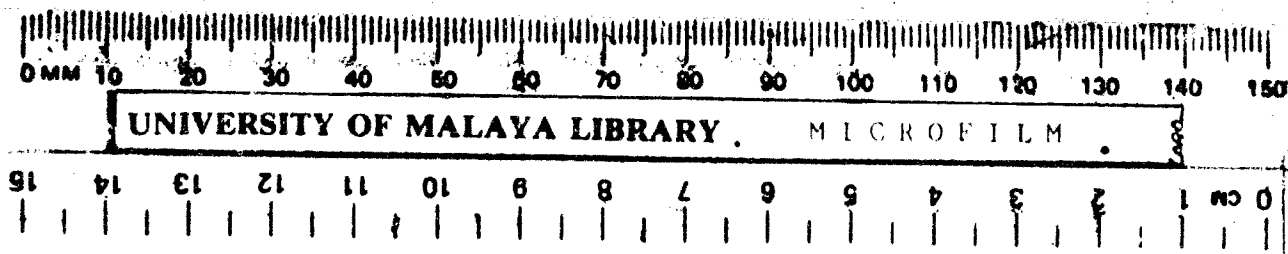


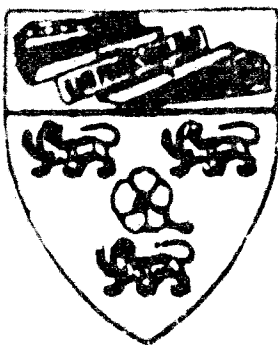
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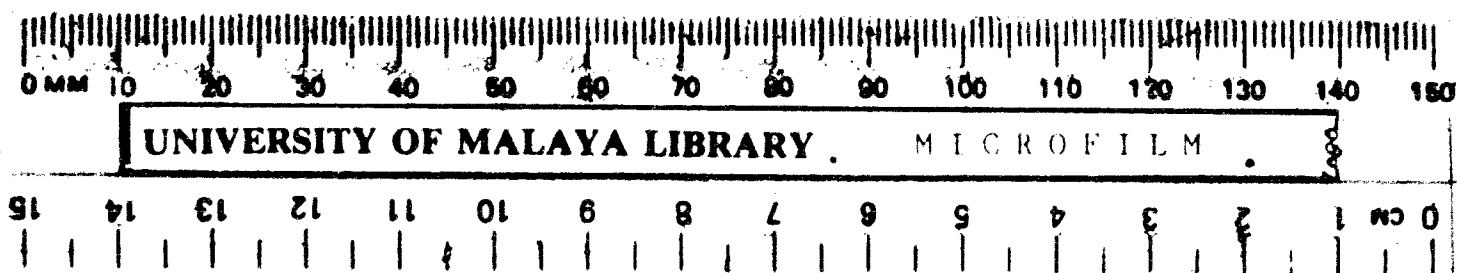
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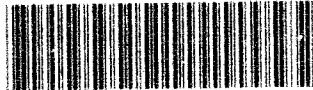


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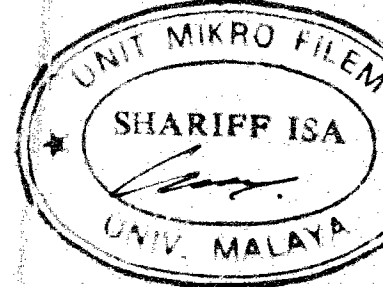


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Dinikrofikan pada 12 MAY 1993  
No. Mikrofil 11258  
Jumlah Mikrofil 1

A STUDY OF TWO COOP RATIVE CREDIT SOCIETIES  
OPERATING IN SAWAH SEMPADIN

by

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015004

A Graduation Exercise presented to  
the University of Malaya in  
part fulfilment towards the  
Degree of Bachelor of Arts  
with Honours in Economics.

## TABLE OF CONTENTS

	Page
LIST OF TABLES . . . . .	ii
LIST OF DIAGRAMS . . . . .	iii
LIST OF MAPS . . . . .	iv

### Chapter

I.	INTRODUCTION . . . . .	1
II.	THE SOCIETIES . . . . .	5
III.	THE LOAN MAKING PROCEDURE . . . . .	20
IV.	THE CAUSES OF MEMBERS FAILURE TO REPAY LOANS . . . . .	34
V.	THE OVERALL POSITION OF THE SOCIETIES . . . . .	49
VI.	SUMMARY OF PROBLEMS AND SUGGESTIONS FOR IMPROVEMENTS	54

### Appendix

I.	Reproduction of Surat Bond Hutang in Malay. . . . .	62
II.	English Translation of Surat Bond Hutang . . . . .	63

# LIST OF TABLES

Table		Page
2.1	Membership of Sawah Sempadan 1 and Kunchi Ayer Buang Societies . . . . .	9
2.2	General Meetings and Attendances of Kunchi Ayer Buang Society . . . . .	14
2.3	Committee Meetings of Kunchi Ayer Buang Society..	17
2.4	Relationship Between General Meetings and Committee Meetings of Kunchi Ayer Buang Society . . . . .	18
3.1	Loans Outstanding, Loans made, Loans repaid for Sawah Sempadan 1 Society, 1957-1961 . . . . .	31
4.1	Position of members of Kunchi Ayer Buang Society who have not repaid their loans . . . . .	36
4.2	Purpose of Loans given to Members of Kunchi Ayer Buang Society . . . . .	38
4.3	Reasons for initial inability to repay loans given by members of Kunchi Ayer Buang Society . .	39
4.4	Reasons for non-repayment of Loans in 1964 - Kunchi Ayer Buang Society . . . . .	39
4.5	Loans Outstanding due to Kunchi Ayer Buang Society and Sawah Sempadan 1 Society - 1962-1965 . . . . .	47
5.1	Paid Share of Kunchi Ayer Buang Society and Sawah Sempadan 1 Society - 1961 to 1964 . . . .	49

## LIST OF DIAGRAMS

### Diagrams

### Page

1	Reproduction of Pages of the Ledger . . . . .	23
2	Federated Structure of Credit Societies in Malaya . . . . .	26

# LIST OF MAPS

Map		Page
1	Sawah Sempadan . . . . .	7

## CHAPTER I

### INTRODUCTION

This chapter begins with an explanation regarding the need of credit in Agriculture. Thereafter it will explain briefly the nature of Agricultural production which renders it difficult for farmers to obtain credit. Following that are reasons as to why the credit needs of farmers are best supplied through co-operative. The chapter ends with a brief note on the purpose of this study.

#### Credit is essential for Farmers

".... it should be accepted as an axiom that farmers must borrow."<sup>1</sup> This is the same as saying that farmers need credit. Farmers need credit because in farming there is a time lag between the process of production and the process of receiving the finished product. For crops like padi, the time lag is about five months. The farmer during this period, because there are no other sources of income, needs credit in order to sustain himself i.e. he needs operational expenses.

The farmer also requires investment credit for raising his output. He may need them to buy more land, or to buy new farming tools, or he may need credit to make permanent improvements to lands. All these are fixed capital which the farmer may use a number of times without exhausting their utility.

The demand both for fixed and operational expenses means the demand for credit.

#### Nature of Farming which renders it difficult for farmers to obtain credit.

In many underdeveloped countries banks are seldom found in the rural areas, where farming activities are concentrated. Even where banks do exist, they are always reluctant to provide loans on credit to farmers who need them, because of the nature of farming.

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<sup>1</sup> Ungku Aziz: "Co-operation as a Method to Increase Agricultural Productivity".

Farming, unlike industrial activities is conditioned by a complex of natural phenomena. The farmer is often isolated and remote from the normal opportunities for obtaining credit. His farming operations are complex, long in their cycle and subject to exceptional risks from weather and diseases, and what is more he also faces the problem of fluctuating prices for his produce. For the greater part of the year, and more so when he is most in need of credit, his capital is sunk in forms of wealth, which are extremely difficult, if not impossible to value, and consequently are not readily changeable as security for a loan, e.g. the farmer may use his capital to plant padi, and padi whilst it is still growing is almost impossible to value. Thus he cannot use it as security for a loan, because no bank will accept such security.

Another outstanding feature of farming operations is the inelasticity of supply and the difficulty of adjusting supply to fluctuations in demand. Many farm products are highly perishable and it is also not easy for farmers to <sup>alter</sup> the systems of cultivation so quickly so as to adopt their production to new economic conditions. Moreover in addition to the uncertain nature of farming output, farming provides an investment of comparatively longer devotion and yielding uncertain returns that banks are seldom willing to provide loans or credit to farmers.

#### Why the Co-Operative Way is best for providing credit to farmers

The co-operative method of providing credit to farmers is almost everywhere considered as the best. In 1927, the World Economic Conference held by the League of Nations in Geneva, defined this important role of the co-operative in a special resolution:-

"The increase of agricultural production is intimately bound up with the organization of agricultural credit, which will place at the disposal of the agriculturist the necessary capital on favourable terms ..... The best form of instruction <sup>institution</sup> appears to be the Co-operative credit society operating by means of resources, which the very fact of association enables it to procure and to increase with or without the assistance of the public authorities."<sup>1</sup>

The co-operative organization of rural credit has been recognised as the best because, co-operative organisations measure up to certain conditions of rural credit. There must be proximity

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<sup>1</sup> Reprinted from "Theory and Practice of Co-operation in India and Abroad" by K.K. Kulkarni - Co-operators Book Depot 1958 Pg.220.  
Kulkarni

between the borrower and the lender. This means a close knowledge and mutual confidence between borrower and lender. The co-operative which is situated at the very doors of the borrowers satisfies this condition of proximity. The rural traders of course satisfies this postulate too. But as shown by Ungku Azis<sup>1</sup>, in the Malaysian rural areas these rural traders provide credit at exorbitant and concealed rates of interest.

Even though some farmers can offer their land as security banks are generally unwilling to provide credit because, land is not a readily realisable asset. But with co-operatives, which are always in touch with farmers, the latter's only assets which are provided as security i.e. moral and occupational standing can be well estimated.

The co-operative method also caters to the needs of the farmers on equitable and fair terms. Further the credit provided by the co-operative would not involve the debtor in any entanglements, as it normally would in the case of private moneylenders. The loan advanced would assist and not hamper the borrowers stability and productive capacity. In addition it teaches the borrower the lessons of mutual and self-help.

It would be significant here to mention the fact that the co-operative movement in Malaya developed originally as a credit movement, "with the objective of attacking the problem of indebtedness, which was widespread, especially among peasants."<sup>2</sup>

### Features of rural co-operative credit societies in Malaya

It was with the object of organizing the peasants to provide their own credit facilities and so to free themselves from the money-lender that co-operative credit societies were organized in the rural areas. Rural credit societies in Malaya are of the unlimited liability type. The principle of unlimited liability is followed by co-operative credit societies organized on the Raiffeisen Model. "The salient features of the Raiffeisen Society are: limited area of operation as to have mutual acquaintance of all members; joint and unlimited liability; equal status of members and democratic control; honorary service on the committee; allocation of net profits to the reserve fund; the rejection of share capital; limitation of loans to members

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<sup>1</sup>Inaugural Lecture, "Poverty and Rural Development in Malaysia" by U.A. Azis, 27th Sept., 1963, University of Malaya, Kuala Lumpur.

<sup>2</sup>Liam Tay Boh - "The Co-operative Movement in Malaya" Cambridge University Press.

only; reliance on personal rather than material security; control and supervision over the use of loans; education of the members in the principle of co-operation".<sup>1</sup>

Raiffeisen societies obtained funds for lending purposes from the members themselves. The societies might combine into unions, which in turn might join to form a central bank.

The distinguishing principle on which Raiffeisen credit societies operate is the corporate responsibility of all the members for any loan advanced. Thus committees of elected members are set up to investigate all applications for loans. The importance of these societies lies in the fact that they aim at freeing peasants from their dependence on money-lenders by encouraging thrift and self-help.

All the Rural Co-operative Credit Societies in Malaya are of the unlimited liability type. These unlimited liability societies are based on the Raiffeisen model and have all the features of the Raiffeisen societies outlined above.

#### The Purpose of this Study

This is a study of two "rural co-operative credit societies with unlimited liability" in Sawah Sempadan. At the time of making inquiries, the two societies are virtually defunct, in the sense that they have not been providing loans to their members, since 1962. The study will cover the workings and administrative structure of both societies, their loan-making procedure, and their progress up to 1962, when loan making were frozen. An analysis of the causes of its unsuccessful operation will be provided based on the views of the Co-operative Officer in Tanjong Karang, the views of the Executive Committee, the views of the members and my own observations. Some possible remedies concerning the problems of the two societies will be made at the end of the study.

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<sup>1</sup>K.N. Naik - "The Co-operative Movement in Bombay State" - Popular Book Depot 1953, Page 49.

## CHAPTER II

### THE SOCIETIES

This chapter gives a brief history of the two co-operative credit societies under study; the names of the societies, their purposes and aims. It also deals with the administrative structure of the two societies and a description of the operations of the societies.

It should be pointed out here that both societies have the same by-laws. This is because they are both the same type of societies. Thus their general structures and workings are therefore the same. Hence whatever is mentioned here applies to both societies unless otherwise stated.

#### A Brief History of Both Societies

The "Sharikat Kampong Haji Manser Sawah Sempadan Berkerja Sama2 Dengan Tanggongan Tidak Berhad", was officially registered on 11th January 1952 with about 25 members. It is more commonly known in Sawah Sempadan as "Sawah Sempadan 1", and in this paper we shall use this latter name to refer to the society concerned. The society is located at the top of Blocks B and C, near the main canal i.e. at point Z on the Sawah Sempadan map (See Page 7).

The "Sharikat Sawah Sempadan Kundi Ayer Buang Berkerja Sama2 Dengan Tanggongan Tidak Berhad" was registered on 13th September 1955. It is better known to the residents of Sawah Sempadan as "Kunohi Ayer Buang". This is because the official name of the society is too long and moreover the society is located at the drainage gate at the corner of Blocks L and M i.e. at point Y on the Sawah Sempadan map. In Malay the term for "drainage gate" is "Kunohi Ayer Buang". We shall refer to this particular society by this name. On the date of registration there were 31 members in this society.

As can be seen from the official names of both societies, the two societies are with unlimited liability. This means that should the societies go bankrupt, the members are liable not only to what they have contributed to the societies, but also to their personal assets. This feature of unlimited liability is one of the salient features of the Raiffeisen Society.<sup>1</sup>

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<sup>1</sup> See page 4.

## Purpose and Aims of the Societies

The purpose and aims of the societies as laid down in their by-laws are as follows: (Note that the following is a translation of the original by-laws of the credit societies which is written in Jawi):

- i) To promote thrift and to encourage co-operation, self-help and help between one another.
- ii) To accumulate capital from members so that it can be used to provide loans to members that will give good returns and much gains.
- iii) With the permission of the registrar, to collect all orders made by members concerning agricultural implements, and to buy the things which they ordered for their own use.
- iv) With the permission of the registrar, to collect all the farm produce, from members and so on, so as to sell them in bulk on their behalf.
- v) To do all such other things as are incidental or conducive to the attainment of the above objectives.

The by-laws also state that should the society carry out the third and fourth aims above, the members will have to bear any losses that may be sustained, and the society can charge a commission for carrying out the two aims concerned.

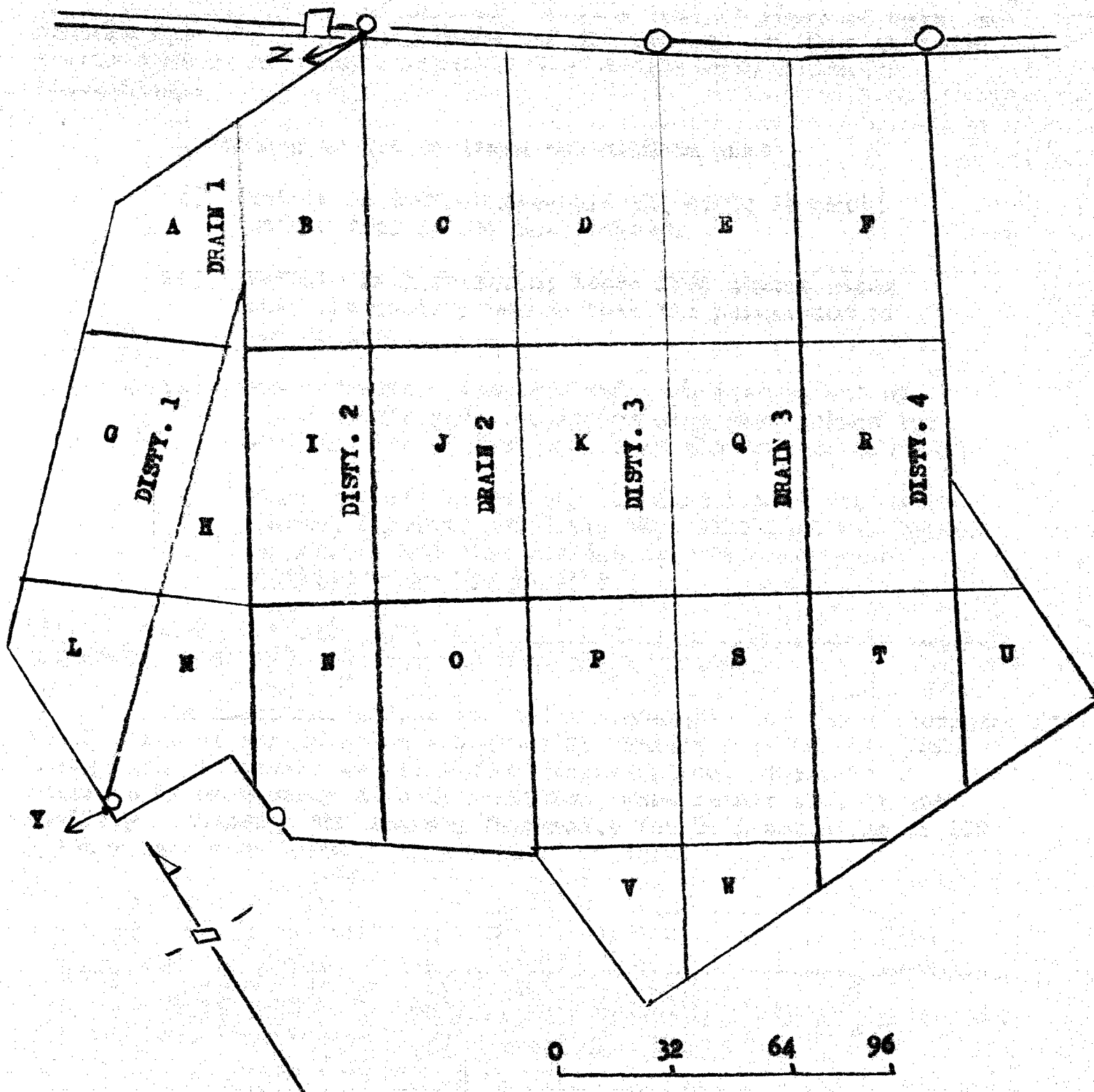
As can be seen from the purposes and aims of both societies mentioned above, it is clear that both societies are not just credit societies. They are multipurposes societies. Hence the omission of the word "credit" (which translated to Malay means "Pinjam Meminjam") from the official names of both societies. Nevertheless their basic aim is to provide credit and loans to their members. But they can also engage in marketing activities, and they can also function as consumers co-operatives since they can buy goods required by their members. Theoretically therefore both societies are multipurposes societies, but they limit themselves to credit-providing activities. As will be seen later, the two societies merely provided credit and loans and they do not do anything else.

## Membership, Shareholdings, and Trends in Membership

The members of both societies consists of:

SAWAH SIMPADAN

(6,100 ACRES)



- i) persons who join in the application for membership into the societies,
- ii) persons who are admitted as members in accordance with the societies' by-laws.

Every member must be persons residing in Sawah Sempadan and they must be of good character, and must not be less than 18 years of age. All members must buy at least 3 shares of the society and they must not become members of other co-operative societies with unlimited liabilities.

According to the by-laws, all members must:

- i) Settle as soon as possible all debts incurred before they joined the society.
- ii) Refrain from receiving loans from anyone other than the society unless with the permission of the society.
- iii) Must present a complete and accurate account of their assets and liabilities when they joined the society, and at any time, when the society wants it.
- iv) Where members do not pay the installment for their shares, deposits, or loan, they will lose all rights as members and will forfeit all that they have contributed to the society.

The membership for both societies must not exceed 100 members unless a written permission is obtained from the Registrar.

As mentioned before the total membership for "Sawah Sempadan 1" at the time of registration was about 25, whilst the "Kunchi Ayer Buang" had 31 members at its time of registration. The rate of increase in membership of both societies, were rather slow if not appalling. Although the maximum membership for both societies is 100, neither have a membership that is half of that.

TABLE 2.1

MEMBERSHIP OF THE SAWAH SEMPADAN 1 AND KUNCHI AYER  
BUANG SOCIETIES ON REGISTRATION DATE AND FROM 1961 TO 1964

---

Date	Sawah Sempadan 1	Kunchi Ayer Buang
Registration Date	(1952) about 25	(1955) 31
1961	46	38
1962	45	38
1963	45	37
1964	45	37

---

On its date of registration - 1952 - the Sawah Sempadan 1 had about 25 members. In 1961 it had 46, an increase<sup>1</sup> of 21 members in 9 years; which is an average increase of  $2\frac{1}{3}$  members per year during that period between 1952 and 1961. Thereafter in 1962 the membership dropped to 45 following the death of one member and it has remained so until 1964.

The rate of increase of members for the Kunchi Ayer Buang Society is even slower. On its registration date (1955) there were 31 members. In 1961 there were 38 members, a net increase of 7 in the space of 6 years (1955-1961), which is an average increase of  $1\frac{1}{6}$  members per year, during that 6 year period. The membership dropped to 37 in 1963 and has remained so until 1964. At the time of inquiry the society had lost one member through death. Thus the membership today stands at 36.

It would appear from the above that the two credit societies do not appeal to the farmers of Sawah Sempadan. The reasons for this will be discussed later.

A person intending to be a member of the society must be proposed and seconded by two members of the society concerned. The entrance fee for the society is \$1. Each member must buy at least

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<sup>1</sup>This is the net increase, i.e. after deducting withdrawals. Actually during the 9 year period between 1952 and 1961, 25 new members joined the society but 4 withdrew.

3 shares of the society and not more than 10. Each share costs \$100, and the 3 shares bought by each member must be paid over a period of 10 years in yearly instalments of \$10. Members who are unable to pay the instalment for any one year, must pay it in the next year, and they must pay the instalments for two years. Every member who has paid for his 3 shares in full over the period of 10 years, must at the end of that period buy another 3 shares from the society, again to be paid in instalments over a 10 year period. The objective is for each member to have 10 shares in the society. No member is to have more than 10. This is to ensure that no one member can dominate the society by virtue of possessing too many shares. It is possible that a member who possesses too many shares may demand more loans and more considerations, and is more likely to dictate his wishes to the society.

It is also stipulated in the by-laws that the value of the shares must not exceed its subscribed value.

One of the reasons why both societies are not very appealing to the farmers of Sawah Sempadan is the location in Sawah Sempadan. They are located on one side of the area, i.e. on the north western side of the area if you are looking at the map (page 7). It seems that the two societies merely serve Blocks A, B, C, G, H, I, L, M, N. Communications between the blocks are poor and slow and thus the societies are not in proximity to the other blocks like E, F, Q, R, and so on. Hence the societies do not appeal to farmers in these relatively far off blocks.

But even then, in the blocks which are in close proximity to the societies, the societies do not appeal to the farmers. In those blocks there must at least be about 500 farmers, and yet the total membership of both societies in 1964 is only 82; and the total capacity for members in both societies is 200.

One possible explanation could be that the value of the shares and their subsequent yearly payment in instalments of \$30 are too high for the farmers. Assuming that each farmer has 3 acres of land and that he plants padi on it, the average yield is about 54<sup>1</sup> pikuls per 3 acres. He can only afford to sell about 25 to 30<sup>2</sup> pikuls. Since the price of padi is \$14 a pikul, he will only get \$420/-, assuming that he sells 30 pikuls. This will be his income from padi for one year. Say that he grows some cash crops like

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<sup>1</sup>The Cooperative Officer in Tanjong Karang also gave this figure.

<sup>2</sup>This figure is also given by the officer on the assumption that the farmer has a family of 6.

maize during the off-padi season, we can roughly say that his annual income is about \$500/-. This means an income of \$60/- a month. The farmer would not be able to pay \$30 yearly on the present income he is receiving. It is too much for him. Hence the reluctance to join the societies.

Even among the members, the majority of them have not even paid their instalments for 2 years running. For the "Kunohi Ayer Buang" Society, all the members have not been paying their instalments since 1962. Similarly with the members of the Sawah Sempadan 1 society.

Another reason for the lack of appeal of both societies to the farmers of Sawah Sempadan is the unlimited nature of the liabilities of both societies. This means that all the members of the societies are liable for the debts of the society, not only to the extent of their share capital but also their personal assets. According to the by-laws of the society<sup>1</sup> the liabilities of members, former members, and deceased members are as follows:-

- i) Members' liabilities to the society are unlimited. All members are collectively and individually liable for any debts incurred by the society.
- ii) Former members of the society are liable for the debts of the society at the time they stopped being members; and they will be liable for such debts of the society for two years from the time they stopped being members.
- ii) All the assets of a deceased member are liable for any debts incurred by the society at the time of death, and such liability will be valid for two years after the members death.

The liability of former members is a little bit vague. It is not specified in the by-laws of the society, if the liability is unlimited or otherwise. However since the liability for deceased members are unlimited for two years after his death, we can assume that the liability of former members is also unlimited for two years after he ceased to be a member.

Another reason could be the lack of information concerning the two societies, which is an indication of the lack of publicity.

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<sup>1</sup>Society here refers to both societies.

Indeed most of the farmers do not even know the whereabouts of the Sawah Sempadan 1 society. Moreover both societies do not have any proper premises. The Kunchi Ayer Buang Society for instance held its general meetings in the co-operative mill at Kunchi Ayer Buang, whilst the Sawah Sempadan 1 society held its meetings in one of the shop-houses in the area. The lack of publicity and information there contributes to the lack of appeal of the two societies to the farmers of Sawah Sempadan.

### The General Structure and the Workings of the Societies

The supreme authority of each society, is vested in the General Meetings, which according to the by-laws of the society must be held twice a year. The meetings are to be held as soon as possible after 30th June and 31st December. The former date is the end of the financial year for the societies. All members must attend the meeting and each member is only allowed one vote. There is to be no proxy vote.

The management of the society is in the hands of a small body of members called the Committee of Management whose duties and powers are limited to those sanctioned by the by-laws, and by the General Meeting of members.

The purpose of the general meetings are as follows:-<sup>1</sup>

- i) To review the activities of the society in the past year.
- ii) To dissolve the past committee and appoint a new one.
- iii) To make any amendment of the by-laws, subject to the approval of the registrar.
- iv) To withdraw membership of certain members.
- v) To deal with complaints from members against the committee and persons holding responsible posts in the society.
- vi) To determine the interest rate on loans and deposits.

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<sup>1</sup>As stipulated in the by-laws of the society.

- vii) To discuss the Registrars report of the society's accounts.
- viii) To discuss the Annual Report, the Balance Sheet, and the accounts of the society.
- ix) To look into the loans made to members of the committee in the past year.
- x) To appoint two persons to look into the society's accounts.
- xi) To decide if the society should join in a federation with other societies.
- xii) To decide the distribution of profits.
- xiii) To discuss any other important items.

A general meeting can also be held if it is considered necessary by the committee; or if one fifth of the members of the society calls for it; or if the Registrar or any one authorised by him desires it.

The by-laws also stipulate that the quorum for any general meeting is 50% of the total membership. If a general meeting fail to find a quorum, another one will be held at a later date. The Co-operative officer said that should this later meeting fail to have a quorum, the general meeting will be held provided there are more than 10 members present. If there are less than 10, the society must be dissolved. The chairman presides at the meeting and in his absence, one of the committee members will take his place.

The frequency of the general meetings of both societies held, is very disappointing. This is borne out by the irregularity of the general meetings held by the Kunchi Ayer Buang society. Between its date of registration 1955 and 1964, a period of 9 years, there were only 6 general meetings. If the society had been following the by-laws, there should have been 18 general meetings in that 9 year period. There were no general meetings in 1957, 1958, and none in 1962, 1963 and 1964. In 1959, there were two general meetings.

Attendances at these general meetings were very poor indeed. Of all the 6 general meetings, the highest attendance recorded was in 1956 when 25 members attended. The lowest was in 1960 when only 15 attended. The following table shows the dates of the general meetings held and their attendances:

GENERAL MEETINGS AND ATTENDANCES OF KUNCI AKAH OMAMO SOCIETY

From the above table it is clear that, not only have the Kunchi Ayer Duang society contravene the by-laws of the society, by not having general meetings held regularly twice a year, but it has also ignored the ruling of the by-laws concerning the timing of the period. The by-laws stipulate that general meetings should be held as soon as possible after 30th June and 31st December. However it was never stated for how many days after 30th June and 31st December, the meeting should be held. The above table shows that in only two cases is this ruling followed.

Attendances at meetings were very poor too. In 1961, the membership for the Kunchi Ayer Buang Society was 38, and the attendance at the general meeting in that year, was the minimum necessary for a quorum. It might be a possibility that the small number of general meetings held by the society, could be a result of the lack of a quorums. Members do not present themselves, at these meetings, reflecting therefore their indifferent attitudes towards the society.

It might also be a result of the inefficiency of the Committee of Management. At least a week's notice should be given to all members before a general meeting is held, and wide publicity should be given to it. It might be possible that the committee has failed to issue notices or publicise the proposed holding of general meetings.

In any case both the members and the Committee are at fault; the members for their indifference, the committee for their inefficiency is not probably giving proper notice or publicity.

The minute book of the "Sawah Se" is available but it is very likely that the book is not held regularly, and may not also be held in all the general meetings are organised and managed by the Committee of Management, we have only to know what the Committee of Management to know the management of the Sawah Sempadan 1 are not much different from the management of the Sawah Sempadan 2 and 3. In the 1963 Report of the Co-operative Societies of Tanjong Karang it is stated: "Most of the management by the 'sleepy' type of officials."

The consequences of not holding as stipulated in the by-laws, can be detrimental to the society. One important function of the committee is that it prevents any malpractices of the committee stipulated in the by-laws that among other things general meetings are: to dissolve a committee to deal with any complaints from members and to look into the loans made to the members. All these are to prevent the committee from being dissolved. If general meetings are not held, a new committee will be elected. Complaints from members will not be discussed and investigation concerning the loans made to members will not be carried out. This last point is very important. As when applications for loans are considered and approved by the committee. Without any checks, it would be possible for the committee to engage in malpractices concerning loans such as giving themselves priority over other members and a greater amount of loan than stipulated in the by-laws.

Another effect of not having general meetings is that the members will gradually become ignorant of the activities of the society and its progress. The activities of the society in the past year will not be discussed. The various reports and statements also be presented for discussion such as the Annual Report, the Balance sheet of the society. Without the general meeting all these would be lost to the members, and consequently they will be ignorant of the activities and progress of their society.

### The Committee of Management

The affairs of the society is a management consisting of not less than 7 9 members of the society. The committee general meeting after 30th June and the but the individual members can be reelect meeting.

The minute book of the "Sawah Sempadan 1" society was not available but it is very likely that the general meetings are also held regularly, and may not also be held in some years. Since the general meetings are organised and managed by the Committee of Management, we have only to know what the co-operative officer thinks of the Committee of Management to know that the general meetings of Sawah Sempadan 1 are not much different from those of Kunchi Ayer Buang. In the 1963 Report<sup>1</sup> of the Co-operative Credit Societies in Tanjong Karang it is stated: "Most of the societies concerned were managed by the "sleepy" type of officials".

The consequences of not holding general meetings regularly as stipulated in the by-laws, can be detrimental to the running of the society. One important function of the general meetings is that it prevents any malpractices of the committee of management. It is stipulated in the by-laws that among other things the purpose of the general meetings are: to dissolve a committee and appoint a new one; to deal with any complaints from members against the committee; and to look into the loans made to the members of the committee. Clearly all these are to prevent the committee from abusing its powers. If general meetings are not held, a new committee will not be elected, complaints from members will not be discussed, and there will be no investigation concerning the loans made to members of the committee. This last point is very important. As will be explained later, applications for loans are considered and decided upon by the committee. Without any checks, it would be very tempting for the committee to engage in malpractices concerning the granting of loans, such as giving themselves priority over other members, or giving themselves a greater amount of loan than is allowed to each member,

Another effect of not having general meetings regularly is that the members will gradually become ignorant with regard to the activities of the society and its progress. During the general meeting the activities of the society in the past year would be discussed. The various reports and statements for the year would also be presented for discussion such as the Registrar's report, the Annual Report, the Balance sheet of the society and so on. Without the general meeting all these would not be presented to the members, and consequently they will be lacking in knowledge concerning the activities and progress of their society.

#### The Committee of Management

The affairs of the society is managed by a committee of management consisting of not less than 7 members, and not more than 9 members of the society. The committee is elected annually at a general meeting after 30th June and the term of office is one year, but the individual members can be reelected at the next general meeting.

TABLE 2.2

## GENERAL MEETINGS AND ATTENDANCES OF KUNCHI AYER BUANG SOCIETY

Date	Attendance	Total Membership
22 - 1 - 1955	22	31
20 - 9 - 1956	25	34
23 - 1 - 1959	18	34
15 -10 - 1959	19	35
12 -10 - 1960	15	37
7 -10 - 1961	19	38

From the above table it is clear that, not only have the Kunchi Ayer Buang society contravene the by-laws of the society, by not having general meetings held regularly twice a year, but it has also ignored the ruling of the by-laws concerning the timing of the period. The by-laws stipulate that general meetings should be held as soon as possible after 30th June and 31st December. However it was never stated for how many days after 30th June and 31st December, the meeting should be held. The above table shows that in only two cases is this ruling followed.

Attendances at meetings were very poor too. In 1961, the membership for the Kunchi Ayer Buang Society was 38, and the attendance at the general meeting in that year, was the minimum necessary for a quorum. It might be a possibility that the small number of general meetings held by the society, could be a result of the lack of a quorums. Members do not present themselves, at these meetings, reflecting therefore their indifferent attitudes towards the society.

It might also be a result of the inefficiency of the Committee of Management. At least a week's notice should be given to all members before a general meeting is held, and wide publicity should be given to it. It might be possible that the committee has failed to issue notices or publicise the proposed holding of general meetings.

In any case both the members and the Committee are at fault; the members for their indifference, the committee for their inefficiency is not probably giving proper notice or publicity.

The minute book of the "Sawah Sempadan 1" society was not available but it is very likely that the general meetings are also held regularly, and may not also be held in some years. Since the general meetings are organised and managed by the Committee of Management, we have only to know what the co-operative officer thinks of the Committee of Management to know that the general meetings of Sawah Sempadan 1 are not much different from those of Kunchi Ayer Buang. In the 1963 Report<sup>1</sup> of the Co-operative Credit Societies in Tanjong Karang it is stated: "Most of the societies concerned were managed by the "sleepy" type of officials".

The consequences of not holding general meetings regularly as stipulated in the by-laws, can be detrimental to the running of the society. One important function of the general meetings is that it prevents any malpractices of the committee of management. It is stipulated in the by-laws that among other things the purpose of the general meetings are: to dissolve a committee and appoint a new one; to deal with any complaints from members against the committee; and to look into the loans made to the members of the committee. Clearly all these are to prevent the committee from abusing its powers. If general meetings are not held, a new committee will not be elected, complaints from members will not be discussed, and there will be no investigation concerning the loans made to members of the committee. This last point is very important. As will be explained later, applications for loans are considered and decided upon by the committee. Without any checks, it would be very tempting for the committee to engage in malpractices concerning the granting of loans, such as giving themselves priority over other members, or giving themselves a greater amount of loan than is allowed to each member,

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#### The Committee of Management

The affairs of the society is managed by a committee of management consisting of not less than 7 members, and not more than 9 members of the society. The committee is elected annually at a general meeting after 30th June and the term of office is one year, but the individual members can be reelected at the next general meeting.

A committee member will be asked to resign from the committee, if it is decided so, by a two-thirds majority of members attending a general meeting, at which the membership of the Committee member concerned is discussed. No member of the society can serve on the committee for 3 years successively without the permission of the Registrar of Co-operative Societies. The Committee will among themselves appoint a Chairman, a Treasurer, and a Secretary, and none of them can hold office for 3 successive years without the Registrar's permission.

The powers and functions of the Committee are as follows:

- i) Consider any application for membership into the society.
- ii) To consider applications for loans and decide if loans should be given to the applicants. If it should then, for how long is the loan for, the conditions, the security.
- iii) To see that the loans are used for the purpose they were intended, and to take back any loans that are used for purposes otherwise.
- iv) To receive and pay out money in accordance with the rules of the society and to keep a true and accurate account of the cash and assets of the society.
- v) To prepare from time to time a statement showing the cash received and paid out by the society, and also a balance sheet and a statement of profit and loss.
- vi) To examine the securities for loans that have not been repaid.
- vii) To collect payment for shares, and loans with interest, when the period for payment comes; and to take any action necessary to secure late payments, and also to consider any request for prolonging the period.
- viii) To calculate the amount of cash that is on hand at every committee meeting.
- ix) To appoint and dismiss salaried workers.

- x) To settle any disputes in the affairs of the society.
- xi) To look after the any activities of the society.

Service on the committee is honorary. However the by-laws state that if the members of the society agreed at a general meeting, the secretary and or the treasurer would be given a small honorarium at the end of the year.

The quorum for a committee meeting is 3 members, and committee meetings are to be held as often as possible, at least once a month. At the meetings each committee member has one vote. A committee member who is absent from committee meetings 3 times successively without adequate explanation automatically ceases to be a member of the committee. A member of the society will then be co-opted into the committee as a replacement as in the case of death or resignation. During meetings no committee member can vote on matters concerning himself.

#### The Committee of the Kunchi Ayer Buang Society.

The by-laws of the society stipulate that the committee should be elected annually at a general meeting after 30th June. However as we have seen previously, the general meetings of the society were held rather irregularly. Indeed since 1959, there has been no general meetings held. This means that the present committee of this society has held office since 1959 without any re-election. The present committee has therefore broken a ruling of the by-laws which stated that the committee should not hold office for 3 successive years without the permission of the registrar. The committee has held office for 6 years running now. This is bad for the society, because in a committee which has held office for a long term period, there would be possibilities of malpractice on the part of the committee members. This is further accentuated by the fact that general meetings are seldom held; thus there is no avenue for checking the activities of the committee.

The table below shows the number of meetings held by the committee of the Kunchi Ayer Buang society from the time it was registered until the time of inquiry.

TABLE 2.3

#### COMMITTEE MEETINGS HELD BY KUNCHI AYER BUANG SOCIETY

Year	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965
No. of Meetings	2	1	-	-	2	3	2	-	-	-	-*

\* No meetings held so far till date of inquiry i.e. May 1965

Committee meetings are supposed to be held once a month at least, and this is stated so in the by-laws. However from the tables it is clear that the committees of this society has not been following this ruling. There were no meetings held in 1957, 1958, and none from 1962 onwards; and even during the years when meetings are held, the number of meetings held during the year do not even totalled half the number of meetings that should have been held. The highest was in 1960 when 3 meetings were held.

If we correlate the years in which general meetings were held with the years in which committee meetings were held as in the table below, we notice that committee meetings were held only in the years, when general meetings were held. This fact has one important implication. Since during general meetings, a new committee is elected, the implication from the above fact is that the committee is only active (in the sense that they hold committee meetings) in the immediate period following their election to office. It will be seen that in the years when they do have committee meetings, the number of meetings held were so few in number. (See Table 2.3).

The above analysis and observations are for the Kunchi Ayer Buang society. The records of the general meetings and committee meetings of the Sawah Sempadan 1 society were not available, since their books were not available at the time of inquiry. However there is no likelihood of the condition of this society being any different from that of the Kunchi Ayer Buang because in the 1963 Report of Co-Operative Credit Societies in Tanjong Karang it was said that these societies "were managed by the "sleepy" type of officials".

TABLE 2.4.

RELATIONSHIP BETWEEN GENERAL MEETINGS AND COMMITTEE MEETINGS HELD BY KUNCHI AYER BUANG SOCIETY

Years	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965
General Meetings Held	✓	✓	-	-	✓	✓	✓	-	-	-	-
Committee Meetings Held	✓	✓	-	-	✓	✓	✓	-	-	-	-

Note: Years in which general meetings and committee meetings were held are ticked thus ✓

Committee meetings are to be held regularly, because they help in the efficient management of the society. The by-laws ruled that committee meetings should be held at least once a month. Failure to hold committee meetings regularly might mean a failure to carry out the functions of the committee as outlined on page 17.

Applications for membership into the society are to be considered by the committee, at committee meetings. Since committee meetings are seldom held, it might be possible that some potential members of the society gradually lose interest in wanting to join the society. This is because such persons have to wait for a committee meeting to be held before their applications for membership are considered. This factor of infrequent holding of committee meetings might therefore be a factor accounting for the slow rate of increase of membership of both societies.

One important function of the committee is to see that loans made to members are used productively, for the purposes for which they were intended. The failure to hold committee meetings regularly might well mean that this function is not performed properly. As will be seen in another chapter, some members do use loans for other purposes and yet no action has been taken against them. No action was taken probably because the committee seldom meet to discuss what action to take.

The above are just two of the eleven functions of the committee. If all these functions are to be performed properly and efficiently committee meetings should be held regularly, but as it is the committee meetings are only held two or three times a year, and sometimes none at all. As will be seen later the position of the two societies are far from healthy, and this could well be a result of the failure of the committees to perform their functions properly.

## CHAPTER III

### THE LOAN MAKING PROCEDURE

In this chapter we will look into the loan making procedure of the societies, and in so doing, we shall touch on the books of the societies and how they keep their accounts. We will also consider how the societies obtained funds to make loans to members, the rules and regulations governing such loans, and finally the position of the society itself with regard to these loans.

#### The Books of the Society

According to the by-laws of the societies, the following books and register must be kept:

- a) The Members Register
- b) The Cash Book
- c) The Minute Book
- d) The Deposits Book
- e) The Register of Members Assets and Liabilities
- f) The Ledger
- g) Any other book or register that will be decided upon by the Registrar from time to time

Both societies did not keep the deposits book because according to the secretaries of both societies, no member has ever made any deposits yet. The books and register actually kept by both societies are:

- a) The Members Register
- b) The Minute Book
- c) The Register of Members Assets and Liabilities

- d) The Cash Book
- e) The Ledger
- f) The Receipt Book
- g) The Bond Book

All these books are discussed below:

a) The Members Register

This register shows the name and address of each member, his occupation, the number of shares he bought; the date he joined the society and the date he left; his signature, and also the name of person or persons to whom any money due to him should be given in the event of his death.

The register of the Kunchi Ayer Buang society is not properly maintained. There were instances of names of deceased members still appearing in the register without even a note attached to the relevant pages to indicate that the members are now deceased.

In the Sawah Sempadan 1 society, the auditors of the society noted that 12 members of the society had not put their signatures yet.

b) The Minute Book

This book keeps a record of all items discussed at general meetings and committee meetings. It is from the minute book of the Kunchi Ayer Buang Society that we obtain the data on the frequency of the general meetings and the committee meetings of that society. The books of the Sawah Sempadan 1 society were sent for auditing.

c) The Register of Members Assets and Liabilities

This Register keeps an account of the assets and liabilities of the members of the society. When members apply for a loan, among the things considered are their assets and liabilities. Thus, it is important for the society to keep a record of members' assets and liabilities

d) The Cash Book

This book keeps a record of the cash received and paid out by the society and also the cash balance for every

month. The method of recording is very simple; based on a "cash in" and "cash out" basis. One page of the book is set aside for "cash in" i.e. recording any cash paid to or received by the society. The page opposite to this "cash in" page is set aside for "cash out" i.e. recording any payments or loans made by the society. The amount of cash in the bank is kept on the "cash in" page of the book.

The cash books of both societies were not properly kept, and the items entered in the books are sometimes confusing e.g. when a figure is wrongly written, attempts were made to correct the figures without erasing the wrong figure. The treasurer of the Kunchi Ayer Buang society had great difficulty in explaining to me how he records the entries, thus implying that he himself is not well versed with the recording procedure. The auditor for the Sawah Sempadan 1 society commented on the 1962 Balance Sheet report that the cash book of the society was extremely dirty, the entries were recorded haphazardly and the whole book was quite confusing. The society concerned was advised to look after its cash book properly in the future.

e) The Ledger

The ledger records the personal accounts of every member of the societies, with the societies. The amount of the loan, the interest to be paid, the share instalments, any deposits made, and so on are found in the ledger. The pages of the ledger are divided into a "cash in" page and a "cash out" page, both facing each other, and both are divided into various columns<sup>1</sup> as shown below.

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<sup>1</sup> The headings of columns in the ledger pages are written in Jawi Malay. The above is a translation.

DIAGRAM 1

## REPRODUCTION OF THE PAGES OF THE LEDGER

CASH-IN PAGE

[illegible]

**CASH-OUT PAGE**

[illegible]

In the ledger these two pages will be facing each other, and the pages in the ledger are numbered.

The accounts in the ledger are kept as follows:

When a member joins the society, a cash-in page and a cash out page will be allotted to him to record his accounts with the society. A member is to pay the purchase for shares of the society in yearly instalments of \$30. Thus if in a given year, he pays the \$30, this will be recorded in his ledger account in the cash out page under the shares column. It is recorded in the cash out page because cash is going out of the members account into the society's account. The cash book page of the society will be given, and the \$30 paid by the member will be recorded in the cash book on the cash-in page. This is because cash enters the society's account.

Conversely when a member ceased to be a member, the money paid for his shares will be returned, and this will be recorded on the cash-out page of the society's cash book, which will correspondingly be recorded in the member's account in the ledger on the cash-in page shares column.

Likewise when the member is given a loan from the society, e.g. \$120 with interest at 6% per annum. When the loan is made, the amount of the loan is entered into the members' account on the "cash-in" page under the loan column. The amount is entered on the "cash-in" page because cash is taken out of the society and put into the members account. In the society's cash book, the amount of the loan will be recorded on the "cash-out" page, it means cash goes out of the society's account.

Conversely when the member repays the loan, cash will be taken out of his account. Thus when he pays the whole sum of the loan plus interest, the amount of the loan repaid will be entered on the "cash-out" page under the "original sum" column and the interest will be entered on the same page under the "interest" column. The total amount of the loan repaid plus the interest will be entered in the "cash book of the society on the "cash-in" page. This means money is paid into the accounts of the society.

The deposit column on the cash-out page of the ledger is for recording the amount of cash, the particular member may voluntarily keep with the society as savings. If a member should want to withdraw his deposits, the withdrawal is acknowledged under the deposit column under the Repayment section. Deposits made by members with the society, however will not be recorded correspondingly in the cash book but in the deposits register. However no members have ever made any deposits yet with both societies.

f) The Receipt Book

The receipts in the book are to be given to members who have paid their share instalments, or have deposited cash with the society, or who have repay their loans.

g) The Bond Book

This book contains bonds signed by members whenever they borrow from the society. A detail description of the Bond Book will be given in the discussion of the loans made by the two societies.

How The Societies Obtain Funds for their Loans

To understand how the societies obtain funds we must know how the various co-operative credit societies in Malaya are federated together. This is best illustrated by a diagram. (See fig.2 on page 26)

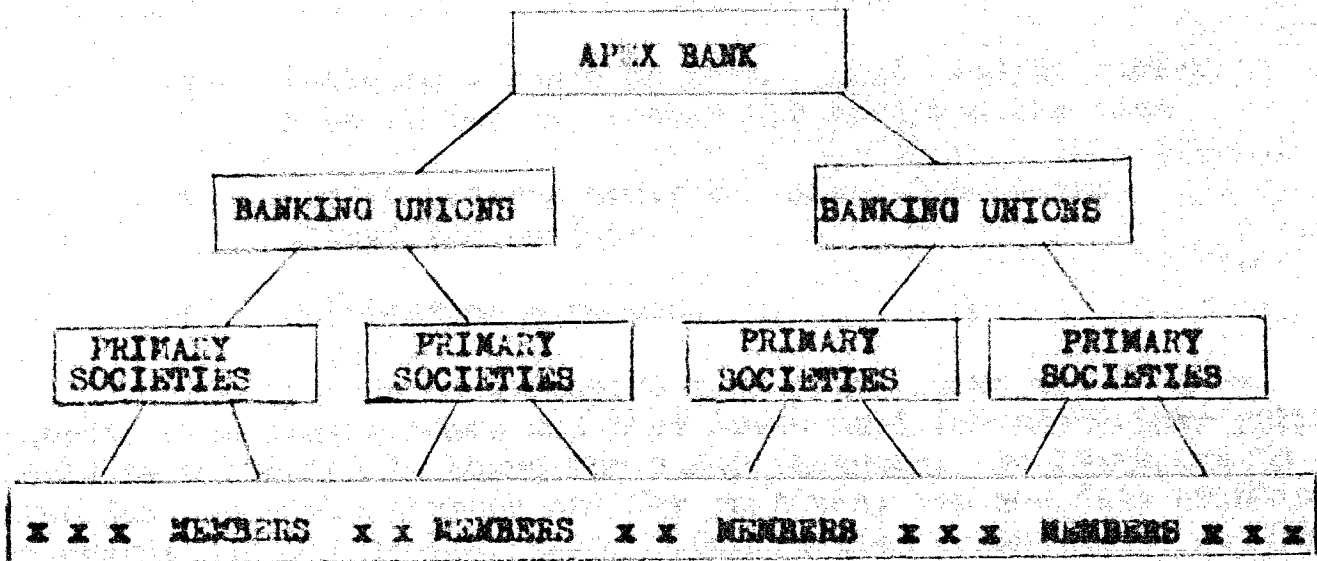
The various co-operative credit societies in the states of Malaya joined together to form Co-operative Banking Unions. The various Co-operative Banking Unions then joined together to form the Apex Bank or the Bank Agong Kampong.

Funds from the Government to the various co-operative credit societies are channelled first to the Apex Bank, which will then distribut it to the various Banking Unions. The Banking Unions will then distribute the funds to the various primary societies, who will then distribute it among its members as loans.

Thus it can be seen that the two Co-operative credit societies in Sawah Sempadan obtain funds for their loans from the Banking Unions. According to the Co-operative Officer in Tanjong Karang, funds from the Banking Unions are obtained in the form of loans at the rate of 1% interest for short term loans and 6% for medium term loans. Each primary society joined to the Banking Unions are required to purchase a minimum of one share valued at \$100 each from the Banking Union.

## DIAGRAM 2

### FEDERATED STRUCTURE OF CREDIT SOCIETIES IN MALAYA



#### The Loan Making Procedure and rules governing Loans

During the general meeting, after June 30th, one of the items discussed would be the determination of the amount of money that would be offered to members as loans during the coming year. The amount determined is the limit for the society as a whole. Once this is decided, the total amount of loans made during the year to members should not exceed the agreed amount.

Shortly after the general meeting, members who want loans will submit their applications in specific forms. The member concerned will be required to present himself before the committee, at a committee meeting which considers his application. He must come prepared to answer any questions which the committee may asked of him regarding his application. The committee when considering the various applications, must consider the purpose of the loan, the assets of the member, and the ability of the member to repay the loans. The committee must also decide the date when the loans together with the interest should be repaid.

According to the by-laws of the society, the loans must be used for productive and important purposes. The following purposes for a loan are considered productive and important:

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\* From the by-laws of the societies.

- i) Purchase of seeds and fertilizers
- ii) Purchase of livestock e.g. buffaloes, cows and agricultural implements
- iii) Improving the condition of the land
- iv) Building a house or buying land, and/or buying a house for the member who receives the loan
- v) Settling debts incurred before the member joined the society
- vi) Cultivation expenses.

The by-laws also specify that small loans are to have priority over bigger loans and that loans used for productive purposes should be preferred to loans for other purposes. No loans are to be given for wasteful purposes and for purposes, the benefits of which are doubtful. The by-laws also stipulate that loans cannot be given to members who have moved away from the area where the society is operating, or to members who "have not come of age".<sup>1</sup> There is however no explanation or definition of what is meant by "have not come of age". As mentioned in Chapter II, persons of 18 years old and above, and residing in Sawah Sempadan are eligible for membership in the societies. One of the conditions of membership is that the members should not borrow money other than from the society. This limitation placed on members who "have not come of age" is therefore a contradiction of one of the aims of the society, i.e. to provide loans to members. In any case there is no definition of what is actually meant by "have not come of age". Surely persons who are above 18 years old and are members of the society can borrow from it. This ruling in the by-laws preventing loans from being made to members who "have not come of age" is therefore vague and meaningless.

The loan provided to a member must be backed by the personal security of the member concerned, and he must also have two sureties who must be members of the society too. Other than that the Committee can keep as security mortgaged property of the member concerned, or hold any property that is fixed and will not be transferred. For loans amounting to \$300 or more, the Committee must keep as security mortgaged property of the members concerned or hold any property that is fixed and would not be transferred and the

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<sup>1</sup>The actual wording in the by-laws is "belum cukup umur-mya".

estimated value of the property must be at least twice the value of the loan made.

This means that for loans less than \$300, no tangible security is required, whereas for loans of \$300 and above, security is required in the form of property. The value of this property must be at least twice the value of the loan, e.g. if the loan is say \$350, the property of the owner put up as security with the society must have a value of at least \$700. A "double security" of this land is not even demanded by commercial banks. The idea behind it is to discourage members from making too much loans. The only property the member may have is his land and the house that may be on it. The society does not want to deprive the members of the ownership of their land, and become a landlord, as a result of defaults in the members repayment of loans.

A member whose application for a loan has been approved will be required to sign the Surat Bond Hutang or the Loan Bond. A sample copy of this is reproduced in the Appendix. The original bond is in Malay and written in the Jawi Script. The bond reproduced in the Appendix is written in Rumi. This bond is a legal document. An English version of the bond is also provided in the Appendix. This English version is my own translation and is therefore not a legal document.

On the first page of the bond, the page number of the members account in the ledger is given together with the date on which the member signed the bond. The first page is an acknowledgment on the part of the member, that he has received a loan from the society which he promised to repay gradually. The amount to be paid gradually and the interest are also specified, together with the date of the first instalment. On this page too, the member has to promise to use the loan for the purpose of cultivating padi. Actually in the bond the purpose would have to be specified by the member himself, but in both societies in Sawah Sempadan the committees themselves specify the purpose of the members' loan. This will be discussed in greater detail later.

Finally the member has to promise to repay the loan according to the agreement and to abide by the rules and regulations of the society. The members signature will be required at the end of the agreement as well as the signatures of two witnesses.

The second page of the bond is reserved for the sureties of the members, and also for securities the member has to provide if he makes a loan of \$300 and more. The sureties are collectively and individually responsible to the society for any breach of

agreement on the part of the member accepting the loan. Witnesses are also required for the sureties signatures. According to the by-laws the sureties must come from members of the society who are acceptable to the Committee. If a surety ceased to be one as a result of death, or for some other reasons, the borrower must get another person to be his new surety as soon as possible, or he must repay the loan. It is the responsibility of the sureties to see that the loan is used for the purpose it was intended, and to see that the borrower repay the loan with interest according to the conditions of the Bond Hutang. The sureties must report any breach of agreement to the committee, who will then take action against the member concerned. A member who does not report, or denies the death of his surety, or the fact that one of his surety has ceased to be one, to the committee, will have all his loans recall.

When a member submits his application for a loan, to the committee, the purpose of the loan should be clearly specified in his application. It is the responsibility of the committee to see that the loans if granted, is used for such purposes as stated by the member in his application. Otherwise the Committee can take back all the loan together with interest. Just now I mentioned the fact that in both societies in Sawah Sempadan, the committee themselves specified the purposes of the loans in the Bond Hutang, i.e. for "Cultivating padi". This means that the committee of both societies have made it a ruling that the loans provided by the societies are to be used only for "cultivating padi". Both committees however have not defined what is meant by "cultivating padi". Since the societies are operating in padi cultivated areas, it may be presumed that the term "cultivating padi" embraces 4 of the 6 purposes for which loans can be provided, (See page 26 and 27) namely: the purchase of seeds and fertilisers, improving the condition of the land; and cultivation expenses. The purchase of agricultural implements can also be included. Thus although the by-laws states that loans can also be used for building houses, or buying land or settling debts, or the purchase of livestock, in practice they cannot be used for such purposes. Members who want loans must accept a priori that the loans granted to them must be used for "cultivating padi", whatever that may be. This ruling of the committee, that the loans provided to members are only for "cultivating purposes" is related to another ruling of the committee which says that loans are only provided at the rate of \$120 per 3 acres of padi land (i.e. \$40 per acre).

Both the committees and the Co-operative Officer said that loans provided to members are limited by the ability of the members to repay. Since the loans are to be used only for "cultivating padi", it was estimated that \$120 for 3 acres should be enough for such a purpose. The \$120 was considered enough to cover expenses, and that it was small enough for members to repay

the loan, when the padi harvest is completed. Accordingly therefore members who have more acres of padi land are to be given more e.g. 6 acres, \$240, and so on. This ruling that members are to be allowed loans at the rate of \$210 per 3 acres is therefore a result of the Committees ruling that loans are to be used only for cultivating padi.

Both these rulings are seldom followed in practice. As will be seen in the next chapter members do not always use loans for "cultivating padi" although they agreed to do so in the Bond Rutang; and also most members are given loans irrespective of the acreage of padi land they may own e.g. members who own 3 acres are always given more than \$120.

#### Further Rules and Regulations Governing Loans

The by-laws of the societies stated that loans are to be provided to members at the rate of \$1 for every \$100 every month. The interest is to be calculated on the balance of the principal sum that has to be paid. The interest rate is therefore 12% per annum. A member who is provided with a loan from the society must repay the loan together with the interest on the specified date, unless the Committee approves an extension of the period of payment. However as we shall see both societies never specify in their loans to members when the loans should be repaid in full together with the interest. This will be discussed later.

If a member buys land or redeems the mortgage on his land, using the loan provided for by the society, the member cannot sell the land or mortgage it, or use it as security, unless with the permission of the committee, even though it is for the purpose of repaying the loan from the society. This ruling is to ensure that the assets of the member concerned is enough to cover up for the loan, should the member fail to repay and also to prevent members from losing their land.

The Committee is collectively and individually responsible for any losses sustained by the society as a result of its negligence to ask and demand the repayment of loans that are not used for the purpose intended i.e. for "cultivating padi", or to take action against the borrower and his sureties with regard to loans that are overdue. The Committee has the power to reject excessive loans, or any surety which it may consider to be unsuitable. The committee also fixes the date of repayment and sets any conditions that may be necessary regarding the repayment of loans. Every loan is given with the condition that it is the right of the society to recall any loan from a member by giving the member concerned, 2 months notice; or to recall all loans without any prior notice being given when the society faces a loss as a result of the members weak position. All members

must obtain permission from the committee before they can borrow from sources other than the society. Failure to observe this ruling will result in the dismissal of the member concerned.

### Period of Loan and Repayment

Just now it was mentioned that both societies do not mention the period of the loan, and the date when the loan must be repaid in full together with the interest. The Surat Bond Hutang for instance never specifies the time limit within which the loan has to be repaid. It merely states the fact that members can repay their loans gradually and in instalments, the amount of each instalment being specified. Thus apparently the members have all the time in the world to repay their loans.

### The Position of the Two Societies with regard to Loans

In 1962, the Co-operative Officer in Tanjong Karang froze the loan-making function of the two societies. In that year the financial position of both societies were far from sound. Loans made to members by the two societies were slow in being repaid. In the years preceding 1962 more money in total, were given to members in the form of loans, than is being returned to the societies as repayment yearly. This could only mean that the loans made to individual members were increasing every time new loans are made e.g. the first time a member borrows, he may be allowed \$120. The next time he borrows he will get more than \$120, say \$200.

TABLE 3.1

LOANS OUTSTANDING, LOANS MADE, LOANS REPAID FOR  
THE SAWAH SEMPADAN 1 SOCIETY, 1957-1961

Year	Loans out- standing beginning of Year	Loans made in Year	Repayment during the Year	Loans Out- standing at the end of the Year
1957	\$1,562.80	\$3,620	\$3,173.58	\$2,009.22
1958	2,009.22	4,690	4,001.69	2,697.53
1959	2,697.53	3,450	3,600.65	2,546.88
1960	2,546.88	6,200	3,497.90	5,248.98
1961	5,248.98	1,880	1,887.70	5,241.28

\* Includes interest

The above table shows the amount of loans made to members and the amount repaid to the Sawah Sempadan 1 society, for the period 1957 to 1961. The data is derived from the balance sheets of the years 1957 to 1961. From the table it is clear that the amount of loans due from members have been increasing. At the beginning of 1957 it was \$1,562.80; but at the beginning of 1962 it was \$5,241.28. The reason is obvious - on the whole during these years more loans are being made to members in total, than are being repaid by them. The greatest amount of loan made in these years was in 1960, the sum of \$6,200. The highest ever repaid in the same period was \$4,001.69. On the average in the years 1957 to 1961 the amount of loans made was \$3,968, whilst the amount repaid was \$3,232.30 (with interest), a difference of \$735.70. It is not surprising therefore that the amount of loans outstanding from members increased up to \$5,241.28 at the beginning of 1962. It was principally because of this large amount of loans overdue from members that the co-operative officer freeze the loan-making function of the society.

It can also be seen that on the average the amount of loans made to individuals have been increasing. In 1957, the total amount of loans made to members was \$3,620. In 1958 it was \$4,690. This means that on the average the loans made to individual members have increased e.g. assuming that the membership of the society from 1957 to 1961 was 46<sup>1</sup>, and that in 1957 40 members borrowed because some 6 members cannot borrow because they have not repaid their loans in full yet. Similarly in 1958. Thus it is seen that loans made to 40 members in 1957 was approximately \$90.50, whilst in 1958, to the same 40 members too was \$117.50. In 1959 the amount of loans granted decline because a lot of members have not paid their loans yet. In 1960, the amount of loans granted reached a total of \$6,200. Assuming that 40 members borrow in that year, it would appear that each member was given a loan of \$155. Thus not only has the loan made to individual members increased, but that loans made to members have exceeded the amount of \$120 which is the limit for 3 acres of land, as ruled by the committee.

All farmers in Sawah Sempadan are supposed to have only 3 acres of padi-land. Records of the Survey by the Department of Economics, University of Malaya however showed a tendency for certain farmers to accumulate more than 3 acres of land and it is possible that these better off farmers may have joined the society and thus obtain more loans than \$120. Whilst it is possible that some members may have more than 3 acres of land, it is unlikely that every member of the society have more than 3 acres. (See table 4.1) Thus it appears that the committee has not followed the ruling of giving to members who owned only 3 acres of land, loans of only \$120.

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<sup>1</sup>In 1961 membership for the society concerned was 46.

## Kunohi Ayer Buang Society

I was unable to get the data on the position of the loans for this society, during the same period as of the Sawah Sempadan 1 i.e. from 1957 to 1961. The balance sheet for the period was not available.<sup>1</sup> However from the records in the Co-operative Office in Tanjong Karang, I noticed that this society had in 1962, loans outstanding from members amounting to \$7,720. The same thing that happened to the Sawah Sempadan 1 society may have happened to this society - yearly more loans are being made than are being repaid, which led the co-operative officer to freeze the making of loans from this society.

Thus since 1962, no more loans were being made by both societies. The co-operative officer said that the societies can also resume making loans, when all the members have paid back their loans. At the moment therefore both societies are merely waiting for their members to repay. We will look into the progress of the societies since 1962 in the next chapter.

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<sup>1</sup>The Secretary of the society said that it was still with the auditors.

## CHAPTER IV

### THE CAUSES OF MEMBERS FAILURE TO REPAY LOANS

This chapter will consider the causes of the members' failure to repay their loans. It will see how far the repayment of loans has progressed since 1962.

#### Why Members Failed to Repay their Loans

The Co-operative Officer in Tanjong Karang ordered the freezing of loans for both societies in 1962 because too much loans were being made and too little were being repaid. The by-laws and the Committee have clear rules about loan giving and the method of repayment. However when the loans are given to members, it was never specified when the loans and the interests on them should be fully repaid. The Surat Bond Hutang for instance merely states the fact that members can repay their loans gradually and in instalments, the amount of each instalment being specified. Thus apparently the members have all the time in the world to repay their loans. However, there are 3 incentives for members to repay their loans as quickly as possible.

- 1) The first incentive is that members who have not repaid their loans, are not allowed, or will not be given another loan until they have fully repaid their previous loan together with interest.
- 2) Delays in repaying their loans will damage their good standing and name, because when the committee considers the applications for loans, it will also consider the length of time members take to repay their loans. Promptness and regularity in repaying their loans will mean that they will be more likely to be looked with favour by the committee when considering their future applications for a loan.
- 3) The third incentive for members to repay their loans as quickly as possible is the fact that the longer the time they take to repay, the greater will be the amount of interest they have to pay. The interest charged is quite high 12% per annum but it is calculated on a reducing balance. Thus the earlier a particular member repays his loan, the smaller the amount of interest he has to pay.

In spite of all these incentives however, a lot of members have not repaid their loans, and there were a lot of overdues. In 1962 for instance the Savah Sampadan 1 society had loans outstanding from its members to the amount of \$5,241.28, whilst the Kunchi Ayer Buang society had overdues amounting to \$7,720 in the same year. In that year - 1962 - the Co-operative Officer froze the making of loans from both societies. Since then a lot of repayments has been made as will be seen later. The important fact is that despite the incentives, the members have not been repaying their loans, at least before loan-making was frozen in 1962. This means that there are reasons which are more powerful than the incentives to repay.

Table 4.1 shows the position of members of the Kunchi Ayer Buang Society who have not repay their loans in full. As can be seen there are 18 members of the society who have yet to repay their loans. Most of these outstanding loans were made in 1961. There were 3 cases in which loans were made as far back as 1955 (the Registration date of the society) and 1 in 1959.

The loans made range from \$100 to \$350. As mentioned before it is a ruling of the society, (though it was not stated so in the by-laws) that loans are to be given at the rate of \$120 per 3 acres. This is because the loans are to be used solely for "cultivating padi". But as can be seen from the table, it is obvious that the ruling is seldom followed. In the majority of cases the loans provided exceeded the amount which should be provided of a member with one lot of land was given a loan of \$300. Of the 18 who have yet to repay their loans, 11 were provided with loans which exceeded the rate of \$120 per 3 acres. If we take the 18 as a whole, we will see that on the average, the loans provided to them was \$210.25 each.

According to the Co-operative officer, the limitation of \$120 loan per 3 acres was based on the ability of the farmers to repay. It was estimated that the income of a farmer operating 3 acres of padi land is \$500 (see page 11). Most of his income would be got from padi sales. Since for 3 acres he would be able to sell about 30 pikuls thus obtaining \$420, he would easily be able to repay the loan of \$120 which together with interest would amount to \$134.40\*. However he would find it difficult if the loans provided to him was a substantial amount say for example \$200. The interest too would be great, \$24. Thus it may be possible that one of the reasons why the farmers were unable to repay their loans were because the loans given to them were more than their ability to repay.

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\* Interest is 12% p.a.

TABLE 4.1

POSITION OF MEMBERS OF THE KUNCHI AYER BUANG  
SOCIETY WHO HAVE NOT REPAYED THEIR LOANS

Name	Date loan made	Amount of loan	No. of padi lots	Date of last Repayment	Amount outstanding
Yahya Sidek	* 1961	\$ 100	1	1963	\$100.00
Abdul Samad	1961	100	1	1964	20.00
Idris Upan	* 1955	150	2	1963	30.00
Talaha	1959	340	2	1963	70.00
Bagok	1961	300	1	1963	116.60
Yusef Upan	1961	200	2	1963	26.60
Mansor Hj. Ali	1961	100	1	1963	10.00
Hj. Ali Jaafar	1961	300	1	1963	25.40
Amir	1961	120	1	1963	26.75
Kaire Jentani	1961	200	1	1963	107.20
Jehdi	1955	190	1	1963	10.00
Hj. Sapuan	1955	250	1	1964	91.80
Musaia Ahmed	* 1961	300	1	1963	25.00
Mokhtar Taib	* 1961	350	2	1963	90.00
Bakar Ariff	1961	120	1	1963	93.30
Jehari Maiji	1961	265	1	1963	265.00
Ishak Talaha	1961	200	1	1963	170.00
Hakim Salman	1961	200	1	1963	4.25

\* Died or left.

Notice that in Table Aal 4 of the farmers who have not repaid their loans have 2 lots of padi land. Actually one farmer is supposed to own only one lot. This may be a case of defacto ownership and de jure ownership. These farmers who own more than two lots may have one lot in their own name, whereas the other lot may be in the wife's or daughter's name and so on, but in actual fact he is the owner. But regardless of defacto and de jure ownership, it is evident that some farmers own more land, than officially allowed.

Interviews were conducted among the members who still owe money to the society. Interviews were carried on, on the basis of those members who could be found. Two of the members had already died, whilst another two had already left Saugh Sampadan renting out their respective lots to other farmers. All in all 10 members were interviewed. Of this 10 however, one member refused to acknowledge the fact that he was and still is a member of the society. Moreover in the society's books, there are still some money due to the society from him. This member claimed that he left the society in 1959 because he was not satisfied with it.<sup>1</sup> As a result 9 interviews were considered.

Although the purpose of the loans provided to members were for cultivating padi, from the interviews, it was evident that some members have been using it for other purposes. From the table below it is seen that only 2 of the members interviewed used the loans for cultivating padi. The rest used it for other purposes, such as paying off their debts, buying land, or renting land. It should be pointed out that in the by-laws, all these purposes for using loans are considered productive (see page 26 and 27). However it is a ruling of the committee that loans are to be provided solely for "cultivating padi", and as will be remembered the committee does not explain what it means by the term "cultivating padi". The Surat Bond Kutang moreover specifies that the loans are to be used for "cultivating padi", and this bond is a legal document. To that extent therefore, members who use loans for purposes other than for "cultivating padi" have done something illegal. However the farmers who used the loans for buying or renting land can argue that such purposes are implicit in the term "cultivating padi".

But the buying and renting of land entails additional expenses. The more land a farmer acquires, the more expenses he incurs. Thus it is possible that the loans the farmer obtain may be just enough to cover the cost of buying or renting the land, but it may not be enough to cover the additional expenses for cultivation. Consequently the returns from the yield would not be so great and he would not be able to repay the loans of the two farmers who use the loan for renting land each received a loan of \$100 and \$120. Both of them said that they rented only 1½ acres. This would at least cost them \$30. Assuming that the rents for 1½ acres is \$30, they would each have \$70 and \$90 left. They would on the other hand have 4½ acres of padi-land to cultivate, and would consequently require \$180 for cultivation expenses. But as can be seen after allowing for rents they would only have about half the amount necessary.

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<sup>1</sup> He said "Tidak puas hati".

TABLE 4.2

PURPOSE OF LOANS GIVEN TO INTERVIEWED MEMBERS OF KUNGKI  
AYER BUANG SOCIETY WHO HAVE NOT REPAYED THE LOANS

Purpose of Loan	No
Padi Cultivation	2
Payment of debts	3
Buying Land	2
Renting Land	2

Three of the members have been using the loans to repay their debts. This is a good purpose for using the loans. In fact the by-laws considered it productive, and advised all members to settle all their debts incurred before they join the society as soon as possible. But these members are legally bound to use the loans for "cultivating padi". Moreover these loans have to be paid for, the paying off debts by means of these loans merely transfer the debts to the co-operative society. This could be a good thing if the interest rate is lower than that charged by the person to whom the farmer is in debt. Such persons usually charge exorbitant rate of interest, sometimes up to 50%. The co-operative charges only 12% but this is quite substantial, and unless the member repays the society promptly, the interest will accumulate and he will find it difficult to repay the entire loan and interest. Moreover, unless he fully repays his loan to the society, he will never get another loan, and if he is late in repaying them, there will always be the temptation to borrow again from private money-lenders, or to take goods in advanced from shopkeepers. This latter alternative will be the first step towards practicing the "padi kunchu" system.

One question asked during the interviews was why they were unable to repay their loans initially. Their answers are tabulated on page 39. The majority of these interviewed stated that the reason why they were unable to repay their loans initially was because of their crop failure, during the harvesting following the period when loans were made to them. They claim that it was impossible to repay the loans because of the crop failure, and moreover they claimed that padi was their main source of income. However they said that they have been repaying the loans gradually. This is borne out on record as evident in Table 4.1 which shows the amount outstanding due from members as of May 1965. As can be seen from that table in all but two cases, the loans have been gradually repaid. In the two cases it appears that the two members have merely been

TABLE 4.3

REASONS FOR INITIAL INABILITY TO REPAY LOANS GIVEN  
BY INTERVIEWED MEMBERS OF KUNCHI AYER BUANG SOCIETY

Reasons for inability to repay initially	No
Crop Failure	6
Social Expenses	3

paying the interest on their loans. This is seen from the fact that the amount due from them is still the amount which was given to them as loan. The loans were made to them in 1961. Their last repayment was in 1963. It is possible that since 1963 they may have repaid some of their loans but due to non-payment in 1964, the amount outstanding has accumulated as a result of interest on the loan.

Three of the members said that initially they were unable to repay because immediately after the harvest, they had to spend a lot on social expenses. They said that their daughters got married, or their son was circumcised, and they had to spend money on feasts and so on. This group too said that they have been repaying their loans gradually, whenever they have the money. This claim is borne out on record.

All in all 18 members of the Kunchi Ayer Buang society have not repaid their loans. The members have been repaying their loans gradually but as can be seen from Table 4.1 only two members made any repayments in 1964. The rest - 16 of them - have not repaid anything since 1963, to settle the remainder of their loans. Two of them have died with their loans still unsettled. Questions were asked among those interviewed, regarding the reasons why they were unable to repay their loans in 1964, at least gradually. Their reasons are tabulated below.

TABLE 4.4

REASONS FOR NON-REPAYMENT OF LOANS IN 1964 BY  
INTERVIEWED MEMBERS OF KUNCHI AYER BUANG SOCIETY

Reasons for non-repayment in 1964	No
Other debts to settle	2
Cannot get another loan	4
Poor harvest	3

Basically 3 reasons were given. 4 of the 9 interviewed said that it was not because they cannot afford to repay the loans in 1964. They could, but they just did not want to. They said that since loans, could no longer be provided by the society, they might as well use the money which could repay the loans. They claimed that there is no point in repaying the loans when they cannot get another loan. These members may have a point to justify their non-repayment, although they have the means to do so. However their reasoning indicates an ignorance of co-operative practice. For a cooperative to succeed, much depends on the loyalty of the members. They must stop being individualistic in their attitudes towards the society. Non-repayment of loans on the grounds that they cannot get another loan demonstrates the individualistic attitudes of these members. They are only thinking in terms of their own welfare and benefits, and not for the members of the society as a whole. If these members are loyal to their society, they should repay the loans whenever they have the means to do so, irrespective of whether they will get another loan or not.

Moreover non-repayment of loans, just because loans will not be provided any more is bad in the long run. This is because interest will accumulate over the months. This is because interest is calculated on a reducing balance system at the rate of 1% per month.\* These members should therefore repay their loans if they have the means, because it is advantageous for them to do so. They have got to pay it sooner or later, whether they like it or not.

3 of them claimed that they had a poor harvest, for their inability to repay in 1964. They said that a lot of pests and diseases attack their crops. These members were however optimistic about repaying their loans because of the plan for double-cropping. The government plans to introduce double-cropping this year with the "wonder padi" Malinja. They believed that with double cropping they could increase their output of padi, and consequently their income. Thus they would be able to repay all the loans.

The remaining two said that they had the money to repay in 1964 but they also had other debts to settle. These debts were incurred in 1962 when no more loans were awarded from the society. These debts were with the shop keepers who advanced goods to them on credit. These two members said that they had two choices - to pay the co-operative or to pay the shopkeeper. They preferred the latter because by at least repaying a little, he could still obtain goods on credit, whereas repaying the co-operative, he will never get another loan, because other members still have to pay. This is again another example of individualism of

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\*On 12% per annum.

members attitudes towards the cooperative society. They prefer to let the society flop rather than inconvenience themselves. Each member seems to be more concern for his individual self rather than for the members of the cooperative as a whole. Such an attitude will never produce a successful cooperative.

The interviews and the results tabulated previously are from members of the Kunohi Ayer Buang Society. No interviews were obtained with members of the Sewah Sempadan 1 society because according to the secretary of that society, the books were sent for auditing.

#### Views of the Secretaries Regarding Members failure to repay the loans

Interviews were conducted with the secretaries of the two societies, to ask their views regarding the members failure to repay the loans.

According to the secretaries, the members of the societies who have not repaid their loans were already in debt, before loans were granted to them. They consequently use the loans obtained, not to cultivate padi, but to pay off these debts. The secretaries further said that it is stated in the Bond Putang that the loans are to be used for "cultivating padi". It is to buy fertilizers and so on, so as to increase productivity. Moreover they said that the aim of the society is to provide loans which are to be used to bring "good returns and much gain". According to them, the paying of debts neither bring good returns nor much gain. That is why they were unable to repay their loans. I do not however agree, that the paying of debts does not bring "much gain".<sup>1</sup> It will in the long run because being indebted to the cooperative society is very much better than being indebted to the shopkeeper or the private money-lender. As explained by Ungku Azim in his many lectures the shopkeeper or money-lender, will exploit the farmers, if they are indebted to them. The disadvantage of being indebted to the cooperative is that no more loans will be provided unless the outstanding loans of the member is repaid in full. Thus during the period when loans are not provided, there is always the danger that the farmer may resort to borrowing from the private money-lender.

The secretaries also claimed that members joined the societies, just for the sake of borrowing money. They never use the money to make improvements to their land or to buy fertilizers. Instead they spent it on weddings and other elaborate ceremonies. We may point out the fact to the secretaries that since the society is a credit society, it is obvious that the members joined the societies to borrow money. But then it is the responsibility of the members to use the money in accordance with

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<sup>1</sup>Moreover in the by-laws of the society the payment of debts by means of loans provided by the society is considered productive and that the member is also advised to settle his debts with persons other than the society as soon as possible.

the aims of the societies i.e. the money should be used for such purposes that would bring "good returns and much gain". The two secretaries were also asked why a sub-committee was not set up to see that loans are productively used. In answer they said that it was not practical. They said that it is very difficult to ensure that each member who obtained loans used them productively. In the past no action has been taken against any member who misused his loan, and even though they knew that members are misusing their loans, the committee did not take action because it did not want to set a precedent.

This line of reasoning on the part of the two secretaries is an attempt at rationalization. There is no question of setting a precedent. The law clearly states that the committee has the power to recall all loans granted to members should they fail to use such loans for productive purposes i.e. "cultivating padi", it may be possible that the reason why no action was taken by the committee was because the members of the committee too were at fault, it may be possible that they too have been using loans contrary to the aims of the society. If this is so any action taken against members who misuse their loans, would necessitate an action to be taken against committee members who misuse their loans. Hence the rationalization of not desiring to set a precedent.

However the claim that it is very difficult to ensure that each member who obtained loans used them productively is quite plausible. We can never tell if a member has been using his loans productively or not as said in the Bond Rutang. The member can always say that the money he uses for social expenses is from his personal savings and it is very difficult to prove that it is not. Each therefore depends on the members' sureties. It is their responsibility to see that the loans provided to members for whom they are sureties, are used in accordance with the purposes stated in the Bond Rutang, and it is their duty to report to the committee any deviations from the conditions of the Bond Rutang. However according to the two secretaries no report of any misuse of loans has been brought to the committee by the sureties. It would appear therefore that either no loans have been misused, or that the sureties have not reported any such misuse of loans. That the sureties have not reported any misuse of loans which may have occurred is understandable in the light of the fact, that the sureties for members receiving loans must be members of the society itself. Thus it may be possible that two members of the society who received loans may act as sureties for each other. Consequently if both of them misuse their loans, there would be no reporting of it by one, for fear of retaliation from the other, and both would suffer in the end.

One reason suggested by the secretaries for the failure to repay the loans was the falling padi-yield. In the year before 1960 they claimed that the yield of padi per lot on the average was about 3,500 katis. Now it is about 2,800 katis. Since the members are wholly dependent on padi for their income, a fall in yield means a fall in income. Thus they

found difficulty in repaying the loans. This reason strengthens the belief of the committee that the loans were unproductively used. Had the loans been used to buy fertilizers pests and diseases control, on the improvement of land, the yield would not have fallen off. However this reason for non-repayment cannot be reconciled with the fact that the members have been repaying their loans gradually. As noted previously the members have been repaying gradually until 1964.

The indifference of members regarding the payment of their loans was also another reason suggested by the secretaries. They also said that some members of the committee who still owe the society money, absent themselves from committee meetings to avoid being pestered about repaying their loans. Attendances at general meetings too are very poor. The two secretaries also said that when they approached the members for the repayment of their loans, the members either say they forgot, or that they have no money, or they pointed to the fact that other members have not paid back. Incidentally the secretary of the Kunchi Ayer Buang society when pointed out that he too has some money due to the society he said he forgot about it. This reason put forward by the secretaries is quite plausible. As we have seen from interviews, some members have not repaid because of the fear of not being able to secure further loans. This is not in accordance with co-operative practices. Members of the society must stop to think only in terms of the individual. Some committee members are also to blame, for not being present at committee meetings. It is not surprising therefore that committee meetings are seldom held. It is possible that the committee have not been very active in the past to coax members to repay. Hence the indifference of the members towards repayment.

#### Views of the Co-operative Officer regarding the Members failure to repay the loans.

An interview was also conducted with the Co-operative Officer in Tanjong Karang, to ask his views why the members of both societies do not repay their loans.

One reason he put forward was that the members do not understand the purpose of the society, which he said was to provide loans for members to be used productively at comparatively lower rates of interest than those charged by private money-lenders. The members only know that they can obtain loans from the society, they do not worry as to how they used them. The loans were meant for cultivating padi, such as the purchase of fertilizers, pests and diseases control-methods such as sprays and insecticides. But the members seldom used their loans for such purposes. Consequently they were unable to get any returns through increased yield. Even though some members may have used their loans productively, when the crops failed, they did make any attempt to repay even a part of the loan. Thus the loans began to accumulate, because interest is always added monthly.

The co-operative officer also blamed the Committee of Management of both societies for members' failure to repay. He said that the committee always abuse their powers. There were a lot of "internal politics" going on, and some members of the society are given a greater amount of loan if they support some members of the committee. Each member with one lot of padi land is only entitled to a loan of \$120, but some members are provided with loans as much as \$300 even though they have only one lot of land. It is true that in many cases the committee have given members who owned only one lot of land a loan of more than \$120. But it must be remembered that the by-laws never placed any definite limit to the amount of loan that could be granted to each member. But a limit has to be ascertained somehow because these loans are provided for on the personal security of the members, which is intangible. Hence the ruling of the committee that only loans of up to \$120 per 3 acres are to be provided, and these loans are to be used for cultivating padi it appears therefore that the committee has broken its own ruling.

The committee also failed to see that loans are productively used i.e. for cultivating padi. Although it was perfectly legal for the committee to take action against the members who misuse their loans, the committee never took any action. Thus according to the co-operative officer, almost all of the loans provided are used for purposes other than for cultivating padi. Here I think the co-operative officer is underestimating the practical difficulties of trying to ensure that members used their loans for cultivating padi. The committee members are farmers too and they have their own farms to look after. They just cannot go round to every farmer asking the latter how he uses the loan. The latter too would find it resentful, because no body likes to be pestered about how his money is being used. The sureties of the members too, are unwilling to report to the committee for any misuse of loans, because probably they too have misuse their loans, or because they do not want to antagonise their friends.

The Co-operative Officer also said that he suspects the "padi kuncha" system to be operating. He said that lately there has not been very much crop failure, but still the loans are not being repaid. He noticed that some of the farmers have been taking goods on account from the shopkeepers. Thus it appears that the members are in debt to two persons, - the Co-operative and the Shopkeepers. Since the loans from the Co-operatives were frozen in 1962, members found it to their advantage apparently to pay off their debts to the shopkeepers, because then they could still obtain credit. We do not know if the "padi kuncha" is operating in the area as claimed by the co-operative officer but we have some evidence that some members have been taking goods on credit from the shopkeepers (See page 40). Thus it is possible that the padi kuncha is in operation in the area.

The reasons why members did not repay their loans as I see it.

After considering the interviews, the views of the secretaries of the two societies, and the co-operative officer, the reasons why members

did not repay their loans as I see it, are as follows:

- 1) The committee of management abuse their powers. They made a ruling that loans are only to be used for "cultivating padi", which they never defined. Since most members have only 3 acres of padi land, it was considered that \$120 for each member was enough. But as shown in Table 4.5 most members have been given loans of over \$120. The interest charged is 12% per annum. If members were given loans of say \$200, the interest would be \$24. This is quite a lot of money for the members to pay. As will be shown later some members have not even been able to pay these yearly instalment payments of \$30 for their shares. Sometimes the committee has given loans of over \$200 without any consideration of members assets. It appears as the Cooperative Officer said, that there is a lot of "internal politics" going on before a decision is made on members applications for loans.
- 2) The members were in debt initially. Consequently they used the loans provided to them to pay off these debts. This is a good purpose for using the loans provided and it was stated so in the by-laws. The rule is that, when the loans are made, there is no specific time period stated when the loans should be fully repaid. The absence of a specific time period for the full repayment of the loan would encourage members to defer the repayment although they may have the means to do so. Although the bond hutang specifies the amount of the instalment and the date on which the first instalment is to be paid, this would not be of much help. Members can always pay the first instalment and defer the repayment of the remainder of the loan, because the Bond Hutang never specify the date for the repayment of the next instalment. Thus it appears that after the repayment of the first instalment, the members have all the time in the world to repay the remainder of the loan; and the members do take their time. Consequently the interest on the loan began to accumulate, and eventually the members find it difficult to repay the remainder of the loan plus the interest.
- 3) Most of the members were entirely dependent on padi for their income. Consequently when their crops failed, they were unable to repay their loans. Moreover at the end of the harvest, they sometimes have to spend a lot on social expenses like weddings and feasts.
- 4) Some members of the society are not loyal to the society. Although they have the means to repay, they refused to do so because they cannot get another loan. Some members

refused to pay because other members have not paid. They do not understand the implications of cooperation. They still think in terms of their individual interests and not collectively as members of the society. In a way, the fact that loans are given without any definite time period for repayment, is a factor accounting for the members disloyalty to the society. People are bound to take their time in repaying their loans when there is no time limit for its repayment.

- 5) The committee did not take any steps to see that members repay their loans. They, the members of the committee seldom hold meetings. In fact since 1962 the Kunchi Ayer Buang committee did not hold any meetings at all. Thus it is highly possible that no action was taken by the committee to see that members repay their loans. As a result the members took advantage of the committee and remain indifferent towards the repayment of their loans. It may be that the committee did not take action because the committee members themselves are at fault. Some committee members may not have repaid their loans yet, and in this connection we have the example of the secretary of the Kunchi Ayer Buang Society who claimed that he forgot about his overdues to the society. It would be quite embarrassing for a committee member to coax the ordinary members to repay their loans, when he himself have not been repaying his. In addition, the committee has failed to take any action against members who misuse their loans. Thus in the eyes of the ordinary members there is apparently nothing wrong in taking their time to repay, then loans, or using them for purposes other than "cultivating padi".

#### The Repayment of Loans since 1962

The following table shows the loans due from members of both societies since 1962 and upto 1965.<sup>1</sup> The data is obtained from the records in the Cooperative Officers Office.

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<sup>1</sup>May 1965.

TABLE 4.5

LOANS OUTSTANDING DUE KUNCHI AYER BUANG  
SOCIETY AND SAWAH SEMPADAN 1 SOCIETY - 1962 - 1965

Year	Kunohi Ayer Buang	Sawah Sempadan 1	Total
1962	\$7,720	\$5,249.88	\$13,969.88
1963	3,961	2,995.40	6,956.40
1964	1,120.75	1,392.16	3,012.91
1965*	1,281.90	1,010.75	2,292.65

\* May 1965.

As can be seen from the table above, the rate of repayment of loans since loans were frozen was very fast. In 1963 half of the loans due from the members of both societies were repaid. In 1964, the loans outstanding from each society amounted to less than \$2,000. This is very satisfactory progress indeed.

The rapid rate of repayment is also verified by looking at the total amount of loans due from both societies. In 1962 the total amount outstanding was nearly \$14,000 and this was reduced to half in 1963. There was a further reduction until 1964. After 1964 the rate of repayment declined. This is a result of the declining rate of repayment of both societies. Notice that in 1965 the amount outstanding from the Kunchi Ayer Buang Society even increased. This is because repayment in 1964 was very poor and more interest was accumulated.

This fact, i.e. the rapid rate of repayment of loans since 1962 shows that the members have the means to repay the loans. But they somehow or other have that indifferent attitude towards repayment. The fault here lies with the committee. They have not made any attempts whatsoever to ensure that members repay their loans as soon as possible. It is true that there is no time limit specified in the Bond Kutang, when the loans should be repaid. However this does not mean that the committee should not take steps to coax the members to repay as quickly as possible. The interest rate of 12% per annum is quite substantial and this means that the longer the time the member takes to repay, the more difficult it will be for him to repay, especially when he obtains loans of \$200 or more. The committee should have pointed out to the members that it is to their advantage, and to the advantage of the

society as a whole, to repay their loans as quickly as possible. As it was the members seemed to be taking their time in repayment of their loans. Moreover the committee claimed that the failure of members to repay their loans was due to the falling padi yield since 1960. (See page 44). This claim however does not agree with the facts shown in Table 4.1. As can be seen from that table, the members have since 1962, repaid quite a substantial amount of their loans to the society. Thus the "falling padi yield" reasoning cannot be taken as a factor explaining members failure to repay their loans. What really might have happened is a crop failure in 1960 or 1961 which initially prevented the members from repaying. Thus members who claimed that they cannot repay initially because of crop failure may be in the right.

#### Future Outlook of the Societies as regards its Loans

At the beginning of 1965, the Kunchi Ayer Buang Society had loans due from members amounting to \$1,231.90 whilst the Sawah Sempadan 1 Society had \$1,010.75 due from its members. These loans outstanding could easily be repaid if only the Committee of Management take concrete action to recover them. In the Kunchi Ayer Buang Society for instance, there were 3 members who seemed to have "run away" (one claiming that he is no longer a member) from Sawah Sempadan; whilst another two had died with their debts unsettled. With regard to these 2 members, the committee could settle the matter with the deceased's sureties; and with the other three, the Committee should make efforts to find them, after all their lands are being rented out, which means that they will come back. Moreover the committee can take action against their sureties who are responsible for them. As it is nothing seems to be done to recover the loans from these 5 members of the Kunchi Ayer Buang Society.

The secretaries of both societies were apparently very optimistic about their respective society's position. This is because "double-cropping with the "wonder padi" Malinja is to be introduced this year. Double cropping means greater yields of padi and consequently more income. However I cannot quite share their optimism. Double cropping no doubt will increase total yield but there will be additional expenses involved in the form of labour, fertilizers and so on. This means that more loans will be required by the farmer. Moreover not all the farmers in Sawah Sempadan are in favour of double-cropping.

The loans outstanding from members at the moment will soon be repaid, but if the societies are really going to be successful when they resuming making loans, they must really streamline their workings, otherwise they will revert back to their position in 1962.

## CHAPTER V

### THE OVERALL POSITION OF THE SOCIETIES

This chapter considers the overall position of the two societies. The items discussed will be the Share Capital, deposits, the Distribution of Profits and the Reserve Fund.

#### The Share Capital

The share capital of the two societies is built up by subscription of 3 shares per member, each share costing \$100, to be paid over a period of 10 years. According to the by-laws each member must buy not less than 3 shares and not more than 10 shares. The payment for these shares are to be made in yearly instalments of \$30 to be spread over a period of 10 years. The following table shows the progress of the share capital of both societies from 1961 to 1964.

TABLE 5.1

#### PAID SHARE OF KUNCHI AYER BUANG SOCIETY AND SAWAH SEMPADAN 1 SOCIETY - 1961 TO 1964

Year	Kunchi Ayer Buang Society			Sawah Sempadan 1 Society		
	Member-ship	Paid Share	Value of Share that should have been subscribed *	Member-ship	Paid Share	Value of Share that should have been subscribed *
1961	38	\$1,551	\$5,580	46	\$1,625	\$6,750
1962	38	1,740	6,510	45	1,625	7,500
1963	37	1,680	7,440	45	1,895	8,250
1964	37	1,680	8,370	45	1,885	9,000

\* This is calculated as follows:-  
 Kunchi Ayer Buang Society: Calculated on paid share of 31 members  
 Sawah Sempadan 1: Calculated on paid share of 25 members.  
 See footnote 1 on following page.

From the above table it is clear that the build up of the share capital in both societies is very poor indeed. We do not know how many shares each member bought, but we do know that each member must buy at least 3 shares. The Kunahi Ayer Buang society started off in 1955 with 11 members. In 1961 they had 38 members. By then it should at least have a share capital of \$5,580. But in that year it only had \$1,551 which is only a fifth of what it should have been. The build up over the years 1961 to 1964 was very slow indeed. In 1963 there was even a decline, because one member had left taking away \$60. The share capital never increased since then, which means that the members are not even paying for the remainder of their shares. Presumably they felt that it is of no use contributing to the share capital, if they cannot get a loan from the society.

The Sawah Sempadan 1 society is in no better position. The society was registered in 1952 with a membership of 25. In 1961 it had a membership of 46. By then it should have accumulated a share capital amounting to at least \$6,750.<sup>2</sup> But in that year it had only \$1,625 which was approximately one-sixth of what it should have been. Despite a decrease in membership in 1962, the share capital rose to \$1,895/-. Thereafter it did not increase but instead decreased by \$15 for no apparent reason.<sup>3</sup>

It is clear that the build up in the share capital of both societies has much to be desired. It is far from satisfactory.

It is stated in the two societies' by-laws that one of the aims of the society is to "accumulate capital from members so that it can be used to provide loans to members that will give good returns and much gain."<sup>4</sup> But as we have seen the two societies have been relying on the Co-operative Banking Unions for funds to provide their members with loans. They have therefore not been using their share capital to provide loans. This is because the share capital is too small to be used to provide loans to members. Because the societies have to borrow from the Banking Unions for the funds to be used as loans to members, they therefore have to charge a considerably high rate of interest to its members for their loans i.e. 12% per annum.

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<sup>1</sup>The calculation of the "paid share that should have been" was calculated on the paid share of the membership of the societies at their registration date for simplification.

<sup>2</sup>25 members paying \$30 for 9 years (1952-1961).

<sup>3</sup>There was no decrease in membership.

<sup>4</sup>See page 6.

The societies borrow from the unions at the following rates of interests: 1% for seasonal loans of one year and 6% for medium term loans. The loans which the societies provide to members have no time limit; the interest is calculated at 1% per month on the balance of the principal sum. If the share capital of the societies had been well contributed to by the members, it could be used to provide loans to them. The interest charged would therefore be lower say for example 6% per annum. This is because the societies would be using their own funds.

It is therefore imperative for the societies to build up their share capital and eventually to use them as funds for their loans and cease to be dependent on the Banking Unions. This is because it would be to the advantage of the members in the sense that the loans would be provided at considerably lower rates of interest than that being charged now. Moreover this is in accordance with one of the principles of the Raiffeisen cooperative credit i.e. to obtain funds from lending purposes from the members themselves.

### Deposits

Members of the society can deposit money with the society as fixed deposits. The society, however, cannot accept fixed deposits from non-members unless the Registrar's permission is obtained. Subject to the approval of the Registrar and the members at a general meeting, the Committee must decide how to treat the fixed deposits of members and non-members in the accounts; and also what the interest on the deposits should be.

Although the society accepts fixed deposits from members, and from non-members subject to the Registrar and members approval, no person has ever made use of their facility. Presumably the members do not have enough income to deposit in the societies. As seen previously even the members have difficulty in paying the share capital instalments of \$30 yearly. It could also be the fault of the committee in that they do not publicize this facility for thrift provided by the society. I personally think that members do not have much surplus in their income to deposit them in the societies. This is because the members have difficulty in paying their \$30 yearly and it is clear that they do not have enough to deposit them in the society.

### Distribution of Net Profits

The by-laws of the societies stated that a quarter of the net profits must be set for savings. The remaining three-quarters are to be used as follows:

- 1) With the registrar's permission to distribute among the members according to the shares possessed and paid for at 6% per share. The money is not to be given in cash to the members but must be given in the following manner:
  - a) To repay the principal and interest on loans if any
  - b) To pay the share instalments if there are any overdue
  - c) To be deposited with the society in the member's name.
- 2) Honorarium to secretary, treasurer, and auditors of the society.

The one quarter of the net profits set aside for savings are to be used as follows:

- 1) 10% of it can be used for charitable and religious purposes if the society so desires.
- 2) With the Registrar's permission, the remainder are to be used in the following manner:
  - a) As a reserve against any losses that may suddenly arise
  - b) As security against any risks taken by the society.

The savings in the society belongs to the members as a whole and no individual members have any right to it. No withdrawals must be made from the savings without the registrar's permission.

Thus it appears that 25% of the net profits is to be set aside for reserves.

The Reserve Fund of both societies are very slow in building up. This is probably because the profits made by both societies are almost negligible. The Sawah Sempadan 1 society had a reserve fund of \$87.22 in 1962 which did not increase, but which was all used up in 1964. The Kunchi Ayer Huang society on the other hand had a reserve fund of \$6.73 in 1962 and this has not increased or decreased since then.

Summing up, we can say that although the repayment of loans to both societies is progressing satisfactorily, the overall position of the two societies is far from satisfactory. The build up of the share capital in particular is very poor indeed and the share capital in particular is very poor indeed and the societies have failed to use its own funds to provide loans to members. Instead it has depended on the Banking Unions for its funds. The member of the society too have failed to use the other facilities offered by the societies other than the granting of loans, such as the facilities for savings, and the purchase of agricultural implements and tools for them, or for marketing products. For a cooperative credit society to be successful, it is necessary for the society not only to provide loans but also to provide facilities for marketing of members products, purchase of agricultural requisites and consumes goods for members. Lim Tay Boh points out that there is a danger that credit societies may "degenerate into lending institutions, which members use only when they require loans..... it is necessary to widen<sup>1</sup> the scope of rural credit societies to include other activities". Although provisions for marketing and purchaser of products for members are stated in the by-laws the two societies have merely function as lending institutions. This is perhaps why the two societies are in a very weak position.

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<sup>1</sup> The Co-operative Movement in Malaya by Lim Tay Boh.

## CHAPTER VI

### SUMMARY OF PROBLEMS AND SUGGESTIONS FOR IMPROVEMENT

This chapter summarises the problems faced by the two co-operatives, and attempts to provide some suggestions for the efficient functioning of the two societies with particular reference to loan-making and repayment.

#### The Place of the Cooperatives in the Total Scheme for Rural Economic Betterment

The rural cooperative societies in Malaya were first formed with the object of assisting the rural farmers to solve their economic problems, which is one of raising the general level of productivity and income. One factor inhibiting a rise in income is indebtedness and the lack of credit at reasonable rates of interest. The cooperatives in Malaya started off as a credit movement with the object of attacking the problem of indebtedness. But the problem of indebtedness is only a special aspect of the general problem of increasing income from and productivity of agriculture and raising the standard of living of the rural people. The effectiveness of the cooperative method in improving the conditions of the rural economy is limited unless the problems are attacked on a comprehensive scale. Cooperative principles must be applied not only to the solution of the problem of indebtedness but also to the field of distribution of rural produce.

There is thus a need to link up the operations of the credit societies with those of the marketing societies. The idea is for the cooperative credit society to have a system of controlled credit. The essence of the system is that loans given, should be given to members in instalments, as the need for the purpose for which the loan is given arises, and the loan given should be recovered out of the income obtained by the application of the loan. In other words if a loan for cultivating padi is sanctioned, it should be given in instalments as the cultivation operations progress and the loan should be collected from the sale proceeds of the padi raised. For this purpose the member would be asked to conclude an agreement to sell his padi either through the society or the marketing society to which the credit society is affiliated.

In the by-laws of the two societies under study provisions are made for the society to market the members produce but this provision has never been applied. There are also marketing societies in the area to which the two credit societies could be affiliated if they find it difficult to perform the marketing function for their members produce. In the case of the two credit societies in Sawah Sempadan it would be advisable for them to be affiliated to the marketing societies rather than to perform the marketing functions themselves. This is because heavy capital investment would be involved to set up rice-milling plants, which the credit societies can scarcely afford. When the credit societies are affiliated to the marketing society, the dues of the members to the former societies are deducted by the marketing society, from the sale proceeds of the produce and the balance is remitted by it to the members. Thus through a co-ordination of the work of the credit societies and the marketing societies, credit is linked up with marketing and every stage of the application of loan i.e. from the stage of cultivation to the stage of sale of produce is supervised and controlled.

### The Problems of the Two Credit Societies - A Summary

The two co-operative societies deal mainly with credit even though they are registered as general purpose societies. The problems they face can be summarised as follows:

- a) Problem of repayment of loans.
- b) Management problems
- c) Lack of Knowledge of cooperative aims.
- a) Problem of repayment of loans

In spite of the incentives to repay their loans, some members have not repaid their loans. This is due to certain flaws in the giving of loans to members such as: non-specification of the time period when the loans should be fully repaid; lack of a precise definition of the purpose for the loan; irresponsible sureties who fail to report any misuse of loans; and generally a failure of the committee to abide by the rules governing the granting of loans to members.

- b) Management problems

The committee of management fail to manage the society as stated in the by-laws. The committee seldom held meetings to discuss the affairs of the society, and general meetings are seldom held, thus preventing the members from checking the activities of the committee. The committees abused their powers in the granting of loans to members, and are consequently unable to take action against members who misuse their

loans. Moreover the composition of the committee seldom changes, and in the absence of any check on their activities, the chances of malpractices occurring are fairly great.

c) The Lack of Knowledge of cooperative aims

All the members of the societies including the committee members, are ignorant of the principles of co-operation and cooperative finance. Some members are still individualistic in their attitude towards the society e.g. in the matter of loan repayment there is this "I will not pay because he hasn't paid" attitude. Some members are not loyal to their society, although they have the means to repay their loans they refrain from doing so because they cannot get any more loans. The committees have no idea of cooperative finance; they are merely contented to see that loans are given, they are not concerned with how the loans are being used.

Suggestions for a more efficient procedure for loan making and repayment

I think that no new loans should be made to members till all the outstanding loans due from members have been repaid. This is to give the societies a new start in their future loan giving and repayment from members.

The following are my suggestions for future loan making:

- 1) The purpose of the loans must be clearly specified. Since the committee has decided to make it a ruling that loans are to be used solely for "cultivating padi" they must define what they mean and strictly adhere to it. The definition must be precise so that if any member fail to use the loan according to the definition, the committee can take action on the member concerned.
- 2) The amount of loan to be given to the members i.e. \$40 per acre agreed to by the committee should never be exceeded. There must be no preferential treatment for some members such as giving them more loans than they are allowed.
- 3) The committee should also specify the time period of the loan i.e. the exact date when the whole sum of the loan plus interest will have to be repaid. This is essential because otherwise the member will be bound to take his time in repaying the loans. When there is no time limit fixed, the members may have no compulsion to repay their loans as soon as possible. They may thus postpone the repayment of their loans to a future date. But in so doing, they neglect one important consideration, that of

the interest rate of 12% per annum. If the interests are allowed to accumulate over the years, the member concerned will eventually find it difficult to redeem the loan plus the accumulated interests. There is, thus, a need to specify the time period of the loan. Since the loan is given for the purpose of cultivating padi, the committee could specify that the loan should be fully repaid immediately after the padi harvest, on such and such a date. In this way the members will be bound to repay all their loans by the specified period, and not postpone their repayment as will happen when the time period is not specified.

- 4) Another point to be noted is that both credit societies in Sarawak Tempadan advanced their loans to members in a lump sum at one time only. There is naturally a temptation to misuse the money thus advanced. Moreover, if the members need finance later on, they cannot get it from the society. It is therefore advisable that loans should be advanced only as and when they are actually required and in instalments. They should be what are called "budgeted loans" which are common in the U.S.A. This will help reduce interest charges of the members in so far as interest will be calculated on the actual period of time each instalment of loan is outstanding.

It would also help if the two societies were able to purchase for the members such things as fertilizers, seeds, agricultural implements. This would reduce the possibilities of members misusing their loans. Moreover provisions for such facilities to be carried out by the societies are embodied in their by-laws, although the registrars permission has to be obtained first. The two societies have in the past merely function as purely credit institutions. They do not attempt to purchase such items as fertilizers, seeds, agricultural implements and so on for their members. All these items are essential for cultivating padi. Without these the possibilities of members misusing their loans would be reduced if the societies were to extend their operations to meet these needs.

My suggestion for a more efficient system of loan repayment is for the societies to have control over the produce of the members. The idea is to link up the operations of the credit societies with those of marketing societies and thereby have a system of controlled credit. The essence of this system was already discussed earlier on in this chapter. Loan repayment would be far more efficient if credit operations are linked up with marketing operations. The repayment for the loan would then be obtained from the sale proceeds of members produce through the marketing societies.

The need to build up the share capital and inculcate thrift amongst members

The most important source of funds to be used as loans has been loans from the Banking Unions. As the cooperative officer has said these funds were borrowed from the Unions at the following rates of interest: 1% per annum for seasonal loans and 6% for medium term loans. The loans thereby provided by the societies to their members were provided at the rate of 12% interest per annum. This is very high and may possibly be a factor accounting for the members failure to repay the loans. Had the societies been using their own funds to provide loans to members, the interest charged would not have been so high. There is therefore a need for the two societies to build up their own funds not only to strengthen their financial position but also to provide loans to members at much lower rates of interest.

Apart from the loans provided by the Banking Unions, the credit societies may draw funds from the share capital, the deposits from members and non-members, and from their reserve fund. But as has been noted previously the societies reserve fund is virtually nil, and no persons - member and non-member - have made any deposits at all with the societies. The share capital whilst not actually negligible is very slow in building up and is at the moment too small to contribute substantially to the societies funds. A vigorous drive should therefore be made to strengthen the share capital of the societies as far as possible and also to encourage members to deposit their savings with the societies so that the societies would be able to depend partly on its own funds to provide loans to members. This would somewhat lower the rate of interest that has to be charged.

The committee should therefore take steps to ensure that members pay their yearly instalments of \$30 promptly. There must be no overdues and members must pay their instalments as soon as harvesting ends. If the societies are affiliated to the marketing society then it would be easy for the societies to ensure that members pay their instalments. The societies can deduct \$30 from the sale proceeds and put it into the share capital. If not the societies can coax the member into paying by pointing out the advantages he gets by borrowing from the society, and how loans would be available at lower rates of interest if all the members contribute their share to the society. This is linked up with the problem of educating the members in cooperative principles which will be discussed later. As a last resort the society can threaten<sup>1</sup> the member who refuses to pay his instalments with dismissal.

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<sup>1</sup>This does not violate cooperative principles because it is the by-laws of the two societies that a member will be dismissed if he does not pay his instalments.

Although facilities are provided for members and non-members to deposit their savings with the societies, no deposits have ever been received. This is perhaps due to a lack of publicity regarding this function of the society, or due to the fact that the farmers in Sawah Sempadan have no surplus for savings. Regardless of which is the cause, the committees of the two societies should encourage their members to deposit their savings with the societies no matter how small the savings is. They can point out to the members that these savings if it is continuous can be used to pay their yearly share instalments. Thus there would be no necessity to wait until harvesting time to pay their instalments. The committee can also point out to the members that if everyone deposit their savings with the societies, these savings could be used to provide loans to members, at much lower rates of interest, than is presently charged by the societies. This is again linked with educating the members in cooperative principles.

#### The Sureties and Committee Members - their responsibility towards loans made to members

In the first place the sureties and the committee members must be honest with themselves. It is clearly stated in the Bond Hutang that the sureties are collectively and individually responsible to the societies for the repayment of and the use of loans, in accordance with the conditions of the bond. They must report any misuse of loans to the committee and they must ensure that the member for whom they are the sureties repay their loans promptly. For them to discharge their responsibilities efficiently, they themselves must be honest. They must not misuse their loans and they must repay their loans promptly and abide by the conditions of the bond hutang. A person who wants to point out the fault of others must not be at fault himself. What is more important is that the surety as a member of the cooperative society must think in terms of the cooperative principles; even if he is a surety for his member friend, the fact that he is a friend should not deter him from reporting any misuse of loans. It has his responsibilities and he must discharge it accordingly regardless of friendship and other ties. This again stresses the importance of educating members of the societies in cooperative principles.

The committee too must discharge their duties and responsibilities properly and must not be at fault themselves. With reference to their responsibilities towards the loan made to members, the committee has the right to recall any loans that are not used in accordance with the conditions of the bond hutang, and they must exercise this right, should the occasion arise. There must be no question of the committee wanting to set a precedent or not. This is just a mere restandardization.

The committee must abide by its own rulings regarding loans. It was decided that loans provided are to be specifically used for cultivating padi and accordingly each member was to be given loans at the

rate of \$120 per 3 acres. The committee must stick by this ruling. The committee must not discriminate against certain members, when giving loans to members, such as giving more loans to certain members who are their friends or who supported them in one way or another. And in accepting the sureties for a particular member, the committee should be very careful and reject any sureties who would be likely to be irresponsible. It would be a wise thing for the committee to reject any sureties who are very close friends with the member concerned.

The committee must also hold meetings more often to discuss ways and means to ensure that members repay their loans and share instalments promptly, and they must also encourage both members and non-members to deposit their savings with the society. Wide publicity should be given to this latter function, and committee members should point out the fact to members that a large amount of share capital and deposits from members would be instrumental in providing loans at lower rates of interest. They should explain to members the advantages of using local funds to provide loans.

The composition of the committee needs to change regularly so that the chances of malpractices occurring would be very slim. Whether the same committee is re-elected or not, the committees should hold general meetings at least twice a year, so that members can voice their complaints against the committee. The general meetings would therefore serve check on any abnormalities in the activities of the union.

Apart from their responsibility towards the loans, the committee should discharge all responsibilities placed on them by the by-laws efficiently and honestly.

### The Need to Educate Members in Co-operative Principles

The problems related above all point to the need to educate members of the two credit societies in the principles of co-operation. They must change the present attitudes that they have to the societies, which is one of indifference. Some members still think as individuals in these relationship with the societies e.g. in the matter of loan repayment, there is this "I will not pay because he hasn't paid" attitude. Moreover some members just will not repay on the grounds that loans are no longer provided. But they seemed to have forgotten that loans are no longer provided mainly because he and other members have not repaid their loans yet. There is thus a need to re-orientate the attitudes of members to the societies. They must be loyal to the societies, loyal not only in the sense of patronage, but also in repaying their loans, and regular contribution to the share capital.

There is also a need to educate members and committee members in the principles of cooperative finance. According to K.K. Kulkarni

the principles of cooperative finance are as follows:

- 1) Loans should be for productive purposes and repayment obtained from their utilization.
- 2) Consequently, repayment should be from general savings or out of annual earnings; and
- 3) As a future consequence, repayment should be so adjusted as to be convenient from the point of view of incomes.

It is evident that some members do not understand the principles of co-operative finance. Loans are meant for productive purposes and the repayment should come from its utilization e.g. in Sawah Sam-padan the loans provided to members should be used for cultivating padi i.e. for the purchase of seeds, fertilizers, pest controls, etc; and the repayment for these loans should come from the padi which will subsequently be harvested. But as has been noted some members have been using their loans for other purposes. The committee should have a knowledge of co-operative finance because they are the ones who accept and considers the members application for loans. Moreover they will have to explain to members how the loans provided, will have to be used and how members should repay them.

At the moment there are no courses conducted to familiarise members with cooperative principles and principles of co-operative finance. Here it should be noted that one of the principles of co-operation is the education of members in cooperative principles. There is therefore a need for the Cooperative Department to set up courses to educate both members and non-members in the principles of co-operation and cooperative finance.

### Conclusion

Whilst it is true that a cooperative credit society exists to provide loans and credit to members, in order to succeed it must not only function as a lending institution but also marketing society. It should have control over the members produce either by performing the marketing functions for such produce, or by affiliating itself with a cooperative marketing society which would market the members produce. It should also try to purchase for members the things which they need for cultivation e.g. seeds, fertilizers, insecticides, agricultural implements, and so on. This is to ensure that members will really use the loans properly. All this does not ensure the success of a cooperative credit society, a lot depends on the attitudes and loyalty of members and committee members towards the society. There must be no individualism and all members who have responsibilities towards the society must discharge them properly. In other words members must all be well-versed in the principles of co-operation, and, of cooperative finance.

APPENDIX I

REPRODUCTION OF SURAT BOND HUTANG IN MALAY

SIDE I

SURAT BOND HUTANG

Nombor Ledger \_\_\_\_\_

Nombor Buku \_\_\_\_\_

Tarikh \_\_\_\_\_ Hari Bulan \_\_\_\_\_

Tarikh Mashuarat \_\_\_\_\_

Bohawa saya \_\_\_\_\_ sa-orang daripada ahli Sharikat Kampong  
Sawah Sempadan Berkerja Sama \_\_\_\_\_ dengan tanggungan tidak  
berhad mengaku menerima daripada sharikat yang tersebut suatu pinjaman  
\_\_\_\_\_ yang saya mengaku membayar dengan faedah sa-banyak 1% sa-  
bulan, dengan anseran sa-banyak \_\_\_\_\_ umpama-nya wang asal, lain  
daripada faedah pada tiap<sub>2</sub> bulan \_\_\_\_\_ bayaran yang pertama  
pada bulan \_\_\_\_\_.

Saya mengaku menggunakan pinjaman ini kerana modal.

Dan lagi saya mengaku membayar kembali pinjaman ini mengikut  
perjanjian di-atas ini dan terikat saya oleh tambah peratoran sharikat  
ini.

Saksi

\_\_\_\_\_  
Signature.

(1)

(2)

APPENDIX II

ENGLISH TRANSLATION OF SURAT BOND HUTANG

SIDE I

LOAN BOND CERTIFICATE

Ledger Number: \_\_\_\_\_

Book Number: \_\_\_\_\_

Date: \_\_\_\_\_

Date of Meeting: \_\_\_\_\_

That I \_\_\_\_\_ a member of the Sharikat Kampong  
Sawah Sempadan Cooperative Society \_\_\_\_\_ with unlimited  
liability do hereby acknowledge receiving from the said society a  
loan \_\_\_\_\_ which I agree to pay with interest of 1% a month,  
in instalments. As much as \_\_\_\_\_ of the principal sum, other  
than the interest for every month \_\_\_\_\_ shall be the  
instalment payments, and the first payment is to be made on \_\_\_\_\_.

I agree to use the loan for \_\_\_\_\_.

And I promise to repay the loan according to the above  
conditions, and to abide by the by-laws of the society.

Witness

\_\_\_\_\_  
Signature.

(1)

(2)

APPENDIX I - CONTINUED

REPRODUCTION OF SURAT BOND HUTANG IN MALAY

SURAT II

Bahasa kita \_\_\_\_\_ bin \_\_\_\_\_ mengaku  
dan berangkat2 dan berchera2 menangong kapada sharikat yang tersebut  
di-atas, dan atas bayaran kembali pinjaman ini di-atas tempoh-nya dengan  
mengikut syarat2 yang terkandung di-atas ini dan tambahan2 atoran  
sharikat ini.

Tarikh \_\_\_\_\_ (date) \_\_\_\_\_

Tanda Tangan Sek2s:

1.

2.

3.

Tanda Tangan Penjamin

1.

2.

3.

Den lagi saya tarokkan pada sharikat ini kerana jadi chagaran  
yang kedua, grant tanah.

1. Inas-nya \_\_\_\_\_ dalam mukim \_\_\_\_\_  
dengan rumah, dan harga-nya \_\_\_\_\_ berseb daripada gadaian dan lain2  
tanggungan.

2. Terta'lok pada gadaian yang bertarikh \_\_\_\_\_  
kapada \_\_\_\_\_

\_\_\_\_\_  
Tanda Tangan Gadaian.

APPENDIX II - CONTINUED

ENGLISH TRANSLATION OF SURAT BOND HUTANG

SIDE II

That we the sureties \_\_\_\_\_ are collectively and individually responsible to the said society on the repayment of the loan in accordance with the conditions mentioned above, and in accordance with any conditioning imposed by the society.

Date \_\_\_\_\_

Witness

sureties

1.

1.

2.

2.

3.

3.

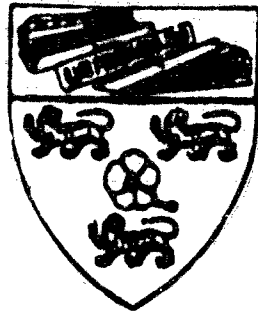
And I further submit to this society as a second security my land grant.

1. Acreage \_\_\_\_\_ in \_\_\_\_\_ with house and the total value \_\_\_\_\_ free from mortgage and other liabilities

2. Subject to the mortgage dated \_\_\_\_\_ for

\_\_\_\_\_

\_\_\_\_\_  
Signature of Mortgagee.



**TAMAT**

