/N does the function of village banks excepting in the case of two co-operatives in the Tarai. The farmers interviewed mostly suggested that the loans for livestock, poultry, horticulture along with production loan components such as loans to pay wages and also consumption loans should be channelised through co-operatives in the village level. In their opinion, ADB/N should limit its activities only upto district level and cater to the needs of big farmers alone. Demand for short and Medium Term Credit from co-operatives: According to Rastra Bank Survey<sup>6/</sup> credit needs per small farm

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<sup>6/</sup> Nepal Rastra Bank "Agricultural Credit Survey", vol IV., p. 21 and p. 33.

family at improved technology in 1970 was Rs.500.80 in the Hills and Rs.857 in the Tarai. Similarly, the demand for medium term loan of small farmers was Rs.381 in the Hills and Rs.529 in the Tarai. Assuming that the population distribution being equal, the average credit need (short and medium term) would have been of Rs.1,134. Assuming further that about 80% of the total members of co-operative in 1976/77 (802,292) out of which 641,834 were small farmer the total demand for credit at improved technology even at 1970 prices would be a huge amount of Rs.727.84 millions. As against this in 1976/77 the Sajha societies had advanced a total amount of Rs.52.723 millions as loans (or only 7.24% of the estimated demand of the small farmers) in that year. In this perspective the amount of annual compulsory saving even if collected as earlier the potential amount would look inadequate.<sup>7/</sup> Another example of credit supply through cooperative can be seen clearly in the three Panchayats of Kaeki Mankamana, Tupche and Rakta-kali where ADB/N runs the small Farmer Development Program. Within a period of two years ADB/N had been able to distribute the loan of Rs.833,675 through one co-operative society.<sup>8/</sup> This also shows that there is a tremendous scope even in just supplying of credit to small farmers only. ADB/N's role in providing encouragement to cooperatives in this field is vitally important. Looking at the trend of past five years, ADB/N's role must be regarded as positive and helpful if we consider the fact that in 1970/71,

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<sup>7/</sup>In 1976/77 from 41 districts a total of Rs.60.8 million was collected. "The prescribed rate represented roughly 5 to 7% of the current average output" Zaman, M.A. "Evaluation of Land Reform in Nepal", p. 43.

<sup>8/</sup>ADB/N "Small Farmers Development Projects, An Epitome of operational Evaluation" Annex 1-2.

the proportion of loans disbursed through cooperatives was only 11.94% which rose upto 73.33% of the total loans disbursed in 1974/75.<sup>9/</sup> This also shows the growing capability of cooperatives in loan administration.

Nepal Rastra Bank survey had revealed that about 28% of the loans advanced by co-operatives in 1975 were not realised in time.<sup>10/</sup> The reasons were mostly due to lack of marketing facilities in the co-operatives. Usually the farmers are expected to pay from the crops after harvesting and they do not have sufficient cash when the due dates arrive. Hesitance to take hard actions on the part of Panchayats and district level officials, is another reason. The general feeling among the managers and policy makers was that the amounts of the total default are not alarming. It is also felt that in normal years the small farmers do not default. Most of the small farmers interviewed resented that despite tall claims to help them, the 'Tenancy Right Certificate' is not accepted as collateral to medium and long term loans. To sum up, the co-operatives has gained enough strength (and experience) in the field of loan administration and can be entrusted with more responsibility and in the various fields.

(5) Product Marketing Management:

The agricultural product marketing was first undertaken by the co-operatives in 1972/73 only. Since then, it has assumed

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<sup>9/</sup>CCC/ISC, "Performance Evaluation of ADB/N" Vol. IV, Performance of Public Enterprises in Asia (Nepal) Project, p. 114.

<sup>10/</sup>Survey Report on the Activities of Guided Co-operatives and Village Committees, 1976, p. 34.

more importance every year in the total transaction of co-operatives in Nepal. The entire volume of co-operative marketing in relation to total business volume (sales of agri-inputs, consumer goods and sales of paddy, rice and wheat) in Nepal is presented below.

Particulars	From 1970/71 to 1974/75	1975/76	1976/77
1. Total Transaction (Rs.)	192,524,473	88,793,125	146,883,904
2. Total of Marketing Transaction (Rs.)	8,047,442	9,445,304	15,413,451
3. Item (2) as percentage of (1)	4.36	10.63	11.72

Source: Department of Cooperatives

From the survey it was found that only 32% of the members were selling their products to co-operatives, that too in a very limited quantity. When the respondents were asked to rank in order of priority as to with which agencies they would like to deal with, the co-operatives got first priority followed by firstly local merchants, then relatives, land owners and Paddy and Rice Export companies. The first two reasons mentioned for selling their products to co-operatives were (1) for making payment of loans (34%) and (2) inability to hold (25%).

The figures presented above suggest that there is vast opportunity in this field. The performance of most of the co-operatives engaged in this field is regarded as satisfactory by most of the farmers interviewed.

(6) Financial Management

(a) Financial Liquidity:

The current ratios of these six societies were as follows:

Sajha Societies	Current Ratios	
	1975/76	1976/77
Hashulia	0.97:1	1.33:1
Sishuwa	0.97:1	1.04:1
Janakalyan	1.07:1	1.05:1
Anandaban	-	3.31:1
Dhulabari	0.82:1	0.96:1
Panchkhel	0.86:1	1.27:1

Source: P/L Accounts and Balance Sheets.

The ratios show, that excepting in case of Anandban Sajha society, all the other societies were not maintaining a financial discipline. Had they not been dealing with public enterprises they would have faced serious problems of financial credibility. The distorted ratios seem to be the effect of financial problems of the past.

(b) Record Keeping and Auditing

It was found that in all the societies the books and other records were kept very upto-date and properly. The training provided by Co-operative Training centre and the job

training provided by ADB/N in record keeping has greatly developed the capability of the managers. ADB/N's effort to install a system of 'Programme Budgeting' and regular (monthly, quarterly, half-yearly and annual) audits conducted by Department of Co-operatives in recent years have been very useful. It is heartening to note that Department of Co-operatives is seriously trying to implement the system of Performance Audit. Although, the introductory booklet published by this Department is still vague about performance evaluation concepts, indicator tools and techniques (of efficiency or inefficiency - both 'commercial' and 'social'); it can be termed as a good start, considering the fact that a proper system of Performance Audit is not working even in the public sector in Nepal.

All this should be regarded as organisational strength.

(c) Cost Effectiveness and Profitability

In these six societies the average total net income grew from Rs.253,626 in 1975/76 to Rs.349,149 in 1976/77 (a rise of 71.43%), but the average total costs also had gone up by Rs.75,170 (or by 38.22%) mostly due to rise in salaries (from Rs.48,469 to 73,652 or by 51.95%). The rise of average total cost was also due to rise in the amount of interest paid (from Rs.129,462 to 175,383 or by 35.47%). This shows that the tendency was towards the increment in cost but it was not unduely high.

(d) Profitability

As Profit is function of 'sales volume' and 'mark-up' (price minus cost) an attempt is made here to study the sales and price effectiveness in these six societies.

The ratios of 'interest earned to interest paid' has indicated that the average should have been around 1.18% in the past two years. This shows very low mark-up in the business of credit administration. As in case of credit, the process of essential commodities, agricultural inputs and food grains are administered by public enterprises (subject to the approval of HMG/N). Considering the fact that they are in retail business, the co-operatives in most cases, do not get very favourable mark-up and terms. Unless there is a strong national union of their own, to safe-guard their interest the public enterprises may go on exploiting the co-operative societies and district unions. As far as the business volume is concerned, as stated earlier, the cooperatives had faired well. The ratios of net profit to net worth are presented below:

Societies	1975/76	1976/77	Remarks
Hasulia	38.77	9.97	Change due to change in the net worth
Sishuwa	22.08	4.69	Change due to change in the net worth
Jankalyan	26.61	28.52	
Anandaban	--	(-) 0.68	
Dhulabari	73.59	2.28	Change due to change in the net worth
Panchkhel	0.27	9.69	

Source: P/L Accounts and Balance Sheets.

This table shows that due to very unusual change in the capital structure the ratios in case of 3 societies were unable to depict the correct picture but it was found that in most cases the amount of net profit had gone up in 1976/77. This shows that given the opportunity the cooperative societies can record profitable growth. This is definitely a positive indicator.

(e) Evaluation and Internal Control

The data/information derived from quarterly Trial Balances, Auditor's Reports and program budgeting system installed recently, if processed, and used for various ratio and variance analysis scientifically and persistently, can form a very solid basis for internal/external evaluation of situation and performance of the societies which again can form the basis of fair and objective evaluation.

These systems also provide the co-operative societies with internal organisational strength, which makes them effective in the achievement of their goals related with the upliftment of the farmers.



## CHAPTER - 5

### 5. BENEFITS ACCRUED DUE TO CO-OPERATIVE ACTION

The benefits accrued to the farmers and to the societies themselves due to the services provided by the six societies studied are largely influenced by the agricultural development policy adopted by HMG/N and role assigned to the cooperative movement. Equally important were the organisational strengths and weaknesses of these societies as presented in Chapter - 4. Thus, the results enlisted in the following pages are the net outcome of HMG/N policy, strategies, guidance, supervision and control on one hand and leadership and management capability of the village level sajha societies on the other. It is important to note that while providing services/benefits to the farmers and community as a whole the cooperative enterprises help themselves as well, mainly in terms of profit for growth and institution building etc.

#### 5.1 Benefits Accrued to the Sajha Societies themselves:

Survival and growth with stability and flexibility is the prime objective for any enterprise including cooperative societies. If the societies accomplish these "Micro" level

objectives efficiently (with the optimal use of scarce resources) they help in achieving "Social Efficiency" or "National Profitability", which is the ultimate goal of any developing or developed community.

From this point of view the study reveals that:

- (1) All the societies had been running in profit except one (Anandaban Sajha Society) which is a new society and has a potential for being a successful society. In case of a cooperative enterprise profit can be socially justified only for the growth of the society. If the profit is used for the benefits of employees or the big share holders (members) unduly, it cannot be socially justified. But, it was found that small farmer/tenants were getting a fair share.
- (2) The study showed that growth in sales of agri-inputs can be expected to continue for some years to come. Similarly, the demand for credit will go on increasing rapidly. If proper institutional arrangement for purchase, grading, processing, storage, transportation and whole sale is made, the marketing of agricultural product also provides great opportunities in the future. In the supply of essential commodities also,

a steady rise in sales volume can be expected. As stated in Chapter - 4, within these market opportunities and supply constraints the performance of these societies can be termed as excellent. Considering the performance (including the degree of cost effectiveness) it can be concluded that these societies were greatly benefited by the increased sales volumes in achieving profitable growth. The generally increasing trend of Net Profit, Reserves Net worth and Fixed Assets will confirm this.

Sajha Societies	Years	Fixed Assets (Rs.)	Net Worth (Rs.)	Reserves (Rs.)
Sishuwa	1975/76	10,185	20,271	4,893
	1976/77	36,014	73,636	10,780
Anandban	1975/76	--	--	--
	1976/77	38,912	2,12,537	515
Janakalyan	1975/76	62,087	45,705	29,457
	1976/77	31,123	62,987	47,445
Dhullabari	1975/76	1,30,240	27,137	30,437
	1976/77	1,33,722	92,746	32,325
Hasulya	1975/76	1,008	42,210	69,040
	1976/77	1,12,094	4,56,445	99,255
Panchkhal	1975/76	17,251	32,138	13,805
	1976/77	77,483	33,113	18,581

SOURCE: Balance Sheets (Figures as at the end of the Fiscal Years)

(3) As can be seen from the analysis presented earlier, the question of stability is closely related with HMG/N's policy related with the role of Cooperative Sector in the development of agriculture. The cooperative societies are firmly established with the function of supplying of short-term credit and supply of agricultural inputs. The firm decision of very high powered Central Sajha Development Committee to give Sajha societies sole distributorship will, if enforced rigidly and persistently followed, will provide the Shajha societies with commercial benefit of stability. The study presented in Chapter - 4 suggests that there had been stability in price (vis-a-vis inflation) and growth with stability in earnings and market share. However, the costs were not relatively stable and the societies had not yet achieved financial balance.

(4) As can be seen from Chapter - 4, the six societies studied were engaged in diverse fields of service delivery. The possibility of making-up losses in one service line from some other services, to some extent, gives these societies adequate flexibility. Although, it is not strategically planned this way, the business structure of these cooperatives provide the benefits of diversity to these societies. The opportunities provided by the policy of HMG/N to convert "Compulsory Savings" into the shares of

the Sajha societies also provides the benefits of flexibility in the capital structure. Thus, by exploiting this opportunity the Sajha societies have helped themselves.

(5) The study presented in Chapter - 4 and the opinion survey also show that by providing prompt, reliable and relatively efficient services, these societies were helping themselves too. The survey revealed that 85% of the members interviewed had enjoyed the credit facilities, 73% had brought agricultural inputs, 87% had benefited by the services of consumers stores and 40% had enjoyed the marketing facilities from these six societies.

Similarly, the loss of benefits as perceived by the respondents presented below shows that these societies had earned goodwill and reputation for reliability from their members. Thus, these societies had built a very valuable asset viz. "good-will" in the process of providing services to the farmers.

Perceived Loss of Benefits in the Absence of Cooperatives Societies:

(1) Lack of cheap credit	77%
(2) Payment of high prices for consumer goods	82%
(3) Unreliable supply and black marketing of agricultural inputs	70%
(4) Lack of marketing facilities	45%
(5) Lack of knowledge about agricultural inputs and modern farming techniques.	30%

5.2 Benefits Accrued to the Farmers:

5.2.1 Population Characteristics:

Table 5-1 and 5-2 presented below depict the population characteristics and age distribution of respondent farmer families.

Table 5-1  
Population Characteristics of Average Family Size

Regions	Male	Family	Average Number per family	Literacy Rate	Male/Female Ratio
Hills	2.90	3.05	5.95	12%	1:1.95
Terai	4.05	3.65	7.70	16.8%	1:0.90

Table 5-2  
Age Distributions of Respondents' Families  
(per family)

Regions	1 - 15		16 - 60		61 -	
	Number	Percent	Number	Percent	Number	Percent
Hills	2.40	40	2.85	148	0.70	12
Tarai	3.70	48	2.65	47	0.35	5

It can be seen from the tables presented above that in Tarai the average size of the family was found to be bigger. Altogether 49% of the population in Hills and 47% in Tarai consisted of working population. Literacy was found to be higher in Tarai rural areas (16.8% as against 12% in Hills). Regarding land holding, most of the farm families surveyed were found to be cultivating their own land. The average irrigated and non-irrigated land holdings along with number of fragmented lands in 1974/75 were as presented in Table 5-3 below;

Land Holdings and Fragmentation

Regions	Farmers	Type of Land Holding			Average Number of Fragmented Land
		Irrigated (ha.)	Non-irrigated (ha.)	Total (ha.)	
Hills	Small	.22	.17	.39	2.52
	Big	.32	.22	.54	2.62
Tarai	Small	1.01	.46	1.47	1.66
	Big	5.92	1.59	7.51	4.42

This Table shows that there was only a marginal difference in the total land holding in Hills between small and big farmers, but in Tarai there was a marked difference (7.51 ha. as against 1.47 ha.). In the Hills 56.41% of the total average land held



by small farmers were irrigated as against 59.25% of big farmers. In Tarai the irrigated land component of small farmers was 68.7% as against 78.82% of the big farmers. The problem of fragmentation was found to be worse in Hills than in Tarai. The average size of the fragmented land in Hills in case of small farmers was only 0.15 ha. as against 0.20 ha. of big farmers. In Tarai the average size of fragmented land of small and big farmers surveyed were 0.88 ha. and 1.69 ha. respectively. This clearly shows that the fragmented land in Hills are not economic from the point of view of mechanisation, irrigation and plant protection in a modern scientific manner, where as in Tarai even the small holdings of small farmers can be considered economic.<sup>1/</sup>

#### 5.2.2 Increment in Productivity:

In Nepal, increase in the GDP is largely the function of increase in agricultural output which in turn is the function of increased

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<sup>1/</sup>Otto M. Schiller in his book "Cooperation and Integration in Agricultural Production" (P. 19) refers to the research work of Dencker C.H. of Federal Republic of Germany where he found that if medium sized machines are used even a plot of land as small as 1 ha. in size can be "Workable Unit".

agricultural productivity. Since there is limited possibility of increasing cultivatable land, it is natural to expect that Sajha societies will bring a favourable change in the productivity. In Table 5-4 (presented at the end of this Chapter) productivity of paddy, maize, mustard, millet, jute and wheat have been presented, classified according to big and small farmers along with their average productivity. This table depicts productivity in absolute terms. Table 5-5 (presented at the end of this chapter) presents the change in the productivity in percentage over the preceding years. From Table 5-5 we can find a comparable picture whereby the change in productivity has been presented for all preceding years. The change in the productivity is 1975/76 over 1974/75 shows that except in mustard, Jute and wheat for big farmers, there is a significant increase in the productivity of almost all the products. In case of these three products the productivity recorded decline in 1975/76 in comparison to that of 1974/75. However, the situation improved after the farmers became members of Sajha societies. In comparison to 1975/76 the productivity of almost all the products except of Jute and mustard increased further, In case of these two products it is only big farmers who had decreased productivity, otherwise in case of small farmers the productivity further improve.

when the farmers became members of Sajha societies most of them came to know about improved seeds, fertilizers and new techniques of farming. This helped them to increase productivity. If we take the year 1975/76 as transitional period and measure the productivity before and after the farmers became members of Sajha societies we will get the following picture:

In the Table 5-6 (presented at the end of this Chapter) a comparative picture of productivity has been presented whereby, change in the productivity of 1976/77 over the year 1974/75 is shown. This is based on before and after concept (where in the year 1974/75 the respondents were not the members and who became members in the year 1975/76). Therefore, this table shows whether there was any improvement in the productivity of the respondents after they became members of the Sajha society. The table shows a significant increase in the productivity of both small and large farmers for almost all the products except Jute and mustard where the productivity actually decreased. This can be explained by the fact that a very limited number of respondents in certain regions only were found to be cultivating millet and jute. The survey revealed that in case of mustard the farmers were not using the chemical fertilisers and improved seeds and their output reversely

fluctuated from year to year. In the case of Jute the basic reason was found to be lack of insecticides which damaged the Jute plants. Specially in case of maize and wheat the productivity increased by about 40%. There could be many reasons to this increment but one of the basic factors is the benefits generated by Sajha societies which helped them to use better seeds, fertilisers and adopt modern techniques of farming. Before joining Sajha societies it was found that in some areas the respondents were not used to wheat cultivation. But when they became members of Sajha societies they were encouraged to cultivate wheat. Table 5-6 shows that in comparison to the productivity of big farmers, the increment in productivity in general was higher in the case of small farmers. This shows that Sajha societies were instrumental in helping small farmers/tenants in the areas covered in this study.

### 5.2.3. Capital Output Ratio

(In current prices)

To get an idea as to how the Sajha societies had been able to bring favourable change in the productivity of the capital used, the Capital Out-put Ratios of the respondents farmers have been presented. In the capital, only fixed capital like land and tools along with bullocks has been incorporated. Table 5-7

(attached at the end of this chapter) the Capital Out-put Ratios classified according to Hill and Tarai and for big and small farmers, for the years 1974/75, 1975/76 and 1976/77. This Table shows that the Capital Out-put Ratios were more favourable in Tarai in 1974/75 in comparison to Hills in the same year. It can be largely due to higher price of land per ha. in Hills. The other reason can be the low productive capacity of land per ha. in Hills. The higher dose of capital (for producing same quantity and value out-put) deployed by big farmers in Hills (17.26:1) as against small farmers (15.30:1) was largely due to use of more tools and bullocks. The same was found to be the case with big farmers in Tarai also but the difference was marginal. Yet another reason seems to be the fact that the smaller farmers can manage their land more efficiently and make the best use of their own time. The big farmers were found to be relying more on hired labour without proper supervision. The dramatic improvement in the Hills in 1975/76 was largely due to the use of chemical fertilizer and improved seeds by the big and small farmers (adopting new methods immediately after becoming members of Sajha societies and taking loans) in most of the cases. In Tarai it was found that most of the big and small farmers were using fertilizer and improved seeds even before becoming members of Sajha societies.

The ratios have further improved in the year 1976/77 when the members have started taking full advantage of the services of the Sajha societies.

#### 5.2.4 Gross Out-put per Working Person

Table 5-8 (presented at the end of this Chapter) also reveals that the gross out-put (at current prices) per person actually working in the field (between the age of 16-60 years) had also increased substantially. The rise in percentage in 1976/77 over 1974/75 is presented below:

Hill:		Tarai:	
Small Farmers	153.12%	Small Farmers	36.02%
Big Farmers	144.46%	Big Farmers	61.97%

This shows that the gross output of the farmers in the Hills had increased much more than that of Tarai. The reason seems to be the use of modern agri-inputs by most of the farmers of the Hills. The population characteristics as shown in Table 5-1 above suggests that due to larger size of family in Tarai the out-put per worker was reduced slightly but due to larger holdings (Table 5-3) per family the out-put per worker was much higher in Tarai. It was also found that the working days and number of hired workers had not changed significantly during the periods of 3 years covered under this study. In conclusion,

it can be said that the small and big farmers of Hills and Tarai had increased their gross out-put significantly.

#### 5.2.5 Change in Cost and Income per Hectare

Table No 5-9 (attached at the end of this Chapter) shows the cost/ha. and Income/ha. in the year 1974/75 and 1976/77 of big small farmer in Hills and Tarai. The figures in this Table shows that the increment in cost and income of small farmers in Hills had increased by 153% and 30% respectively in 1976/77 over 1974/75. In the case of big farmers the increment of income and cost was 139% and 26.7% respectively. The phenomenal rise in income was due to credit, improved seeds and chemical fertilizers. In some service areas of Chakradevi (Sishuwa) and Panchkhal Sajha societies the farmers had added the new crop (wheat) after becoming member of the society which was one of the main reasons of the high rise in income/ha. In Tarai, however, as stated earlier, most of the farmers interviewed were growing 3 crops, using agri-inputs etc. even before becoming members of Sajha societies and therefore the increment of income and costs in the third year over first year was not found to be dramatic. The increment in income and costs were 36% and 9.16% in case of small farmers and 62% and 4.26% in case of the big farmers respectively.

This analysis also shows that the services of Sajha societies were very valuable in providing benefits to farmers.

### 3.2.6 Increment in Level of Consumption, Quality of Life, Saving and Investment

#### (A) Expenditure Pattern in 1976/77:

Table 5-10 (attached at the end of this Chapter) shows the expenditure pattern of the Nepalese farmers in 1976/77. This Table shows that almost all farm families spent heavily in food items. Farm families falling under big and small categories in Hills and Tarai spent more than 75% in food items. But it can also be seen from this Table that the component of expenditure on food by small farmers is more than that of big farmers. After the food farmers spent on clothes which runs from 7.6% to 9.0% of the total expenditure. Unlike in food materials, small farmers' component of expenditure on clothing was less than that of big farmer families. The expenditure on social needs constitutes the third major component of total expenditure which ranges from 5.5% to 8.2% of total expenditure of small and big farmers in Hills and Tarai. Here also it is interesting to note that the percentage of total expenditure in social needs of small families were found to be lower than that of big farmers. Expenditure on education varies from 1.5% to 3.4% of total expenditures. Here also the expenditure component of small farmers is less



than that of big farmers. Medicine constitutes another component of expenditure which varies from 2 to 2.7% of total expenditure only. There is not much difference in expenditure of small and big farmers and in Hills and Tarai in this item.

(B) Change in Expenditure Pattern and Quality of Life:

From the survey it was found that there had been a marked change in the consumption pattern of small farmers both in Tarai and Hills. The expenditure on food had slightly increased in 1976/77 as against 1974/75. Similarly, most of them had started using modern medical facilities discarding the services of "Jhankris" (Witch doctors) of the village in the Hills specially. Most of them also felt that due to increased income they could afford to buy school books and stationary for their children. But the study of Table 5-10 will reveal that compared to the consumption pattern of the rural families in some of the developing countries the level of consumption was very low and the priority of big farmers both in Hills and Tarai was less for education and health services.

But as a whole, it can be concluded that by helping farmers to increase the level of income (specially small ones) the *sajha* societies had helped in improving quality of life in rural communities under study.

(C) Savings and Investment:

It was observed that some small farmers of the Hills had saved in 1976/77 and also invested in land which was not substantial. But in case of big farmers of Hills and Tarai most of them had either used the incremental income in the money lending business or purchased gold.

5.2.7 Security in Supply and Control of Exploitation:

Alltogether 70% of the respondents felt that Sajha societies had helped to generate a sense of economic security because of regular supply and stability of price of seeds, fertilizers, credit etc. But most of them in Hills strongly felt that nothing much has been done to provide them with the security against the fluctuation of prices of their products. Similarly, 75% of the respondents in Hills and Tarai felt that Sajha societies had indeed helped in controlling black marketing and exploitation of the money lenders. The opinion survey and other evidences show that Sajha societies had indeed rendered very valuable services to the farmers.

5.2.8 Development of Personality and Attitudinal Change:

An attempt has been made in this study to assess the impact of cooperative societies in developing external linkages interest for learning new techniques and reading and writing they were

asked a number of questions with a view to assess the bearings of cooperative societies upon these factors.

Response on the following questions were as follows:

Questions	Yes	No	No Comment
(1) Increase in external linkage, ability to discuss with officials	70%	30%	--
(2) Interest in reading and writing	68%	17%	15%
(3) Ability in farm planning and decision making	55%	45%	.

The above Table indicates that cooperative societies have been successful in increasing the external linkages and ability to discuss with officials of the various organizations. Even for the sake of credit they have to meet various officials. In this way they have to interact with various persons and discuss their problems and learn about new developments in the field of agriculture. Similarly a significant number of respondents have realized the importance of reading and writing abilities as a result of such interactions. The Table presented above shows that 55% of the respondents felt that their ability to plan their farm production has increased.

But in this case there are still a large number of respondents who have not felt any change. However, in sum their responses are encouraging. There seems to be a remarkable change in their hitherto attitude of feelings of isolation and indifference.

5.3 Impact of Direct, secondary and Indirect Benefits on the Nepalese society and National Economy:

The impact of the social benefits provided to farmers and accrued to Sajha societies themselves would have definitely positive impact on the Nepalese society and national economy. Although, the benefits thus provided by Sajha societies can not be claimed by these cooperative enterprises alone. Due credit must be given to ADB/N, AIC and other agencies involved also for enabling Sajha societies to function effectively. As can be seen from the study presented earlier major role was played by the Sajha societies in the grass root level.

The following positive influence can be estimated:

(1) Tax remitted to the National Exchequer so far was not substantial. But like in case of public enterprises these societies can help HMG/N by duty-fully paying the full tax amount.

(2) These societies had helped in providing opportunities to the farmers in utilising the available labour in the family fully particularly in the Hills, where the farmers had added one more crop of wheat. But in the absence of programmes to develop cottage industries in the areas under study, this potential was not fully exploited.

(3) The Sajha societies covered under this study had helped in the creation of exploitationless and dynamic society through (a) redistribution of income in favour of small farmers (b) facilitating more control of small farmers in the productive assets of cooperative societies (c) by controlling undesirable behaviour of private sector businessmen and money lenders and (d) by putting some restraints on the behaviour of public sector enterprises.

(4) With large net-work spread in 63 out of 75 districts of Nepal, Cooperative Sector has helped in the development of backward regions and communities.

(5) Sajha societies had helped in the creation of a dynamic society through cooperative education and dissemination of rational values and skills. The possibility of development of democratic institutions in cooperative sector or provides an unique opportunity to enhance democratic value in the Nepalese society.

Table 5-4

Productivity Indicator per Hectre  
(figures in M. Ton)

Products	1974/75			1975/76			1976/77		
	Big	Small	Average	Big	Small	Average	Big	Small	Average
Paddy	1.76	1.68	1.71	1.96	1.95	1.96	2.10	2.05	2.08
Maize	1.63	1.26	1.38	2.09	1.53	1.72	2.31	1.71	1.91
Mustard	0.83	0.53	0.68	0.78	0.62	0.70	0.77	0.68	0.73
Millet	1.28	0.89	1.09	1.50	1.07	1.29	1.62	1.20	1.41
Jute	0.70	0.55	0.62	0.67	0.59	0.63	0.63	0.70	0.67
Wheat	1.21	1.29	1.25	1.18	1.73	1.43	1.64	1.94	1.79

Table 5-5

Change in Productivity

(in percentage)

Products	Productivity Change in 1975/76 over 1974/75			Productivity Change in 1976/77 over 1975/76		
	Big	Small	Average	Big	Small	Average
Paddy	11.36	16.07	14.61	7.14	5.12	6.12
Maize	28.22	21.42	24.63	10.52	11.76	11.04
Mustard	(-6.02)	16.98	2.94	(-1.28)	9.67	4.28
Millet	17.18	20.22	17.43	8.00	12.14	9.30
Jute	(-4.28)	7.27	1.61	(-5.97)	18.64	1.58
Wheat	(-2.47)	34.10	14.40	38.98	12.13	25.17)

Table 5-6

Change in Productivity in 1976/77 over 1974/75  
(in percentage)

Products	Big	Small	Average
Paddy	19.31	22.02	21.63
Maize	41.71	35.71	38.40
Mustard	(-7.22)	28.30	7.35
Millet	26.56	34.83	29.35
Jute	(-10)	27.27	3.22
Wheat	35.53	50.38	43.20



Table 5-7  
Capital Output Ratios

		1974/75	1975/76	1976/77
Hill	Small	15.30:1	7.35:1	6.70:1
	Big	17.26:1	9.99:1	8.40:1
Tarai	Small	7.08:1	6.28:1	5.63:1
	Big	7.90:1	5.70:1	5.17:1

Table 5-8  
Output per Working Person  
(Amounts in N. Rs.)

		1974/75	1975/76	1976/77
Hill	Small	544	1130	1377 (1377-544= 833 ÷ 541 x 100 = 153%
	Big	560	969	1369 144.46%
Tarai	Small	1141	1286	1552 36.02%
	Big	4058	5629	6573 61.97%

Table 5-9  
Cost and Income per Hectre  
(Figures in Rs. and Costs in Brackets)

Region	Farm Size	1974/75	1976/77
Hills	Small	3,839 (615)	9,710 (800)
	Big	3,164 (710)	7,593 (900)
Tarai	Small	3,649 (382)	4,961 (417)
	Big	2,485 (445)	4,026 (464)

Table 5-10  
Expenditure Patterns of Nepalese Farm Families  
(Per Capita/Yearly)  
(In 1976/77)

Regions	Type of farmers	Food	Cloths	Medicine	Education	Social needs	Total
Hills	Small	771.29 (82.8%)	70.93 (7.6%)	25.26 (2.7%)	13.88 (1.5%)	50.79 (5.5%)	932.25 (100%)
	Big	892.94 (76.9%)	112.13 (9.7%)	30.31 (2.6%)	30.88 (2.7%)	95.03 (8.2%)	1161.29 (100%)
Tarai	Small	869.06 (81.0%)	94.47 (8.8%)	21.48 (2.0%)	28.07 (2.6%)	60.18 (5.6%)	1073.26 (100%)
	Big	944.37 (78.0%)	109.16 (9.0%)	25.01 (2.1%)	41.37 (3.7%)	90.77 (7.5%)	1210.68 (100%)

## CHAPTER - 6

### 6. SUMMARY OF CONCLUSIVE FINDINGS AND SPECIFIC RECOMMENDATIONS

#### 6.1 Problems Encountered and Efforts made to solve them by His Majesty's Government of Nepal:

##### 6.1.1 Organisational Issues:

In the recent past HMG/N has taken series of measures to overcome some of the problem stated in the various sections of this report. In the policy aspect, HMG/N's effort has been concentrated mainly on the three point i.e., (1) Integration of the services of various national level agencies connected in the Cooperative Development Programme, (2) Coordination of the activities of different line agencies at the district and village level and finally, consolidation of the Sajha (primary) societies into a manageable and viable numbers.

As far as the integration of services of various agencies are concerned, it has been recognized that Sajha societies as the only desirable agencies at the grass-root level, and proliferation of national level agencies like Agriculture Input Corporation (AIC), Agriculture Development Bank (ADB/N) etc., have been limited to only district level. To cope up with this arrangement series of actions have been taken to strengthen the management of Sajha societies. For instance, provision of training for managers and the introduction of Programme Budgeting and Performance Auditing system in the Sajha societies are praise-worthy. Similarly, efforts have been made to strengthen

the activities of District Sajha Unions (DSU). The responsibility of district level coordination is being given to DSU's and all the district level agencies ADB/N and AIC etc., are channeling their activities through these agencies. It has been realised that the command area of Sajha societies is too small and volume of business conducted by most of the Sajha units do not justify their existence. From management view point, proliferation of Sajha units has created serious problem of coordination and control mechanism designed to strengthen the operation of such units have remained ineffective. Therefore, policy has been taken to consolidate the primary level Sajha units by making them economically viable. It has been strongly recognised that the national level cooperative organization is necessary to develop the Cooperative Movement in the country. Necessary pre-conditions are being created for the establishment of the National Sajha Federation.

#### 6.1.2 Specific Actions:

Apart from the broad policy measures, some specific actions have also been noticed in the cooperative front.

##### (1) Finance:

To enlarge the capital base of each Sajha society the fund mobilized under compulsory saving scheme has been transferred to these societies. This arrangement has not only enlarged the capital base, but also the total membership of each Sajha society has increased tremendously. The total fund directed under this arrangement amount to more than 110 Million Nepalese Rupees.

Similarly, ADB/N has been using Sajha societies to run multipurpose "Small Farmers Development Programme" and enlarging its loan activities.

(2) Marketing Arrangement:

Sole dealership of all the national level trading agencies, such as, National Trading Ltd., Salt Trading Company, Food Corporation, Oil Corporation etc., have been decided to award to Sajha societies. No other agencies or persons, except Sajha societies entitled to have the dealership of these agencies at the grass-root level. Similarly, contractual arrangement with Rice Exporting Companies and Food Corporation for the purchase of rice and other agricultural products through Sajha societies has already been done. But the Sajha societies are yet to utilise fully this opportunity.

(3) Construction Activities:

HMG/N had sanctioned a token amount of Rs.150 to 200 thousand for each district for the procurement of essential materials for the construction of warehouses to be run by the Sajha societies. Labour, land, timber and other construction materials has to be mobilised/acquired locally. The responsibility of mobilizing additional local resources has been entrusted to the local Panchas (political workers) and out of this effort 4 to 6 warehouses has been already constructed in each district. This has increased the capability of primary level societies to enhance the marketing functions.

(4) Member Education Programme:

Member education programme has been introduced a few years ago. By 1977/78, altogether 3975 members had already been covered by this programme and further efforts are being made to widen this programme to include increased number of members in all the districts under Sajha Programme considering the tremendous rise in the membership.

(5) Political Support and Member Participation:

Significant break-through in the Cooperative Movement has been made by making compulsory participation of Panchas (political workers) in this programme. After the initiation of Sajha Programme, arrangements have been made to affiliate all the Panchas of different levels and tiers in the activities of Sajha Development Programme. The first National Level Pancha Convention (National Level Political Convention) held in 1976 has approved this Sajha programme as a programme of national importance and accordingly, the contribution of the Panchas in this programme has been taken as a basis for the evaluation of the political workers by the "Back to the Village National Campaign Central Committee". This arrangement has further enhanced the importance of this programme even at the national political scene.

6.2 Specific Recommendations:

Although solutions mentioned above found and tried by HMG/N are pragmatic in the contemporary Nepalese context, some basic issues are not taken up and structural problems have not yet

been solved. The other issues which need further attention are related with monitoring, controlling and internal organization and management development. The following recommendations are made to overcome external and internal organizational constraints mentioned in the preceding chapters.

(1) Keeping in view the true spirit reflected in the "Preamble" of Cooperative Societies Act of Nepal, Sajha Movement should be organized in such a way that it becomes a movement of farmers with limited means and small occupationist. The first step to accomplish this, the agreed principle of converting compulsory Savings of big farmers into shares and/or debentures of public enterprises and the savings of small farmers/occupationists into the shares of Sajha enterprises - should be implemented immediately. This will also bring about sense of unity among small farmers and occupationists for the achievement of common goals.

(2) A major portion of resources of Cooperative Societies built up by the transfer of "Compulsory Savings" should be used for advancing easy long-term loans to tenant for purchasing land from their landlords. The existing programme should be given high priority and made time bounded. After starting this programme with new vigour the old system of "Compulsory Savings" should be implemented again with necessary modifications.

(3) Rice Exporting Companies and Food Corporation should be instructed by HMG/N to purchase only through Sajha societies wherever the Sajha societies are providing marketing services.



HMG/N should also adopt a declared policy to encourage Sajha societies to own and run rice and flour mills. The existing mills in private sector should be handed over to Sajha societies within 10 years' time. In the immediate future HMG/N should help all the Sajha societies to construct warehouses and provide pledging and/or marketing services as a priority programme.

(4) The decision of HMG/N regarding the award of sole-distributorship of public enterprises dealing with essential consumer items should be enforced immediately. The example set by Sajha societies in the sales of agricultural inputs should be taken as the basis of inspiring faith on the capability of Cooperative Sector.

(5) The establishment of National Sajha Federation should not be delayed. ADB/N, AIC and other concerned public enterprises should be instructed by HMG/N to buy 49% of the total issued shares of proposed National Sajha Federation and 51% of the shares should be distributed to District Sajha Unions.

The proposed national federation may not be effective without economic functions. Therefore, it is recommended that this federation should have promotional as well as commercial functions. All the rural credit (long/short, all purpose), agri-inputs, essential commodities and raw materials for cottage industries should be channelised through this institution. It should also have the business mission to handle agricultural output for marketing. It should aim at gaining the benefits

of bulk purchase and economy of size. The management development function and effective membership education should also be one of the main functions of this institution. Its goal should be to motivate and train members of primary level societies to participate intelligently and gainfully. All the variant of special types of Sajha societies, working at the national level should either be merged in proposed National Sajha Federation or be given special status as urban (primary) societies.

(6) A crash management development programme should be run to train the managers and give special orientation to cooperative auditors/inspectors to enable them to implement Performance Auditing Programme. The courses should be redesigned and duration of training should be enlarged.

(7) The budget sanctioned for the development of Cooperative sector does not match with the priority accorded in various Plan Documents, HMG/N decisions and importance shown. A much larger budget and dynamic programme for research, training development of local leadership and administration of the entire Sajha Development Programme is recommended.

(8) The proposed National Sajha Federation should use mass media, visual aids and properly trained community and cooperative extension experts to run the member education programme. The University system should be asked to offer Rural Economics and Cooperative Management Courses in graduation level. For building senior management cadre the candidates should be selected from graduates with these subjects and be offered one year special training. These graduate candidates should be recruited preferably from the rural communities.

(9) In the Sajha societies free play of membership rights should be encouraged. The General Meetings should be conducted at least once a year and the members should be encouraged to ventilate their grievances, offer suggestions and be informed about all the problems and solutions. General Meetings should be made interesting by arranging agricultural fairs or movie shows, etc. The Executive Committees should be elected from General Meetings. There should be some strict qualifications and their behaviour should be continuously observed.

(10) Managers of Sajha societies should also be trained to work as agricultural extension workers. The JTAs should be under the manager of Sajha societies and made accountable for their performance through Sajha societies.

(11) ADB/N should not open up sub-branches and depots of its own. Instead, it should use Sajha societies for all the credit supply functions at the village levels.

Similarly, public enterprises like AIC should use District Co-operative Unions for maintaining stocks and distribution function instead of opening their own branch offices.

(12) The managers should be the employees of proposed National Sajha Federation and they should be deputed to primary societies. Their job must be secured and an effective system of incentive should be installed.

(13) A system of 'Micro Level Planning' related with Co-operative Sector Development Prospective Plan on one hand and each individual member farmers ' "Farm Plans" (Annual and Five Year) should be developed. The help of specialists is recommended. Only if the Annual Programme Budgets are developed on this basis, these Annual Plans can be realistic.

(14) All the managers should be asked to submit fidelity guarantee documents. They should be entrusted with more authority. But at the same time constant vigilance should be maintained to control costs.

(15) HMG/N Department of Co-operative and proposed National Sajha Federation should develop a cell capable of processing, analysing and reporting data/information regarding crisis or development of each and every Sajha society in time, so that corrective actions can be taken. This information system should not only be used for control but also for providing guidelines for goal setting, planning and management development.

(16) The information system recommended above can be used for developing "Standard Costs", "Norms" and "Exception Indicators". The use of available data/information of the past few years should be valuable. Only with a modern management control system it will be possible for Department of Co-operatives and National Sajha Federation to monitor and control hundreds of societies with diverse functions, problems and capability in a systematic manner and objectively. The services of experts will be necessary.

(17) A cadre of supervisory officials should be developed within Department of Co-operatives to undertake the task of scientific comprehensive planning and controlling the activities of national federation, unions and primary level societies. A special training programme with the help of international agencies should be developed.

List of the People Interviewed

National Planning Commission:

1. Hon'ble Dr. Mohan Man Sainju - Member

Ministry of Land Reform and Department of Co-operative:

1. Mr. Vasudeva Pyakurel - Secretary
2. Mr. Narain Bikram Shah - Joint Secretary
3. Mr. Narendra Kumar Basnyet - Registrar
4. Mr. Bal Gopal Adhikari - Deputy Registrar
5. Mr. Shiva Prashad Acharya - Senior Officer
6. Mr. Krishna Prashad Manandhar - Regional Co-operative Officer
7. Mr. Chandreshwor Prasad Singh - Regional Co-operative Officer
8. Mr. Vishwa Prashad Shrestha - District Co-operative Officer
9. Mr. Netra Bahadur Rawal - District Co-operative Officer
10. Mr. Bhisma Prashad Dhungana - District Co-operative Officer

Co-operative Training Centre:

1. Mrs. Urmila Shrestha - Principal
2. Mr. Surya Ratna Shakya - Instructor

Department of Agriculture:

1. Mr. Shiva Bahadur Nepali - Director General

Nepal (Rastra) Bank:

1. Mr. Ruby Joshi - Chief Project Officer
2. Mr. S.R. Sharma - Acting Chief Officer, Research Division

Agricultural Development Bank:

1. Mr. Sri Krishna Upadhya -- Deputy General Manager
2. Mr. Hari Gopal Gorkhali - Manager, Kaski District Branch Office
3. Mr. Bharat Prashad Sharma - Co-operative Inspector, Kaski District Branch Office
4. Mr. Nandan Singh Bohra - Manager, Sub-branch, Hasulia.

Some chairman, members of Executive Committees and all the managers of six Sajha societies under study were also interviewed. The opinion of local school headmasters, teachers, university students working in some villages under National Development Service are also used in this study.