

**CO-OPERATIVE MOVEMENT: A PEOPLE BASED
DEVELOPMENT APPROACH, ITS ROLE
IN THE ECONOMY OF NEPAL**

**A THESIS
SUBMITTED TO JAMIA MILLIA ISLAMIA
FOR THE AWARD OF DEGREE OF
DOCTOR OF PHILOSOPHY
IN
ECONOMICS**

**BY
SHANTA RAJ SHARMA NEUPANE**

**UNDER THE SUPERVISION OF
SUPERVISOR: PROFESSOR KHAN MASOOD AHMAD,
CO-SUPERVISOR: DR. SHAHID AHMED, READER**

JAMIA LOGO

**DEPARTMENT OF ECONOMICS
JAMIA MILLIA ISLAMIA (CENTRAL UNIVERSITY)
NEW DELHI-110025, FEBRUARY 2006**

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DECLARATION

I hereby declare that the Thesis entitled “**Co-operative Movement: A People Based Development Approach; its Role in the Economy of Nepal**” has not previously formed the basis for award of any Degree, Diploma or other similar Titles of Recognition in any University. This work embodies the results of my original research work and reflects advancement in the area.

Shanta Raj Sharma Neupane

Date: 8 February 2006

CERTIFICATE

This is to certify that the thesis entitled “**Co-operative Movement: A People Based Development Approach; its Role in the Economy of Nepal**” by Shanta Raj Sharma Neupane for the fulfillment of the requirements for the Degree of Doctor of Philosophy in Economics is his own independent and original research work carried out in this Department under our supervision. This work has not been submitted in part or full to any University/Institute for any degree. We, therefore, forward it for evaluation and necessary action.

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DEDICATED
WITH PROFOUND REVERENCE TO THE
MEMORY OF MY BELOVED FATHER
LATE PANDIT JEEV RAJ SHARMA

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ACRONYMS AND ABBREVIATIONS

ABPSD	=	Agro Business Promotion and Statistics Division;
ACCU	=	Asian Confederation of Credit Unions;
ADB/N	=	Agricultural Development Bank of Nepal;
ADB	=	Asian Development Bank;
ALMAO	=	All Lanka Mutual Assurance Organization
AMUL	=	Anand Milk Union Limited
CBS	=	Central Bureau of Statistics;
CCA	=	Canadian Co-operative Association;
CCTC	=	Central Co-operative Training Centre;
CMPCU	=	Central Milk Producers Co-operative Union Limited;
CO-OP	=	Co-operative;
DANIDA	=	Danish International Development Agency;
DCO	=	District Co-operative Office;
DDC	=	Dairy Development Corporation;
DEA	=	Data Envelopment Analysis;
DOC	=	Department of Co-operatives;
FAO	=	Food and Agricultural Organization of United Nations;
FedEx	=	Federal Express of United States;
GCMMF	=	Gujarat Co-operative Milk Marketing Federation;
ICA	=	International Co-operative Alliance;
ICSSR	=	Indian Council of Social Science Research;
IDC	=	Indian Dairy Corporation;
ILO	=	International Labour Organization;
MIPCS	=	Milk Producers Co-operative Society;
MOAC	=	Ministry of Agriculture and Co-operatives;
MPCS	=	Multi-Purpose Co-operative Society;
MRCB	=	Mulkanoor Co-operative Rural Bank
NA	=	Not Available;
NABARD	=	National Bank for Agriculture and Rural Development;

NCC	=	National Co-operative Council of Sri Lanka;
NCDB	=	National Co-operative Development Board;
NCDFI	=	National Co-operative Dairy Federation of India;
NCF	=	National Co-operative Federation of Nepal;
NDDB	=	National Dairy Development Board;
NEFSCUN	=	Nepal Federation of Savings and Credit Co-operative Unions;
NICD	=	National Institute of Co-operative Development;
NPC	=	National Planning Commission, Nepal;
NRB	=	Nepal Rastra Bank;
PRSP	=	Poverty Reduction Strategy Paper;
SACCOS	=	Savings and Credit Co-operative Society;
SANASA	=	Thrift and Credit Co-operative Society;
SDB	=	SANASA Development Bank Ltd.;
SHO	=	Self Help Organization;
SPCS	=	Single-Purpose Co-operative Society;
WFP	=	World Food Program of the United Nations;
UCCA	=	Upazila Central Co-operative Association in Bangladesh
UCMPS	=	Union Co-operative Multipurpose Society in Bangladesh

Currency Exchange Rate:

BDT	=	Bangladesh Taka 60= 1 US \$
INRs	=	Indian Rupees 1= NPRs. 1.60
NPRs	=	Nepalese Rupees 72= 1 US \$
SLRs	=	Sri Lankan Rupees 100= 1US \$
US \$	=	United States Dollar 1 = 44 INRs.

CHAPTER ONE

INTRODUCTION

1.1 Evolution of Co-operatives, Meaning and Definitions

1.2.1 Evolution

The modern co-operative concept or principles in the formal sense may not be very old but the concept of co-operatives is definitely the ancient one. The informal co-operation can perhaps be cited from the primitive age of mankind. Two men or women working together to hunt down an animal in the jungle/forest for their livelihood/food must have been the first example of co-operative effort or a work of cooperation. The mankind certainly, has learnt from their experience of numerous successes and failures that two or more persons together have greater chance to get success in any kind of work as compared to the work done single-handedly. The word 'co-operative' is derived from the Latin word 'Cooperari' that means working together with others. In simple words, cooperation is a 'give and take' process to each other, working together for similar and a common cause. For the long time in the history, cooperation remains in informal settings with different kinds of beings. Until around 200 years ago, people were living in village communities, tribes, and large extended families and even in the city where people felt at home and shared the problems and happiness. In this course of time, some fundamental events happened during the Industrial Revolution in Britain and across Europe. Before or after the Industrial Revolution, time and labour became a commodity in the market, saleable at prices fixed by the market

forces. This results in a conflict between management and labour force, producers and consumers. Goods produced in large scale were of inferior quality and high prices that resulted in intermediaries' exploitation. It brought labourers/consumers and social reformers together to create self-help, self-operative and self-conscious Co-operative Movement.

1.1.2. Meaning and Definitions

Co-operative is a business owned by the people who use its services. Some co-operatives sell goods and services produced by their members. In other co-operatives, farmers or consumers buy as a group directly from suppliers. By reducing expenses, these organizations often provide lower costs for consumers and higher earning for producers. Members of a co-operative share the rights and duties equally in controlling the organization. They purchase or earn shares in the co-operative providing the capital necessary to operate the business. Profits are used to improve the business or are returned to members. The members hold meeting annually to pass the annual business plan and elect the directors for specific period. Then directors hire the managers to run the day-to-day business activities of the co-operatives. Therefore, cooperation means association of a number of people in an enterprise for mutual benefits. The motto of cooperation is 'each for all and all for each.' cooperation was developed as a universal instrument of creation to release workers from exploitation and retain benefits for themselves.

Self-help and cooperation are the essential ingredients of a co-operative. Co-operative is a way of working or acting together willingly for common purpose or benefit; demonstrating a willingness to cooperate with each other through a jointly owned means of production or distribution of goods and services operated by the users for their benefit. CR Fay defined a Co-operative Society as “an association for the purpose of joint trading, originating among the weak and conducted always in an unselfish spirit on such terms that all who are prepared to assume the duties of membership may share its rewards in proportion to the degree in which they make use of the association”¹. According to ILO, "Co-operative Society is an association of persons, varying in numbers who are grappling with the same economic difficulties. And who voluntarily associate on the basis of equal rights and obligations, endeavour to those difficulties mainly by conducting at their own risk undertaking to which they have transferred one or more of their economic functions as correspond to their common needs, and by utilizing this undertaking in joint cooperation for their common materials and moral benefits"². Revised form of ILO Recommendation No.193, which describes in detail of co-operative concept after reviewing the earlier Recommendation no. 127, is in the Appendix.

According to ICA Congress, “A co-operative is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly owned and democratically controlled enterprise. Co-operatives are based on the values of

¹ Quoted in SS Puri, *Ends and Means of Co-operative Development*, National Co-operative Union of India, New Delhi, 1979

² The International Labour Organization, *Cooperation: A worker's Manual 1995*, ILO, Geneva, 1995

self-help, self-responsibility, democracy, equality, equity, and solidarity. In the tradition of their founders, co-operative members believe in the ethical values of honesty, openness, social responsibility, and caring for others”³.

Co-operators being generally, persons with small resources, place more stress on their willingness to work hard than the money they possess. The concept of co-operation, thus envisages a group of persons having one or more common economic needs, who voluntarily agree to pool their resources both human and material and use them for mutual benefit, as an enterprise managed by them on democratic basis. Therefore, this is an act of working together for a common purpose or benefit; joint action to do economic production, purchase, or distribution for their joint benefit. They involved in social activities and interact among members/organizations living in a certain area for shared mutual benefit. Co-operative organizations are owned by its members and operated for the benefit of those using its services. Co-operatives have been successful in a number of fields, such as the processing and marketing of farm products; the purchase and supply of different kinds of equipments, tools and raw materials; wholesale/retail trade, electric power, credit and banking and housing industries. The income from retail co-operatives is usually returned to the consumers/members in the form of dividend based on the amount purchased or sold over a given period. This is also called patronage bonus. Therefore, co-operative society is a business venture owned by its members, who may be customers/users in the case of retail co-operatives, or the employees in a manufacturing company and producers in the case of agricultural or dairy co-operative.

³ *International Cooperative Alliance, “The Statement of Co-operative Identity”, Geneva 1995*

1.1.3. Principles of Co-operation

Co-operative Principles have been formulated by ICA from time to time after its establishment in 1895. Its foundation is laid on Rochdale Pioneers basic principles and through the experience gained by the workers in the co-operative movement in various countries. A committee set up by the ICA in 1937, formulated the following revised principles out of initial 'Rochdale Principles' of Cooperation. They are#:

- (a) Open and Voluntary Membership;
- (b) Democratically Controlled Management;
- (c) Limited Interest on Capital;
- (d) Distribution of Surplus to Members in proportion to their transactions;
- (e) Political and Religious Neutrality;
- (f) Cash Trading;
- (g) Promotion of Education;
- (h) Mutuality

Above principles were formulated from the point of view of consumer co-operatives. Therefore, considering the changing socio-economic environments in the world, ICA Congress held in Bournemouth in 1963, appointed a Commission in the leadership of Dr DG Karve from India to formulate the fundamental principles of cooperation. Thus in 1966, Commission re-formulated the principles and adopted by ICA World Congress in 1967. They are:

- (a) Membership of the Co-operative should be open and voluntary;
- (b) Every member should have one vote, regardless of his/her contribution of equity capital or usage in the co-operative services;

- (c) Surplus should be deployed to members in the proportion to usage;
- (d) Members' capital deployed in the co-operative should be paid fixed limited interest;
- (e) A co-operative should co-operate with other co-operatives;
- (f) A co-operative should actively propagate co-operative values of democracy, equality, and voluntarism through education and training.

Almost all present day co-operatives operate under seven principles adopted by the International co-operative Alliance in 1995. During the time, again, there was a long debate about the practice and revision of co-operative principles. ICA formed an Expert Committee to study in deep and come forward with the proposal of revised principles. The Expert Committee brought to light the 'Statement of Co-operative Identity' with seven Principles of Cooperation, which were adopted in 1995, at Manchester World Congress of ICA. They are:

- (a) Voluntary and Open Membership;
- (b) Democratic Member Control,
- (c) Member Economic Participation,
- (d) Autonomy and Independence,
- (e) Education, Training and Information,
- (f) Co-operation among Co-operatives,
- (g) Concern for Community

The full version of the copy of "he Statement of Co-operative Identity" is in the Appendices.

1.2 Types of Co-operatives

Co-operative enterprises can be divided roughly into consumers and producers co-operatives, which are based on human activities. Based on their purposes, co-operatives are either multipurpose or single purpose society. However, Co-operatives are largely of different types based on their business activities and of homogeneity of the people. They can be described as Financial Services Co-operatives (Savings and Credit, Banking and Insurance/Mutual), Milk Producers/Dairies, Livestock, Agricultural, Food and Food Processing, Horticultural, Plantation, Forest Users, Tea and Coffee, Sugar, Rubber and Coconut, Fisheries, Workers, Services, Youth, Renewable Energy, Tribal and backward Community, Women, Health, Housing, Tourism, Transport, Wholesale/Retail Trade, Industrial, and Press and News Papers etc. Some of them are described below:

1.2.1 Consumers Co-operatives

Consumer co-operatives are those co-operatives, which are organized by the consumers/workers themselves for their own benefit. Consumer co-operatives were at first organized and established in Great Britain during the Industrial Revolution. The great leaders of consumers/workers movement were Robert Owen and Rochdale Pioneers who contributed greatly in the history of modern co-operative movement. British Co-operative Whole Sale Society or Co-operative Retail Society presently, 'The Co-operative Group' is the oldest and largest consumer co-operative in the world. The Rochdale Pioneers Co-operative enterprise characterized by idealism and good business judgment provided democracy in industry. Here one vote was casted by each individual regardless of the amount of their investment and goods

supplied to members at current retail prices. However, the profit was returned to the members in proportion to their patronage. Services were the motive of the business rather than profit. In later years, the Rochdale method of consumer co-operation had spread to every country in the world. An organization was formed to save money for their members through direct trade. It thus eliminated the profits of intermediaries or the charges of financial institutions⁴.

1.2.2 Producers Co-operatives

Producers co-operatives are mostly agricultural and handicraft types, organized by farmers/artisans themselves for their benefit. In producers' co-operatives, farmers or agricultural workers or artisans come together to produce the goods and services and sell directly to the consumers or via consumers' co-operative to the ultimate users. Producers' co-operative movement started firstly in France and Germany, during 18th century and spread all over the world. Farmers in France organized co-operative farming in crops, Grapes, and Wine making. In late 18th century, Dairy co-operatives of Denmark expanded largely in professional and highly mechanized manner. In south Asia also, majority of the co-operatives are in Agricultural, Handicraft and related types.

1.2.3 Co-operative Banking

The idea of co-operative banking was conceived by Herman Schulze Dekitzsch (1808-1883) and was first put into practice in 1849 in Elienburg, Prussia (now Germany). It grew out of his efforts to rescue a number of carpenters and shoemakers from usury and to obtain money for them at fair

⁴ *The Colliers Encyclopedia, 1955*

terms for their joint and several liabilities of buying the raw materials needed in their trades. The success of this venture led to various plans for people's bank and credit societies, based on cooperation for encouraging thrift in their neighbourhoods and for extending financial assistance to their members for production or provident purposes. The Co-operative Credit Movement in various forms and modifications has spread to nearly all the countries of the world⁵.

Therefore, Germany is notable as the birthplace of co-operative credit, in the form of the Schulze Delitzsch "People's Banks" and Raiffeisen associations, both types being named for their originators, Herman Schulze Delitzsch (1808-1883) and Fredrich Weilhelm Raiffeisen (1818-1888). The former association put the lenders' interest first, the latter the interests of the borrowers. From Germany, the principle of credit spread to so many other countries with some modifications in form and method. Outside Germany, the co-operative credit movement developed especially, in economically backward countries such as China, India, Indonesia, Korea, and Sri Lanka and also in USA and Canada etc, in which the people were very poor and pressed by debt.

1.3 Historical Perspective at International Level

As mentioned earlier, the basic human concepts in the form of co-operative have been practiced throughout the history. Therefore, informal types of co-operatives are as old as human history. However, modern co-operative movement as we know it today started in Europe, in the context of

⁵ *op. cit. Colliers,*

industrial revolution, money economy, and growing concentration of power in the hands of the few bourgeois. Those co-operatives were set out initially as a means of safeguarding and promoting the interests of economically backward and less powerful members of the society – whether Workers, Consumers, Farmers, or other allied producers. In several European Countries, working people and farmers who were seeking to improve their living conditions during industrial change, almost 200 years ago, organized the first co-operatives. The weavers and other workers in the textile industry were the hardest hit. They were among the first to organize co-operatives for improving their desperate economic and social conditions. Modern co-operatives usually called “Co-op” in USA and other parts of the world are thought to have begun formally in Great Britain in 1844, with the name of ‘Rochdale Society of Equitable Pioneers’. During the grave industrial crisis of 1844, a group of unemployed weavers and other artisans opened a co-operative shop in the small town of Rochdale, near Manchester, in England. The founders of this Co-operative, which was very successful in later days, because they set strict principles in organizing and functioning their co-operative, came to be known as Rochdale Pioneers Co-operative Society. The Rochdale Principles are even today known and to a large degree respected throughout the world. The Rochdale Pioneers began their co-operative in 1844 and this is taken as the birth year for the co-operative movement. This society created a set of principles and organizational / working rules, which have been widely adopted. They included open membership, democratic control, no religious and political discrimination, sales at prevailing market prices and the setting aside of some earnings for education. The co-operative movement developed

rapidly in the later part of the 19th century particularly in the industrial and mining areas of northern Britain and Scotland. It spread quickly among the rural population of Norway, the Netherlands, Denmark and Finland. European immigrants introduced co-operatives in Latin America in the early 1900's; later they were often fostered by the state action in connection with agrarian reform. Marketing and credit co-operatives proved to be important in many African nations, especially after World War II. In the former Soviet Union and Eastern Europe, marketing co-operatives functioned as part of the centrally controlled purchasing network of farm produce. Co-operative farms in Communist countries are modeled on the Russian Cartel, in which all land is pooled and worked in common and income is distributed according to work performed. In Japan and in British India along with other occupied countries, co-operatives were started as early as (1904) beginning of the 20th century.

Co-operative movement is a network of co-operative organizations established by individuals to provide themselves with goods and services or to produce and dispose of the products of their labour. The means of production and distribution are thus, owned in common and earnings revert to the members. It is not based on their investment in the enterprise but in proportion of their patronage or personal participation in it. The international network organization called International Co-operative Alliance was established in London, in 1895 to represent the World Co-operative Movement. At present, there are 800 millions of co-operative members' worldwide under two Million co-operative enterprises in covering almost every country⁶. The birthplace of the modern consumers' co-operatives was in Great

⁶ ICA, *World Co-operative Data*, Geneva, 2004

Britain. Several hundred of these consumers associations were established in England and Scotland during the century following 1750. Their efforts were redoubled under the influence of great Cooperators Robert Owen and Dr William King in the 1820's and 30's. However, later, most of them failed in their purpose because they were strict to the unsuccessful scheme of the so-called utopian socialists to establish commercial colonies. Their primary objectives of creating employment were run primarily for the benefit of those who provided the capital. The movement, in its present form, dates from the founding of the Rochdale Society of the Equitable Pioneers by a group of 28 English textile workers. On December 21, 1844, they opened a small stock of flour, oatmeal, butter, sugar and candles, purchased with a capital of 28 pounds. Despite its modest beginning, their Society prospered⁷. Within a decade, the Rochdale Society had 1000 members, and similar co-operatives sprang up all over Great Britain. In 1863, the retail associations in England formed the Co-operative Wholesale Society (CWS). A similar organization, the Scottish Co-operative Wholesale Society (SCWS) formed in 1868. A non-commercial body to represent the interests of the co-operatives and local associations of all types was organized in the following year, under the name of 'The Co-operative Union'. Most historians trace the beginnings of the modern Co-operative Movement also in USA from the early 1800s. Farmers, who wanted more control over the prices they received for their products, formed marketing co-operatives. One of the first of these organizations in the USA was a Co-operative Creamery established in 1810, by dairy farmers in

⁷ The Encyclopedia Americana Vol. VII, 1960, Page- 639

Goshen, Connecticut⁸. In the early 1900s, the US government began to support Farmer Co-operatives. The Capper-Volstead Act of 1922 recognized the right of farmers to form such co-operative organizations. Further attempts to develop the consumer and agricultural marketing co-operatives were made at the beginning of 19th century. The Knights of labour and other labour unions during the 19th century had established Consumer Co-operatives to provide cheaper goods for low paid workers. Although most of US co-operatives developed in rural areas, Consumer and Housing Co-operatives spread substantially, in metropolitan areas in the early 20th century. Farmers also formed purchasing co-operatives, in which they placed the orders for coal, seed, inputs and other products so they could buy in large quantities. The Co-operative Marketing Act of 1926 established what the Agricultural Co-operative services are now. During 1960s and 70s, rising prices created an increased interest in Consumer Co-operatives in the form of buying clubs to save money on groceries. Even today, USA government provides Billions of Dollar in subsidies to the farmers through their co-operative societies to save them from international competition.

1.3.1 Co-operative Movement in India

The Indian Co-operative Movement had started with the enactment of 1904 Co-operative Credit Societies' Act whose objective was to provide relief to the farmers and needy person from the exploitation of moneylenders and intermediaries⁹. The Act of 1904, promoted the organizations of primary credit co-operatives and stress was laid on the promotion of agriculture credit only. The special feature of the societies was that the government was the prime

⁸ *Ib.id Encyclopedia Americana*

⁹ *SS Sisodia, The Cooperator, NCUJ, New Delhi, 2002*

mover of the movement. The movement was not only initiated by the government, but was also supported by government loans. In 1909, government loans formed 22% of the working capital of the societies. Gradually, the movement expanded and the Act of 1904 was found insufficient to cope with the expanding movement. Therefore, a new Act was passed in 1912, making important changes in 1904 Act. After this new Act, the co-operative movement of India expanded with renewed promise by establishing Central Co-operative Bank. Thus, primary societies ceased to be dependant on the government loans. The noble experiment of multipurpose co-operative societies began which later became a recognized pattern for the whole of India. Under the reforms of 1919, co-operation became a subject to states and made rapid progress in various states. Bombay State gave a lead by passing the Bombay Co-operative Societies Act in 1925, incorporating provisions to suit local conditions. This Act later on was modified and became major provincial subjects of rural India. A Commission on Agriculture (1928) highlighted this by saying that 'if the co-operatives fail, this will be a failure for the best hope of rural India'. However, in 1929 world's economic depression gave the co-operative movement a rude shock. Over dues in societies mounted-up, and liquidation of co-operatives had to be done in certain states. But gradually, the conditions improved and an important landmark of this period was setting-up of the co-operative planning committee that drew-up plans for the development of co-operative movement in various states. It fixed targets of bringing 50% of villages and 30% of population into the fold of co-operation in a 10-year period.

After the attainment of independence in 1947, the consequent establishment of National Government in the country came in as a fountain of inspiration for the co-operative movement. Then the National Development Council was formed which was the highest policy making body. It recommended in its resolution on co-operative policy, that the responsibility and initiative for socio-economic development at the village level should be placed fully on village co-operatives. After that, a series of five-year plans aimed to build-up what has been called as 'mixed economy' in which private, public as well as co-operative sectors play equally important roles. In order to minimize the drawbacks of both the private and public sectors, co-operative sectors have been given importance and considered as the balancing factor between these two sectors. Since co-operation has benefit of combining in itself, the freedom and opportunity for the working people with the advantages of large-scale management. Therefore, it has been recognized as the principal agency of development in various fields such as agriculture, irrigation, small industries, distribution, housing, and construction. It is to review the present Federal and State Co-operative Acts to democratize the Central and State governments' control over co-operative system. According to Dr Sisodia, Indian co-operative movement now, has so many Co-operative Acts in control and in each state having many restrictive provisions, which has barred for autonomous growth of co-operatives as well as it affected their democratic functioning. However, the Multi-State Co-operative Societies Act 2002 has made co-operatives comparatively free from government controls. In order to administer the operations of co-operative societies where membership was from more than one province, the Government of India

enacted the Multi-State Co-operative Societies Act 1942, which was subsequently replaced by amended Act in 1984 by same name. This Act was amended and enacted again as Multi-State Co-operative Societies Act of 2002, providing greater autonomy to the co-operatives in their decision making process. The law also reduced the powers of the central Registrar and enabled the co-operatives to operate more independently. Nomination of government representative on the 'Board' was also reduced.

Co-operative movement in India is functioning under every sector of the economy viz. Savings and Credit, Banking, Fertilizers, Sugar, Agro-Marketing, Consumer, Handloom, Handicraft, Films, School/Campus Co-operatives, Heavy Industry, Tribal, Fisheries, Labour, Dairies and Housing sectors. At present, the Indian co-operative movement comprises of 549,119 primary societies with total 229 millions members and total share capital of Indian Rs 224 Billions. The flow of rural credit in India through the co-operative channel has increased from 43% in 1991 to 47% in 2000/01. The co-operatives are covering 100% of the villages and 67% of rural households¹⁰.

1.3.2 Co-operative Movement in Sri Lanka

The co-operatives in Sri Lanka introduced at about the same time as in India and other Asian countries under British colonial rule. As British Indian government did in India, Sri Lankan co-operatives started out as credit unions of a Raiffeisen type, intended to alleviate farmers' indebtedness. The

¹⁰ *Indian Co-operative Data Bank, NCUI, New Delhi, December-2004*

administrative annual report of Sri Lanka's Department of Co-operative Development suggests that the change of political leadership of the country in different year measurably affected the country's pro-co-operative policy. As part of its economic reform program, the new government pursued incorporation of government agencies. The environment of co-operatives has undergone significant changes. For instance, the Department of Co-operative Development was upgraded to the Ministry of Co-operatives and gave greater emphasis on co-operative promotion under higher umbrella.

The Polgolla Co-operative School, which had operated for many years as a government-training institute especially, for government officials concerned with the department of co-operatives, has been incorporated as an independent body called National Institute of Co-operative Development (NICD). The Co-operative Management Services Centre is now affiliated with the National Co-operative Council (NCC). These changes have resulted due to increased emphasis on economic and administrative reform policies. The Department of Co-operative Development stated in its 2001 annual report that, it is beset by shortage of human resources brought on by the government policy of cutting back the number of government officials. The government wanted to reduce its intervention in co-operatives and cut back subsidies. The department says that it wants ultimately, to limit its role to registration and supervision of co-operative enterprises. However, the co-operatives are opposing such moves because of the fear of losing government support/resources.

In fact, Sri Lankan Co-operatives are facing problems owing to declining membership, falling business performance and their inability to cultivate markets and respond to the needs of technical reform. Hard hit are Multipurpose Co-operative Societies (MPCS) that dominate the co-operative community in Sri Lanka. Multipurpose co-operatives are dealing in large-scale business volume though their number is 311, has not changed for years but only 174 of them made profits in 2001¹¹. By sectors, rural banks (savings and credit business) stood out in profit performance within the MPCS. While co-operatives are set up essentially, for organizing mutual financing among their members, MPCS in Sri Lanka do not adequately meet the financial needs of their members. They are heavily inclined to serve public at large, which accounts for the dwindling membership of co-operatives. Moreover, farmers, let alone ordinary people, are losing interest in the agricultural sector, presenting a bleak prospect for its future. Nevertheless, not all co-operatives are in bad shape. I visited Kotapola Multipurpose Co-operative Society in southern Sri Lanka in December 2004. This is one of the best MPCS in Sri Lanka. They have mentioned in their presentation and in our observation too, it looked really successful and exemplary. This co-operative is the provider of highest numbers of local employment especially women. This one and 29 other coconut co-operatives as well as tea co-operatives in the south are well run. However, multipurpose co-operatives, which are the mainstay of co-operatives here, are markedly sluggish. With peace returning after the long civil war, the government plans to accelerate the liberalization of its economy.

¹¹ *Annual Reports, Department of Co-operative Development, Colombo, Sri Lanka, 2002*

In the same vein as the annual report of the Co-operative Department, the government has clarified its position towards the existing co-operatives, including the National Co-operative Council (NCC). The government warned that they would have no future unless they restructure themselves as integral and independent bodies by ceasing to rely indiscriminately on government support. It is clear that the NCC and co-operatives under its wing face a draconian task of reform if they want to survive.

In these difficult circumstances, savings and credit co-operatives (SANASA) are growing soundly year-by-year. The reports of the Registrar of co-operatives noted the SANASA group's as fast growing. SANASA along with Grameen Bank of Bangladesh and Self-Employed Women's' Association (SEWA) of India, are the focus of attention of international organizations and NGOs, dedicated to poverty alleviation. Our visit to some of SANASA Primary Thrift and Credit Societies especially 'Waralla' in South Sri Lanka and 'Aturgiriya' in outer Colombo enabled us to see how successfully they are running business in the co-operative spirit. SANASA makes special efforts in the administration of Primary Co-operative Societies to see that they are administered in self-help and democratic ways by having political intervention minimized. It encourages co-operative members to engage themselves in co-operative projects and promote the transfer of knowledge and technology pertaining to the operation of enterprises. These efforts are made for the benefit of the primary co-operative societies and education of individual members. SANASA has become an influential rural financial institution in Sri Lanka. It has rallied farmers and helped them to stabilize their livelihood and raise their income to a higher degree. It has cleared the first stage in the

growth of co-operatives, namely the process of forming co-operatives as rural entities of mutual assistance.

However, the operational scale of each co-operative is still too small to become a market force to be reckoned with. Therefore, the group will have to consolidate member co-operatives or take other steps and seek scale merit. The latest survey reveals that SANASA has been trying to diversify its commercial operations beyond the savings and credit business. It would include the areas of insurance, management of educational facilities, motels, construction, and management of stores in an attempt to establish itself as a significant market force in future, (which is mentioned in detail at the fourth chapter). In a discussion with Dr Kiriwandenya, the leader of the movement was asked about SANASA's future. He said everyone has higher dreams until one dies and why not SANASA fly its own plane if FedEx (Federal Express) can. It is of great interest in the fact that SANASA is a success story in comparison to multipurpose co-operatives, though some of the MPCs are in very good status.

1.3.3 Co-operative Movement in Bangladesh

The cooperative movement in Bangladesh has a common history that of the Indian sub-continent. The movement in this region first started during the year 1904 with the introduction of 'Co-operative Act 1904' by the then British Indian government. Under this Act, the economic condition of the agro-farmers who were debarred of the provision in industrial participation had to be improved. According to S.A.M. Haque (2003), the Act was amended in 1912 assuring provision for non-agricultural co-operatives. A numbers of

village co-operatives were formed and those primary cooperatives were backed by a Central Co-operative Bank with its headquarter in the Provincial Capital and branches at the District, Sub Division and Police Thana levels. In order to strengthen the co-operative movement, a co-operative department headed by a Registrar was set up as a government agency to promote and regulate. But in no way development out of the co-operative movement in rural areas were in sight and a number of factors such as the Economic Depression of 1930s, Abolition of Settlement Board (1937) and the Second World War in 1939-45 and sad partition of mainland India were identified for the failure. Besides those, some built-in weaknesses under the said Act were also identified such as¹²:

- (a) Organization and control of the Rural Cooperatives by the Government itself;
- (b) Lack of cooperative zeal, education and management training for the involved groups;
- (c) Structural and operational defects of the organizations;
- (d) Domination of the co-operative societies by the vested interests groups particularly the rich farmers (Feudal and Zamindars) of the area;
- (e) Unlimited and unauthorized liabilities of the members;
- (f) Activation of Credit facilities without proper supervision on utilization and repayment;
- (g) Unworkable Top-down planning;
- (h) Lack of government support and supervision for proper development;
- (i) Non-participation of the trained and educated class etc

¹² SAM Haque, *Co-operatives in Bangladesh, Bangladesh MP Co-operative Union Limited, Dhaka, 2003*

Above issues compelled the cooperative movement to become stagnant in the region and the members of the co-operatives lost their confidence on the management. To make a change to the prevailing situation, the Co-operative Societies Act 1940 was enacted. Under this act, village co-operatives with unlimited liabilities were liquidated and Union Cooperative Multipurpose Societies (UCMPS) were started in that place. Further to meet the requirements of credit and other inputs to farmers, the government tried to convert credit cooperatives into multipurpose cooperatives etc. However, this could not save the co-operative from insolvency by 1958. After the partition of mainland British India, further efforts were made not to repeat the similar problems as before 1940; but new problems aroused between West Pakistan and East Pakistan (presently Bangladesh) and all efforts went fruitless.

After the independence of Bangladesh, the introduction of the 2-tier co-operative, popularly known as the 'Comilla Model' of co-operative progressed in 1970s by the sponsorship of the Bangladesh Rural Development Board (BRDB). Under this system, small farmers were organized into the primary co-operatives at the village level as first tier. These village co-operatives were federated at the Upazila level as second tier of the co-operatives. The Upazila Central Cooperative Association (UCCA) provides the necessary financial and organizational assistance to the primary co-operatives. Now, both types of co-operatives are in existence in Bangladesh. However, to cater the need of time the co-operative Acts and rules were revised in 1987 and in 2001-02 in Bangladesh. These revisions were made mostly on the management perspectives. The latest changes of 2002 are being under practice. Present

status of Bangladesh Co-operative enterprises and their contribution wherever available is presented at the Table -4.6 (see end of the Chapter 4).

1.3.4 Co-operative Movement in Nepal

In the year 1953, the Government of Nepal initiated the establishment of the Department of Co-operatives and started to promote co-operative groups through the US Aided Rapti Valley Development Project in Terai region where the first registered savings and credit co-operative was established in 1956. In the first 5 years, co-operatives were independent from the government. During the same period, the first elected government headed by the great leader, B.P. Koirala; a vibrant Socialist Cooperator, visited Israel and introduced the first Co-operative Act and passed it from the Parliament in 1959. Soon, after this co-operative friendly elected government was removed by the then King Mahendra who replaced by it the guided system of so called Panchayat Democracy. This later badly affected the development of independent Co-operatives in Nepal. This change in government and introduction of so-called Panchayat democracy took independent co-operatives into government's fold and used it wherever and whenever required to favour the then government administration especially, for the distribution of essential goods. The principles of co-operation were so ideal to demonstrate in public and call to provide necessary services such as agro-inputs, distribution of ration items like sugar, food-grains, kerosene oil, and salt. Therefore, during the 30 years of direct rule of the King, Co-operatives remained the tool of the government to deliver goods and services as per the direction of the government. However, it seemed, they had positive attitude of their type, towards co-operative movement but always rejected to give

autonomy and right to federate. Nevertheless, there was rapid growth of co-operatives from 1956 to 1969/70, mostly in agricultural multipurpose co-operatives and savings and credit co-operatives. Because all the co-operatives were under the direction of the government, were weak as they mishandled the resources. It appointed a high-level committee to review the performance and efficiency of co-operatives in the past. On the recommendation of so-called committee, the state dismantled mostly or merged some co-operatives and reduced the number from 1,489 into only 72 co-operatives at the end of the fiscal year 1969/70. Memberships were also reduced to 17,352 from 71,163; total share capital decreased from Rs. 2726,000 to Rs. 605,000. From 1970 to 1990, government controlled and managed all the co-operatives putting them under Agricultural Multipurpose types. They took loans from Agricultural Development Bank (previously Co-operative Bank) and lent to the members. The average recovery percentage of loan provided to the members until 1970 was just 48% and by the end of 1980's it has increased to 60%.

After the restoration of democracy in 1990, it opened a door to so many changes in the country. A new constitution was promulgated and the Parliament was convened after the General Election based on multiparty system. Newly elected Government formed a high-level committee to review the existing co-operative act, rules, and organizational structures of co-operative movement. The committee recommended the introduction of a new law and co-operative policy. They made drastic changes in Nepal's co-operative movement. The Parliament passed the new law 'Co-operative Act of

1992' that gave full autonomy for the all co-operatives, free from government control. Since 1992, there was a mushroom growth of co-operatives in different sectors. There were just 883 co-operatives in 1990, which reached to more than 7000 in the year 2001/02. This is almost 8 times (800%) increase in numbers in a decade. (See the development and role of Nepalese co-operative enterprises in Nepal, given in detail at Chapter 5)

1.4. Relevance and Justification of the Study

This study has great relevance and justification in the present context. The co-operatives have to change its traditional structure to compete with the multinational companies in this era of globalization. In general reading, it is known that around ninety (%) percent of the equity and delivery system has been controlled by the business houses in the private sector of the world which seems similar to South Asia. Co-operatives have either to adjust it or make it relevant in the present market economy to survive. Therefore, the study will relate with all these present day focus of competitive business and illuminate the higher role of co-operative enterprises in a viable sense.

The Nepalese co-operatives have become autonomous after the new Act in 1992. Since then until now, we came to know that, no specific research has been done in this field in Nepal. There is non-availability of this type of study in comprehensive form. In this research, I have tried my best in order to demonstrate the best practice cases from India, Sri Lanka, and Bangladesh. This type of study, by comparing the South Asian best cases with the Nepalese co-operatives, which has never been dealt until now. This research will be the first stepping-stone towards this field to deal with such inaccessible

vagaries of economy. We have collected almost rare and scattered co-operative data and information since 1956, when co-operatives were first established. We have presented the secondary data for the period that is from 1956 to 2002/03 in general and analyzed specifically during the period of 1992-2002. Different statistical tools and techniques are applied first time in such studies of Nepal co-operative movement.

This study searches the role of co-operative sector in the economy. Therefore, we experience the increasing role of the co-operative sector in agriculture based Nepalese economy. Nepal is basically an agricultural country where 70% and above of its people is still depended upon agriculture occupation. Co-operative system of farming and marketing is vital to the farmers and the economy to modernize and upgrade the production and distribution system. Therefore, the study contributes to a great extent to exemplify the importance of co-operative sector for the economy. The society is required to boost agricultural production, market expansion as well as to provide micro- financial services through co-operatives. The study now is a comprehensive literature of Nepalese co-operatives, which will be a proved by the research work of the time to highlight this sector in the country. The study presents the policy recommendations and model action plan for co-operative sector, which will be highly beneficial for the government organs such as planning commission and relevant ministries.

1.5 Organization of the Study

The study consists of nine chapters. The **First Chapter** is the introduction. It includes the statement regarding evolution of co-operatives, its

meaning, definitions and principles, types of co-operatives, historical perspectives at international level, justification, and relevance of the study. The **Second Chapter** presents the review of literatures on the subject in order to highlight the significance and dimensions of the different issues in co-operative sector.

The **Third Chapter** deals with objectives of the study, data sources, and methodology. The **Fourth Chapter** describes the best practice cases of co-operatives and micro-finance in India (AMUL), Sri Lanka (SANASA), and Bangladesh (Grameen Bank) respectively. The **Fifth Chapter** explains the historical overview of the co-operative development in Nepal, co-operative policy and its role and contribution to Nepal's economy. It covers the period from 1956/57 to 2000/01 and provides details of co-operative growth, ups and downs of the movement presenting and analyzing secondary data.

The **Sixth Chapter** deals with the empirical analysis and the interpretation of primary data related to primary, secondary, and tertiary level co-operative institutions in simple statistical form/ ratio analysis. The **Seventh Chapter** deals with the empirical analysis and the interpretation of primary data of selected primary, secondary, and tertiary level co-operative institutions applying econometric models. The **Eighth Chapter** deals with the analysis and the interpretation of primary data related to the members of primary co-operative societies in simple statistical form/ ratio analysis. Finally, in the **Ninth Chapter** summary, conclusions, policy implications, and recommendations have been presented. Besides all this Appendices and Bibliography has been added at the end for reference.

CHAPTER TWO

REVIEW OF LITERATURE

Economic rational behind success of co-operative and trade union movements took wide scope in the past and still vibrant at the present context of globalization. This indicates that it is a special area in socio economic development of the people. However, co-operatives have to change its traditional structure to compete with the multinational companies. In general reading, it is known that around ninety percent of the equity and delivery systems have been controlled by private sectors especially the big business houses in the world. Therefore, the economic rational of co-operative sector in centrally planned economies or democratically planned countries still show the relevance in present market economy. The present day co-operatives now should look for good space in this open and globalised competitive market economy. In addition, they should also run a co-operative truly on the principle basis, that they could be able to demonstrate their real identity.

In the present chapter, an attempt has been made to review several research articles and books related to different issues of co-operatives in different countries, particularly in India. From the available literature, different types of thoughts and analysis on co-operative enterprises were found. The analytical ideas on failures and success, participation of members in business as well as effective management system are some, which are useful for the research. There are several factors, which are untouched by others. Though, on exploring the literature on this subject - Co-operatives in Nepal, we did not

find any comprehensive study covering the Co-operative sector broadly. The studies conducted in Nepal are quite descriptive of limited area and the period. Therefore, any concrete opinion and measures from those researches on Nepalese Co-operative Movement cannot be drawn. From the present research, we are trying to cover up those areas of Co-operative development also, which were not covered in the earlier studies. We are even trying to analyze such factors through primary data and arrive at suitable measures to strengthen the co-operative enterprises through the ideas and strategies of co-operative development.

2.1 Peoples' Organizations

People's organizations are defined as membership based organizations. The purpose of the peoples' organization is to serve the needs of its members. The members of the organizations own and control it. The best example of people's organization is a co-operative; the others are farmers' association, mothers group, labour unions and users / consumers organization. Almost all people based organizations are self-service oriented and not like intermediate organizations who provide services to the people at large rather than its members or shareholders, such as private agencies, government departments, NGOs, and religious organizations. Therefore, co-operatives are regarded as the major people's organization because their purpose of establishment is to serve to the members, by the members and for the members.

According to Munkner (2001), during the last 150 years, it has been found that the ideas, which were practiced by co-operatives are self-help and mutual

assistance; liberty and voluntarism; equity, honesty and transparency; democratic control of economic activities; and social responsibility. Co-operative is a bunch of ideas organized by the self-help, private, independent bodies along with all autonomous self-help organizations (SHOs). The true co-operative enterprises apply the method of pooling resources and human endeavour, in an organized, disciplined manner by building up self-controlled and self-patronized business organizations. At this point, the author is completely in favour of people based, autonomous co-operative self-help organizations. They are the tested models for members' development and they discard the government control over Co-operatives.

Brazda and Sehedway (2001) advocated that the co-operative formation is an act of grassroots collective mobilization. However, grassroots mobilization can only take place under minimum-guaranteed civil liberties. The most successful 'mature' co-operatives with regard to the survival and growth criteria, are those which are based on broad ethnic, class or religious groups' solidarity; often managed in a 'benevolent authoritarian way' by charismatic leaders acting as 'social entrepreneurs'. Such leaders may transmit their authority to the next elected or 'adopted leader' with relatively large member shareholdings making for higher interest by the members. These leaders are able to perform their task in an atmosphere of trust and democratic consensus. For a co-operative to be established as a member based team economic enterprise, it has to overcome the initial phase in which its fate is largely determined by the enthusiasm and often self-exploitation of a few members along with the active participation of the members at large.

According to Jha and Jha (2000), Co-operatives are the best and the most suitable member based voluntary agencies, they improve the conditions of the weak and backward persons who can deliver services to the members. NGO sector may not recognize this by simply saying, "Co-operatives do work with profit motive". Similarly, people in the voluntary agencies also say that Co-operatives are not voluntary agencies in spirit and practice because they work with profit motive. This perception about co-operative is not true. The first principle of co-operative states that co-operatives are voluntary institutions organized not for economic profit only but for fulfilling the social and cultural needs of its members who are weak to achieve their needs on their own. Therefore, co-operatives are not only profit-oriented organizations but also 'service to members first' in need because its members contribute their time and energy on voluntary basis for others.

In fact, co-operatives supplement the role of member based voluntary agencies by liberating them from their problems. There is a vast difference between a co-operative and NGO type voluntary agencies in the market in tackling the needs of the poor and weak members. The weaker and backwards may organize themselves into a co-operative on their felt needs to achieve what they consider of utmost important business at a particular point of time. Therefore, conceptually co-operatives are the most suitable people based voluntary organizations to improve the condition of not only the weaker and backward sections, but also of farmers and labourers at large.

2.2 Co-operatives: A Foundation of Economic and Political Democracy

According to Reddy (1996), after Independence in India, co-operation was not only visualized as a 'way of life' for the people but as a foundation for economic and political democracy. Many successful co-operatives, particularly in the dairy, sugar, agricultural marketing, fertilizer, and credit sectors contribute effectively to the national economy by practicing democracy at the grass root level. Especially in Maharashtra and Gujarat, the Movement has been emulated as a model for several other states because of the huge involvement of the people in the initiation of the great social reformers and political leaders. Co-operatives cover more than 60% of the farmers. There are 145 sugar co-operative factories in Maharashtra with a total membership of 1.4 million and about 95% of them own only five or less than five acres of land that reaps high profits to them. These sugar co-operative factories have established several social institutions, e.g., hospitals and colleges and constructed rural roads, which are managed and controlled by the members. The present study reveals that co-operatives can be successful when they become instruments for achievement of their members' goals and their felt needs.

Kamesam (2001) states that the Indian financial system has over the years, undergone a remarkable transformation and now comprises an impressive network of financial institutions, market institutions and a wide range of financial instruments. The co-operative structure has also grown to a massive proportion. The institutionalizations of savings with wide geographical and functional coverage of institutional credit as well as market development

are crucial for rural economy. It is true that there are now a number of co-operative institutions with huge volumes of business in financial, dairy, and marketing sectors.

Brazda and Sehedway (2001) highlighted that co-operative formation is an act of small enterprise development at grassroots level. Nevertheless, these grassroots' co-operative enterprises would also practice minimum civil liberties and democracy. For such a co-operative to become sustainable long-term economic enterprise, the co-operative has to overcome the barriers and promote principles of co-operation through members' democratic participation. Co-operation is not only visualized as a way of life for the people but as a foundation for socio economic development and exercising democracy.

2.3 Co-operative as an Effective Tool of Sustainable Development

Reddy (1996) in its study emphasized that co-operatives have emerged as a meaningful tool of socio-economic development. Large numbers of co-operative societies have been formed in basic agricultural to labour, sugar to spinning mills and rice mills. In the early stages, they were established to provide relief and support to rural people in agricultural inputs and credit. Many successful co-operatives, particularly in the dairy, sugar, agricultural marketing, and fertilizer industry and credit sectors contribute effectively to the rural/national economy in generating employment and alleviating poverty.

Pokharel (1988) in his study of the 'Co-operative Movement in Nepal', co-operative enterprises were described as an appropriate tool for rural development. However, there aroused a lot of problems and weaknesses in

implementing the government policy on co-operatives and putting them in the crossroads. Co-operatives are very important factor for the promotion and development of agriculture. Nevertheless, the author neither provided suitable reason to signify the importance of co-operatives, nor impart the best strategy for a better implementation. We will try to recommend the strategies of a model co-operative society in this research, which may help the planner and co-operative practitioner.

Sharma (1997) portrays how milk co-operative movement in India, through 'Operation Flood' has proved that livestock farming has become a modern commercial enterprise. It can bring both social and financial rewards to the people. The author has designated 'Operation Flood' as one of the best programs for the upliftment of poor and weaker sections of the society including women to upgrade them from poverty. Dairy farming has become the best co-operative option not only in India but also in whole of south Asia. It directly benefits farmers to raise their socio-economic standard of living, better health, and education to their children.

Dharia (2000) emphasized on the importance of co-operative ideas for the growth of an agro-based rural economy in whole of south Asia. Credit co-operatives and co-operative banks have been instrumental in breaking the shackles of the feudal moneylenders in the country. The movement has considerably succeeded in rendering social justice along with the growth in equality that has disclosed a new direction in the farmers' economy.

Mirsepassi (2001) in his article 'Developing a Social Capital, Through Co-operative Impulse, a Conceptual Framework' affirms that co-operatives

deserve and work for higher social capital than the private organization. Concerning social capital development, the government controlled economy and free market economy are not only located on the opposite side like the two ends of a horseshoe, but also located very close to each other, yet neither of them can provide social capital as much as co-operative organizations do. Therefore, the social capital and social justice is required more effectively through co-operative sector than the other two economic sectors i.e., private sectors and government controlled public sectors.

Draperi (1998) tries to show the importance of co-operatives on the verge of de-regulated capitalism and state managed regulatory system. In this context, co-operative sector would have competitive business relation with the contemporary globalised capitalist multinational sector. On the other hand, it would develop markets and networking within co-operative organizations worldwide to safeguard the interest of co-operative members. After World War II, the grape producers / vineyard (wine) growers in France had established their own professional organization and their own co-operative to negotiate with private wine houses, which controlled the national and international markets. In addition, they had inter-professional contract between vine growers and wine merchants by negotiations and bargaining they have build-up their own marketing system. Now, these co-operatives are the driving economic force within their professional organizations. These co-operatives have defined the technical, economic, and social aspects of development and production. Therefore, the analysis in the article demonstrates that between capitalists' deregulations and state control, as well as management of the system, co-operatives emerge as the competitor to the multinationals, on one

side and as alternative for both to safeguard the people's interest on the other. It also recognizes market as a major strategic factor.

According to Kumari (1995), various formal credit-supplying agencies have emerged in the field of rural credit due to the increased credit requirements of rural people of India. Among these, co-operatives are the major rural credit delivery agency. After Independence in India the main thrust and approach to rural credit was to build up the co-operative credit system as a specialized agency for rural credit. Nevertheless, due to some weaknesses, co-operatives changed the policy to introduce other agencies also in this sector. However, it is clear that co-operative movement has made impressive progress in about last 40 years in India.

Reddy and Rao (1999) has presented the four decades of Mulkanoor Co-operative Rural Bank's experience connected to savings and credit, recovery position, reasons of over dues and sustainability of agricultural activity promoted by agricultural credit. Mulkanoor Co-operative Rural Bank was started in 1956, covering 14 villages with 373 farmers and 1 employee having share capital of INRs 2292. By 1997, the share capital increased to INRs 115 crores, total membership rose to 5684, and total turnover rose to INRs 2625 crores. The co-operative was operated by 110 employees and earned a net profit of INRs 54.7 lakh in 1996/97. In the study, Mulkanoor Co-operative was presented as a good example of successful co-operative organization in ensuring integrated savings and credit mobilization and marketing activities to the members. It reveals that the co-operatives are best suited for providing

integrated credit and act as a change agent for backward rural/urban communities' development.

Kunjukunju (2000) in his research 'The Impact of Credit on Income of the Rural Borrowers, a study in Kerala' states that the rural credit in India has become important to eliminate rural poverty and provide opportunities for employment. Therefore, the impact of rural credit on the income of the borrowers in Kerala State could be seen considerably. The borrowers from different places of Kerala have earned incremental income during the post loan period. The rate of increase in income from loan activity was from 73.5% to 79.9% at the higher level and 8.1% to 15.5% at the lower level depending on the region. As per institution wise or sector wise, there was high positive impact on income from loan activity, in the post loan period. Low impact was found in some cases because of miss-utilization and lack of proper supervision at primary co-operative level. At secondary level, there was considerable impact of credit on income. Borrowers in industrial sectors have gained high income than in the agricultural sectors and allied activities. Hence, the considerable doses of credit to the rural poor via co-operatives for various economic activities, in easy terms will certainly help to increase their income level and improve their standards of living.

Kamesam (2001), elaborated in his paper 'Credit Through Co-operative; some Thoughts' argued that the credit through co-operative system covers over 72% of rural credit outlets in India. It has a market share of about 46% of total rural credit in the country. Over the years, the long-term co-operative credit structures have grown tremendously with changes envisaged in its role

from time to time. The Indian financial system, over the years has undergone a remarkable transformation and now comprises an impressive network of financial institutions, markets and a wide range of financial instruments. The co-operative credit structure has also grown to massive proportions. The institutionalization of savings with wide geographical and functional coverage of institutional credit as its counterpart, have been central to Reserve Bank of India's credit planning all these years. Indeed, the Reserve Bank of India, over the years has put its faith in the co-operative credit agencies of bearing the major share in the task of widening institutional agricultural credit in the country.

2.4 Anand Pattern Dairy Co-operatives in India

Singh (1997) in his study 'Saga of Anand Pattern Co-operatives Proven Model for Rural Development through Co-operatives in India' shows the pros and cons of the successful model in dairy co-operative system. The author intended to focus the historical development of the dairy co-operatives and highlighted the factors leading to the best model by others in the same area. When, dairy co-operatives were organized and established they became genuine producer-oriented to take back all the benefits for the members and to get rid of, from the chain of intermediary exploitation. After the great pressure from dairy farmers, the then governments of Maharashtra and Gujarat were ready to buy milk from farmers' dairy co-operative unions.

At a later stage, a huge 'Operation White Flood' project could take place in India because of governments' effort to buy milk. These Anand pattern co-operatives maintain themselves as genuine (farmer) member based

institutions and follow healthy co-operative practices. They take care of the aspirations of the farmers to an appreciable extent. The study reveals that entire co-operative development efforts have to be targeted preferably in awareness, motivation, and role-playing action for membership as well as leadership / management in the organization. This will safeguard the co-operatives to consolidate and protect them from such environment, which could drag them away from true co-operative path.

Sharma (1997) evaluates the aspects of co-operative dairy development in Maharashtra and Madhya Pradesh. The dairy development projects were initiated in both the states by getting support from respective State Governments, National Dairy Development Board and International Development Association of the World Bank. The government has started naming it as 'Operation Flood Program' since 1970 and implemented until 1997, in different states. Because of the implementation of these projects, large dairy plants were set up and those were linked to village level dairy co-operative societies and to individual farmers. Physical infrastructure for dairy was developed; structural framework was built-up to establish the marketing network for milk business. For the Nation as a whole, large-scale modern infrastructure was developed, on one hand and increase of milk production to meet the demands for fast growing population, on the other. Side by side, farmers' milk co-operatives and co-operative unions were demanding from National Dairy Development Board (NDDB), to reschedule or adjust the loans to cover up their loss in course of milk trade for their survival. Overall, 'Operation Flood Programme' has proved that dairying is a modern

commercial enterprise, which can bring both social and financial rewards to the people.

Sharma advocates that the benefits of Operation Flood were to go to the consumer, as he would pay a reasonable price for the products. The producer would get a fair price for their products with additional incentive as co-operative members. For the nation as a whole, a large scale, modern infrastructure was developed, on one hand and increase of milk production to meet the demands for fast growing population, on the other hand. In such an ideal situation, middlemen exploitation of producers and consumers reduces to the minimal level.

Saha (1998) in its research found out the cost price of the raw milk after processing and return on cost price after sales. The district co-operative milk producers' unions in Orissa have adopted the Anand pattern by-laws and work procedures to run the co-operative. The union is promoting milk production, processing and its marketing in the district to raise the socio-economic status of the rural producers. The union covered 197 milk producers' co-operative societies in 1994-95. Accounting all the costs, regarding processing and manufacturing of toned and double toned milk was almost the same price around INRs 6.70 and sales price was INRs 8.10. By this analysis, it shows that milk unions was making return of INRs 1.40 before distribution costs and were able to give good price to producer farmers and surplus dividend to the members.

Nielsen (2001) in his paper 'Danish Farmers and their Co-operatives' has emphasized on the progress achieved by Danish Co-operative Movement.

Co-operatives in Denmark have 120 years of history; especially rise from agricultural Dairy Co-operatives until the processing and marketing of agricultural produce. The co-operatives in Denmark cover almost all agriculture production in the country and produce 3 times higher than required for 5 million populations. Two third of this production is exported. They were established through a bottom-up approach and not top to down. There is no co-operative law from the parliament in Denmark but co-operatives have their own by-laws as members confirmed them. The by-laws regulate the members' influence, their rights and obligations. The members decide the quantity to be produced and the co-operative has the obligation to receive the quantity for processing and marketing. Moreover, the members have the obligation to deliver their total production to the concerned co-operatives. That is the reason behind the strength of the Danish Co-operatives. After Second World War, merging was the major activity in Danish Co-operative Movement, where 1400 co-operatives have now become fourteen only, even cross boarder merger with Swedish co-operatives.

2.5 Members Participation in Co-operative Business and Building Markets

Being a membership based organization, members' participation in co-operative business and management is very important. Singh (1997) emphasized that the co-operative development efforts are targeted towards awareness, motivation and role-playing action for membership as well as leadership/management in the organization. This will safeguard the co-operative enterprises to consolidate and protect them from such environment,

which could drag them away from true co-operative path of member services thru active participation of the members in co-operative business.

According to Kurimoto (2001), the joint buying system by the HAN¹³ groups in Japanese consumers co-operatives have been successful participatory business model combining economic efficiency, with active member participation giving co-operatives the competitive edge. Hence, the active participation of members in a HAN group and honest participatory leaderships are crucial factors in co-operative enterprises for the success.

Nielsen (2001) discusses, there is no co-operative law from the parliament in Denmark, but the co-operatives have their own by-laws as members confirmed them. The by-laws regulate the members' influence, their rights, and obligations. The members decide how much they will produce and the co-operative has the obligation to receive the quantity for processing and marketing. Moreover, the members have the obligation to deliver their total production to the concerned co-operatives. This is the reason for Danish co-operatives being very strong in Denmark. Here the writer emphasized the active and full participation of members for a successful co-operative business.

Dubhasi (2001) expressed that some co-operative banks have tarnished the fair name of the urban co-operative banks and have exposed their basic deficiency that they are not member participative and member controlled co-operative institutions. Dubhasi argued that in the beginning co-operative policies were decided after consultations with stalwarts like Vaikunth Mehta

¹³ HAN is a Japanese/Chinese word, which means a small unit of the organizations of 3-5 persons where co-operatives do home delivery to the groups from same locality or office/factory

and DR Gadgil. The writer emphasized that the government in free India after 50 years of independence does not feel it necessary to do so now. This indicates that there is either serious lack of good leadership or highhandedness of the government bureaucrats in co-operative affairs in India.

Sisodia (2002) discussed in his study that the Indian co-operative movement had its objective to provide relief to the farmers and needy person from the exploitative moneylenders. The new Co-operative Act was later on, modified, and became major provincial subjects of rural India. The major thrust of the serial changes in the Co-operative Act was, to discourage the intermediaries by charging higher interest and prices of goods and services they supply to consumer. In the case of active co-operative operated by the members in the area could go for competition with such a fast moneymaking private enterprise.

Dharia, (2000) in his study, credit co-operatives, and co-operative banks through the massive participation of members, have been instrumental in breaking the shackles of the moneylenders in India. The movement has considerably succeeded in rendering social justice along with the growth in equality has shown the new direction for the co-operatives. Savings and credit co-operatives operated by the members have become important tools to minimize the costs in their business.

Davis and Donaldson (2001) state that there needs to be a marketing led by the classification of relationship between co-operative values and consumer trends. This enables the right analysis and positioning in the

national market to be evolved for each of the societies' businesses. Societies have considerable confidence and presence in the market. However, they lack good marketing information concerning their customer and member profiles. Co-operative societies have very strong core businesses with substantial market share and solid reputations for fair dealing and value. Therefore, co-operatives are regarded as better tool for rural and sub-urban marketing.

Sharma (2001) in his study 'Co-operatives as rural marketing catalysts in India' demonstrates the co-operative enterprise as a best tool for marketing in the vast rural India. According to approximate number of rural households to be considered, there are about 580,000 villages in India having 22,000 primary rural markets. In the co-operative sectors, regulated market can also be used as channel of distribution and marketing of consumer as well as agricultural products. Private traders and businesspersons are the traditional channels for sales and distributions of goods in rural markets. People are more exploited at the hands of the private operators. Co-operative societies provide an alternative to counter this exploitation by way of entering into the consumer business and create a good base for rural marketing in India as catalysts. Nearly 70% of Indian and 88% of Nepalese population live in rural area and that the consumer and farm producers would go through the co-operative way for retail marketing.

Draperi (1998) illustrates in his paper 'Co-operatives' Role in Building Markets' to emphasize the role of co-operatives in establishing the markets of wine production by wine growers in France. He tries to show the importance

of co-operatives in the market development and maintenance in the verge of deregulated capitalism and state managed regulatory system. In this context, co-operatives would have competitive business relations with already globalized capitalist multinational sectors, on one hand while, on the other hand, it would develop the markets by building the network within co-operative movement to safeguard the interest of co-operative members. There was grape wine production in France since 18th century, but big wine merchant houses controlled all businesses. After World War II, the grape producers/vine growers had established their own professional organizations and their own co-operatives to negotiate with wine houses. Moreover, they have been able to do inter-professional contract between vine growers and wine merchants, negotiations and bargaining and build-up their own marketing system.

2.6 Effective and Value Based Professional Management in Co-operatives

In their paper, Davis and Donaldson (2001) explained why co-operatives need value based professional management, to focus on the core values, strategic management, marketing, organizational structure, business operation, membership and community of the concerned co-operatives. Only a value based ethical professional staff/management in co-operatives could sustain the people's venture in vertical growth otherwise no capital or members' participation can make co-operative a success.

According to Reddy (1996), the co-operative movement in India was suffering from several reasons like acting as a government tool but not as a people centered organizations, lacking good education and training

programme for its members and staff. There is lack of high quality professional management and lack of selfless dedicated leaders. There is too much of politicization and working on ad-hoc basis. Therefore, the writer is correct in the sense that without high quality professional staff the day-to-day business affairs of co-operatives would fail or deteriorate in the days to come.

Dandekar (1969) in his paper found out the degree of government involvement and its benefits for the rural people. He states that co-operation in India has been both state-sponsored and state-patronized. As far the report of the different committees, it is admitted that the integrated scheme of rural credit with state participation at every level of co-operative structures was not pursued or implemented effectively in all the states, so by this committee it is realized that co-operatives had failed. The Agricultural Credit Review Committee of the government of India has pointed out that the powers, which is vested in the government under the co-operative Act, and rules are all pervasive and the state had come to gain almost total financial and administrative control over the co-operatives stifling their growth. However, in the beginning of establishment of co-operatives, was initiated, established and controlled by the governments in South Asia, but the present day scenario is to make the co-operatives free from government control.

2.7 Successes and Failures of Co-operative Enterprises

There are co-operatives that are successful in business management, profit making and satisfying their members in one hand and on the other hand, many of them failed due to different reasons. Harper (1990) in his paper 'Co-operatives and Other Group Enterprises, what are the Critical Factors for

Successes' provided subsequent field based enquiries/opinions rather than authors own preoccupied views, identifying the critical factors associated with successes and failures of a co-operative enterprise. Harper explains that two most critical factors for the success of co-operatives are individual leadership and broader social and community objectives applied in a co-operative. Besides these two most important factors are of additional choices associated with the successful membership with similar background, start with only one activity, avoid political links or manipulation, start and continue without subsidy and follow strict rules and procedures to manage the co-operatives.

Sisodia (2002) refers to Royal Commission on Agriculture (1928) by saying that 'if the Co-operatives fail, this will be a failure for the best hope of rural India'. Therefore, when co-operative enterprises are taken as a great hope of rural advancement, they must succeed to make people richer and entrepreneurial.

According to Reddy and Rao (1999) Mulkanoor Co-operative Rural Bank is one of good example of successful co-operative venture in Andhra Pradesh in ensuring integrated credit and marketing activities to the members through members' active participation. It reveals that the co-operatives are best suited for providing integrated credit and act as an agent for rural change and development. The functional efficiency of MRCB was increased because of adequate and timely supervision; timely recovery of loan, better marketing facilities, and good leadership/management was always available.

Dubhasi (2001) in his study the co-operative banks in India are supposed to be the strong points in the co-operative movement, but scandal in some of

the urban Co-operative Banks has tarnished the fair name of the co-operative banks and exposed their basic deficiency that they are not member participative and member controlled organizations. This means the lack of members' participation leads to the disaster, where members are unaware of the results of their own enterprise 'a failure'.

Brazda and Sehedway (2001) explained in their paper to stimulate discussion on the historical preconditions of co-operative success based on consumer and credit co-operative. They present the historical records and reports on success/failure and mergers of co-operatives based on the business foundation. The most of the co-operatives were the results of antagonisms i.e. "we" against "them" feelings, and this kind of ill competition may lead to failure.

Werner et.al. (1998) in their study suggest that a successful future of co-operative society would mean with the following points. Successful member promotion, business with non-members, capital structure, good leadership, active participation of members, meeting of delegates and avoidance of disintegration, active supervisory committee and honorary/voluntary office-bearers, which will ensure the success of any co-operative society.

According to Roy (1994), some co-operatives, regardless of their size, thrive while others fail, for this cannot be explained in one single reason. A number of factors combine to determine whether a co-operative will thrive, simply survive, or fall by wayside. The reasons are ¹⁴, they fail because there is poor selection of directors, especially those who fail to support their co-

¹⁴ EP Roy, *Why Co-operatives Thrive or Fail*, NCBA Journal, Vol 8, No. 8, Oct. 1994

operative; members who join but never use their co-operative and bypass it for a small gain elsewhere; members who use co-operative but fail to take responsibility; directors who fail to attend board meeting and take unanimous decisions in absentia. There is low cost management - but it is the most expensive item for a co-operative; errors in financial policy, such as over-extension of credit, too little capital and non-recovery of loan in due time; nepotism, poorly conducted meetings, admittance of disloyal and dissatisfied members and staffs costs too much for the co-operatives. They thrive because co-operative provides goods and services needed by members. Where members provide risk capital and transact business in cash terms. Members, who do the majority of their business with the co-operatives, offer more individualized and specialized services especially in marketing keep administrative / overhead and business operation costs at low; elect business oriented directors; develop and implement a systematic method of co-operative education etc. Above analyses by the author seems genuine in one ground though the reasons for success and failures can vary according to the environment in which they operate. Government policies, political exigencies, social and cultural factors also influence the operation of co-operatives.

Kunjukunju (2000) states in his study in Kerala that low impact was found in some cases of loans because of miss-utilization and lack of proper supervision at primary co-operative level. They just issue loan, over looking the collateral behind it and leave in for long time without follow-up, which finally landed in the loss for the co-operatives and may be benefited the insiders in the deal.

Dharia, (2000), Indian Co-operative Movement have been weakened its foundation because of draconian laws and repeated interference both by the Co-operative bureaucrats and leaders. Co-operatives are abused to earn money and side by side to run politics and even control over co-operatives' property. Co-operation has to be the present day way of life. It is, therefore, imperative to have firm faith in the co-operative movement to compete in the free market economy and to strengthen the same with determination, dedication, and courage successfully to face the challenges of the 21st century. The leaders and government bureaucrats and co-operative staffs should stop seeing their vested interest in co-operatives, rather they should promote Co-operatives as truly people's enterprise.

According to Dandekar (1969), co-operation in India has been both state sponsored and state patronized. As far the report of the different committees, it is admitted that the integrated scheme of rural credit with state participation at every level of co-operative structures was not pursued or implemented effectively in all the states, because of too much of government interference especially by the politicians and bureaucrats. Moreover, this committee realized that co-operatives had failed because of such interferences. According to the agricultural credit review committee, the powers which vest in the government under the co-operative acts and rules; and the state had come to gain total financial and administrative control over the co-operatives stifling their growth in the process, unhealthy use of political power to reduce the credit dues or pursuer for write off the dues and interest cuts made co-operatives more non-viable enterprises. The committee had quoted a proverb

says; "credit supports the farmer as the hangman's rope supports the hanged".

Srinivasa Reddy (1996) the co-operative movement in India was suffering from several reasons like acting as a government tool but not as a people centered organizations, lacking good education and training program, lack of high quality professional management, lack of selfless dedicated leaders, too much of politicization and working on ad-hoc basis.

Dharia (2000) however with lot of success stories, several vices have entered into the Indian co-operative movement and have weakened its foundation. Draconian laws and repeated interference both by the bureaucrats and political leaders have taken away the soul and spirit of the democratic co-operative Movement in India. Co-operatives are abused to earn money and to run politics and even control over co-operatives' property. Nevertheless, co-operation has to be the present day way of life. It is, therefore, imperative to have firm faith in the co-operative movement to compete in the free market economy and to strengthen the same with determination; dedication and courage successfully face the challenges of the 21st century. The political leaders and bureaucrats should stop seeing their vested interest in co-operatives; rather they should be promoted as truly people's enterprise.

According to Dubhasi (2001), it was laissez-faire attitude of the government during colonial period when they left behind. But after independence the registrar of Co-operative Societies is playing such an active role in the name of co-operative development that he came to be called "Brahma, Vishnu, and Mahesh" of the co-operative movement. This is

unfortunate situation for democratic co-operative movement in India. The Co-operative Banks were supposed to be the strong institutions in the co-operative movement. However, he emphasized that the scandal in the Madhavpura Mercantile Co-operative Bank has tarnished the fair name of the co-operative banks and exposed their basic deficiency that they are not member participative, and democratically controlled co-operative organizations. There is tremendous influence from leaders and bureaucrats to let the loan flow without proper security and scheme that led to huge default in loan repayments, loosing faith in the people.

Lewis (2001) states about Mr. Edger Parnell's Prayer (A British Co-operator) who asked God to save co-operatives from misguided or unscrupulous academics, professionals, advisors, managers, politicians, governments, dogmatists and investors, and also to help co-operatives deliver benefits to members without transgressing the rights of those 'out with' the co-operatives. Edgar's prayer with God was to save co-operatives from the professionals who wish to pull them apart to see how they work. The professionals, who believe that nothing, can be achieved by ordinary men and women. The advisors who never tire of finding new problems but never have time to solve any of them that the managers who want a co-operative to work for them rather than them to work for it. The politicians who seek to use the co-operatives as their stepping stone to power; the governments that will bury them in bureaucracy; the peddlers of dogma who try to make them fit their view of the world and will not accept co-operatives as economic enterprises; the investors who would take them over and cash in their assets. The author

argues to help co-operatives to deliver benefits working in the interests of their members without transgressing the rights of those out with the co-operative.

McCarthy and Ward (2001) write in their paper 'Communicating the Co-operative Message: A case study of the Irish Credit Union Movement' to demonstrate the importance of communication and transparency of the messages and activities in the co-operatives for their members. It is imperative that co-operatives communicate their activities to their members, which is essential to strengthen the co-operative identity, and in differentiating the Co-operative form with conventional organizations. Conventional communication system is advertising media. However, co-operative does not advertise because they think it is a waste of members' money, especially in case of buyers and sellers are members themselves. It is suggested that advertisement can be done with a co-operative message than to advertise products and services alone. Co-operation between co-operatives in communicating the messages of mutuality can serve as a competitive advantage.

Kurimoto (2001) intends to show that the application and its impact of modern information technology (Internet and Mobile Communication) in the old system of joint buying system the HAN Groups¹⁵. The joint buying system has been the driving force of Japanese Consumer Co-operative Movement. It has been the successful business model combining economic efficiency with active member participation giving Co-operatives the competitive edge. The joint buying system today is facing a number of challenges also. These days,

¹⁵ *op.cit.* HAN Groups

fewer members are staying at home while more are working outside which makes them difficult to take part in joint buying system, therefore co-operatives are responding these challenges by providing more individualized services applying modern information technology.

2.8 Co-operative Policies

Sisodia (2002) after the independence, the National Development Council of India, the highest policy making body recommended in its resolution on co-operative policy, in 1958, that the responsibility and initiative for socio-economic development at the village level should be placed fully on village Co-operatives. According to the author, Indian co-operative movement has so many co-operative Acts in control and in each state having many restrictive provisions has barred for autonomous growth of co-operatives as well as that affected their democratic functioning. So author discusses about to review the present co-operative acts in every state to democratize the present central and state governments' control over co-operative system.

Dubhasi (2001) in his study 'National Policy on Co-operative a Critique' focused on Indian co-operative policy. Author gives his opinion from own experience regarding co-operative policy. The co-operative policy has to deal with sectoral problems some of which are mentioned here. A new co-operative policy document should therefore begin with a critical analysis of the past policies and present problems and to suggest the series of concrete measures in the new Co-operative policy. It was laissez-faire attitude of the government during colonial period but these days the registrar of co-operatives played such an active role that he came to be all in all of the co-

operative movement. This is unfortunate situation for the democratic co-operative movement; therefore, it should be reformed with immediate effect. Actually co-operative policies be formulated after series of consultations with co-operative stalwarts, specialists, senior practitioners at large, and academician.

Munkner (2000) elaborated in his paper entitled 'Rediscovery of Co-operatives in Development Policy' to look on the pros and cons of co-operatives, to diagnose the wrong assumptions and orient toward real co-operative self-help in modernized co-operative policy. During several decades of working with state controlled co-operatives, the ideas that co-operatives are a method of organize private, independent and all autonomous self-help organizations (SHOs) have rarely been mentioned in official pronouncements on co-operative development policy. Co-operation is a method of working together with others having the same or similar problems and objectives.

Hohenheim et.al. (1998) suggest that co-operative development strategy and future direction should be based on the strengths of co-operatives. The successful future of a co-operative society lies in the following points: member promotion; business with members including non-members of the area; capital structure; good and honest co-operative leadership and member participation. There should be frequent meeting of representatives; avoidance of disintegration; voluntary supervisory committee and honorary office-bearers; merger and amalgamation depending on the situation; integrated co-operative systems and role of federation must be clear. Benchmarking the importance and demarcation of Co-operative corridor should also be there.

2.9 Role of Co-operatives in the National Economy

Neto (2000) highlighted about impact and role of co-operatives in the economy. During the last ten years, the Brazilian economy has gone through important structural change and macro economic adjustments. The population growth had accustomed to inflation and accepted constantly rising prices. Only after the implementation of the real plan, which included co-operatives also, it became possible to halt the inflationary spiral and end the economic crisis by controlling price levels. Economic growth rate increased but unemployment rate was also increased to 10%. Co-operatives experienced good changes during this macro economic adjustment process, during the decade of 1990s, and co-operatives grew by 59.3% from 1990 until December 1999. There were wide variations in the number of labour and credit co-operatives', which was directly, associated with the macro economic changes. After the establishment of Co-operative Bank in 1997, the credit co-operative took a new life, until 1999. Increase ratio in credit co-operatives and its members was 24.2%. Because of high interest rate and low-income levels, more credit co-operatives were being formed with the aim of reducing capital costs, obtaining financial resources to invest in small firms. Therefore, Brazilian co-operatives are making high influence in the economy of Brazil year by year.

According to Reddy (1996) in early stage, co-operatives were established to provide relief and support to rural people in agricultural inputs and credit. Many successful co-operatives, particularly in the dairy sector, sugar, agricultural marketing, fertilizer industry and savings and credit sectors

are contributing much effectively to the national economy. In India especially in Maharashtra and Gujarat, the co-operative movement has been emulated as a model for several states because of huge involvement of the people in the initiation of great social reformers, co-operators and political leaders e.g., there are hundreds of co-operative sugar factories in Maharashtra with a million plus farmer membership and about 95% of them own only five or less than five acres of land giving high profits to them. These co-operative sugar factories have established hospitals and colleges and constructed rural roads and contributed a lot in the economy. Likewise, dairy co-operatives in Gujarat are supplying milk products to all over India and raising socio-economic status of milk farmers with high level of income.

2.10 Nepalese Co-operatives

Sainju (1973) in his unpublished PhD Thesis entitled 'Political Implications of the Co-operative System and Tiller Participation in Nepal' explained about the deep root of co-operative system in Nepal. Nevertheless, the study mainly looks into the political implication of tiller participations at the time Nepalese government was initiating higher tiller participation through co-operative organizations. In his study, Dr. Sainju has not covered much of Nepalese co-operative movement and limited the research scope in tillers participation only. Therefore, this study does not describe broadly the overall status and role of co-operative enterprises in Nepal.

Pokharel (1988) in his study of 'Co-operative Movement in Nepal' looked into the prospects of economic development and suggested some measures

to strengthen the movement. According to Mr. Pokharel, co-operative enterprises were regarded as an appropriate tool for rural development, though the researcher found a lot of problems and weaknesses that took movement at the crossroad. Co-operatives in Nepal during the study period had grown under government direction and control, which could not, developed sustainable co-operative institutions. However, it is an important factor or element for the promotion and development of agricultural/rural development.

2.11 Legal Provisions in the Co-operatives of South Asia

The first Co-operative Act was enacted in South Asia that is in India in 1904 and then in Sri Lanka in 1911 and in Nepal only in 1959. The frameworks of these laws were based on co-operative principles and laws especially in UK and Germany. However, colonial bureaucrats drafted the co-operative laws in colonized Asian countries and it seemed in the beginning indigenous cooperators/leaders were not involved actively. Therefore, in the framing of co-operative laws main consideration had been, 'what is good considered by the rulers but not by the members or the people at large'¹⁶. Thus, co-operatives were made to look towards the department of co-operatives for guidance and working. Particularly after the Second World War when all most all countries got independence from colonial rulers, their indigenous government considered co-operatives as an instrument of socio-economic development to increase agricultural production and marketing. Then government in South Asian countries started to provide liberal financial

¹⁶ GK Sharma, *Review of Co-operative Laws in Asia*, ICAROAP, New Delhi, 1998

assistance and support to co-operative sector. However, in the process while quantitatively co-operatives grew manifold, it suffered in quality. In these countries, co-operatives lost their basic character in great extent because they worked more as a state agency including Nepal.

On the other hand, co-operative laws are not an absolute necessity for country like Denmark. Where co-operatives are governed by their by-laws only, there is no co-operative law. In many European countries, co-operatives are also registered and regulated by commercial laws, without having any specific co-operative laws. However, the legal framework of co-operatives consists of Laws/Acts, co-operative rules made under it, and by-laws adopted by the members of the co-operatives in accordance with the acts and rules. All these together lay down procedure for the organization and working of the co-operatives and protect/preserve their co-operative character. The day-to-day working regulations should be included in the by-laws of the co-operatives itself. According to Weeraman (1970), 'The greatest contribution that a government can make to the development of a co-operative movement is to enact legislation that would give a legal framework and the necessary safeguards and privileges that could create an atmosphere conducive to co-operative development'¹⁷.

2.12 Comparative Advantage: Conflicts in Appreciation of Co-operative Concepts

The advantages of co-operative enterprises could be acknowledged in different perspective comparing with the government/public and private sector

¹⁷ P. E. Weeraman, *Reports on Legislation, ICA Regional Office for Asia and Pacific, New Delhi, 1970*

enterprises as follows. Sometimes, it is assumed that a co-operative is just like any other business enterprise and it can be started by the same procedures, which are used to form an investor-owned company that it does not matter what form of business is established. This misunderstanding occurs between co-operatives and investor-owned private companies, because both are both businesses and incorporated under the law. A co-operative should be formed out of conviction, the belief that it is an appropriate form of business for its members. An example of an opportunistic decision is one that is based not on the nature of co-operatives but because it is believed to be, the cheapest form of incorporation. This is not a proper basis for forming a co-operative because it ignores the differences between co-operatives and investor-owned companies. The competing values, those underpin either form of business differences that should be understood before rather than after formation of a co-operative. There are important differences between co-operatives and investor-owned companies. Anyone wishing to start a co-operative should recognize and examine these differences. It is critical that the differences are studied and analyzed as a prerequisite to decide whether or not to form a co-operative. A co-operative must be formed for the "right" reasons, mutual action to meet a mutual need through a democratic business. Of course, co-operatives can be formed for the 'wrong' reason but forming a co-operative for the 'wrong' reasons builds-in the ingredients of eventual failure.

The Co-operative Difference: The key co-operative differences are the philosophy, purpose, structure of a co-operative and the active involvement of

its members. The potential members of a co-operative should be clear about why they are forming and joining a co-operative. e.g.,

- a. How will they benefit from the services of the co-operative?
- b. Will they accept the obligation of membership and use the co-operative?
- c. Do they understand and agree that the co-operative difference is a marketing advantage?
- d. Will they contribute to the ongoing success of the co-operative through continuing active membership?
- e. Do they understand and accept the need for ongoing co-operative education programs and are they committed to participate?

The following **Table 2.1** briefly summarizes the differences between **co-operative (members owned), private sector (Investor-owned), and public sector (government owned) businesses:**

Table 2.1

Purpose	Co-operative Sector Business (Members) Service Driven	Private Sector Business (Investor Owned) Profit-Driven	Public Sector Business (Government) Mix of Service and Profit-Driven
Ownership	Ownership vested in members	Ownership vested in capital	Ownership vested in State and / or Capital
Owners	Member users	Investor owners of capital	Investor and/or state owners of capital
Voting	One vote per member irrespective of number of shares and usage	Number of votes depends on number of shares owned	Number of votes depends on number of shares owned

Purpose	Co-operative Sector Business (Members) Service Driven	Private Sector Business (Investor Owned) Profit-Driven	Public Sector Business (Government) Mix of Service and Profit-Driven
Management	Management responsible to members	Management responsible to capital	Management responsible to investor and/ or State capital
Shareholding	Usually one share for each member Or Shareholding in limited proportion	Changing value of shares and no limits on shares owned	Changing value of shares and any limits on shares owned dependent on legislative requirements or the Acts.

Source: Compiled from different sources

The Philosophical Difference: A co-operative is owned by the users/beneficiaries that benefit from their membership. This difference is expressed in the ‘Statement of Co-operative Identity’ adopted by the International Co-operative Alliance. The values and principles of co-operation are integral to and essential for co-operative practice. The potential members need to understand and accept the principles of co-operation, voluntary and open membership, co-operative education training and information, democratic member control, member economic participation, autonomy and independence, co-operation among co-operatives and concern for community. This is where the co-operative principles are very important. The philosophy and practice of member ownership and control is fundamental to a decision to form a co-operative and the group needs to be convinced about the desirability and practicality of the co-operative form of business, that member ownership and control is fundamentally different from investor ownership and control.

In considering the formation of a co-operative, it is necessary to study co-operative philosophy and principles - what they mean in practice and whether or not you agree with them. The co-operative principles are still not included in Nepal's Co-operative Act 1992 but law directs the organizer to follow universal co-operative principles. These principles are designed to guide the practice of co-operation. The co-operative principles should be examined and discussed for they are practical guides for co-operative operation. There must be agreement that there is a co-operative that makes a co-operative different from private and public enterprises. Individuals and organizations become members of co-operatives to secure cheaper and better services that are not available individually e.g., to lower the costs. Investors become shareholders of a company to secure a return on an investment not to use the business service or product.

The Purpose Difference: The decision to form a co-operative must be based on a group of individuals and organizations or business in a community who have a common need and a commitment to work together on a mutual basis to meet their needs. The purpose difference is a logical outcome of the philosophical difference. It is important, therefore, to discuss the purpose difference. A co-operative exists to serve its members through mutual action. The primary purpose of an investor owned company is to generate profits for its investors. Co-operatives have benefits, limitations, and these needs to be clearly understood and accepted. Peoples' problems can influence all forms of business. In a co-operative, the users being the owners can aggravate people's problems. Members may use the co-operative but not understand and accept the obligations of ownership. Members must have a sense of

ownership beyond their actual membership. A manager may be committed to maximizing the profitability at the expense of service to members and genuine accountability to the board. In recent years, there has been increasing concern about the corporate governance of investor owned companies and the need for independent directors who do not have financial dealings with the business. However, in a co-operative, a majority of directors may have financial dealings with the co-operative as user-members, and it is taken as usual.

It is common in investor owned companies for the board to determine the remuneration of CEO's and managers and argue that only the board is qualified to make this determination. In a co-operative, however, the members decide and fix the remuneration of CEO's and managers. While co-operative is service oriented, they can also have the future dilemma of choosing between building the financial strength of the co-operative or increasing returns to its members. Over looking, the changes in socio-economic environment orienting towards globalization and market economy present-day co-operatives have to balance with member services and profitability.

The Structure Difference: A co-operative is also democratic i.e. there is one vote per member irrespective of their use of and shares held in the co-operative. Any dividends and rebates paid to members are based on use of services. In theory, large and small users belong to co-operatives because of a common commitment to mutual action to meet a mutual need through a democratic business. However, a co-operative can develop structural tensions if there are initial or developing large users who either initially or over a period develop a view that their control of the co-operative should be in direct

proportion to their use. Co-operatives are democratic; important decisions may be discussed with members and this requires time and resources and may delay decisions but this is not necessarily an impediment to efficient and effective business decision-making. It does mean, however, that members have to be consulted and involved. In contrast, in an investor-owned company, votes depend on the number of shares owned and it is only a minority that has to be consulted and involved. A co-operative's democracy depends on the active involvement of its members. This may be difficult and members may not be fully committed to attending annual meetings, providing capital and using the co-operative. Nevertheless, the board or the managers may not themselves be committed to co-operative education, educating members about the obligations of co-operative membership. A lack of commitment, however, could encourage active users to question Co-operative democracy and, therefore, the continuing relevance of the Co-operative business structure.

The Active Difference: Having examined these differences and decided that there is agreement on the philosophy, purpose and structure of co-operative, the individuals, or business and organizations that are involved need to establish whether they will be active members. A co-operative is created to meet the needs of those forming the co-operative. It is not created to meet and support someone else's needs. Co-operatives, which are formed by the individuals and organizations for other people have a problematic future and usually fail. Local businessmen and professionals formed some co-operatives, and committed to doing something for their community. However, many of the members and directors who formed these co-operatives did not

become users, the users were meant to be the unemployed others or near by consumers. These Co-operatives no longer exist and a major contributing factor being that either the others did not become users or if users they did not form, the co-operative and the non-users remained the controllers of the co-operative, in such situation it can not survive in the long run. An investor-owned private company is created to generate wealth for its founders and profits for its shareholders. Having decided to become a member of the proposed co-operative, the individuals and organizations who are involved, need to establish whether or not as a potential members of the co-operative they have the necessary understanding and commitment to work co-operatively together and what this means. All co-operatives must develop criteria for active membership. To be a member of a co-operative it is necessary to be an active user of the co-operative's services and products. There is no meaning in having any members who are not active users. Inactive members undermine the co-operative and members who become inactive should be removed from membership. An active membership criterion is required under the co-operative Act because it is also a fundamental principle of co-operative practice. It is important for members of the group to decide whether they are committed to use the co-operative services and be active in the affairs of the co-operative by attending meetings, voting on issues, asking questions, voting for directors, and standing as directors.

In contrast, a company is capital driven and, therefore, the shareholders are primarily interested in a return on their investment, rather than democratic ownership and control of the company. Investors are not required to use the products and services of companies in which they invest to be active

shareholders. If the primary concern of individuals and organizations is a return on investment, the formation of a co-operative is an inappropriate response. Of course, members of a co-operative are concerned to protect the value of their shareholding but their primary interest is to provide service to the members from the co-operative and that the co-operative is efficient and effective. The initial basis for testing the ability of potential members to be active members is the willingness of individuals and organizations to work within a group and to study and assess the proposal for the development of a co-operative-including co-operative values and principles during the co-operative formation decision process. If the potential members are willing to work together to educate themselves about the co-operative option and how co-operative values and principles will be practiced in their co-operative, then, there is a basis to form a co-operative. If this willingness is absent, then, the co-operative should not be formed.

From Decision to Formation Process: Above mentioned characteristics and differences are very important when considering to forming a co-operative society. It is critical that there should be a realistic discussion among the potential members/users, of what co-operative can and cannot do. Having made the formation decision, individuals, and organizations can now initiate the formation process of a new co-operative society, if they are fully agreed and committed to the principles of co-operation.

CHAPTER THREE

DATA, OBJECTIVES AND METHODOLOGY

Nepalese co-operatives were controlled and influenced by the government for over 35 years until 1990, there after the autonomy was given by the new Act in 1992, but state has not been safeguarding those old co-operatives in the level that needed. Appropriate phase-out strategies were not applied and multipurpose co-operatives were left in the crossroads. Most of those government promoted old co-operatives failed or are now downsized because of weak management, corruption/miss-utilization of co-operative properties.

There is almost non-participation of members in those co-operative's businesses, they are also unaware of the obligations and duties one should follow. Government bureaucrats and picked-up elite leadership as well as untrained/inefficient staff of the co-operatives are unaware of co-operative principles in letters and spirits; they are either ignoring or undermining the main thrust area of co-operative enterprises to grow. In general, co-operative enterprises in Nepal are too small / too weak and not able to compete with emerging market forces at national and international level. The role and contribution of co-operative sector in the economy of Nepal is still at very low. Both new and old co-operatives are heavily politicized and controlled by the political workers of different parties who have no care about co-operative mission, but interestingly using co-operative resources (human, financial and material) for their personal (political and financial) gain. The weak leadership, weak management, weak government supervision, and inadequate legal

provisions seemed unable to manage and safeguard co-operative commonwealth of the members at present stage, if not improved eventually in drastic manner. Like wise, members of co-operative enterprises are also illiterate, less pro-active, non-entrepreneurial, and non-participative. They are passive / indifferent towards corruption and misuse of working capital and assets of the co-operatives by the limited persons in business operation.

On top of above observations, co-operative enterprises in Nepal could play considerable role in the Nepalese economy though they have very poor contribution in the economy, at present. There could be better prospects of success for the co-operatives if management and business operation capacities are improved, efficient, participatory, and transparent. Co-operatives could not succeed without having efficient participatory management and effective marketing of members' products and services; rather they will fail in business operation and profitability. Active and responsible participation of the members in co-operative business will increase / enhance the economic efficiency to ensure the success of the co-operative enterprises. Without active participation of its members, the co-operatives cannot increase the economic efficiency and get succeed. Successful co-operative enterprises can generate higher prospects of employment, economic surplus that leads to poverty alleviation and the members' family well-being and easy accessibility of goods and services preserving quality and fair price. Until now, co-operative enterprises in Nepal have not much role in employment generation and poverty alleviation vis a vis socio economic upliftment that could be visible at national level. Nevertheless, co-operative enterprises are considered more members based / people

oriented as compared to private enterprises. Nevertheless, Nepalese co-operatives today seem less member participative and have low level of members' friendliness.

3.1 Objectives of the Study

- (a)** To study the status and the role of co-operative enterprises/movement in Nepal;
- (b)** To study the best practice cases of co-operatives and micro finance institutions of Sri-Lanka (SANASA), India (AMUL) and Bangladesh (Grameen Bank) to learn the lessons;
- (c)** To develop the appropriate model for Nepal to reform and modernize co-operative movement, which can withstand / cope in the changing socio-economic and globalized liberal market environment;
- (d)** To recommend the effective measures and strategies for strengthening the co-operative enterprises in Nepal

3.2 Data Collection and Processing

The data were collected from both primary and secondary sources. Two sets of questionnaires were prepared for primary data collection. One set for primary, secondary, and tertiary level co-operative enterprises and other set was for members of the different co-operative societies. The purposive and random sampling method was applied to select the sample respondents in case of institutional questionnaire. The one hundred questionnaires were distributed for co-operative organizations and 200 questionnaires were distributed to the members of different type of co-operative societies. Total 58

institutional and 98 member respondents had given the answers and return to us. Primary questionnaires were coded, processed, and analyzed applying SPSS software package.

The research also largely relies on the secondary sources of data /information including published literature, such as articles, co-operatives acts and rules, co-operative data books and annual statistical reports published by department of co-operatives and ministry of agriculture and co-operatives of Nepal. To collect these secondary data and resource materials we have visited several libraries, research institutes, departments of co-operative, planning commissions, and national and international level co-operatives organizations specially International Co-operative Alliance's regional library in Delhi. The researcher also visited the selected Co-operatives in four different districts of Nepal, AMUL in Gujarat, SANASA co-operatives in Sri Lanka and Grameen Bank of Bangladesh. During the visit, we had met and discussed with co-operative staff, members, and primary, secondary, and national level board members/leaders. Opinions of all those respondents were noted and included in the study.

In the study, we have tried both macro and microanalysis of co-operative movement in general and some co-operatives in particular. We have selected the active three sectors namely agricultural multipurpose, milk producers/dairy and savings and credit co-operatives. Especially for the best practices cases, the field study has been done on 'SANASA' thrift and credit co-operatives in Sri Lanka, 'AMUL' the 'Anand Pattern' dairy co-operatives in Gujarat, India and Grameen Bank of Bangladesh. These are the best cases of co-operatives/ people based organizations not only in South Asia but also are

world-renowned, that actively involved and successful in eradication of poverty, create employment, and to raise socio economic standard of the members/people.

Some of the important variables analyzed in the study are as follows:

Ratio of active members and their participation in business and decision-making;

Economic efficiency / self–help and autonomy of the co-operative enterprises;

Efficiency and activeness of the board of directors and accounts Committees;

Education and Trainings to members and staffs;

Performance of staff and members;

Reasons and situation of success and failures;

Support of Government and other agencies for co-operative cause;

Contribution of co-operative sector to the economy;

Legal reforms and tax issues in co-operatives;

In addition, structural reforms in co-operative movement.

3.3 Data Sources

The types of primary and secondary data in this research are both time bound and normal in quantitative and qualitative form. We were seeking data on prices of different products and services in co-operatives for 20 years but were unavailable. Most of the primary data available were in the qualitative form. Focus on questionnaire distribution was made to mainly four districts namely Rupandehi, Chitawan, Kathmandu, and Baglung. However, questionnaires were distributed to the co-operatives in 20 districts in Nepal covering hills and Terai region.

Primary Data: Co-operative societies/unions, co-operative experts, and members of the co-operatives. Two sets of questionnaires were prepared for primary data collection. One set for primary, secondary, and tertiary level co-operative enterprises and other set was for members of the different co-operative societies.

Secondary Data: Annual progress/statistical reports from several organizations such as department of co-operatives, Nepal/Sri Lanka and Bangladesh; Ministry of Agriculture and Co-operatives, Nepal; National Planning Commission of Nepal; GCMMF/NDDDB and NCUI of India, Grameen Bank of Bangladesh Reports and SANASA Federation of Sri Lanka reports. International Co-operative Alliance's regional library in Delhi and JNU/DU-IEG and JMI libraries were the important source place for literature and research materials.

Time-Period: The tentative period of study was taken in between 1980 to 2000 but in some cases, it has covered whole period from 1956/57 to 2001/02 especially to describe the growth of co-operative movement in Nepal.

3.4 The Methodology

In view of the objectives of the study, data has been analysed using different statistical techniques. Descriptive statistics are calculated for primary investigation of data. Further, Ratio Analysis, Chart / Graph and bar diagrams are used to analyse the present status and role of co-operative enterprises in Nepal. Finally, Data Envelopment Analysis (DEA) is to calculate efficiency of certain co-operative enterprises.

3.4.1 Data Envelopment Analysis (DEA) Model

Data Envelopment Analysis (DEA) is a mathematical programming approach for estimating the relative technical efficiency (TE) of production activities. The term DEA was originally proposed by Charnes et.al (1978). The Charnes et.al (1978) Work was extended version of the Farrell's (1957)¹⁸ multiple input, single output measures of TE the multiple outputs, and multiple input technology. The DEA technique permits an assessment of the performance of an existing technology relative to an ideal, best practice, or frontier technology (Coelli et.al. 1998). The frontier or best practice technology is a reference technology or production frontier that depicts the most technically efficient combination of inputs and outputs (i.e. output is as large as possible given the technology and input levels, or input levels are as small as possible given the output levels). The frontier technology is formed as a non-parametric, piece-wise, linear combination of observed "best practice" activities. Data points are enveloped with linear segments, and TE scores are calculated relative to the frontier technology.

Measuring Efficiency of the Organizations

Data Envelopment Analysis here is concerned with comparing the efficiency of Co-operative organizations of local, district, and central level. If we simply had a single input and a single output, we would define a measure of efficiency. 'If every one could agree on a common set of weights that would end the story, however, people cannot agree. This is where DEA comes in. It

¹⁸ Farrell, Michel J (1957), "The Measurement of Productive Efficiency", Journal of the Royal Statistical Society, Series A, General, 1957, 120(3) pp. 253-282

allows units in the systems to choose their own weights in the way, which is most advantageous to them. If the unit is inefficient even with the set of weights which is most favorable to it, then there are serious grounds for investigating further¹⁹.

Advantages of DEA: DEA can be powerful tool when used wisely. Some of the advantages that make DEA useful are:

- (a) DEA can handle multiple input and multiple output models.
- (b) It does not require an assumption of a functional form relating inputs to outputs.
- (c) DMUs are directly compared against a peer or combination of peers.
- (d) Inputs and outputs can have very different units. For example, X1 could be in units of lives saved and X2 could be in units of dollars without requiring an a priori tradeoff between the two.

Disadvantages of DEA: Some features that make DEA very powerful tool can also create problems; therefore, we should keep these limitations in mind:

- (a) Since DEA is an extreme point technique, noise (even symmetrical noise with zero mean) such as measurement error can cause significant problems.
- (b) DEA is good at estimating "relative" efficiency of a DMU but it converges very slowly to "absolute" efficiency. In other words, it can tell you how well you

¹⁹ Robert Simmons (1995), "Data Envelopment Analysis, Aids Efficiency" Mathematical Programming in Industry and Commerce, UK, EUdocus Systems Limited

are doing compared to your peers but not compared to a "theoretical maximum."

(c) Since DEA is a nonparametric technique, statistical hypothesis tests are difficult and are the focus of ongoing research.

(d) Since a standard formulation of DEA creates a separate linear program for each DMU, large problems can be computationally intensive.

Applications: It is most useful when a comparison is sought against "best practices" where the analyst does not want the frequency of poorly run operations to affect the analysis. DEA can be applied in many situations such as:

- Health care (hospitals, doctors)
- Education (schools, universities)
- Financial Services (banks / co-operatives)
- Manufacturing
- Benchmarking
- Management evaluation
- Fast food restaurants
- Retail stores

In this research, we have used DEA model applying 'On-Front'²⁰ software demo version to calculate the results, i.e. efficiency of co-operative enterprises.

²⁰ For detail technical explanations, please refer to manual of 'On-Front' software

DEA-CCR Model Equation ²¹

For N DMUs in the co-operatives in Nepal, all of the sample outputs and inputs are characterised by m and n, respectively. The efficiency of each co-operative is computed as follows:

$$e_s = \frac{\sum_{i=1}^m u_i y_{is}}{\sum_{j=1}^n V_j X_{js}}, \text{ for } i = 1, \dots, m \text{ and } j = 1, \dots, n, \quad (i)$$

Where y_{is} is the amount of the i th output produced by the s th co-operative, x_{js} is the amount of the j th input used by the s th co-operative, u_i is the output weight, v_j is the input weight. This efficiency ratio (e_s) is then maximized to selected optimal weights subject to:

$$\frac{\sum_{i=1}^m u_i y_{ir}}{\sum_{j=1}^n V_j X_{jr}} \leq 1, \text{ for } r = 1, \dots, N \text{ and } u_i \text{ and } v_j \geq 0 \quad (ii)$$

Where the first inequality ensures the efficiency ratios to be at least one and the second inequality guarantees that the weights are positive.

Following Charnes, Cooper, and Rhodes (1978), this fractional linear program can be transformed into an ordinary linear program:

$$\begin{aligned} \text{Maximise } e_s &= \sum_{i=1}^m u_i y_{is} \\ \text{Subject to } &= \sum_{i=1}^m u_i y_{is} - \sum_{j=1}^n V_j X_{jr} \leq 0, \text{ } r = 1, \dots, N; \\ & \sum_{j=1}^n u_j y_{js} = 1 \text{ and } u_i \text{ and } v_j \geq 0. \end{aligned} \quad (iii)$$

Similarly, the program can be converted into the dual program:

²¹ For detail reference, please refer to Charnes, Abraham; Cooper, William W.; and Rhodes, E. (1978), "Measuring the Efficiency of Decision Making Units" *European Journal of Operation Research*, 1978, 3, pp 429-444 and Charnes et.al, (1978), *Data Envelopment Analysis*.

Minimise ξ_s

$$\text{Subject to } \sum_{r=1}^N \varphi_r y_{ir} \geq y_{is}, \quad i = 1, m; \quad (\text{iv})$$

$$\xi_s x_{js} - \sum_{r=1}^N \varphi_r x_{ir} \geq 0, \quad j = 1, \dots, n; \quad \varphi_r \geq 0,$$

$$\text{And } 0 \leq \xi_s \leq 1$$

Where ξ_s is the overall technical efficiency score of the sth co-operative, with a value of 1 indicates the point on the frontier.

CHAPTER FOUR

BEST PRACTICE CASES OF SUCCESSFUL CO-OPERATIVES IN SOUTH ASIA

While doing the research on Nepalese co-operative movement, both the positive and negative aspects of the co-operatives performances were taken into consideration - i.e. to what extent they were doing good or not. These questions led us to research some best-practiced and successful cases of co-operatives in South Asia. Therefore, we took-up following best-practice cases that are 'AMUL' or 'Anand Pattern' dairy co-operatives in India and SANASA thrift and credit co-operatives in Sri Lanka. These best-practiced co-operative movements are from milk producers' / dairy farmers, savings and credit co-operative sectors respectively. The third best case 'The Grameen Bank' of Bangladesh was put under the study to cover and compare the micro credit sector. It showed a different picture of a non-co-operative enterprise in legal sense though working in similar co-operative parameter yet it demonstrated the best alternative model to co-operatives. After visiting all three institutions, and observing their implementation strategies, members participation and achievements, it seemed that they are the best practicing community co-operatives enterprises of the day in south Asia with the best results so far. These mechanisms of success stories could be comfortably replicable in Nepal to alleviate poverty and socio-economic transformation of the poverty-stricken, traditional, and rural people / communities in Nepal. Through the examples and comparison of these best-executed and achieved cases would

give sufficient room for Nepalese co-operatives or community enterprises to improve their capacity to deliver services and sustain to a long future.

4.1 Amul - Dairy Co-operatives in India

Dairying means proper and productive animal husbandry with more emphasis on production and marketing of milk and milk products. India is regarded as a largest cattle-bearing country in the world. However, unfortunately despite a large cattle wealth not only in India but also in South Asia as a whole constituting more than one fourth of world bovine population. Dairying is still not carried on as a business. Millions of rural farmers have largely been practicing as a subsidiary occupation to agriculture, because of which milk production is scattered over vast rural areas and of farmers' home use only.

Development of dairy co-operatives in India had started after the promulgation of Co-operative Society Act 1912. The Kolkata Milk Supply Co-operative Societies' Union was the earliest milk co-operative organization, which started to supply clean pasteurized milk to the consumers. It was established in 1919, likewise the Madras Co-operative Milk Supply union was registered and established in 1927 and similar type was established in Lucknow in 1938. Until the beginning of Second World War, only these three milk supply unions were there in India operating in three urban cities. Milk supply activity was gaining momentum in Bombay during and after the Second World War where societies and unions were organized in several numbers during 1946/47. In 1946, the Saraiya Committee appointed by the Government of India recommended to form the milk producer's co-operative

societies within the radius of about 3 miles from the cities and towns with a population of 30,000 or more. This had made a great impact to raise the socio-economic status of the people of periphery of cities and towns. They started pasteurization, process, and distribution of milk in the cities by an organized union. The societies and unions had received a great impetus since the war broke out, in consequence of the shortage of milk, which increased the demand of milk and milk products from the civil and military population. Moreover, the next expansion came after the declarations of independence when the newly formed food and agriculture ministry which heavily started to promote the farmers' interest.

4.1.1 Story of AMUL and Planned Program of Dairy Development in India

With the advent of Independence and people's democracy, the then Indian government gave much awaited and long deserved priority to the dairy sector. This enabled the vulnerable sections to supply their milk products in reasonably good price in one hand and cities based consumers to get hygienically produced and fairly priced dairy products on the other hand. In the first five-year plan (1950-51 to 1955-56), the dairy sector received high attention under the "grow more food" campaign by establishing new dairy plants and rural creameries. Especially in some states like Maharashtra, Gujarat and West Bengal, sizable programs of dairy development were implemented through establishment of cattle colony in Bombay and West Bengal. Like wise, a dairy co-operative factory was established in Anand to manufacture milk powder and to supply of liquid milk to Bombay city. The development of research facilities in dairy sector also received attention. It

was decided during first plan to establish national dairy institute at Karnal and Harayana so as to convert the erstwhile Indian Dairy Research Institute at Bangalore into the southern regional centre of the national institute²². After that, one after another plan, government promoted dairy sector with considerable budget and program planning implementing Operation Flood project to become largest milk producer in the world.

4.1.2 Kaira District Milk Producers Co-operative Union-Anand (AMUL)

'AMUL' is an acronym of Anand Milk Union Limited. This historical name 'AMUL' is renowned in India, particularly for Kaira District Co-operative Milk Union at Anand and dairy co-operative movement in general. It is well known not only in India but also all over the world. The story of AMUL began with two village co-operatives and 250 liters of milk per day. Tired of exploitation by traders and a local private dairy, the milk producers in the area organized themselves into village dairy co-operatives. In turn, the entire village co-operatives federated themselves into the Kaira District Co-operative Milk Producers Union. This Kaira District Co-operative Milk Producers' Union had been formally registered in December 14, 1946. They began supplying of pasteurized milk for the Bombay Milk Scheme in 1948. It had over 400 members and dairy milk collection of 5000 liters by the end of 1948. Now AMUL has become the brand name of Indian milk industry, especially the Gujarat Co-operative Milk Marketing Federation (GCMMF) that is the market leader of milk sector. Since 1949, Dr. Varghese Kurien got involved in Kaira (AMUL) Milk Unions' activities because he was already working with

²² *IV Five-Year Plan- Working Group Report, Ministry of Food, Agriculture and Community Development, Department of Agriculture and Co-operation, Government of India.*

government creamery in Anand, after he finished higher studies in USA. He was released in 1951 from government bond. Then he decided to remain with Kaira union as a general manager by inspiration from Mr. Tribhuvan Das Patel, the then Kaira's chairperson and nationalist progressive farmer leader. After this, the historical background of operation white flood started in India. In 1955, a first modern dairy plant was set up of INRs of five million, started producing and marketing of milk products under 'AMUL' as a brand name. In 1958, it launched sweetened condensed milk and from 1960, 2500 tones of roller-dried baby food with 600 tones of cheese were produced annually. Again, a new dairy plant with a production capacity of 40 tones of milk powder and 20 tones of butter per day was set up in 1965. Soon, for small farmers, AMUL became a pattern of self-reliance and liberation from exploitation by local traders and intermediaries. When the then Prime Minister of India, Mr. Lal Bahadur Shastri, visited the AMUL dairy plant and had discussions with its member farmers in 1964, he was deeply impressed with the work of dairy co-operatives. During the visit, Mr. Shastri expressed his strong desire to replicate AMUL model all over India, which tempted to establish National Dairy Development Board under the leadership of Dr. V Kurien to promote AMUL model in the villages of India. Then the story of 'Operation Flood Program' had started, which was evolved by NDDB.

4.1.3 Operation Flood Program

Operation Flood was based on the strategy of converting a threat into an opportunity. In the later years of 1960, India was facing severe shortage of dairy products and Europe was confronting with an acute problem of milk and

butter surpluses. India approached European Economic Community through FAO to receive stocks of milk and butters on a donation basis²³, which was passing through a long procedures and channels that took years to materialize the dream.

The objectives of Operation Flood-I, which was initiated in 1970, were

- a. To meet the urban demand of milk;
- b. To earn a larger share of the consumer rupee for the producer;
- c. To improve the productivity of dairy farmers in the rural areas;
- d. To improve the income of small farmers and landless people;
- e. To remove dairy cattle farms from the cities where they represent a growing problem, genetic waste, social cost and public health, and
- f. To establish a broad basis for accelerated development of the national industry in the project period as well as in the post-project period.

However, the major objective of Operation Flood was to capture a commanding share of the metropolitan market especially Delhi, Mumbai, Kolkata and Chennai. The required funds needed for the implementation of the Operation Flood-I program were generated by the sale of donated milk power and butter by the European Community. These gifts were obtained through (WFP) World Food Program / FAO.

The National Dairy Development Board (NDDB) was already created in 1965 prior to Operation Flood-1 by the Government of India with the main purpose of helping to replicate Anand Pattern co-operative enterprises of AMUL model. The Indian Dairy Corporation (IDC) was also set up in 1970 under the Indian companies act to help and achieve the objectives of

²³ Dr. V kurien, Unfinished Dream, Sage Publications, New Delhi, 1992,

Operation Flood project. Government of India disbursed the Operation Flood funds through Indian Dairy Corporation. It had the authority formally to approve plans prepared by NDDDB on behalf of co-operative unions for implementing Operation Flood program. It was a solid management in systematic manner in both the national institutions, which had same chairperson Dr. Varghese Kurien who later in 1986 also became the chairperson of the National Co-operative Dairy Federation of India (NCDFI). The most important aspects of Operation Flood-I were related to the large-scale effort to replicate the 'Anand Pattern' dairy co-operatives all over India. The Anand Pattern, popularly known as 'AMUL' model was rapidly evolved in the Kaira District of Gujarat after India's independence. This model implied producers' control and producers' representation, interlinked services for raising productivity, and network of marketing services linking rural areas to the urban markets. For small farmers, AMUL means a pattern of self-reliance and liberation from exploitation by intermediary traders.

Until 1974, the Anand Pattern of milk producers' organization consisted of a two-tier structure, a district union and primary level village dairy co-operative. The primary village societies conducted the routine business of collecting, testing and buying directly from milk producer farmers who produce and transport the milk up to the co-operative's collection centre. Besides that, co-operatives provided micro level inputs such as compound cattle feed, fodder seeds, veterinary first aid, and artificial insemination services. The district level unions were responsible for the transport, processing and further marketing of milk and milk products under the two-tier system. An important function of the district unions has been consistently to guide, supervise, and

control the village societies in accordance with the by-laws and guidance. Later on, Gujarat Co-operative Milk Marketing Federation was established which has been serving as the apex body at state level.

4.1.4. Operation Flood - II

Operation Flood II project started in 1980, assumed a national scale by aiming to cover all the major milk-sheds in India. The objectives of Operation Flood-II were:

- a. To enable 10 million rural milk producer families to build a viable sustaining dairy industry by 1985;
- b. To enable the milk producers to rear national milch herds of more than 14 million crossbreed cows and upgrade buffaloes during the 1980's;
- c. To erect a national milk grid, this will link the rural milk-sheds to the major demands centre with an urban population of more than 150 million;
- d. To relocate the infrastructure required to support a viable national dairy industry, including a national frozen semen system, vaccine production and delivery system; and
- e. To enable milk and milk products to contribute to nutritional adequacy

Operation Flood-II programme revealed a number of noteworthy shifts in comparison to the Operation Flood-1. In the first place, the stated objective of Operation Flood-II explicitly mentioned that the vulnerable groups in the cities, small farmers, and landless people in the rural areas as specific target groups of the programs. On the other hand, the Operation Flood-II objectives envisaged a supplementary infant feeding program in rural areas. Secondly, the removal of dairy cattle from the cities, once an important objective of

Operation Flood-I, did not figure in the Operation Flood-II. Third and perhaps most importantly, Operation Flood-II program involve a shift from two tier co-operative structure to three-tier organization structure.

4.1.5 Operation Flood- III

Operation Flood-III is an extension of Operation Flood-II up to 1996. The total budget for Operation Flood III amounts to Indian Rs 8.8 billion, which makes the largest amount in terms of funding among 3 phases of Operation Flood. Targets that are more ambitious have been put under Operation Flood III, such as, the formation of additional 15,000 village dairy co-operatives. The extensions of milk-sheds were increased to 173 instead of 155 districts covered by Operation Flood II, and an extension of the number of towns to be served to 200. A very important element in the Operation Flood III project, stresses on viability of the co-operative societies. The strategy of NDDDB / IDC clearly gave priority to investments to those milk sheds where milk procurement may be built-up faster. The official ideological thrust of Operation Flood has become more and more liberating the co-operatives from the distorting influences of state interference, especially with respect to price setting and with respect to the ownership of milk plants, and the freedom to dismiss and employ their personnel. The NDDDB justifies these conditions based on freedom of milk producers to organize their own business co-operatively²⁴.

²⁴ Doornbos, Martin et.al. *Dairy Aid and Development, India's Operation Flood*, Sage Publication, New Delhi, 1990

4.1.6 Achievement of Operation Flood²⁵

The dairy co-operatives' network includes 170 milk unions, which operate in over 338 districts, and covers nearly 108,574 village level primary milk producers' co-operative societies, are owned by nearly 12 million farmer members. India's milk production increased from 21.2 million MT in 1968 to 88 million MT in 2003-04. Per capita availability of milk presently is 231 grams per day, up from 112 grams per day in 1968-69. India's 4 percent annual growth of milk production surpasses the 2 per cent growth in population; the net increase in availability is around 2 per cent per year.

In 2003/04, average daily co-operative milk marketing stood at 14.9 Millions liters; annual growth has averaged about 4 per cent compounded over the last five years. Dairy co-operatives now market milk in about 200 good class cities including metros and some 550 smaller towns. During the last decade, the daily milk supply to each 1,000 urban consumers has increased from 17.5 to 52.0 liters. Bulk vending, saving money and the environment, Milk travels as far as 2,200 kilometers to deficit areas, carried by innovative rail and road milk tankers. Ninety-five percent of dairy equipment is produced in India, saving valuable foreign exchange. The annual value of India's milk production amounts to about INRs. 880Billion. Dairy Co-operatives generate employment opportunities for some 12 million-farm families. The following tables (4.1 and 4.2) in the next pages give a glimpse of Indian dairy co-operative movement on State basis and the period for 1951/52 to 2004/05.

²⁵ *Annual Reports, National dairy Development Board, Anand, Gujarat*

Table- 4.1

**Achievement of Dairy Co-operatives in India
During 2003/04 (Operation Flood Program State Wise)**

States / Union Territories	Dairy Co-op Societies # (No)	Farmer Members ('000)	Women Members ('000)	Procurement (TKGPD)	Marketing and Sales (TLPD)
Andhra Pradesh	5,072	756	143.00	950	898
Assam	65	3	0	4	8
Bihar	4,657	240	36	396	288
Chhattisgarh	424	19	4	18	28
Delhi	-	NA	NA	-	1937
Goa	169	19	3.00	43	89
Gujarat	11,400	2360	540	5102	2101
Haryana	4,219	230	30	331	153
Himachal Pradesh	283	21	6	25	15
Jammu and Kashmir	NA	NA	NA	NA	NA
Jharkhand	80	2	0	6	163
Karnataka	9,293	1737	444	2243	1518
Kerala	3,208	706	125	614	738
Madhya Pradesh	4699	231	33	294	296
Maharashtra	18,349	1582	366	2680	2629
Nagaland	76	3	0	2	4
Orissa	1,654	122	54	127	132
Pondicherry	96	32	14	54	53
Punjab	6,892	402	42	745	496
Rajasthan	9,643	534	111	1036	855
Sikkim	189	7	0	9	7
Tamil Nadu	7,631	1988	717	1664	1206
Tripura	84	4	1	2	9
Uttar Pradesh	18,104	824	237	814	436
West Bengal	2,287	172	59	324	816
All - India Total	108,574	11,994	2,965	17,483	14,875

Source: NDDB Web Site 2004

TKGPD= Thousand kg per day; **TLPD=** Thousand liters per day; **DCS =** Dairy Co-operative Societies;

Total Co-ops Organized and figure in Cumulative

Table- 4.2**All India Estimates of Production and Per Capita Availability of Milk from 1950-51 to 2004-05**

Years	Milk Production (Million Tonnes)	Per Capita Milk Availability (Gms/Day)	Total Trade (Million US \$) +
1950-51	17.0	124	383
1955-56	19.0	124	437
1960-61	20.0	124	470
1968-69	21.2	112	509
1973-74	23.2	112	578
1979-80	30.4	127	785
1980-81	31.6	128	815
1981-82	34.3	136	885
1982-83	35.8	139	931
1983-84	38.8	147	1009
1984-85	41.5	154	1088
1985-86	44.0	160	1162
1986-87	46.1	164	1245
1987-88	46.7	163	1261
1988-89	48.4	166	1355
1989-90	51.4	173	1450
1990-91	53.9	176	1531
1991-92	55.7	178	1593
1992-93	58.0	182	1670
1993-94	60.6	187	1758
1994-95	63.8	194	1914
1995-96	66.2	197	2000
1996-97	69.1	202	2087
1997-98	72.1	207	2180
1998-99	75.4	213	2300
1999-2k	78.3	217	2427
2000-01	80.6	220	2523
2001-02	84.4	225	2591
2002-03	86.2	230	2650
2003-04	88.1	231	2806
2004-05*	91.0	232	3174

Source: State/ UT Animal Husbandry Departments, 2004 and NDDB

* Provisional

+ Based on the gross exchange rate conversion in the said years

4.2 SANASA – Savings and Credit Co-operatives in Sri Lanka

4.2.1 What is SANASA?

'SANASA' is the acronym for savings and credit co-operative society in 'Sinhalese' language of Sri-Lanka. The then colonial ruler British established the thrift and credit co-operative groups in Sri Lanka since 1906. After the enactment of co-operative credit society's ordinance in 1911, they were formally registered and regulated as a co-operative society. Therefore, history of co-operatives in Sri Lanka started with the initial promotion and establishment of savings and credit co-operatives by the government itself.

4.2.2 Early Development Periods-1906-1978

The first SANASA society was registered in 1906, when the then colonial British government introduced the co-operatives as a development tool. It is revealed that during British rule particularly the second half of the 19th century, there was an expansion of plantation Industry mainly tea, rubber and coconut. The expansion took place largely at the expense of rural subsistence agriculture based on paddy cultivation, which resulted the peasants to live in a small hamlets squeezed in between vast expansions of new plantations. Together with this expansion of the plantation sectors, an economy based on cash transactions in place of barter system came into being. The peasants in distress relied on borrowings to overcome the day-to-day problems they faced. Unscrupulous moneylenders compounded the problems of submissive agriculture. Rural people suffered heavy indebtedness resulted the loss of ownership of smallholdings. There after the then British government introduced the idea of co-operative in Sri Lanka, which was already flourishing

in Europe as one alternative solution to the problem caused by the plantation-based economy. Then SANASA spearheaded the development of co-operative movement in Sri Lanka until the beginning of Second World War. During and after the war, government gave priority towards consumer co-operatives, which were formed to handle the distribution of commodities. During the period of 1911 to 1944 i.e. until independence, only thrift and credit co-operatives were existed in Sri Lanka. Based on the experience of thrift and credit co-operatives, government introduced other form of co-operatives such as consumers, fisheries, agricultural multipurpose etc. After that, the government's concentration on other types of co-operatives and especially vigorously promoting multipurpose co-operatives, SANASA type savings and credit co-operatives were ignored and given less importance immediately after the independence. However, the SANASA societies lagged behind after the introduction of multipurpose co-operatives, SANASA in itself continued on the same line until 1978 when country introduced the market economy. Until the year, 1978 registrar of co-operative societies had liquidated hundreds' of thrift and credit primary societies every year. There remained only few hundred co-operatives than from few thousands. Following the new, open economic policy introduced by the government in 1977 encouraged co-operative sectors to come forward in an organized and professional manner to become sustainable organization²⁶.

²⁶ *History and Report of the Co-operative Development in Sri Lanka, Department of Co-operatives, Colombo, Sri Lanka, 2001*

4.2.3. SANASA Co-operatives after 1978 - A Turning Point

After opening the economy to the market forces, a new leadership of Dr. Kiribandaniya tried hard to revitalize the SANASA co-operative movement. That was the need of the time for the co-operative sectors to compete with private sector. Since then the main role of SANASA co-operative movement has been an institution for saving and credit by the people/members bound by mutual trust and understanding. The mutual trust could be based on proximity of residence or homogeneous nature of work. In that way, SANASA found two types of affiliation for the members to be must, i.e. (i) community affiliation (ii) occupational affiliation. The core areas of service rendered by SANASA thrift and credit co-operative societies are (a) promotion of thrift habit (b) promotion of saving habit and accumulation (c) using of savings in the form of credit for development. Application of above steps in bringing the people together is the first stage of development process²⁷.

Moreover, in second stage, SANASA extended its influence to non-member societies. All the target area people get involved in development-oriented programs. The membership in co-operative started increasing to a much larger numbers covering youth, children and woman at the second stage. In third stage, society changes itself from a grass root organization to a development organization taking over the responsibility of community development. After 1978, the SANASA co-operative movement was given freedom of right to federate at district and national level, and then SANASA federation was formed. Member participation increased applying participatory democracy as a basic principle at all levels. However, it remained free from all

²⁷ A Kiribandaniya, *SANASA as a Development Approach, A Report, SANASA Federation, Colombo, 1998*

forms of influence i.e., political, religious and other. Education and Training received special emphasis to train the members. As a result, large numbers of new societies were formed with equally large number of new members joined the movement. Then after, SANASA gained national and International recognition. The overall impact of 1978, intervention was phenomenal growth of SANASA movement in line with the background of Sri Lanka national economy entering to the market economy. Following Table-4.3 shows the comparative growth between the year 1978 and 1997 to 2002.

Table- 4.3
Growth of SANAS Movement 1978-97 to 2002

Particulars	1978(Base Line)	1997(% change)	2002(%Change)
Number of Societies	1298 (100)	8424 (649%)	8440 (650%)
No. of Members	29,416 (100)	7, 85,505 (2670%)	8, 54,583(2905%)
Savings (in mill)+	42.03 (100)	3,895 (9267%)	4,901 (11,661%)
Credit (In mill)	88.69 (100)	2,335 (2633%)	3,178 (3583%)
youth members (18-35)	87,954 (100)	2, 52,599 (287%)	2, 88,008 (327%)
Female Members	1,15,178 (100)	4, 23,903 (368%)	4, 97,177 (432%)
Fixed Assets (mill)	7.27 (100)	361 (4966%)	708.45 (708%)
Employees (Direct)	NA	NA	40135
Employees (Indirect)	NA	NA	48500

SOURCE: - SANASA as a Development Approach, A Report of SANASA Federation, Colombo, 1998 and Annual Report of FTCCS Colombo, Sri Lanka, 2002.

+ All figures are in Sri Lankan Rupees

There are various models of development practiced by various organizations in several countries. However, SANASA as being a community-based organization has been practicing community driven approaches in all sets of activities. Participatory approach is one of the most important methods of work in relation to activities, which involves the community the main thrust of the SANASA movement. The poorest segment of the population was adversely affected by the changes. This led to the social and political unrest and armed struggle in both north and south side of the country. In this course, SANASA had lost a considerable share of members and business also though it was vigorously trying to remain people's organization to the grass root people. To overcome the varieties of problems and demands from the members SANASA looked for additional sources of strength²⁸. It started as single purpose credit co-operative, but members demand for several services, SANASA concluded to establish subsidiaries in four areas, both in respect of contribution for national development and generation of profits for SANASA movement. The identified sections were Banking, Insurance, Communication and Production and Marketing. They call it four-pillar approach. SANASA planned that the subsidiaries gives the capacity to be competitive in the open market specializing in different areas by procuring necessary skills and talents, which may not be available in the co-operative sector. They are as follows:

I. Financial Services: SANASA Development Bank Ltd (SDB)

A development bank was established as a public limited company in 1997, which was licensed by Central Bank of Sri Lanka to run as a

²⁸ *Ibid.* A Kirivandaniya

development bank. SANASA was failed to obtain commercial bank license, which they wanted. SANASA Development Bank holds very special position now among the development banks with following reasons. The ownership of the bank is retained within the SANASA movement with more than 8000 primaries and 33 district unions and federation itself holding a majority stake in the equity. The clientele of the bank consists of farmers, artisans, fishermen, vendors, agricultural; plantation labourers, other low-income category, and members of the primary co-operatives are in the main. Other important point is primary SANASA co-operatives are working as an agency bank of the SANASA Development Bank at local level while remaining as an autonomous SANASA society. These decentralized services of development banking are direct benefit to grass root members. The major objective of the SANASA Development Bank is to raise income levels of poor through co-operatives and development oriented financial services ultimately that raises the socio-economic status of the members/people.

II. Risk Management: All Lanka Mutual Assurance Organization Ltd

This is a second subsidiary organized by SANASA in the field of insurance. It was established in 1992 by SANASA. The objective of this is to cover insurance, available to the poor. Risk in investment and disbursement of loans is a factor that had affected SANASA work and that tempted to establish a formal institution to cover the risk factor. Presently All Lanka Mutual Assurance Organization covers (a) life insurance (b) loan protection and guarantee of deposits (c) property insurance. In addition to this All Lanka Mutual Assurance Organization is an agency of the Sri Lanka Insurance

Corporation a government undertaking, which covers all risks that insured through this Corporation. Premium is kept low in order to make the insurance cover easily available to the poor.

III. Communication Services: Rural Agency Post Office (RAPO)

Communication in rural area was identified as an area, which demands priority attention. According to SANASA's evaluation, Sri Lankan postal system was failed to reach most of the remote rural areas, SANASA tapped this as an opportunity and took permission from the government and establish Rural Agency Post Office Services. For this purpose, 8000 SANASA societies are the contact points and used for providing the postal/communication services at the door of members, which is also good sources of generating income for co-operatives.

IV. Production and Marketing: SANASA Producer Consumer Alliance

This organization was established on June 1995, as a subsidiary company of SANASA. This company is implementing following objectives:

- (a) Technology transfer for enhancement of production and marketing;
- (b) Providing prompt information on supply and demand situation so that the members could plan both production and sales;
- (c) Linkage with different market networks; and
- (d) Project formulation and business consultancy services to implement these objectives, company has established business development centers in different parts of the country connected to a coordinating centre in Colombo.

V. Infrastructure Development: Community Infrastructure and Resource Development Services

They call it the fourth pillar SANASA established to provide services to build up community infrastructures and resource development. The main objectives of this organization are:

- (a) Community based infrastructure development;
- (b) Project management and appraisal;
- (c) Institutional development related to community infrastructure development;
- (d) Liaison with local and international consultancy teams to under take infrastructure development projects;
- (e) Monitoring and evaluation of infrastructure development projects, and
- (f) Consultancy works related to community infrastructure development.

VI. SANASA Campus: The Education and Training Services

SANASA has established Co-operative Training centre at Kegalle District under the name 'SANASA Campus for Co-operative and Development Studies' in 1988. This campus trains and develops the human resources of entire SANASA movement. It has different Colleges under the campus, each pillar organizations explained above are as follows:

- (a) Banking College,
- (b) Insurance College
- (c) Co-operative College
- (d) Business College
- (e) Information Technology College

These Colleges are involved in the development of knowledge and improving attitudes of the members, and to strengthen the professional capability of staffs. Colleges as of different subjects are established within the same compound and SANASA federation intends to obtain license to function as a university in the future. In general, SANASA movement shows its special characteristics in the society, it has deep impact in the social change and development is easily visible.

SANASA in itself is not a sub-ordinative single command enterprise but a large collection of autonomous societies established under the co-operative Law of Sri Lanka and democratically controlled by members. It has become a competitive National level organization through its subsidiaries to provide quality services from national to grass root level. In the verge of globalization, the market economy as well as state controlled economy; SANASA takes the lead in between a middle path and call it alternative development approach²⁹. With all these broad and people based activities SANASA an organization of 800,000 members families probably covering base population of more than three millions people which include poor marginalized farmers and women, it has become a partner in National Development of Sri Lanka.

²⁹ *Ibid. A Kirivandaniya*

4.3 Grameen Bank of Bangladesh

Bangladesh is one of the poorest countries of the world with per capita income of US \$ 370. Annual GDP growth rate is 3.3% with 50 Billion \$ gross national income per year (2001). Thirty six (36) % of the total population is below poverty line, 30% people earn below one \$ a day and 78% people earn below two \$ a day³⁰. Bangladesh suffers food problems time to time because the major river systems from India like Bhramaputra and Ganges passes through Bangladesh to Bay of Bengal. This flooding in big rivers provides the country with rich and fertile soil. The economy is very agrarian. However, Bangladesh is still not producing enough rice to feed its people. Around 50% of rural households are either landless or owning 0.5 acres of tiny land, which is insufficient to feed or live economically viable life.

The word “Grameen” means, ‘rural’ in Hindi, Bengali and Nepali Languages. Professor Md. Yunus initiated the Grameen experiment as an action research project in 1976 near Chittagaon, Bangladesh. Prof. Yunus was teaching economics at Chittagaon University during those days. Prof. Yunus encountered every day same land less women during his way to the university and back time to time. When he talked to them, he found out that they all had some kind of traditional skills and business, but profit they earn always went back to moneylenders and intermediaries, who charge a very high interest and make profit. Prof. Yunus started experimenting with these women by giving loans out of his own pocket. Later he converted the idea into a small-scale credit project where he used his students as project staff. Through this action research project called ‘Grameen Bank Project’ launched

³⁰ *World Development Report 2003, World Bank, 2003*

in 1976, Prof. Yunus had tested the hypothesis that if financial resources (credits) are made available to the poor at reasonable terms then they can generate productive self-employment with more income without having any external training. Prof. Yunus also found that landless people were likely to be less conservative, more enterprising, mobile and receptive to new ideas than the people who already in good economic status and own enough land. The main objective of Grameen Bank Project was to alleviate socio-economic poverty of the rural poor in general and landless as well as disadvantaged rural woman in particular by way of providing credit facilities for income generating activities. When we asked to Prof. Yunus in our visit to Grameen Bank that, what his vision is for Bangladesh's women or in what position he likes to see the women in future. He replied, "Simple, he wanted to see every woman empowered, self reliant and economically sustainable women who could manage their house comfortably, spend money for the good health and education to their children". According to the founder and managing director of Grameen Bank Prof. Dr. Mohammad Yunus, objectives of the Grameen Bank Project are:

- (a) To extend banking facilities to poor woman and man;
- (b) To eliminate exploitation of the poor people by the money lenders;
- (c) To create opportunities for self employment for the vast unutilized and under utilized manpower resources;
- (d) To bring disadvantaged people within the folds of some organizational format by which they can understand, operate, and can find socio-political and economic strength in it through mutual support; and

(e) To reverse the age-old vicious circle of "low income, low saving, low investment to low income" into an expanding system of "low income, low credit, low investment to more income, more credit, more investment and even more income"³¹.

After getting good results of the Grameen Bank Project, Bangladesh Krishi Bank supported to establish a first Grameen Bank branch at Jobra village, Chittagong district in March 1978. All operational policies and management of the Grameen Bank Project was looked after by Rural Economics Programme (REP) headed by Prof. Yunus at Chittagong University. He was encouraged by its continued success, in 1979, Grameen Bank action research project became a pilot project and was launched in Tangail District, and in 1982 to Dhaka, Rangpur and Patuakhali Districts with financial support from the International Fund for Agricultural Development (IFAD). On October 1983, the government agreed to expand the Grameen Bank project and converted it into an independent bank in the name of "Grameen Bank" with equity capital of a TK 80 Million of which 40% was owned by Grameen Bank woman members, 40% by Government, 10% by Bangladesh Krishi Bank and rest 10% by the Sonali Bank³². The branch office is the lowest operation unit located in a village. It selects and organizes the target clientele in a group of five persons. It supervises credit operation, recommends for sanction of loans, and recovers the loan on weekly basis. The area office sanctions the loans and supervises loan utilization and recovery. The area manager works under the supervision of zonal office. The head office headed by managing director Prof. Mohammad Yunus keeps liaison with the government and other national

³¹ Md Yunus, *Grameen Bank Progress Report, 1998*

³² *ibid, Hussein, 1985*

and international agencies and provides general and policy guidelines to subordinate units of the bank. Organization structure of Grameen Bank is in Table-4.4 as follows:

Table- 4.4
Structure of Grameen Bank (December 2004)

Grameen Bank Headquarters – 1
Number of Zonal Offices – 18
Number of Area offices – 127
Number of Branch offices – 1, 358
Number of Branches with Computerized Accounting System – 1,215
Number of Villages Covered – 48,472
Number of Centers – 81, 609
Number of Groups – 6, 85,083
Number of Members – 4,059,632
Female: 3,883,383 + Male 176,249

Source: Grameen Bank Web Site, 2004

4.3.1. Target Groups

Grameen Bank gives priority to poor marginalized woman. Ninety-five percent of its members/borrowers are woman. These women and men are landless and live below poverty line who forms the groups of five persons in order to receive loans for which no collateral is required. The group members would be like-minded people and have similar economic and social

background. Normally any person, whose family owns less than 0.5 acre of cultivable land and the value of whose family assets together do not exceed the market value of one acre of medium quality land in the area, is eligible to take loans from the bank. Such loans are given mostly for income generating activities. Bank also gives loans to the homeless to build houses for themselves. Loans are given without collateral and to the group or an individual. The loanee alone is responsible for his/her loan although there is interlocking responsibility among members of the group. Each group elects its chairperson and secretary who must convene weekly meetings. Attendance in meetings is compulsory for all group members. Several groups in the same village/area are federated into a centre. Moreover, among the chairperson of the groups a centre chief and deputy chief are again elected. They also conduct the weekly meetings of the centre, recommend loan proposals and assist bank workers in processing banking functions. Rate of interest is 20 % as other commercial banks may have different rates more or less. Once a new group is formed, it is kept under observation for a month to see whether the members are conforming to the discipline of the bank. During observation period, the bank staff teaches them about to manage loan process and even to put signatures. After the observation period is over, two members of the group are selected to take loans. The loanee can use the credit in any productive activities of her choice. The loan is to be paid in weekly installments. The loan utilization and repayment behaviors of first two loanees are observed for two months and if they are behaving properly then only other members become eligible to receive loan. In any case, if one of the members defaults, the whole group becomes ineligible to get further loans. Their

restrictions and group pressure works to keep borrowers individual record clean. In order to insure greater participation by the woman, Bank organizes workshops and training program for them. The woman members associations within the bank have increased their social mobility, their knowledge, and organizational skills. In the board of directors of the Bank, nine members from borrowers are woman. Main features of the Grameen Micro Credit system are:

- (a) Exclusive focus on bottom poor;
- (b) Formation of groups by borrowers of homogeneous backgrounds;
- (c) Simple and readily understood procedures;
- (d) Effective screening mechanisms;
- (e) Basic loans for income Generation only;
- (f) Loans for economic activities chosen by borrowers;
- (g) The loan conditionality is specifically suitable for the poor;
- (h) The loan portfolios are to meet diverse development needs of the poor;
- (i) Transparency of credit operations;
- (j) Credit transactions conducted in-group meetings;
- (k) Compulsory Savings;
- (l) Frequent, small repayments on weekly basis;
- (m) Ongoing access to Credit;
- (n) Implementation of 16 principles and social development programs;
- (o) Effective organizational and management system of the Bank

4.3.2. Credit Market Mechanism

Grameen Bank is mandated to work in the rural areas and operating in most of the country's administrative districts. Almost half of the rural population has a small size or no land at all who totally depend on agriculture for their lively-hood. The dominance of social elites has contributed to market imperfections. Product prices for cultivators are depressed, interest rates are high, land loss through frequent mortgaging, and free labour services are common³³. Resources provided through government agricultural and the powerful people have generally usurped rural development programs. In this very context, the Grameen Bank's initiative focuses on the credit market and targeted loans to the poor, attempts to offset the monopoly and manipulation of the exploiter landlords and moneylenders. Grameen Bank gives emphasis on woman, and channel the resources to the internal life of the families that surly upgrade the life of their family members specially, children. Method of conducting financial transactions has to accommodate woman's illiteracy as well as the distractive social norms that constrain woman's lives in such patriarchal society. Communications are inadequate and electricity is often unreliable or unavailable to the poor. Therefore, Grameen Bank is a micro-credit services, which intend to embrace all these problems to be solved systematically in their daily life. Over the years, Grameen Bank had a tremendous expansion; following table-4.5 describes the detail data since 1978 to latest by December 2004:

³³ *Hashemi and Schuler-1997*

Table- 4.5

**Consolidated Cumulative Growth Statement of
Grameen Bank's Micro Credit Operation: Amounts in 'BDT'**

Progress Indicator	1978	1980	1982	1986	1990	1992	1996	2000	2004
Area and Population Coverage by the Bank									
Villages Covered	4	363	752	5170	19536	30619	36420	40225	48,472
District Covered	1	NA	NA	NA	NA	NA	NA	15	18
No. of Branches	1	24	54	295	781	1015	1079	1160	1,358
Branches Computerized	00	00	00	00	00	00	58	250	1,215
Total Members	290	11,644	24,177	209,574	852,622	1.43 mill	2.06 Mil	2.38 Mil	4.06 Mill
No of Groups	45	2935	6243	46869	173907	284889	433791	503001	685,083
No of Centers	6	NA	NA	NA	NA	NA	NA	68467	81,609
Savings, Loan and Business Activities									
Loan Disbursed ©	283000	20.41M	95.85 M	1.47 Bill	7.59 Bill	15.43 B	65.51 B	131.00 B	217.31 B
Loan Recovered ©	114000	7.3 M	64.31M	1.17 Bill	6.32 Bill	12.27 B	56.95 B	121.00 B	197.30 B
Outstanding Loan	NA	12.8 M	31.4 M	NA	NA	NA	NA	NA	20 Bill
Recovery % *	40 %	36 %	67 %	79.6 %	83.2 %	79.5 %	87 %	92 %	91%
Overdue Loan Bal.	NA	NA	NA	NA	NA	NA	NA	NA	368 Mill
Saving Deposit Bal.	00	1.6 M	9.0 M	115.0 M	650.0 M	1.3 Bill	5.25 Bill	11.26 Bill	20.72Bill
Total No of Village Phones	00	00	00	00	00	00	NA	NA	92,673
Total No of House Built	00	00	00	2042	91157	157334	329040	533041	607,415
Paid from Insurance fund	00	00	00	00	00	NA	NA	NA	144 Mill
Scholarship Given No	0	NA	NA	NA	NA	NA	NA	NA	14,550
Higher Education Loan	NA	NA	NA	NA	NA	NA	NA	NA	NA

Source: Grameen Bank Annual Reports and Monthly Update, December 2004

© = Cumulative Total, BDT= Bangladesh Taka, Exchange Rate US\$1=BDT 60,

M/Mill = Million,

B/Bill = Billion,

NA = Not Available

* Recovery is based on Repaid loan on total disbursements

4.3.3. Access and Economic Impact of Grameen Bank

Based on the rural population of about 100 million, half of them are in the landless target group. It seems that Grameen Bank now reaches about a fifth of the vast rural population, which lives in poverty. In the same way, the program modeled on Grameen Bank probably reaches another two fifths. In order to join Grameen Bank, individuals must organize themselves into groups of five, and for the program to function in any given locality a minimum of eight groups of five must be formed and organized into a centre (before 1992 it was six groups of five). Once a centre has been formed, there is no room for additional members, except to replace dropouts. In large villages with high population and demand, an additional center is formed, but only if the requisite number of members can be recruited. The fact that the number of members in each centre is limited and the existence of a screening mechanism of an individual cannot join and receive credit except as member of the self-selecting group of five, which jointly bears responsibility for repayment of loans. In addition, the clear identification of Grameen Bank as an organization for poor people discourages woman from wealthier families from attempting to join the group.

According to Rahman and Hossain (1995), roughly half of the rural poor in Bangladesh are, 'hard core poor' forced to subsist on a per capita income that is less than half of that poverty line. There are sizable numbers of people within the rural poor whose lives are unlikely to be touched and let alone improved by financial services. They are not 'bankable' in their own or their neighbor's eyes' even when the bank is exclusively for poor people, but they

desperately need some sort of assistance, perhaps direct employment, welfare, or some combination of welfare, employment and credit³⁴.

The most recent study by the World Bank in collaboration with the Bangladesh Institute of development studies, (Khandekar and Chowdhury 1995), used data on consumption, savings, asset ownership, and net worth to assess the effects of Micro credit programs on property. The data were collected as a part of an extensive survey of 1798 and numbers of rural households (households of Grameen Bank members and members of two other credit programs and comparison of groups from credit program and non-program villages). Based on the above measures, the researchers argued that Grameen Bank, and to a lesser extent the other two programs studied that, 'not only it reduced poverty and improved welfare of participating households, but they also enhanced the household's capacity to sustain their gains over time'³⁵. Other analysis from the survey showed an increased calorie intake and better nutritional status of children in households' of Grameen Bank participants. The study found evidence of a shift from traditional farm activities to-wards non-farm activities, which are the main potential sources of productivity and growth in a rural economy like Bangladesh³⁶.

³⁴ *Rahman and Hossain, 1995*

³⁵ *Khandker and Chowdhury, 1995*

³⁶ *op. cit.*

4.3.4. Conclusions and Lessons Learned

'Amul' has become a popular co-operative brand not only for India but also for the world. When Amul Dairy movement started in 1950s, India was facing acute shortage of milk supply and mainly metro cities like Mumbai, Delhi, Kolkata and Chennai were having high demand of milk. After the introduction of Anand Pattern dairy co-operatives, particularly in Gujarat and later all over India in general, the milk production, processing and marketing was increased rapidly. After the implementation of central government's Operation Flood I, II, and III, the white revolution came in India. During the period, NDDB at national level and thousands of co-operatives at farmer level established. Then, India has become the huge producer and user of milk products, probably the highest producer in the world. This raised the socio-economic standard of millions of farmers in India alleviating poverty and hunger. Now Gujarat Co-operative Milk Marketing Federation is exporting different kind of milk products of 'AMUL' brand to several countries in the world. From this successful case of Anand Pattern dairy co-operatives in India, the people dairy farm in Nepal, its government and co-operative movement could immensely learn and employ the same method there in Nepal. Increasing milk production and following the Anand Pattern way, Nepal would become self sufficient in milk products and surplus could be supplied to huge market in India. Because in major part of India there is, still short supply of processed milk and milk products that Nepal can supply with mutual understanding.

'SANASA' in Sri Lanka, has become a symbol of people's organizations. SANASA after its rejuvenation (since 1978) now is a model not only in Sri Lanka but also for whole of south Asia and even the other part of developing world. SANASA is working in every village of either Singhla or Tamil people, even during civil war period they maintained the neutrality and keep working for both the communities, who were involved in civil war. During last 20 years, SANASA reached to almost every village and organized savings and credit co-operatives and not only provided micro financial services but also encouraged for thrift, and provided other auxiliary services. This could be another model to replicate in Nepalese rural area in savings and credit co-operative sector. The special features of SANASA that can be applied are its simple procedure and embracing every area of activities at the doorsteps of the members.

'Grameen Bank' on the other hand was established, as a non-governmental action research project by Chittagong University and later on converted to a formal micro credit development bank through an Act by the Bangladesh Government. It was a marvelous mission developed by a group of development economists led by Prof Md. Yunus. During the past 25 years, Grameen Bank has been able to raise the socio economic status of millions of poverty-stricken marginal poor farmers especially the women. Grameen Bank has become a pioneering model for micro credit all over the world. Now it has been successful to deliver micro financial services to four million members living below poverty line. Annual percentage of members upgrading to above

poverty line is 1 to 2%³⁷. If this continues, for some decades along with other similar agencies doing the same thing, the poverty from Bangladesh will soon vanish as it is hoped. Grameen Bank model has already been replicated in Nepal by the government establishing five 'Regional Grameen Vikas Banks' at 5 different development regions. Some NGOs and private development banks are also applying Grameen principles and philosophy in different areas in Nepal. Grameen model is also increasingly replicated in India especially in south Indian states. Therefore, Grameen has become a model all over the world in all sectors and a best alternative to co-operative system for excellence, the socio-economic development for marginalized poor people.

Following **Table-4.6** describes the contribution of co-operative sector in respective economy of four countries namely India, Sri Lanka, Nepal and Bangladesh. The co-operative sector's work varies as per the country and contributes in different percentage. India is in the high of co-operative contribution in the economy in comparison to others. However, there are large numbers of co-operatives in Bangladesh and good number in Sri Lanka and Nepal the contributing figures were unavailable for explanation.

³⁷ Md. Yunus, *Grameen Bank, Dhaka, Bangladesh*

Table- 4.6

**Contribution of Co-operative Sector at a Glance
Comparison between India, Sri- Lanka, Nepal, and Bangladesh
Co-operative Movements – 2002**

S.N	Particulars	India (INRs)	SriLanka (SLRs)	Nepal (NPRs)	Bangladesh(BT)
1	National/Central Federations	21	14	4	10
2	State Level Federations	367	0	0	10
3	District Unions	2,890	150	121	1,112
4	Primary Societies	549,119	14,505	7,445	145,785
4.1	Agricultural/MPCS Co-ops	145,928	1,774	3044	92,640
4.2	Milk Producers/Dairy Co-ops	101,427	255	1362	863
4.3	Savings/Credit-Coops/ Bank	45,846	9,002	2,350	584
4.4	Consumer Co-operatives	26,469	1,816	195	8,776
4.5	Transport Co-ops	9,999	12	12	4367
4.6	Housing Co-ops	92,000	485	10	2739
4.7	Industrial Co-ops	62,292	344	2	33,340
4.8	Other Co-ops	48,782	817	470	3372
5	Total Members	229,510,466	5,676,428	1,185,000	7,555,000
6	% of Population in Co-ops	22.5%	30%	4.75%	5.5%
7	Share Capital of Co-ops	223, 944 Mill (INRs.)	6906 Mill (LKR.)	677Mill(NPRs.)	9,574 Mill BT
8	Govt. Participation in Share	23%	22%	2%	15%
9	Working Capital	3,827,496 Mill	381, 000 Mill.	8,500 Mill.	137,321 Mill ""
10	Total Deposits/Savings	1,975,633 "	104,409 Mill	7,400 "	43,120 Mill ""
11	Total Loans / Investments	319,297 "	108, 834 Mill "	4,500 "	42,602 Mill ""
12	Total Reserves	300,504 "	42, 163 Mill	NA	12,447 "" ""
13	Total Assets	327, 064 "	120,734 Mill	NA	39,164 "" ""
Share of Co-operatives in National Economy					
14	Villages Covered	100%	100%	50% Approx.	60 % Approx.
15	Argo-Credit Disbursed	43%		8.76%	15%
16	Non-Argo Credit Disbursed	NA	NA	NA	NA
7	Argo Inputs Trade	189,861 Mill	NA	NA	NA
18	Argo Produce Trade	488,533 "	NA	NA	18,683 Mill BT
19	Consumer Goods Trade	153,520 "	NA	NA	NA
20	Milk Products Trade	58,922 "	NA	1,300 Mill	1,059 Mill ""
21	Sugar Trade	NA	NA	NA	NA
23	Handicraft and textile Trade	20,513 Mill	NA	NA	NA
24	Fisheries Products Trade	2,185 Mill	NA	NA	NA
25	Poultry Products Trade	320 "	NA	NA	NA
26	Forest Products Trade	412 "	NA	NA	NA
27	Other Goods Trade	12,808 Mill +	NA	NA	NA
28	Total Co-operative Business	927,074 Mill	NA	NA	NA
29	Tea Coffee Prod. and Sells	NA	NA	NA	NA

S.N	Particulars	India (INRs)	SriLanka (SLRs)	Nepal (NPRs)	Bangladesh(BT)
30	Fertilizer Distributed	36.17 %	NA	8.3%	25%
31	Sugar Produced and Sells	60%	NA	0	NA
32	Wheat Procured / Marketed	33 %	NA	0	NA
33	Animal Feed Product/Supply	50%	NA	2.5%	NA
34	Milk Procured and Marketed	10.5 %	NA	10 %	20%
35	Ice-Cream Production	45%	NA	0 %	NA
36	Branded oil Prod. / Marketed	50%	NA	0.5%	NA
37	Rubber Procured / Marketed	19 %	NA	NA	NA
38	Fair Price Shops Rural/Urban	20.3 %	NA	NA	NA
39	Irrigation Services	NA	NA	NA	25%
40	Cotton Procured / Marketed	60%	NA	0%	NA
41	Handlooms in Co-op.	55%	NA	0%	NA
42	Fishermen in Co-op.	21%	NA	0%	NA
43	Go-down facilities in Villages	65%	NA	20%	NA
44	Soybean Production	10%	NA	0%	NA
45	Self Employment Generated	15 Mill	600,000	250,000	1 Mill
46	Direct Employed Persons	1.15 Mill	40,505	6,000	50,000
47	Salt manufactured	7.6 %	0%	0%	NA
48	Rice Procured	NA	NA	3%	NA
49	Co-ops Share on Total GDP	NA	NA	1 %	2.3%
50	Remarks	-	-	-	-

Sources: Indian Co-operative Review Data Bank, 2004; NABARD Report 2003/04; Annual Statistical Report, Ministry of Agriculture and Co-operatives, Nepal, 2004; Department of Co-operatives Report, Nepal, 2003/04; Bangladesh National Co-operative Union Report, 2004; Registrar, Co-operative Directorate, 2002 Bangladesh; Annual Report of Department of Co-operative, 2002 Sri Lanka,

Exchange Rate: US \$ 1 = INRs 44, NPRs 72, LKRs 100, BT 60, NA = Not Available

CHAPTER FIVE

DEVELOPMENT AND ROLE OF CO-OPERATIVE ENTERPRISES IN NEPAL

5.1 Historical Overview

Co-operation is a way of life especially in rural Nepal. People have long history of co-operation to each other whether it may be in the form of informal or unorganized manner. There still exists some traditional mutual aid system called 'Parma'³⁸, 'Dhikuri'³⁹, and 'Mankakhala Guthi'⁴⁰ are the good example of best tradition of co-operation. Actually, these were the true models of co-operation for the long time in the past though they were not registered in the eye of law and still today, are managed non-professionally.

The Government of Nepal, in 1953, established a Co-operative Department as initiated the co-operative movement. In 1956, establishment of 13 agricultural credit co-operative societies was undertaken by the then Rapti Dun Development Project operated under the Government. Although the first Co-operative Act was promulgated in 1959, yet there were so many difficulties and vicissitudes in co-operative movement during the operation. In almost all times co-operatives were promoted, established, directed and controlled by the government through different ministries and departments. During the

³⁸ 'Parma' means exchange of labour between agricultural farmers and labourers engaged in cultivating and harvesting the crops.

³⁹ 'Dhikuri' is a rotation service within limited number of members for savings and credit activities in cash or in kind.

⁴⁰ 'Mankakhala Guthi' is a trust aid fund of financial and human resources for emergency as well as ceremonial activities of the related families especially in the Newar Communities.

period of three decades or more until 1992, the saddest thing was that it neither took a perfect shape and nor did it ever look like a people's movement though members in paper were more than one millions. They acquired membership, because it was mandatory to all loanees of Agricultural Development Bank and all people under Grain Saving Scheme of the government who were unaware of co-operative principles and responsibilities of economic participation. Therefore, they were like dummy members and the government appointed board and staffs to run the co-operatives. Until 1992, there was neither central level federated organization at apex level nor autonomy and independence exercised by the co-operative members.

Only after the restoration of democracy in 1990, the new elected government promulgated the new comprehensive Co-operative Act in 1992, which opened the door of autonomy and reformation of co-operative movement. After the implementation of this new act, all co-operatives became autonomous. Thus, National Co-operative Federation of Nepal was established for the first time in the co-operative history. Until 1992, there were about 883 co-operatives, and most of them were agricultural multipurpose. However today, there are more than 7000 primary, 121 secondary and 4 central and national level co-operative enterprises. This is the indication of the positive impact of the new Co-operative Act. There is a bright and prosperous future for the movement if proper thrust is given in the desired right direction.

5.1.2 Early Development Period (1956 to 1970)

In the year 1953, the Government had established the Department of Co-operative, which promoted co-operative groups especially, savings and

credit co-operatives through the US Aided Rapti Valley Development Project, presently in Chitawan District. The government initiated, controlled, and used co-operative enterprises in different ways since 1956, after the establishment of the first savings and credit co-operative. In 1959, the first elected government headed by the then Prime Minister Mr. B.P. Koirala, a popular socialist leader, visited Israel and was deeply impressed by the Israeli co-operative enterprises, e.g., Moshavim and Kibutzim. He introduced co-operatives in large scale and presented draft law in the Parliament which promulgated the first Co-operative Act in 1959. His government had promoted the idea of small-scale rural agro-based industries and trade through co-operative form of enterprises covering the rural farmers. Soon after in 1960, elected government was removed by the then King Mahendra and replaced it by undemocratic Panchayat System. This had badly affected the development of independent co-operatives in Nepal. This change in government and introduction of so-called guided Panchayati Democracy took independent co-operatives into government fold. They used them wherever and whenever required to favour the government's administration and influenced the people by distributing them the essential goods through these co-operative network. The government control continued until 1992, when new Co-operative Act provided freedom to establish and manage co-operatives independently. The principles of co-operation were so ideal to influence in public and provide necessary services, such as agro-inputs, distributing ration items, like sugar, food-grains, kerosene oil, and salt, that it always remained an attractive program in the past and equally attractive at the present. The structure of co-operative enterprises under the government control was as follows:

Figure 5-1

Organizational Structure of Cooperative Movement and a Typical Primary Agricultural Co-operative Society during 1960s and 70s



There was rapid growth (See Table 5-1 below) of co-operative enterprises from 1956 to 1969/70, especially of agricultural multipurpose and savings and credit co-operatives, which were actually promoted by the

government on experimental basis. All the co-operatives were under the direction of the government, which appointed a high-level committee to review the performance and efficiency of the co-operatives in the past. On the recommendation of so-called committee, the state dismantled or merged some co-operatives and reduced the number from 1,489 to only 72 co-operatives, at the end of the year 1970⁴¹. Memberships were also reduced to 17,352 from 71,163; total share capital decreased from Nepalese Rs. 2,726,000 to Rs. 605,000. From the data, it shows that until 1969/70, most of the agricultural multipurpose and savings and credit co-operatives took loans from Agricultural Development Bank and lent to the members. The average recovery percentage of loan provided to the members, until 1970 was just 48% and by the end of 1980's, it had increased to 60%.

5.1.3 Re-organization in 1969/70

In 1970, there were only 72 co-operatives after merger and liquidation. From 1970 up to 1989/90, again, fast growth appeared mainly all in agricultural multipurpose co-operatives leaving a few in other categories. In this period also, government promoted and established the co-operatives in each of the nine service centres (local political unit), in most of the districts. Until 1989/90 that is, end of seventh plan period, agricultural multipurpose co-operatives increased to 830 in numbers, with an additional 53 other types of co-operatives (See Table 5-1). During this period, there were not both savings

41 Givinda Ram Agrawal, Co-operative Development and Basic Needs, Centre for Economic Development and Administration, March-1985, Tribhuvan University, Kirtipur, Nepal

and credit and milk producers' co-operatives were established. One wonder why those highly people centered kind of co-operatives were neither promoted nor established. Here, it seems that some political fundamentalists with prejudice, worked to hamper the promotion of such types of co-operatives in those fields.

Table 5-1
Growth of Co-operative Enterprises and their Transactions
During the Period of 1956/57 to 1989/90

Particulars	Unit	56/57 End	60/61 End	64/65 End	69/70 End	74/75 End	79/80 End	84/85 End	89/90 End
Total Primary Co-operatives	Nos.	17	378	1123	1489 to 72 (Year End)	251	711	717	883
Agricultural Multipurpose	Nos.	0	188	753	1094 to 68	220	680	686	830
Savings and Credit Co-ops	Nos.	17	144	252	256 to 0	0	0	0	0
Milk Producers / Dairies	Nos.	0	3	5	6 to 0	0	0	0	0
Other Co-operatives	Nos.	0	43	113	133 to 4	31	31	31	53
District Coop Unions	Nos.	0	0	0	0	0	33	33	33
Total Members *	In Nos.	641	11059	29,798	71,163 to 17,352	71,431	11,93,76 5	14,36, 000	14,49, 000
Total Share Capital *	In '000 Rs.	6	363	1, 663	2, 726 to 605	2, 631	136, 098	147, 851	149, 045
Total Savings	In '000	0	0	0	0	0	0	0	0
Annual Loan Transactions *	In '000 Rs.	0	0	999	5,100	19, 922	51, 914	103, 900	105, 090
Annual Trade / * Business Volume	In '000 Rs.	0	0	0	0	86,214	160, 375	316, 021	728, 778

Source: Various Annual Reports, Department of Co-operative, Nepal; Surya Ratna Shakya, Nepal ko Sahakari Andolan, Nepal Sahakari Press, Kathmandu, (2040) 1984

* Total Members and others with this sign are in cumulative figures

The important step to establish 33 district co-operative unions, mostly in the districts of Terai region was the remarkable measure of that time. District unions helped the primary co-operatives by supplying goods and services at wholesale price. Nevertheless, government was always not only hesitated but also, rejected to give autonomy and right to form federation at the national level. Data was not available in co-operative trade up to the end of third plan and members' saving deposits for all periods. Probably, there were transactions in those sectors during that period, but the proper statistical records were not kept by co-operative enterprises or by the department of co-operatives. During the three decades of direct rule by the King under Panchayati System, co-operatives remained the tool of the government to deliver goods and services as per the direction of the government. However, the government seemed positive towards co-operatives, yet their attitude displayed their hidden political interest. Data above on Table 5-1 shows the growth of co-operative enterprises and their business transactions from 1956/57 to 1989/90.

5.1.4 Development after the Restoration of Democracy in 1990

There was a popular movement against Panchayat regime after which democracy was restored in 1990 that opened the door to so many changes in the country. A new Constitution was promulgated and Parliament was convened after the General election was held, based on multiparty system. During the interim period (1990), the then government formed a high-level co-operative committee to review the existing co-operative situations and to give suggestions/recommendations for co-operative reforms. The committee gave

the report suggesting drastic reformation and liberalization of Nepalese Co-operative Movement, which also recommended allowing co-operatives the right to federate up to the national level. After the general election in 1991, new elected government again formed another high-level interim committee named National Co-operative Development Board in place of former Sajha Kendra⁴². This interim board got the mandate to review the existing co-operative laws and rules, as well as to advice on new organizational structures of overall co-operative movement. As per the mandate, interim Co-operative Board had recommended to introduce a new Co-operative Act, a new co-operative policy as well as a Co-operative Board Act for itself to run permanently as a successor to former 'Sajha Kendra'. Parliament passed both the Acts namely The Co-operative Act of 1992 and National Co-operative Development Board Act in 1993, which declared full autonomy to all the co-operative enterprises, freed from government control, and allowing right to federate up to national level. When law took its course, there was tremendous growth in Nepal's Co-operative Movement. This was the most positive sign of development of co-operative enterprises in Nepal. However, in the mean time new Acts and government's policy remain silent and gave no attention on how to handover or phase-out these old government controlled and managed co-operatives to the newly elected autonomous management. This was the severe lacking in new Acts and policies of liberalizing co-operatives, which has resulted the collapse of hundreds of agricultural multipurpose co-operatives in ruin. They were also debt burdened with Agricultural

⁴² 'Sajha Kendra' Co-operative Society Limited was established in 1960s during Panchayat Regime as a primary co-operative with the royal guardianship but having a central role in supervising and promoting co-operatives. King used to appoint its Chairman until restoration of Democracy in 1990.

Development Bank and are still in an unsettled mode. Agricultural Development Bank is recovering debt from the government year by year because government was the guarantor in the beginning when supplying the loan to multipurpose co-operatives and ultimately to the members. Most of those co-operatives are neither able to payback the bad loan to Agricultural Development Bank of Nepal nor getting any support from government to survive. The assets and businesses they had also shrieked day by day, because of misuse, corruption in business and the dearth of responsible management except of few exceptions.

On the other side, there was a huge increase in newly registered co-operatives immediately after the execution of new Act in 1992. Co-operative Act 1992 of Nepal is one of a liberal law in south Asia that freed co-operatives from government control and provided full-fledged autonomy. However, the implementation was ineffective due to lack of understanding of the law in its letter and spirits. Consequently, there was little 'true' progress of the movement in qualitative term. Since 1992, there has been a mushrooming of co-operatives in different sectors registering year by year until now. There were just 883 co-operatives in 1990, which reached to more than 7000 in the year 2001/02 by the end of ninth plan. This is almost 8 times (800%) increase in numbers in a decade time. This can be revealed from the following table (See Table 5.2 below).

Table 5-2

Growth Trend of Co-operative Enterprises in Nepal

Consolidated Data for Last 46 Years (1956/57 to 2002/03)

Years In AD	AMP Co- ops	S/C Co- op	MIP Co- ops	Oth er co- ops	Total Prima ry co- ops	Dist rict Uni ons	Total Mem ber s (M/F)	Memb er Per Societ y	Total Share Capital Rs. 000	Share Cap Per Society	Sha re Cap P/M	Total Savin gs	Loan to Co-ops Rs. 000
1956/57	0	17	0	0	17	0	641	37	6	353	10	0	0
1957/58	0	52	1	0	53	0	1615	30	20	378	13	0	548
1958/59	0	53	1	0	54	0	1746	32	24	444	14	0	20
1959/60	72	76	3	19	170	0	5275	31	109	641	21	0	390
1960/61	188	144	3	43	378	0	11059	29	369	976	33	0	999
1961/62	356	167	4	54	581	0	15882	27	487	838	31	0	989
1962/63	559	221	4	86	870	0	22960	26	1397	1606	61	0	1162
1963/64	741	252	5	108	1106	0	29439	26	1646	1488	56	0	920
1964/65	753	252	5	113	1123	0	29798	26	1663	1481	56	0	700
1965/66	885	252	6	124	1267	0	48412	38	2120	1673	44	0	2700
1966/67	1045	256	6	132	1439	0	64879	45	2527	1756	39	0	3900
1967/68	1088	256	6	132	1482	0	70538	47	2704	1824	38	0	3600
1968/69	1088	256	6	132	1482	0	70538	47	2704	1824	38	0	4600
1969/70	1094	256	6	133	1489	0	71163	48	2726	1830	38	0	5100
1969/70	869	106	6	133	1114*	0	71163	64	2726	2447	38	0	5100
1969/70	72	0	0	0	72 #	0	17352	240	605	8406	35	0	5100
1970/71	101	0	0	0	101	0	24480	242	849	8406	35	0	3576
1971/72	152	0	0	0	152	0	27495	181	10733	7059	39	0	6300
1972/73	169	0	0	0	169	0	38553	228	1188	7027	31	0	13697
1973/74	206	0	0	0	206	0	55431	269	19945	9442	35	0	23403
1974/75	251	0	0	0	251	0	71431	285	2661	10604	37	0	36639
1975/76	293	0	0	0	293	0	93298	318	3399	11602	36	0	48233
1976/77	1142	0	0	0	1142	33	802292	701	89944	78623	112	0	113483
1977/78	688	0	0	0	688	33	1006723	1480	1E+06	190037	128	0	141509
1978/79	723	0	0	0	723	33	1070246	1480	1E+06	2E+07	123	0	105338
1979/80	711	0	0	0	711	33	1193765	1679	136098	191418	114	0	68444
1980/81	708	0	0	0	708	33	1239994	1751	140701	198730	113	0	58080
1981/82	713	0	0	0	713	33	1399381	1963	141848	198946	101	0	81445
1982/83	706	0	0	0	706	33	1359792	1976	145700	203776	103	0	0
1983/84	711	0	0	0	711	33	1392621	1959	147200	207032	106	0	137100
1984/85	719	0	0	0	719	33	1436000	2003	147851	206207	103	0	127079
1985/86	691	0	0	34	725	33	1480000	2038	150067	206704	101	0	141744
1986/87	692	0	0	37	729	33	1509000	2070	151059	207214	100	0	123828
1987/88	721	0	0	42	763	33	1555000	2038	157674	206650	101	0	129735
1988/89	830	0	0	51	881	33	1403000	1592	142316	161539	101	0	168372
1989/90	830	0	0	53	883	33	1449000	1641	149045	168794	103	0	173224
1990/91	830	0	0	53	883	33	1483000	1679	149509	169319	101	50	137407
1991/92	830	0	0	54	884	33	1448000	1638	145923	165071	101	90	141369
1992/93	840	54	115	214	1223	56	1448000	1184	145923	119316	101	300	156078
1993/94	980	70	325	441	1816	61	1129000	622	115771	63750	102	650	117548
1994/95	1308	228	499	479	2514	66	1121000	446	211805	295070	662	1100	164016
1995/96	1622	343	661	506	3132	72	1050000	335	304466	97211	290	1600	134488
1996/97	1802	579	794	536	3711	77	1051000	283	324741	87508	309	2200	97228
1997/98	1787	815	1069	678	4349	82	1065000	245	340410	65003	265	2800	175973

Years In AD	AMP Co-ops	S/C Co-op	MIP Co-ops	Other co-ops	Total Primary co-ops	District Unions	Total Members (M/F)	Member Per Society	Total Share Capital Rs. 000	Share Cap Per Society	Share Cap P/M	Total Savings	Loan to Co-ops Rs. 000
1998/99	1975	1040	1098	638	4751	82	1063000	224	373382	42965	192	3300	114681
1999/2k	2212	1574	1156	729	5671	97	1088000	181	497654	70121	387	3800	148489
2000/01	2504	1971	1317	692	6484	105	1134000	175	559332	70841	405	5100	NA
2001/02	2810	2262	1326	666	7064	121	1163500	165	651118	92174	560	6050	NA
2002/03	3044	2350	1362	689	7445	121	1185000	159	677904	91054	572	7400	NA

Source: Annual Reports of several years till 2003, Department of Co-operatives, Nepal; SR Shakya, Nepal Ma Sajha Andolan, 2040 (1983), National Planning Commission, Reports of different years; Ministry of Agriculture and Co-operatives, Annual Agri-Statistical Reports, 2002/03; Cooperative Development and Basic Needs, CEDA, 1985

Note: * = 225 multipurpose co-ops and 150 saving credit co-operatives were merged with other Co-ops during this 2nd quarter period. # = All other co-ops were either liquidated or merged with these 72 co-ops during last quarter of the year. Details were not available.
NA = Not Available

Following Figures from 5.2 to 5.6 best demonstrate growth and development of Nepalese co-operatives, its members, capital and total trades in graphical form. However, there were several ups and down in the co-operative numbers and business; since 1992 it shows that there is rapid and continuous growth in co-operative sector. In the past, the movement was associated with different departments and ministries but presently, co-operative sector is associated with and under the Ministry of Agriculture and Co-operatives of Nepal. National Co-operative Federation at apex level and central level specialized co-operative unions' viz., savings and credit, dairy and consumers (See Figure-5.8 and 5.9 below) are providing the services to their members directly. These central level co-operative organizations are financially and professionally so weak that they are not able to pay much attention to their members in providing business and general services in due time. They are not equipped with quality human resources and other physical facilities, are unable to provide management consultancy, technical advice, and audit services to their members. Major problem is lack of sufficient financial resources and professionally qualified staffs.

Figure-5.2

Growth of Total Primary Co-ops

Figure-5.3

Growth of total membership

Figure-5.4

Total DCUs

Figure-5.5

Total Share Capital

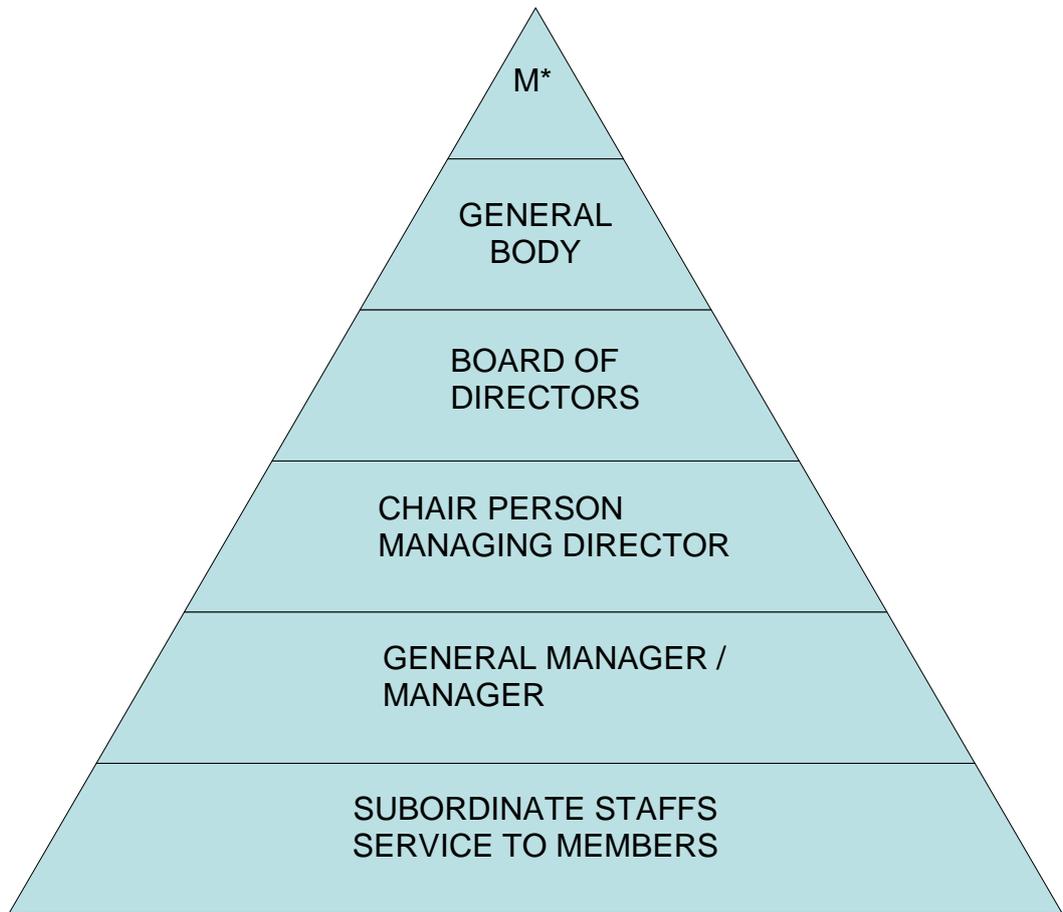
Figure-5.6

Total Trade

Figure - 5.7

Organization Structure of a Typical Co-operative Society at Present

(1992 - 2002)



- M = Members

Figure 5- 8

Present Organizational Structure of the Co-operative Movement in Nepal

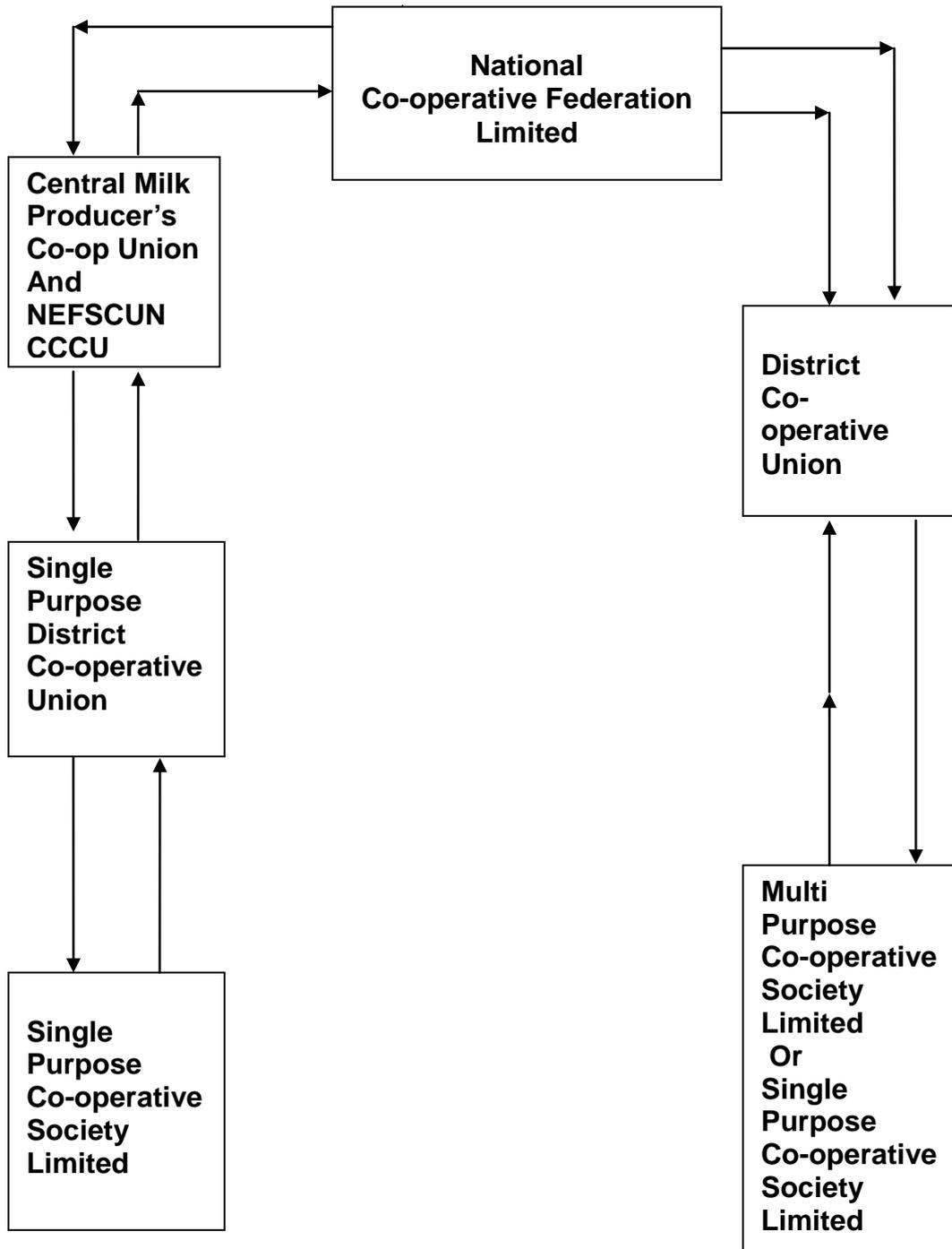
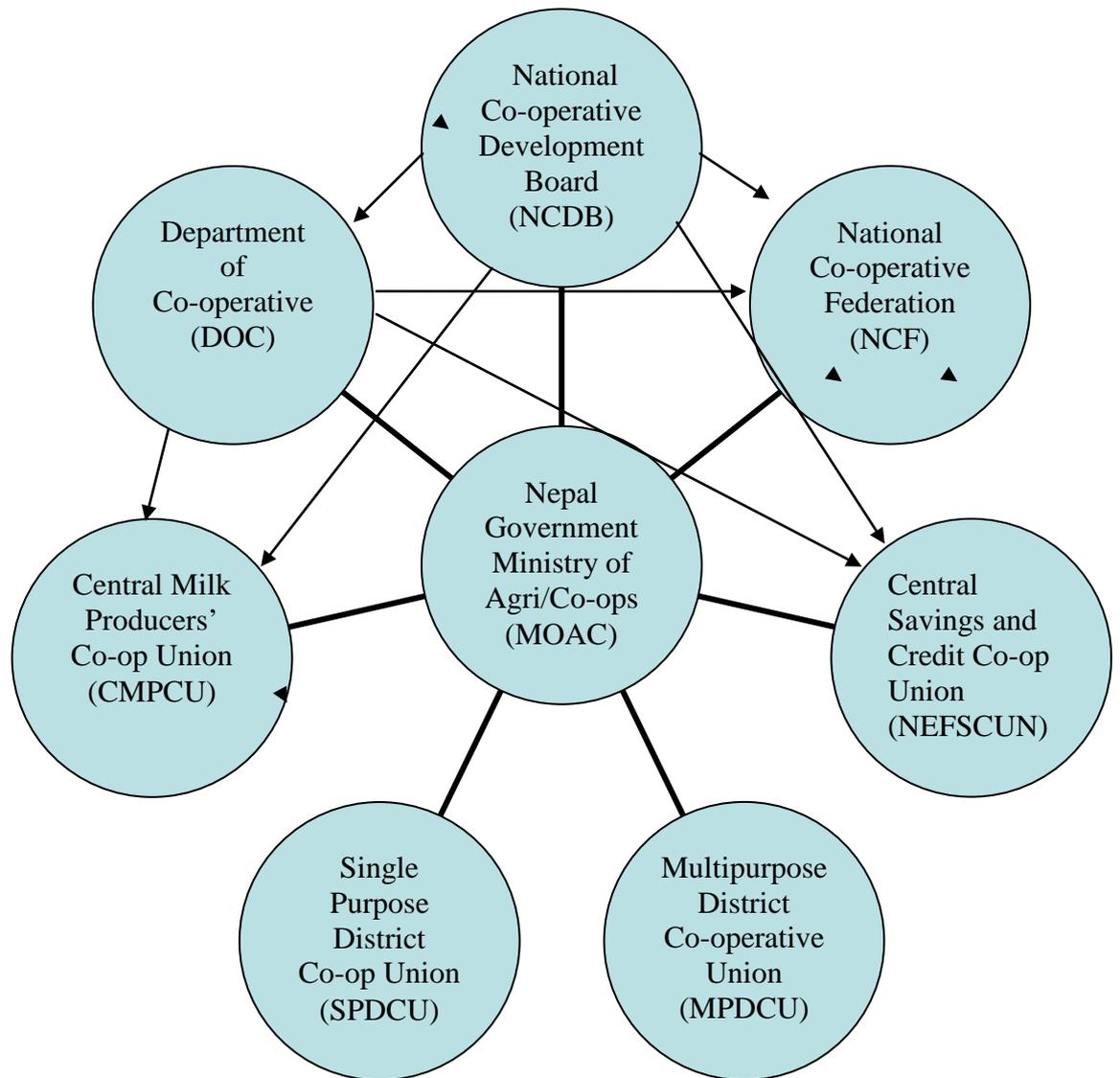


Figure- 5.9 Government - Co-operative Movement

Linkage and Organizational Relationship



5.2 Agricultural Multipurpose Co-operatives

5.2.1 Agriculture in Nepal

Nepal is pre-dominantly an agriculture country based on traditional farming system. Modern farming with the use of machinery is still a distance dream for farmers except some big landlord farmers in Terai region using simply the tractors. Almost 80% farmers are either marginal or of subsistence level in Agricultural economy where they do manual farming using the traditional tools and an ox to plough. From this, we can easily understand that how backward was the situation of farming system during the late 1950's and 60's when the government started to promote agricultural multipurpose co-operative societies. Around 21 percent of the total land area is under cultivation, despite its limited land use where there are very limited prospects for extensions; agriculture is a most important sector of Nepal's economy, providing employment, livelihood for more than 80% of the economically active population. Agriculture is also the largest contributor to the gross domestic product (GDP), though it is declining over the years. It was 80% in the seventies reduced to 50% in the nineties but the economy is still dominated by this sector. In 2002\03 share of agriculture in GDP was 40%, largest contributor among the different sectors⁴³. GDP growth rate of agriculture sector is not increasing in line with the other sectors because of un-modernized farming system with lack of irrigation facilities. Most of the farmers practice mixed farming system. Their income is mainly derived from both crops and livestock products. The importance of livestock production is very high in the farmers' life and GDP of the country. This is given in detail in

⁴³ *Nepal in Figures, Central Bureau of Statistics, Kathmandu, 2003*

milk producers\dairy co-operative section of this chapter. However, the ratio of vegetable production is growing in some areas like Kathmandu Valley and Tarai region. The major portion of agricultural productions comes from food grains (Rice, Maize, Millet, and Barley) accounting for nearly 80% of the total crop area among them, rice is the major crop covering 55% of the total arable land. Rain-fed farming systems are most common because only one third of the arable land is provided with irrigation facilities. Therefore, yields are very low. Increase in production is not from greater yield per unit of land but from area expansion of the cropland. The following reasons would best explain the lower performance of the agriculture sector.

- (a) Most of the farmers are illiterate and untrained in modern farming and are strict with traditional farming system;
- (b) Very limited use of improved seeds and chemical fertilizers;
- (c) Very limited use of irrigation facility, mostly rain fed land in the country;
- (d) Lack of appropriate technology and resources as well as they lack skills to apply such technology and mechanical instruments;
- e. No timely and easy availability of credits as well as Agro-inputs;
- (f) No incentives are given to farmers; no subsidy given on price support system to safeguard them for continuing production;
- (g) No good marketing infrastructure facilities and no market expansion;
- (h) No good transportation and communication facilities especially in hill terrain

- (i) High population growth and fragmentation of land leads high cost of production with comparatively low yield.

Nevertheless, it is evident that there is considerable scope of improvement and development in agriculture sector through co-operative enterprises, established and run by producer farmers themselves.

5.2.2 Multipurpose Co-operatives

Multipurpose agricultural co-operative societies are those, which have more than one activity or purpose along with the agricultural one. As is already mentioned, Nepalese co-operatives were the product of the government initiatives in the late 1950's, but true performing agricultural co-operatives are rare to see until today. We can assume government intention was good in the beginning, until 1960, when democratically elected government was toppled later, and then the interest of the government changed towards co-operative sector to use it politically. Therefore, the actual performance \ accomplishments have been deteriorating. The top down approach of the government to establish or promote guided co-operatives did affect the agriculture multipurpose co-operatives in the country. The vicious circle of growing and dying continues, and sustainability of the co-operative organizations is still to come. Actually, multipurpose co-operatives were promoted because already established savings and credit societies had limited nature, supplying credit only. However, the farmers in vast rural areas were expecting several services which small credit society alone could not provide. On the other hand multipurpose co-operatives, aimed for all round economic development of the farmers not only supplying credit but varieties of

business activities such as supplying agricultural inputs, tools and machineries, and purchase the agricultural products of the farmers and sell in the market. That is why the government promoted multipurpose co-operatives. Major service area co-opted by the multipurpose co-operatives were to finance crop production; to buy and sell the crop productions; to supply the agro-inputs such as seeds, fertilizers, agricultural tools, cattle feeds and also to sell consumer items like salt, sugar, kerosene including others. Multipurpose co-operatives were also served as milk collection and sells centre, tried to work as centre for livestock first-aid services including maintenance of stand-by bulls in 60s and 70s. The co-operatives had also served as a centre for maintaining agricultural machinery for the joint use of members. Multipurpose co-operatives were also motivating members to start any subsidiary occupation in addition to crop and livestock farming. But soon, this dream of doing every thing through multipurpose co-operatives during 60's to 80's went in vain because of lack of members' participation, lack of sufficient resources, unprofessional government controlled management, widespread corruption and not diversifying the co-operative business as required. Following Table-5.3 shows the numerical growth of multipurpose co-operative societies and its business transactions.

Table- 5.3
Growth and Business Activities of
Agricultural Multipurpose Co-operatives

Years in BS / AD	Numbers of Primary Co-ops	Nos. of District Unions	Total Numbers of Members	Total Share Capital in '000	Total Savings Deposits In Million	Total Loan Investm ents in'000	Total Business Turnover in '000
047/48-90/91	830	33	1483000	147865	50	81117	741966
048/49-91/92	830	33	1448000	144229	90	83645	893492
049/50-92/93	840	48	1382640	133807	300	90069	1005180
050/51-93/94	980	48	1051400	115321	650	72821	1042872
051/52-94/95	1308	57	1027380	181805	1100	108219	1204811
052/53-95/96	1622	57	942800	274466	1600	183089	1487919
053/54-96/97	1802	57	917080	294741	2200	168107	1539657
054/55-97/98	1787	57	895650	332697	2800	282966	1547780
055/56-98/99	1975	57	863900	394128	3300	111391	1417828
056/57-99/2k	2212	54	817580	457654	3800	1157802	1612578
057/58-2k/01	2504	54	795970	509332	5100	2585043	2160653
058/59-01/02	2810	54	766396	561118	6050	2585043	2160653
059/60-02/03	3044	54	740000	607904	7400	2585043	2160653

Source: Department of Cooperatives, Ministry of Agriculture, and Co-operatives-2003/04

Figure-5.10

Growth Agricultural Multipurpose Coops

5.3 Milk Producers / Dairy Co-operatives

The history of milk producers' co-operatives had started in 1957\58 when a milk producers' co-operative was established for the farmers with the help from government. Because of the people's hesitation to sell milk products in one hand and lack of market expansion in the other, the growth of milk production and supply was very slow. In 1960, there were three milk producers co-operative, which increased to 67 until 1969. Because of non-performance, they were merged with multi purpose co-operatives in 1970 and vanished to zero. Until 1992, there was almost none except one in Dhading District, which was also not active in milk business. However, after the promulgation of new Co-operative Act 1992, the farmers have been establishing hundreds of Milk Producers Co-operative. Until then, situation in the market was also changed and influenced by international market. Dairy Development Corporation (DDC) had already started to convert its milk supplying farmers groups into the formal co-operative enterprises. DDC was also giving certain commission to milk producers' co-operatives for collecting milk from farmer members and supplying to DDC. This had encouraged milk farmers further to organize co-operative enterprises and sell their milk through their own co-operatives to either dairy development corporation or private dairy industries. District or central level unions of milk producers' co-operatives are not yet able to establish their own milk processing industry in commercial scale. The Table-5.4 below describes that in recent years how rapidly the quantity of the milk collection and supply to DDC was increasing year by year with a quiet high amount of money channeled to the village milk farmers. DDC is doing really a good job in dairy sector by not only processing

milk products and selling to urban consumers but also promoting more than 2\3rd of milk producers co-operatives in the country.

Table- 5.4
Co-operatives / Pre Co-operative Groups
Selling Milk to Dairy Development Corporation

Years of Business In BS / AD	No. of Groups / Co-operatives Supplying Milk to DDC	Total Milk / Dairy Co-operatives Registered	No. of Member Farmers Benefited	Total Milk Trade with DDC in Mill NPRs.	Per Farmer Sales NPRs.	No. of Chilling Centre	District Covered By Co-ops
047/48-90/91	482	0	45,000	233.5	5189	36	27
048/49-91/92	511	0	50,000	316.2	6324	35	27
049/50-92/93	696	115	57,000	447.6	7853	37	29
050/51-93/94	755	325	60,000	560.8	9347	39	30
051/52-94/95	772	499	63,000	612.5	9722	43	30
052/53-95/96	905	661	67,000	801.2	11,958	43	32
053/54-96/97	907	794	71,000	903.6	12,727	43	32
054/55-97/98	939	1069	75,000	1003.2	13376	45	34
055/56-98/99	1005	1098	78,000	1037.8	13305	44	34
056/57-99/2k	991	1156	82,000	1061.4	12944	42	36
057/58-2k/01	952	1317	97,000	1181.4	12180	42	36
058/59-01/02	938	1326	111,000	1142.2	10290	42	36
059/60-02/03	921	1362	120,000	1198.5 *	9988	42	36

Source: Dairy Development Corporation Reports from 1990/91 to 2002/03, Nepal

Note:

*If farmers milk trade with private dairy and direct marketing included, then total sales comes to 1657.5 Millions NPRs. This is going to the villages. Moreover, 160 thousand farmers' families in total are engaged in producing and selling milk.

Figure- 5.11
Flow Chart of Rural Milk Produce
To Urban Areas and Urban Cash to Rural Farmers

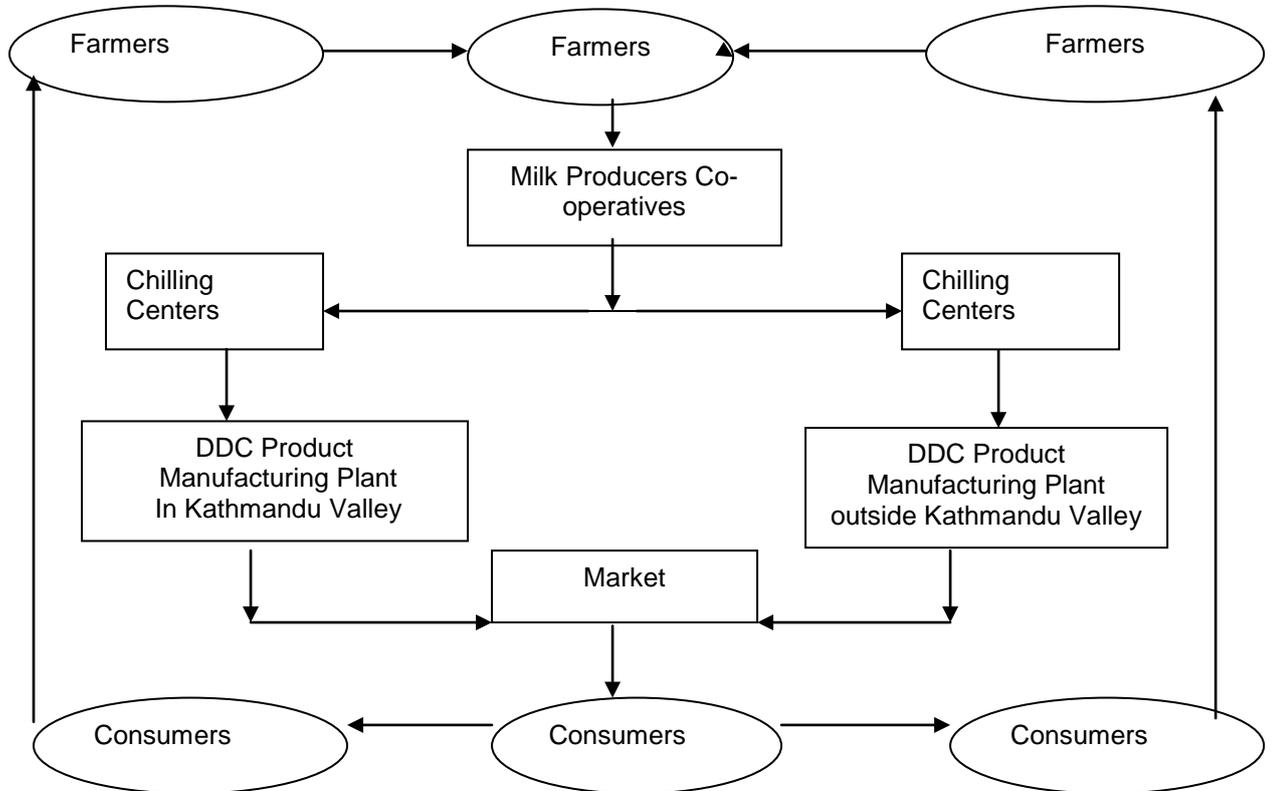


Table- 5.5
Status and Contribution of Milk Co-operative Sector in Nepal - 2003

S. No.	Progress Indicators	Unit	1993	2003	Growth / Remarks
1	MIPCS	Nos.	115	1362	1084%
2	DCMPU	Nos.	5	35	600%
3	CMPCU	Nos.	1	1	Same
4	Small Scale Milk Processing Co-ops	Nos.	0	45	(45000 Liter Capacity, only 55% used)
5	Chilling Vat in Co-ops	Nos.	0	52	Used in full Capacity
6	Milk Sold per day	Liters in '000	95	275	190%
7	Price per Liter	In NPRs.	10	16	60%
8	Ratio of Milk Co-ops On Total Co-ops	%	10 %	20%	100%
9	Co-ops Contribution To Agriculture GDP	%	Below 1 %	6 %	Considerable Contribution in Agric-GDP
10	Demand Fulfilled by Milk Co-ops	%	30 %	50 %	67%
11	Unsold Milk because of Milk Holiday	Liters	0	35,000	No Milk Holiday During 1993/94
12	Directly Involved Farmer Families (SE)	Nos.	57,000	120,000 (DDC) 85,000 Private	260%
13	District Covered by Milk Farmers	Nos.	29	45	Increased Farmers in Milk Trade / 55%
14	District with Highest No. of Milk Co-ops	Nos.	Kavre	Kavre District (231)	Very near to Big Market - Kathmandu Valley
15	Ratio of Co-ops Milk on Total Milk Produced	%	3%	10%	233%
16	Market Share of the Pasteurized Milk Supply	%	DDC 90% Private 10%	DDC 60% Private 40%	-33% Private Dairies are Growing Fast

Source: Dhaka Ram Aryal, a Seminar Paper, Jan. 2004; CMPCU Report, 2004; DDC Report, 2003

Table- 5.6
Growth and Contribution of Dairy Co-operative Business in Nepal

Years in BS / AD	Nos. of Primary Co-ops	Nos. of District Co-op Unions	Nos. of Milk Co-op Members	Annual Milk Business in Million NPRs	Milk Delivered to DDC in Mill. Ltrs	Amount to Co-ops by DDC in Mill NPRs	Amount to farmers by Co-ops in Mill NPRs
047/48-90/91	0	0	45,000 ⁴⁴	233.5	20.3	219.24	177.58
048/49-91/92	0	0	50,000	316.2	25.3	390.95	291.00
049/50-92/93	115	2	57,000	447.6	35.0	447.60	367.00
050/51-93/94	325	5	60,000	560.8	40.0	560.77	465.44
051/52-94/95	499	7	63,000	612.5	44.2	612.47	508.97
052/53-95/96	661	10	67,000	801.2	54.0	801.23	672.65
053/54-96/97	794	13	71,000	903.6	58.5	903.64	829.61
054/55-97/98	1069	15	75,000	1003.2	60.8	1003.16	938.70
055/56-98/99	1098	21	78,000	1037.8	57.8	1037.85	965.20
056/57-99/2k	1156	26	82,000	1061.4	58.6	1061.42	989.67
057/58-2k/01	1317	29	97,000	1181.4	59.4	1181.41	1106.77
058/59-01/02	1326	33	111,000	1142.2	58.4	1142.15	1066.55
059/60-02/03	1362	35	120,000	1198.5	61.7	1198.48	1119.86
060/61-03/04	1410	37	130,000	1233.5	63.3	1229.56	1149.39

Source: Dairy Development Corporation's (DDC) Annual Reports from 2051/52 to 060/61 and Department of Co-operatives Reports of different periods until 2004

⁴⁴ *Members of the Pre-Co-operative Groups from whom DDC used to Purchase Milk*

Figure-5.3

Growth of Milk producers Coops

5.4 Savings and Credit Co-operatives

Savings and Credit Co-operatives have the longest and founding history in the Co-operative Movement of Nepal. Actually savings and credit co-operatives were the first established co-operatives when government had started to promote through a resettlement / integrated development project in Rapti-Dun presently Chitawon District. The land in Rapti-Dun was malaria hit jungle and grassland but with fertile soil found near to the capital city of Kathmandu, which was in severe need of food grains and vegetables. Therefore, during 1956/57, government had planned to resettle the people displaced by landslides and flood mostly from near by mountain districts. Land was demarcated and distributed in such a way that people from mountain with homogeneous cultures and other similar factors were settled in 17 different resettlement areas. The same number of 17 'New Settlement' (Naya Basti) savings and credit co-operatives were established through the executive order of the government managing under Rapti-Dun Development Project. Under these co-operatives, all the resettles were made the members compulsorily and loan was channeled to them through their respective credit co-operatives. From this stage, there was increase in the number of savings and credit co-operatives and reached to 256 in 1968/69. However, in 1969/70 there was a massive change happened because of the government appointed high-level committee's recommendation. Therefore, by the end of the 69/70 after implementing those recommendations all savings and credit co-operative enterprises faced the death penalty and merged with multipurpose co-operatives or liquidated, then there remained no savings and credit co-operatives at all. There were no savings and credit co-operatives registered

during the period of 1970 to 1989/90. The interesting part of these savings and credit co-operatives from 1956 to 1970 had no saving deposits at all. These co-operatives were taking wholesale loan from the ADB/N and re-investing or giving retail loan to the mostly would be members; yes would be members. Savings and credit co-operatives as well as multipurpose co-operatives were giving membership to the public when they approached for loan. This system is against the co-operative principle. Following Table-5.7 shows the growth of savings and credit co-operatives during 1990/91 to 2002/03.

Table- 5.7
Growth and Contribution of Savings and Credit Co-operatives⁴⁵

Years in BS / AD	Number of Primaries	District S/C Unions	Number of Total Members	Total Share Capital	Total Savings / Deposits	Annual Loan / Investment
047/48-90/91	48	0	1,440	1,44,000	NA	NA
048/49-91/92	48	0	1,440	1,44,000	NA	NA
049/50-92/93	54	2	2,160	2,16,000	NA	NA
050/51-93/94	70	2	3,500	3,50,000	NA	NA
051/52-94/95	228	4	14,820	14,82,000	NA	NA
052/53-95/96	343	7	24,010	24,01,000	NA	NA
053/54-96/97	579	10	46,320	46,32,000	NA	NA
054/55-97/98	815	12	73,350	73,35,000	NA	NA
055/56-98/99	1040	16	98,800	98,80,000	NA	NA
056/57-99/2k	1574	16	1,65,270	1,65,27,000	NA	NA
057/58-2k/01	1971	17	2,16,810	2,16,81,000	NA	NA
058/59-01/02	2262	18	2,60,130	2,60,13,000	NA	NA
059/60-02/03	2350	26	2,93,750	2,93,75,000	NA	NA

Source: Department of Co-operatives, 2003/04

⁴⁵ This data excludes those single/multipurpose Co-operatives, which are licensed to provide limited banking services and having higher turnover in comparison to small-scale Savings and Credit Co-operatives.

Figure-5.3

Growth of Savings and Credit Coops in Nepal

Table- 5.8
Growth of Nepal Federation of Savings and Credit
Central Co-operative Union's (NEFSCUN) Affiliated Business

Year	Savings/ Credit Co-ops Affiliated	Total Members Affiliated	Total Savings and Deposits	Total Loans and Investments	Total Reserves	Total Assets
1996	245	18,000	2,916,666	2,633,333	250,000	166,666
1997	288	22,500	2,916,666	2,750,000	250,000	2,983,000
1998	320	25,754	3,408,367	3,101,631	273,500	3,737,095
2000	332	32,321	3,969,942	2,487,826	156,060	4,125,329
2001	366	37,390	4,277,770	2,626,622	177,327	4,414,076
2002	373	50,676	6,722,252	5,836,604	573,503	7,295,756
2003	395	63,471	9,072,488	7,769,365	64,837	11,934,485
2004	443	85,360	10,977,711	9,789,350	92,360	14,918.107

Source: Statistical Information from ACCU Web Site, in Nepalese Rupees

NEFSCUN is central level union of savings and credit co-operative societies. It was established informally in 1990 and registered formally in 1992 after the new act come into effect. At present NEFSCUN is covering 50 districts and serving 70,000 members through its 450 affiliated co-operative societies. However, its affiliation of co-operatives (450 out of 2345 registered SACCOS) and monetarily savings and Credit mobilizations looks very small in size (see Table 5-8) its impact in the grass root level is recognizable to crush the high interest rate charged by the moneylenders. Slow and steady NEFSCUN is growing and providing professional services to its members.

5.4.1 Comparison of Savings and Credit and Milk Producers' Co-operatives

From the data, it is known that, there is tremendous growth in both milk producers' and savings and credit co-operatives in Nepal. In number, savings and credit co-operatives are registered more than Milk producers' but in productivity and per capita / co-operative business turnover milk producers are better. Savings and credit co-operatives are expanded all over the country encouraging members to save more and utilize that savings/extra loan in income generating activities as well as health and education of the children. But on the other hand milk producers' co-operatives are concentrated on some 20 plus districts where there is scope of market, and expand their livestock business, produce more milk and sell more to earn considerable profit to invest in better living of the family, education and health of the children. Comparatively, milk producers' co-operatives are better than savings and credit co-operatives in generating more surpluses and raising their socio-economic standard of living from our observation and their opinions during the survey.

5.5 Other Types of Co-operatives

There were 689 other types of co-operatives in the year 2002/03. Out of 689 most of them, 362 were women only co-operatives, 195 consumers, 41 fruits and vegetables, 29 limited banking services, 16 press, 12 transport, 8 tea and coffee, 5 health, 5 housing, 5 handicrafts, 1 tourism, rests 10 are unspecified. There are growing number of co-operatives in every area of business activities, indicates the increased interest of people towards co-

operatives and benefit there off. These others co-operatives' detail data on business activities and contribution was not available to explain. In an average their activities and transactions are growing except consumers co-operatives which are shrinking day by day.

Table- 5.9

Growth and Contribution of other types of Co-operatives 1991-2003

Years in BS / AD	Number of Primaries	S / P District Unions	Number of Members	Share Capital	Savings / Deposits	Loan / Investment	Business Turnover
047/48-90/91	53	0	1500	1500000	NA	NA	NA
048/49-91/92	54	0	1550	1550000	NA	NA	NA
049/50-92/93	214	0	6200	6200000	NA	NA	NA
050/51-93/94	441	0	14100	14100000	NA	NA	NA
051/52-94/95	479	0	15800	15800000	NA	NA	NA
052/53-95/96	506	0	16190	16190000	NA	NA	NA
053/54-96/97	536	0	16600	16600000	NA	NA	NA
054/55-97/98	678	0	21000	21000000	NA	NA	NA
055/56-98/99	638	3	22300	22300000	NA	NA	NA
056/57-99/2k	729	4	23150	23150000	NA	NA	NA
057/58-2k/01	692	5	24220	24220000	NA	NA	NA
058/59-01/02	666	5	25974	25974000	NA	NA	NA
059/60-02/03	689	7	31350	31350000	NA	NA	NA

Source: Department of Co-operatives, 2003/04

5.6 Co-operative Policies and Its Impact in Different Plan Periods

Actually, co-operatives were started to organize before the first plan. Therefore, in the beginning of the **First Five Year Plan** in 1956/57, there were 17 co-operatives already established, all savings and credit type, see Table-

5.10 below. During first plan, policy of the government was to promote co-operatives along with integrated rural development program. The then first elected Prime Minister B.P. Koirala after visiting Israel persuaded the co-operative model with high priority, called it best for the country and formulated the first Co-operative Societies Act and Rules in 1959. By the end of the first plan in 1960/61, the number of co-operative reached to 378. Out of 378, - 188 were of multipurpose agricultural co-operatives, 144 savings and credit co-operatives, 3 milk producers' co-operatives and 43 were of other categories.

During the **No Plan Period** of 1961/62, and **Second Three-Year-Plan** of (1962/63-1964/1965), a Land Reform Act came into force in 1964 including a compulsory savings scheme, according to which farmers had to save a portion of their crop. The co-operative program was integrated into the land reform program, a Co-operative Training Centre was created in 1962, and in the same year, a Co-operative Development Fund was set up within the DOC. The total number of co-operatives in no plan period reached to 581. A Land Reform Savings Corporation was established in 1967 to accept compulsory savings and advance loans to farmers. This led to a rapid numerical growth of co-operative societies of which however two thirds were soon defunct. A Co-operative Bank was established under the Co-operative Bank Act of 1963 to finance and reorganization of agriculture, to provide credit facilities to various small-scale productions, marketing, and other societies organized in co-operative form. This bank was later converted into the Agricultural Development Bank/Nepal (ADB/N) in 1968, in order to meet the overall credit requirements of agriculture sector and continue to provide credit to co-

operatives and individual farmers. By the end of the second plan total co-operatives reached to 1123.

Table- 5.10
Growth of Nepalese Co-operative Enterprises during 1st - 7th Plan Period
Beginning to End of Panchayati Regime (1956/57 to 1989/90)

Particulars	Unit	56/57 1 st year	60/61 1 st Plan End	64/65 2 nd Plan End	69/70 3 rd Plan End	74/75 4 th Plan End	79/80 5 th Plan End	84/85 6 th Plan End	89/90 7 th Plan End
Total Primary Co-operatives	Nos.	17	378	1123	1489 to 72 (Year End)	251	711	717	883
Agricultural Multipurpose	Nos.	0	188	753	1094 to 68	220	680	686	830
Savings and Credit Co-ops	Nos.	17	144	252	256 to 0	0	0	0	0
Milk Producers / Dairies	Nos.	0	3	5	6 to 0	0	0	0	0
Other Co-operatives	Nos.	0	43	113	133 to 4	31	31	31	53
District Coop Unions	Nos.	0	0	0	0	0	33	33	33
Total Members ⁴⁶ *	In Nos.	641	11059	29,798	71,163 to 17,352	71,431	11,93,765	14,36, 000	14,49, 000
Total Share Capital *	In '000 Rs.	6	363	1, 663	2, 726 to 605	2, 631	136, 098	147, 851	149, 045
Total Savings	In '000	0	0	0	0	0	0	0	0
Annual Loan Transactions *	In '000 Rs.	0	0	999	5,100	19, 922	51, 914	103, 900	105, 090
Annual Trade /Business Volume *	In '000 Rs.	0	0	0	0	86,214	160, 375	316, 021	728, 778

Sources: Various Annual Reports, Department of Co-operative, Nepal; Surya Ratna Shakya, Nepal ko Sahakari Andolan, Kathmandu: Nepal Sahakari Press, 2040;

⁴⁶ Total Members and others with this * sign are in cumulative figures

In **Third Plan** (1965/66-1969/70), the total number of co-operatives reached 1,489 operating in 56 out of 75 districts. Many of these co-operatives were formed in a hurry without taking economical feasibility and social viability into consideration. By the end of the Third Plan, most of these co-operatives were defunct and reduced to 72. A Co-operative Review Committee assessed the viability of the existing co-operatives and presented a report, grading the co-operatives as 17 % good (Grade A), 18 % as potential to develop (Grade B) and 65 % as in poor condition (Grade C). The committee reported among other things that the co-operative system had failed to perform in accordance with the expectations outlined. Most of these co-operatives failed to mobilize the desired members' participation and to open up new business opportunities. The total 1,489 co-operatives were merged or liquidated so that at the end of the plan only 72 societies survived.

During the **Fourth Plan** (1970/71-1974/75), a massive reorganization program launched already in 1969 was continued, placing emphasis on the quality rather than on the quantity of co-operatives. The Plan gave priority to 28 districts where the Intensive Agricultural Development Plan was to be implemented. This 'Guided Co-operative Program', which was later turned into the 'Program for Strengthening Co-operatives' stressed the need for business efficiency (but still ignored social viability). In this plan period, number of co-operative increased considerably to 251 from 72 in the beginning of the plan, but the management of the co-operatives was handed over to ADB/N from Department of Co-operatives. The bank provided loans to most of these co-operatives, counter guaranteed by the government, amounting to more than Rs 110 Million. However, small farmers secured only

32% of these loans whereas 68% were given to medium and big farmers. As a result of these measures the business of the co-operatives increased but the loan recovery ratio reached a low of only 49.3 % (down from 90.3 % under the First Plan and 73.4 % under the Third Plan)⁴⁷.

During the **Fifth Plan** (1975/76-1979/80) 'Co-operative Expansion Program' was launched, called the "Sajha Program", which initially aimed at running 1,163 co-operatives in 1,827 village panchayats of 30 districts, with some 808,000 member families reaching 4.4 million people. Under this program, guided co-operatives and village committees were converted into "Sajha Sanstha"⁴⁸, then co-operatives were organized and directed to cover almost all villages. The compulsory savings raised under the Land Reform Program were converted into shares of co-operatives societies. In this way, thousands of persons became members of co-operatives without their free will. Under the Sajha program, local politicians were made ex-officio members of the boards of co-operatives, a measure that alienated ordinary members from their society. Within a year, the number of co-operatives increased from 293 to 1,053 and the number of members from 93,000 to 802,000. The nature of experience repeated again and many of these co-operatives became inactive after some time and their number decreased by 40 %. The main objectives of the 'Sajha Sanstha Program' were to increase production and farmers' income through improved farming systems, institutional loans, and supply of inputs, savings and marketing. In 1978, the management of co-

⁴⁷ Hans H Mukner and MP Shrestha, *Development of Co-operatives in Nepal*, ICAROAP Journal, New Delhi, 2000

⁴⁸ The word "Sajha Sanstha" is Nepalese translation of 'Co-operative Society' but word gives impression of more community oriented organization in indigenous language.

operative societies was withdrawn from ADB/N and handed over to their respective management committees of the co-operatives. However, the concerned people were not properly informed and trained of the decisions. Besides, they were not prepared for the take over. This led the Sajha societies to wilderness. By the end of the fifth plan total co-operatives stood at 711. At the end of this plan sudden increase of number of co-operatives and withdrawn the management from ADB/N and handing over to Co-operative management committee were major drawbacks again and co-operatives remained in crossroads. No systematically phase out or handover strategies were applied to maintain stability of the co-operative enterprises.

In **Sixth Plan** (1980/81-1984/85), the policy of an “Intensive Sajha Program” was launched in 1981 focusing more on needs and problems of small farmers. This program started in 20 districts of the Tarai. The ex-officio representation on the boards of co-operative societies was replaced by election of office-bearers from within the members. The basic guidelines of the program were as follows: (a) more emphasis on effectiveness of co-operatives rather than numerical growth, (b) concentration on areas, where integrated rural development program are applied, and formation of co-operatives only after a thorough feasibility study⁴⁹. In this plan, just six new co-operatives were established and reached to 717 because emphasis was quality improvement than on quantity growth. The fluctuation of number of co-operatives and talk of quality improvements remains only in papers, which kept co-operatives in disarray because there was lacking of major principle i.e. active participation of members. During the **Seventh Plan** (1985/86-

⁴⁹ *ib.id. HH Mukner (2000)*

1989/90), some efforts were made to reshape the co-operative sector. It was planned to extend Co-operative services to the people through newly established service centres in each area / Elaka⁵⁰. Existing co-operatives were placed at service centres and the area where no co-operatives existed, 166 new societies were formed mainly in the remote parts of the country. By the end of this plan, there were 830 agricultural co-operatives in 72 districts, 33 districts unions and 54 other non-agricultural co-operatives. At the end of this plan period, structural adjustment program were introduced. Co-operatives lost their monopoly in fertilizer trading, which set back the business turnover of the multipurpose co-operatives in large scale.

After the restoration of democracy, there was a halt in plan period because planning was initiated with new strategies and policies coinciding the privatization drive. However, during no plan period of 1990/92, where the environment was free to organize and mobilize people, promoters and potential members were enthusiastic to register the co-operatives, in milk and savings and credit sectors. The total number reached to 1223. The interim government during this time appointed a National Co-operative Federation Advisory Committee. The committee submitted its report in 1991 recommending for co-operative reform. In **Eighth Plan**, (1992-1997) efforts were made to revitalize existing co-operatives. In the year 1991, a National Co-operative Development Board was constituted. In the year 1992, a new Co-operative Act was promulgated, which recognized the democratic character of co-operatives and ensures the full autonomy. During this plan,

⁵⁰ 'Elaka' was a local political unit combining 3-5 village Panchayats with a District. That time each District was divided into 9 Elaka.

there was huge increase of new co-operatives especially in the savings and credit and milk producers/farmers co-operatives and the number reached to 3711 from 883 in Seventh Plans. In this plan period, National Co-operative Federation was established as an apex body of Co-operative Movement in Nepal. The apex body obtained membership of International Co-operative Alliance in 1997, when this researcher was a managing director of the federation. In the eighth plan policy document, National planning Commission gave emphasis for the development of co-operative enterprises in rural areas.

Planning Commission in its **Ninth Plan (1997/2002)** spelled out the following policy measures regarding co-operatives. Government wanted to realize the increased role of federated central level co-operative unions and other secondary co-operative unions run by members themselves as per the principle of co-operation⁵¹. Government was keen to review the role of Co-operative Department and National Co-operative Development Board and look for the possibility of unification into one technically equipped policy making advisory body in favour of government and co-operative movement. However, this was not realized during ninth plan period. The Co-operative Training Centre was also in the process of making an autonomous and specialized training organization to deliver co-operative support services as required by the co-operatives but not implemented yet. In the plan, it was accepted that co-operatives are to be seen as a vehicle of rural economy in availing the agro inputs as well as marketing of members' produce. It is also important in mobilizing the micro financial resources in the economy of rural people. Therefore, the government had planned to encourage, support,

⁵¹ *The Ninth Plan Document, NPC, Nepal, 1997*

promote and safeguard such co-operatives. There was another leap forward in quantitative sense during this plan, where number of co-operatives registered reached to 7064⁵² (See Table-5.11).

Table- 5.11

Growth of Co-operative Enterprises during 7th Plan End to Mid 10th Plan Period (1989/90 to 2003/04)

Particulars	Unit (NPRs)	1989/90 7 th Plan End	1990/92 NoPlan Period	1996/97 8 th Plan End	2001/02 9 th Plan End	2003/04 During 10 th Plan
Total Primary Coops	In Nos.	883	1223	3711	7064	7598
Agri-Multipurpose	In Nos.	830	840	1802	2810	2979
Savings and Credit	In Nos.	NA	54	579	2262	2345
Milk Producers/Dairy	In Nos.	NA	115	794	1326	1410
Consumer Co-ops	In Nos.	NA	167	252	195	154
Other Co-operatives	In Nos.	53	214	284	494	710
District Co-op Unions	In Nos.	33	56	77	121	121
Central / Nat. Unions	In Nos.	0	4	4	4	4
Total Members	In ' 000	1449	1448	1051	1156	1200
Members Per society	In Nos.	1641	1184	283	164	161
Total Share Capital	In Mill.	149	146	325	462	680
ShareCap Per Society	NPRs	168794	119316	87508	65336	89221
ShareCapPerMember	NPRs	103	100	309	399	565
Total Savings/Deposit	In Mill.	NA	100	1573	2470	4017
Loan /Investment	In Mill.	105	90	1138	2600	4000
Loan Recovered	In Mill.	NA	NA	136444	NA	NA
Loan Recovery	In %	NA	NA	NA	NA	NA
Coop Trade/ Business	In Mill.	800	1100	1540	2160	3000
Trade Per Member	NPRs.	503	694	1465	1869	2500
Trade Per Society	NPRs.	825,343	821,897	414,890	305,868	395,000

Sources: Banking and Financial Statistics Report, No. 42, Nepal Rastra Bank, Kathmandu, 2004; Annual Reports, Department of Co-operatives 1992-2003/04, CMPCU Annual Reports, 1998 to 2003/04; NCF Annual Reports, 1997 to 2003/04

⁵² Department of Co-operatives Annual report, Nepal

The current **Tenth Plan** (2002/07) broadly puts the role of co-operatives within the NGO framework and emphasizes to promote the participation of the NGOs (including co-operatives) and private sectors in service delivery, market promotion, and infrastructure development. In the same way in power and electrification chapter of tenth plan includes the use of rural co-operatives along with other private agencies for local electrification and distribution / management of the electricity under Nepal Electricity Authority⁵³. It seems that, the tenth plan, a Poverty Reduction Strategy Paper (PRSP) gives impression that co-operative form of enterprises got less importance than general NGOs. This may be because, during last decade of autonomous co-operatives after new law in 1992, were increased quantitatively but not qualitatively and were not able to provide quality products and services, which would boost the image of the co-operative sector. During this half-gone time of Tenth Plan, the numbers of co-operatives are continuously growing (see Table 5-10 above) and reached to 7598 that may be because of loose registration policy. However, they have not yet raised the quality of works as well as business standard above the average, and still are not sustainable economically and socially.

5.6.1 Commitment of Nepal Government at the Several Co-operative Ministers Conferences:

The first Asia Pacific Co-operative Ministers Conference which was held in Sydney Australia in Feb 1990; 2nd in Jakarta, Indonesia, in Feb 1992; 3rd in Sri Lanka in July 1994; 4th in Thailand, March 1997; fifth in China in 1999; 6th in Nepal in 2002; and seventh in New Delhi, India February 2004. The

⁵³ *Tenth Plan Document, NPC, Kathmandu, 2002*

ministers representing co-operative sector in Nepal committed to so many things in their speech to revitalize co-operative movement but implementation of adopted ICA declaration to reform the sector remained in file. Therefore, co-operatives are moving slow in providing business services facing the government's stagnant mindset. However, in people there is high attraction over the co-operatives expecting fruitful progress and results. It seems there is duality in government's mindset and policy that it wants achievement from co-operative sector without promoting/supporting them. Every Minister or government representative at the conference did agreed and signed the ICA declaration on co-operative reform in each ministerial, but after back home; no concrete follow-up and attempt of implementations were seen.

5.7 Impact of Economic Reforms and Contribution of Co-operative Enterprises in the Economy

Nepal has initiated the economic reforms program in almost all sectors of the economy in early 1990s. The momentum of the economic reforms program has been disturbed by political instability. Nevertheless, each successive government has continued its firm commitment towards policy of reform in all sectors including co-operatives in the economy. The main objective of the economic reform was to transform a fragile Nepalese economy into a liberalized but progressive pro-market economy to bring about rapid reduction of poverty. The major reforms were made mainly in the area of foreign investments, trade, tariffs, and in privatization of government corporations including autonomy to the co-operative enterprises. Financial reforms have also been carried out by providing license to establish private

banks and finance companies as well as limited banking operation license to 34 financial services co-operatives. The positive impact of economic reforms is evident, in trade, transport and communication, banking and finance, agriculture and co-operatives. Especially in the co-operative sector, following changes could be seen after the autonomy and reform. Large numbers of new co-operatives have been established through voluntary efforts of the public especially in Savings/Credit, Limited Banking, Agriculture, Dairy and women only co-operatives. Establishment of single purpose central unions and National Co-operative Federation as an apex organization were possible only after reform policy was introduced. There is an increased motivation and commitment among occupational people, employees, and professional to start a new co-operative for their benefit. Increased number of women in co-operatives in general and establishment of new co-operatives by women only is a very positive signal of women empowerment and gender integration through Co-operatives. There was a considerable increase in employment, self-employment, production, and marketing. Huge mobilizations of financial resources were done through co-operative enterprises after the economic reforms in the country. There is also a rapid trend of converting small farmers' groups, into self-help organizations (SHOs), associations and other types of entrepreneurial groups into legal form of co-operative enterprises to increase the business transaction. This should be taken as a positive sign of the liberal economy. Increasing number of the people's organizations in co-operative form will strengthen democratic institutions in the country. However, after the economic reforms, old co-operatives were still caught in financial crisis and rapid downsizing of businesses. This is one of the disadvantage and failed

examples of the reform. We can say there was some lacking in transformation to new situation after reforms. Government organizations' capabilities of delivering quality services have also not been improved. This may be because of frequent change of government and lack of steady commitment towards co-operative movement. Nevertheless, in many new cases, quality of self-support system has been increasing.

Contribution of Co-operatives: when we look into the role and contribution of co-operative sector, we have to observe the vital statistics of the country. Total Area of the hill country Nepal is 147,181 Sq. Km. (Mountain 51,817 Sq. Km; Hill - 61,345 Sq. km and Terai-34, 019 Sq. km). The Population according to 2001 census was 23 million (now more than 25 million) with a growth rate of 2.24% per annum and average household size is 5.44, which is quite high in comparing to other south Asian Countries. Population in Agriculture is 70 %. The GDP at current price in NPR Million is 402,951 for the year 2001/2002, in US \$ 5.5 billion, out of that, GDP from Agricultural is 2.2 billion US\$ and Non-agriculture is 3.3 Billion US\$. Per Capita GDP is 240 US\$ for the year 2001/2002. People below poverty line are 38% according to the estimates of National Planning Commission's Tenth Plan⁵⁴ Concept Paper. However, in other reports from World Bank and UNDP, people below poverty line are more than 45%. Country suffers severely on economic growth because of Maoist insurgency and government's concentration of budget in security and maintenance despite the good effort in reforming the economy for rapid development. Comparing to different sector's

⁵⁴ *Tenth Plan, op.cit*

overall contribution to the GDP of national economy, the co-operative sector's share is too low, (See Table-5.12 below) or not putting any significant impact in the economy. There is almost below 1% contribution since 1990 to present year of 2002/03 but in slow pace, it is increasing year-by-year, which is positive sign of co-operative sector.

The considerable impact by milk producers' co-operatives could be seen in the economy. In milk production and supply, milk producers' co-operatives contribute more than 60% (See Table-5.5 above) of the total milk supply in the country. However, in processing of milk products, the co-operatives role has almost none⁵⁵. Government controlled Dairy Development Corporation (DDC) and private dairy companies do most of the processing of all milk products. In credit delivery and financial services out of total outstanding loan Nepalese Rupees 232 Billions in the Country, the co-operative sector's share was NPRs 4.7 Billions only in 2002/03, which is 2.05% of total loan and investment (See Table 5-13 below). Like wise in deposit, co-operatives had 3.77 Billion NPRs out of 206.5 Billion NPRs, which comes to only 1.83% of the total savings and deposits out of all banks as well as finance companies and co-operatives.

In agricultural co-operative marketing sector, its contribution is below 1%, which we can take it as an insignificant contribution in the national economy.

⁵⁵ DDC or CMPCU op.cit

Table- 5.12

Percentage Contribution to GDP by Different Sectors and Share of Co-operatives 1987/88 to 2002/03

S. No.	Description	87/88	88/89	89/90	90/91	91/92	92/93	93/94	94/95	95/96	96/97	97/98	98/99	99/00	00/01	01/02	02/03
1.	Agriculture / Forest / Fishes	50.23	49.60	50.62	47.68	44.96	42.39	42.06	40.75	40.48	40.36	38.82	40.11	39.63	38.38	39.49	39.29
2.	Mining and Quarrying	0.43	0.49	0.45	0.49	0.55	0.56	0.52	0.53	0.56	0.55	0.54	0.51	0.50	0.49	0.51	0.50
3.	Manufacturing	6.31	5.66	5.97	6.80	8.85	8.84	9.32	9.31	9.38	9.21	9.31	9.19	9.16	9.02	8.09	7.88
4.	Electricity Gas and Water	0.60	0.54	0.53	0.70	0.86	0.92	1.13	1.36	1.50	1.65	1.51	1.40	1.62	1.78	2.02	2.18
5.	Construction	8.61	9.59	8.97	9.54	10.19	10.47	10.24	11.00	10.90	10.86	10.52	10.08	10.21	10.06	10.43	10.34
6.	Trade Restaurant and H	11.09	10.55	10.54	11.11	10.43	11.65	11.74	11.59	11.83	11.33	11.63	11.91	11.71	11.33	10.05	10.11
7.	Transport Communication	5.81	5.51	5.74	5.65	5.90	6.64	6.59	6.67	6.64	7.17	7.80	7.46	8.01	8.46	8.54	8.75
8.	Finance and Real Estate	9.13	9.36	9.30	9.42	9.14	9.49	9.46	9.78	9.83	10.07	10.28	10.06	10.08	10.58	10.82	10.92
9.	Community/Social Service	7.79	8.70	7.88	8.60	8.13	9.14	8.94	9.01	8.88	8.80	9.59	9.27	9.09	9.91	10.05	10.04
Total Percentage		100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Share of Coops Contribution		.33%	.34%	.34%	.36%	.38%	.49%	.60%	.64%	.72%	.75%	.79%	.82%	.86%	.89%	.96%	1.1%

Source: Annual Statistical Information on Nepalese Agriculture, Agri-Business Promotion and Statistics Division, Ministry of Agriculture and Cooperatives, Kathmandu, Nepal, 2003/04

Table- 5.13: Share of Contribution in Financial Services by Co-operative Sector in Comparison to Agriculture Development Bank / Other Development Banks and Commercial Banks during the Years 1992/93-2002/03 (NPRs. in Millions)

Name of the Institutions	Fiscal Year	92/93	93/94	94/95	95/96	96/97	97/98	98/99	99/00	00/01	01/02	2002/03
1. ADB/N's Loan/Investment (Development Portion)		1,985	2,887	3,434	3,715	3,854	4,430	5,562	7,051	7,868	8,867	10,019
2. Other Development Banks Loan/Investment		540 ¹	680	760	817	833	990	1390	1610	1840	1960 *	10,550+
3. Limited Banking Co-ops Loan/Investment		210	335	544	860	993	1,402	1,452	1,504	1,595	1,715	1,855
4. Total Co-operative Sectors' including Limited Bank Co-ops		300	445	730	1,060	1,238	1,685	2,165	2,461	2,985	3,700	4,755
5. Total Development Sectors including Co-operatives (1+2+4)		2,825	4,012	4,924	5,592	5,925	7,105	9,117	11,122	12,693	14,527	25,324
6. Total Commercial Sectors Loans and Investments {Finance Companies, ADB/N (Com. Portion) and Commercial Banks}		43,000	50,700	64,185	74,478	86,700	104,491	124,500	146,700	160,900	186,000	206,500
7. Grand Total Loan and Investment by all the Sectors		45,825	54,712	69,109	80,070	92,625	111,596	133,617	157,822	173,593	200,527	231,824
8. Share of Limited Banking Co-ops on Total Cooperatives Loan and Investment		70%	75%	75%	81%	80%	83%	67%	61%	53%	46%	39%
9. Share of Co-operative Sector on ADB/N (Development Portion Loan)		13.13%	13.36%	17.53%	22.20%	24.31%	27.55%	28.02%	25.87%	27.50%	29.44%	32.18%
10. Share of Co-operatives Sector on Total Development Loan		10.62%	11.10%	14.82%	18.95%	20.90%	23.72%	23.75%	22.13%	23.52%	25.47%	18.78%
11. Share of Co-operatives Sector on Grand Total Loan and Investment		.66%	.81%	1.06%	1.32%	1.34%	1.51%	1.62%	1.56%	1.72%	1.85%	2.05%

Source: NRB, Financial and Statistical Report, 2004, Annual Statistical Information on Nepalese Agriculture, Agri-Business Promotion and Statistics Division, Ministry of Agriculture and Cooperatives, Kathmandu, Nepal, 2003/04, Department of Co-operative Report, 2004

¹ * From 1993 to 2002 Dev Banks Loans and Investment is of Rural Dev. Banks only;
+ RDB including other Development Banks and Micro Credit Banks

5.8 Legislative Reforms

Before the promulgation of Co-operative Act 1992, through co-operative department, government itself controlled and led the Nepalese Co-operative Movement. The implementation of first Co-operative Act of 1959 and subsequent new rules and laws, maintained for the high handedness of the government. Not only that, the co-operative principles were ignored, but the government patronage and initiative neglected the people's voluntary efforts, autonomy of the societies and principle of democratic control (i.e. election of the board) under those laws. Consequently, the movement did not inspire confidence in the people and little progress was made in providing credit as well as collecting deposits in rural areas. This situation proved that, the co-operative enterprises under former laws controlled the overshadowed co-operative principles and could not bring any remarkable change to the society. The present Co-operative Act of 1992 is expected to promote and preserve the co-operative principles. However, the Act is progressive and committed to co-operative principles (without mentioning in details) and structures in democratic manner. All good depends on its implementation and monitoring by the government. Nevertheless, the members and Co-operative staffs are still unaware of the letter and spirit of the Act. In some cases, the spirit of autonomy has been misused and Co-operative property is mishandled. There are still many ambiguities in the Co-operative Act and the rules, which are to be amended in future. Especially, the membership numbers, area of operation, criteria of organizational control, direction within the movement, auditing, tax rebate, role of NCDB, Co-operative Department, and NCF are the major issues in the agenda of reforms and amendment. Government on

the other hand is the only concern about to make its hand higher and tighter in control mechanism and want to direct more.

5.9 Role, Support of the State Organs and External Donors in Co-operative Development

Policy Support: Central level organizations viz. NCDB and Department of Co-operatives give their budget proposals and recommendation to the Ministry of Agriculture and Co-operatives (MOAC). Then ultimately, Agriculture and Co-operative Ministry and National Planning Commission finalize the policy papers and final budget allocation to the co-operative sector. Therefore, government formulates the co-operative policy and guidelines for the co-operative sector through its central organs.

Advisory support: By policy, government and its organs are supposed to provide technical and professional advice as per requirement of the co-operatives. However, due to lack of commitment, the insufficient skilled staff in government system (like in MOAC, NCDB, and DOC), advisory services were not delivered as required by the co-operative sector. There stands National Co-operative Development Board as a policymaking and advisory body on behalf of the government. It is not able to play a desired role competently rather it has lost its spirit amidst political maneuvering and lack of sufficient professional staffs.

Regulatory and Supervisory Support: Co-operative Department, since its inception, has been performing more on regulatory and supervising work. Until 1992, department was heavily involved in managing staffs, controlling, auditing of the co-operative accounts, checking and placing the orders in Co-

operative business. New Co-operative Act of 1992 now withdrew this. Therefore, co-operative department at present is doing registration, annual monitoring, supervision, and liquidation of the co-operatives as per requirement.

Education and Training Support: Co-operative Training Centre in recent year was upgraded to 'Central Co-operative Training Centre'. It expanded 4 new branches in different regions in the country in association with Co-operative Department's district offices. They are providing lower and middle level trainings to the staffs of government, members, leaders, and staffs of the co-operatives. This type of training is inadequate to meet the requirement of the movement and is unable to cover all sectors or all level of specialties. Total neglect of member education; low level of capacity building of co-operative leaders and managers; ineffective training structure; acute shortage of funds for co-operative development; ineffective leadership at all levels are major reasons of underdevelopment of the co-operative in Nepal. These measures should be undertaken to revitalize the co-operative enterprises in Nepal through intensive education, professional and occupational trainings to co-operative members and staffs.

Financial Support: Since 1996, government had been assisting National Co-operative Federation, which was taken as a positive signal of government, towards the Co-operative Movement. The fund was sufficient to run and strengthen apex organization, but later on the budget amount was cut to a small amount because of apex body's underperformance and nonperformance as per expectation. Central level specialized unions are not getting any financial support from the government. Government felt

impossible to support tertiary and other secondary unions because it accepted that all of these network unions should run by their own members' subscriptions, surplus and reserve funds raised by them. National Co-operative Development Board, an autonomous government body is in possession of good size of co-operative property and regularly receiving grant from the government in the annual budget. Resources thus available were not utilized effectively in promotion of activities by NCDB. In the policy paper, indication of government and its central organs' supportive role to the Co-operative is available. In practice, no such intention is evident that the financial resources are spent on conventional way just to maintain the government offices. Department of co-operatives is having network of offices nationwide and gets full budget from the government. However, the department's financial support to co-operative enterprises is insignificant except one or two projects.

External Donors Support: External support to the co-operative movement is very rare and irregular in the country. Some international and national non-governmental organizations are promoting and supporting co-operatives to do different kinds of income generating micro businesses at grass root level. There were some projects in training and co-operative management from ILO/DANIDA, mainly for Co-operative Training Center during 1984-1990; DANIDA had strengthened National Dairy Development Board; NEFSCUN has received support from Irish League of Credit Unions (ILCU), Asian Confederation of Credit Union (ACCU), Bangkok, and Canadian Co-operative Association (CCA), Canada. Danish International Development Agency (DANIDA) and Canadian Co-operative Association (CCA) are

supporting Dairy Co-operatives to boost their milk business capacity. There is a good scope of external support for co-operatives if it is a truly member-based; result oriented. Co-operatives should come forward to the stage in the country to tap these resources.

Future Role of the State and the Movement: Government wants to increase its role to regulatory and advisory function to a certain level of controlling function. However, the spirit of the Act is to regularize the autonomy and strengthen the network organizations of co-operatives, which is to be managed by members themselves. Government also in its policy paper wants the co-operatives financially stand on their own foot and come up from bottom to the top. A long-term Agricultural Perspective plan was prepared and implemented since 1997, which has emphasized on agriculture business in large scale to increase the agricultural production and marketing of the produce at national and international level. In such situation, the role of the agricultural and dairy co-operatives as well as savings/credit co-operatives will considerably increased in the future. Therefore, government and its co-operative organs should give emphasis to quality human resources development, technical and business consultancy services as per the requirement. Promotion of pre-co-operative groups in large scale and conversion of such informal business groups to a legal form of co-operative enterprise is the need of the day. Therefore, government should promote, support, and fund to diversify the small businesses and provide staff training program.

The National Co-operative Federation (NCF) as an apex organization, and other central level unions should be able to play the role of catalyst,

advocator, and monitor of co-operative principles, coordinator, and promoter of the co-operative enterprises especially in expansion of relevant businesses. They should support its member unions and societies to do better business between co-operatives. They should explore and help for international marketing of Nepalese products. Apex organization should safeguard the co-operatives in one hand and bargain with the government and private sectors to upgrade and strengthen their business capacity on the other. However, this role is still far away to meet in full because financial viability of the secondary and tertiary co-operative unions is very poor. Co-operative members at primary and secondary level are not able to pay their dues to the upper level organizations. Therefore, without doing considerable business with sufficient financial resources federation/unions will remain in weak position to deliver integrated support services to their members. For this they should massively expand member education programs, help to promote self-help groups and market their products and services.

Barriers in Co-operative Development: There are numbers of problems in delivering services in co-operative development. The number of members in old co-operatives is still very large, but the value of the share is as low as Rupees 10. Even in new co-operatives, the value of share is Rupees 100, still it is not able to finance business activities and support services by co-operative organizations. Government is not increasing funds and not diversifying the capacity of service organizations as per the present day requirements of the co-operative. Few donors are involved in some projects that promote co-operatives at grassroots level. In general, there is lack of skilled human resources, lack of loan accessibility, lack of vocational

training institute, lack of lending agency / co-operative bank, lack of proper market, market-related facilities, and absence of honesty and commitment in leadership at all levels. There is a very low level of competitive strength, absence of adequate infrastructure facilities at all levels, weak planning, and weak management information system along with more politicization, which continuously keep co-operative out of prosperity.

5.10 Conclusion

From the historical data and the trend of changes in co-operative movement in Nepal, it is very clear that it needs overall revitalization with strong and honest leaderships in co-operatives and having value based professional management, who could capitalize the interests of co-operative enterprises and take them to a highway of success in large scale. Government support, in line of promotion or facilitation with equity participation and not control is necessary for Nepalese co-operatives to make them sustainable in economic and business sense. The most important factor above all is members' active and full participation in business and management. They should maintain natural business character for spontaneous organic growth. There should be no political playing, if co-operatives really want to survive for long run with business-goodwill and to deserve sustainable capability in competing national and multinational organizations. In such situation, the role and contribution of co-operative sector will increase considerably in the country.

CHAPTER SIX

EMPIRICAL ANALYSIS – I

Institutional Respondents: Service Providers' Point of View

The sample enterprises selected here are based on the purposive (random) sampling method. Total questionnaires distributed to the co-operative enterprises were 100, out of those, 58 respondents filled up and returned to us. In some cases, we had directly contacted the respondents and interviewed. Four districts, namely, Rupandehi, Chitawan, Kathmandu, and Baglung were especially targeted to collect primary data, although the questionnaires were distributed to the co-operatives of 20 districts. Sample represents around 1% of the total samples size. Standard error level is from 0.01 to 0.05.

The main objective of this chapter is to find out and demonstrate the performance and role of respondents' co-operatives in member services and public at large. In this chapter, we have presented the statistical results in the ratio form regarding different issues, such as members' participation in operation and management of co-operatives, application of co-operative principles, achievements, and role that co-operatives can contribute to the members and to the nation.

6.1 Background and Status of the Respondents / Co-operative Enterprises

Out of the total respondents, 27.6% were from agricultural multi-purpose co-operatives, 63.8% single purpose, and 8.6% co-operative experts

mostly from government co-operative institutions/organizations. Almost two third data were collected from single purpose co-operatives, milk producers' co-operatives, savings and credit co-operatives (See Table-6.1). Among them 5% were tertiary/central level unions, 21% were district unions and 74% primary level co-operative societies. Priority was given to primary societies to collect data directly from the grassroots co-operatives. District level unions are quite older in comparison to tertiary level unions, which were established only after new Act came into effect in 1992. Central level unions are more concerned in providing general services rather than business services. The types of business they are doing are 31% milk producers' co-operatives, 36.22% savings and credit / limited banking co-operatives, and 24.18% are agricultural multipurpose co-operatives.

The research emphasized more milk producers/dairies and savings and credit/financial co-operatives. Among them, two were women co-operatives operating in the field of producers' marketing, on one side while, operating limited banking or micro financial services on the other. In addition, five experts were from government co-operative organizations, such as Co-operative Department (DOC) and Central Co-operative Training Centre (CCTC). Among the total respondents, 17% were co-operative members, 74% were co-operative staffs, and 9% were co-operative experts. Usually, co-operative manager or other staffs were the first to be contacted in the co-operatives and they themselves responded to the questions.

Table 6.1
Classifications of Respondents

Issues and Opinions / Responses	Percentage/ Ratio
Co operatives by the Purpose	
Multipurpose	27.60%
Single Purpose	63.80%
Co-op Support Services (Government 's)	8.60%
Co-operatives by the Level	
Tertiary / Central Level	5.00%
Secondary	21.00%
Primary Level	74.00%
Co-operatives by Business	
Milk producers / Live-stock	31.00%
Agricultural / Multipurpose	24.18%
Savings and Credit / Limited Banking	36.22%
Co-operative Experts	8.60%
Respondents' Personal Identity	
Co-operative Members	17.20%
Co-operative Staff	74.10%
Co-operative Expert	8.60%
Respondents' Involvement in Co-operatives	
Up to 3 Years	20.70%
Up to 6 year	25.90%
Up to 10 years	29.30%
Up to 20 years	8.60%
Up to 34 years	15.50%

Source: Ratios / Information Compiled from the Primary Survey Data

We were not strict at any one particular individual to fill-up the questionnaires. In general, the managers filled-up the questionnaire, in case of staff and any board member including president, in case of co-operative members. Average experience of respondents is 9.71 years. Most of the respondents have considerable experience in the co-operatives. Some have worked for even longer time, may be, above 20 years (See Table 6.1). The total numbers of staff in respondents' co-operatives are 433, which is about eight staff per co-operative in an average. Some of them have above 20 to 40 staffs, therefore average number is high, other wise if we take the number of co-operatives below 20 staff then that comes six staff in an average.

6.2 Members Participation / Activeness of the Members

Members' participation in the business of co-operatives is vital for successful operation. In this research, out of 53 valid co-operatives surveyed, there were total 26,182 members. Data shows that in an average 72%, members are active and 28% are inactive. However, viewing the different sectors, there are more members in agricultural multipurpose co-operatives and participation is below average i.e. 44%. A considerable number of AMPCS are very old co-operatives, where members lost their interest on it and business activities were reduced to low. On the other hand, in dairy and women's handicrafts co-operatives, they are doing real business and participation is nearly 100%. They produce milk and sell to their own co-operatives. Likewise, in handicrafts co-operatives, workingwomen and artisans produce different kind of goods and sell to their own co-operatives, finally to market the products again. In case of savings and credit co-

operatives, members actively participate in money saving and loan activities. An average, 80% members are active and participate in business. In district and central level unions, around 50% members participate because there is no good size of business in those levels (See Table - 6.2). Naturally, members are attracted towards benefit, if their co-operatives are making profitable business.

Table- 6.2
Participation and Activeness of the Members

Issues and Opinions / Responses	Percentage/ Ratio
Active and Inactive Numbers of Members	
Active Members	72%
Inactive Members	28%
Who Fixes the Interests and Prices of the Products and Services	
Members (BOD and GA)	59%
Govt. and DDC	17%
Buyer/Traders/ Market	17%
Member's Participation in General Assembly	
Yes Active	43%
Partially Active	50%
Not Participating	7%
Any Member Working Against the Co-operatives at Large	
Yes Absolutely	9%
Yes Sometimes	22%
Not Working	69%

Source: Ratios / Information Compiled from the Primary Survey Data

There are only three co-operatives (5%) doing inter co-operative business in similar kind of goods. The rest are not involved in such business.

Inter co-operative business should be a major factor to diversify the co-operative business among members. This indicates the poor situation of Nepalese Co-operative Movement, which still has to go long way to do inter co-operative business in massive scale and compete with the private sectors. Above data (See Table - 6.2) shows that, in one hand 59% respondents views are in favour of general assembly and board (members) fix the prices and get benefit also. While on the other, 24% respondents indicated that market/traders fix the prices and still others nearly, 17% said government/DDC fix the prices of the products and services. However, the later two had not benefited the members. The government/DDC fix the price of milk nationwide, but for other consumer items, board takes the decision according to the respondents' opinion. This explanation shows that there are varied systems of price fixation. The board or special price fixation committee or sub committee that fixes most of the prices of goods and services applies them. According to 59% respondents, members are benefited by the price, while 41% are not benefited.

Members' active participation in general assembly of their respective co-operative is 43%; in addition, 50% take part partially. It shows that members have tremendous interest on their co-operatives, if management of the co-operatives gives them every opportunity to do business. However, this sample represents too small portion of the total sample size, though member participation in each activity of the co-operatives is must. This is not surprising to know that 9% respondents think board directors or staffs of the co-operatives had worked against the co-operative's spirit and interest. In spite of this, no action was taken against them except, a co-operative had sacked one

of its board members and a staff indulging against the work of co-operatives. In an aggregate 31% of them said, either whole or some handfuls of leaders are engaged in anti-co-operative activities. Thus, this would be one of the worst negative factors, which pushes down spontaneous growth/development of co-operative societies. Only 69% respondents believe that leaders are fair towards their co-operative societies' business or any other activity.

6.3 Education and Training Provided / Major Skills Developed for the Members and Staffs

Nearly, 52% co-operatives provide short-term training to their members in the field of member education, co-operative management, book keeping and accounting, sales and marketing, micro credit, and leadership development. Staffs training were also in the fields of veterinary worker, co-operative accounting and management, organization and management, sales and marketing, and micro credit. Impact of training in business was good and positive. Some 55% co-operatives have capable middle level technical staff to run the business. However, they do not have highly skilled professional staffs. Nevertheless, almost 48% co-operatives did not provide any training and education to the members. Ratio of trained members is 144 members per co-operative. More than 75% respondents say that there are not sufficiently good training institutions in the country. There is one training centre, which is almost stereotype traditional centre in this competitive market age. After collection of these data, government of Nepal decided to establish five regional training centres other than a central office at Kathmandu. This would probably improve training capabilities to some extent, while fulfilling the

expectation of co-operative sector. The following Table – 6.3 demonstrates the numerical results from the survey on education and trainings.

Table - 6.3
Education and Trainings to Members and Staff

Issues and Responses / Opinions	Percentage/Ratio
Education and Training Provided to Members	
Yes Provided	52%
Not Provided	48%
Major Skills Developed	
Co-operative Business and Accounting	23 %
Co-operative Education	54%
Sales and Marketing	7%
Savings and Credit	3%
Livestock Development / Dairying	13%
Trainings Provided to Staff	
Yes	88%
No	12%
Major Skills Developed	
Storekeeping / Accounting	43%
Savings and Credit	24%
Leadership and Management	14%
Sales and Marketing	9%
Vet workers	10%
Usefulness and Implementation of Training Skills	
Useful and Implemented	84%
Not so Useful	16%
Impact of Skills Training in Co-operatives' Business	

Issues and Responses / Opinions	Percentage/Ratio
Good Satisfactory Impact	81%
No Impact	19%
Technical /Professional Staffs in the Co-operatives	
Yes	34%
No.	66%
Good and Sufficient Training Institute in the Country	
Not Good / Insufficient	97%
Good / Sufficient	3%
Need of Training from Foreign Countries	
Yes Needed	90%
No Needed	10%

Source: Ratios / Information Compiled from the Primary Survey Data

Most of them (90%) said that they need high quality professional training from abroad. Such kinds of trainings are not available in Nepal. During our discussion on field visit, problems regarding education and training are that there is a lack of qualified trainers (like no vision in trainers) with professional dynamism and deep / practical knowledge of co-operative enterprises. There is a lack of good physical facilities; lack of technically equipped professional training institutions, co-operative principles, and the values are not used properly. There is no sufficient budget to train members and staffs in good scale. Actually, respondents look very careful about the problems faced by them. There is a possibility to solve these problems if more budgetary participation of the government with co-operative promotion plans and policies. Co-operative education (Sahakari Siksha) was the major training

course for the members. This training is one of the oldest, stereotype and traditional kind of co-operative training in Nepal, which is given to the members. This made members, only general literate about the co-operative societies / enterprises. Actually, this indicates that co-operative trainers under Co-operative Department have no advance skills to design and deliver quality trainings to the members besides, few exceptions. Such trainings have little use for the modern co-operative promotion. Present day members', need is middle level¹ professional training to run a co-operative in business sense.

Above data indicates that there are 34% technical / professional staffs. However, according to the data of the Nepal co-operative department, we observe that there are a very few technically trained professional staffs in the co-operative sector. There is a trend in the government that the trained officers and staffs are regularly shifted to the other department after they have received national and international training. In co-operative societies, if any well-trained or educated staff gets a good job outside co-operative sectors, he or she immediately leaves the co-operative. In comparison to members, the ratios of trained staffs are larger in numbers. Thus, approximately 88% of the employed staffs are trained in any of the skills. Still, the co-operatives are lagging behind and not able to make optimum use skills of trained staffs to diversify the co-operative business. Storekeeping and accounting was the main subject for staff training. This is one of the very important subjects for day-to-day operation of the co-operative business. According to respondents, this training is also provided in an old course / method of training. This is also a manual type, where trainees cannot learn in the computer. Savings and

¹ Middle level here we mean "certificate or diploma" level of job centred short-term professional training rather than 'MBA' kind of advance education and training.

credit, and dairy co-operative trainings are emerging subjects because of the growing number of such co-operatives.

Impact of Skills Training: However, training was of inferior quality to meet the present day minimum standard. Proportionately, they were useful and motivational for the staff. Staff becomes enthusiastic to implement the new skills after training and education. Almost majority respondents say that the training skills were useful for the co-operatives' work. For some people, trainings were useless and irrelevant for the immediate business. In such case, it seems that there was in fact a misunderstanding in communication and needed relevant material development. According to the respondents, the impact of training on co-operatives' business was considerably high. This gives the impression that training should on focus professionalism and upgrade the business skill of the co-operative staffs. They have given very important suggestions regarding education, trainings, and sustainable co-operative development. The government should participate in the development of co-operatives and promote them through share participation and technical advice. There should be a provision of several kinds of skills development and professional trainings with positive government policy, massive supervision, and monitoring on co-operatives. They also suggest increasing member participation, strategic arrangements of marketing of farm products. There should also be an increased mobilization of savings and credit by the members. Therefore, the first hand as well as re-fresher trainings to co-operative staffs is proved crucial for the development and promotion of co-operative business.

Almost all respondents say that, there is lack of good training institutions in the country. There is none, which has a capacity to train all the subjects in a level of the professional quality. Only 3% think that there is good training institute, which means nothing to make an impact on co-operative training. 90% respondents said that they want training from foreign countries; this is because, trainings and exposure in other countries give higher level of motivation and knowledge for the staffs in work.

6.4 Efficient Management and Good Physical Facilities

Around 34% respondents said that they have good office building and go-down facilities while, more than 64% of them are in rental or in donated space (See Table 6.4 below). In addition, a very few of them are using computers for their work. Among the entire respondent co-operatives, which have an average number of board members is ten (10). This varies from seven to ten in primaries and twenty-one in central level unions. About 31% board members are selected unanimously and 69% are elected from the general assembly. There is no one appointed by the government in the co-operatives' board. This shows that in present-day context, there is no government interference in the work of co-operatives through the board members.

Table- 6.4

Effective Management and Good Physical Facilities

Issues and Responses / Opinions	Percentage / Ratio
Having own Office / Go-downs / Good Physical Facilities	
Yes of Good Condition	34%

Issues and Responses / Opinions	Percentage / Ratio
Yes but Rented or Donated	64%
Nos. of Board Members Working in the Co-operatives Board	
Up to 7 Members in a Co-op	26%
Up to 9 Members in a Co-op	40%
Up to 11 Members in a Co-op	26%
Up to 15 Members in a Co-op	2%
Up to 21 and More in a Co-op	6%
Nos. of Board Members who have Efficiency and Loyalty to the Co-operatives	
Fully	17%
Partially	52%
Least / Not at all	31%
Board's Participation in Business	
Yes Active	33%
Partially Active	45%
Inactive	22%
Performance Efficiency/Loyalty of the staff	
Increased / very good	22 %
Slightly improved / OK	62 %
No effect at all	16%
Is Accounts Committee Actively Working for Co-operative?	
Yes Active	48%
Partially Active	45%
Not at all	7%

Source: Ratios / Information Compiled from the Primary Survey Data

There are only 17% board members, who are fully loyal and efficient to their co-operative's causes and businesses (See Table - 6.4 above). This

means their needs to be further commitment of the board members towards the co-operative enterprise. In addition, they mentioned that only 52% Board members are partially efficient and loyal to the co-operatives. This observation shows that Nepalese co-operatives lack whole-hearted co-operator who could contribute for the members, and the society in great deal. This is also because of unaccountable environment in other sectors of the country. Only 33% of board members of the co-operatives are actively participating in the board and business meeting. Moreover, 45% of them are partially active, 22% are irregular and inactive. Almost all respondents said that they regularly conduct the meeting of general members, board members, and staff. However, the co-operatives never do joint meeting of all at once. They did not have joint meeting with one another to discuss the matters of business or problems in Co-operatives. 48% co-operatives' accounts committees are active and monitoring the financial and business matters of co-operatives as mentioned by the respondents. Accounts committees' monitoring of the financial records along with other activities implemented by management team (Board) and staffs are very significant for the success and increased efficiency for the co-operative enterprises.

44 co-operatives (75%) said that they have employed members as a staff. Others do not employ members. Average number of members employed in the co-operative is four, although 50% of the valid cases employ one or two people. The average number of employed members is high because some co-operatives are employing 15 to 29 members. Therefore, real average comes around four members per co-operative. On the other hand, 34 (59%) co-operatives had mentioned that they have employed non-members also.

Others have not employed the non-members. Average size of non-member in staff is five. However, majority of them do employ 2 to 4 non-member staff. Actually, in the world co-operative movement it is the tendency that almost all of the workers/staffs are also the members of co-operatives. Members as a staff and staffs as a member in a co-operative increase the responsibility and accountability of the person in the work of co-operative enterprises. There is a considerable numbers of members employed by the co-operatives, which are increasing, it is a good sign for co-operatives' development as an enterprise as well as for creating employment opportunities to the members. Among those members and non-members staff, 28% are trained and 72% are untrained. Co-operatives have not maintained the income level of the members whether they are self-employed or employed by the co-operatives. After the training and education, the performance and loyalties of the staffs is steadily increasing towards the co-operative enterprises. The level of efficiency of the trained staff could be seen more in comparison to the untrained one. Still the degree of motivation of the staffs towards their co-operative is low, because there is no job security, good salary scale, and retirement benefits are fixed for them. 16% staffs are un-affected by the training and simultaneously not improved their quality and efficiency even after training.

6.5 Economic Efficiency and Self-help / Autonomy in the Co-operative Enterprises

Among the respondents, 28% say that they are economically in sound position, 32% in good viable position, and 21% in normal / breakeven position. In total 81%, we took them as in good position including those are in normal

and rest 19% are in weak/ loss making position (See Table - 6.5 below). 79% respondents said that they are autonomous and promoting self-help and 21% in bad shape. However, mostly newly formed single purpose milk producers', savings, and credit co-operatives relatively enjoy more autonomy and promote self-help in comparison to old agricultural multipurpose co-operatives. Those old co-operatives are also independent now but still, suffering from same old fashion and are not able to modernize. About 14% co-operatives are trying to apply all co-operative principles but in limited extent because of unawareness of the principles and values by the members who do not have any commitment to it. 71% respondents said that they apply some part of the principles. 15% of them do not even know about co-operative principles.

Table 6.5

**Economic Efficiency / Self-help and Autonomy
And Application of Principles in Co-operative Enterprises**

Issues and Response / Opinions	Percentage / Ratio
Economic Efficiency	
Good / Moderate Efficiency	81% (Progressive/gaining)
Bad Efficiency	19% (Degrading/ loosing)
Self-help and Autonomy	
Good / Moderate SH and Autonomy	79% (Enjoying Autonomy)
Poor / Bad SH and Autonomy	21% (Facing problem in Autonomy)
Technology Transfer in the Co-operatives	
Yes Do Transfer	5% (Skill Sharing)
No Transfer	95% (Not at all)
Are Co-operatives Doing Inter-Co-operative Business	

Issues and Response / Opinions	Percentage / Ratio
Yes Doing	5%
Yes But Poorly	22%
Not Doing	73%
Application of Co-operative Principles and Values	
Fully Applied	14%
Partially Applied	71%
Not Applied	15%
Application of Modern Marketing Principles	
Applying	15% (Partially using)
Not Applying	85% (Not at all)

Source: Ratios / Information Compiled from the Primary Survey Data

60% respondents think that co-operatives should work for members, 20% for government, and 20% for staff. Only 15% co-operatives are using modern marketing principles i.e. paper and radio advertising to promote the co-operative business. Almost 85% co-operatives are not at all using any method of modern marketing promotion. Maintaining quality control and using brand name of the goods and services is almost zero. 24% co-operatives are doing limited networking between co-operatives for marketing. However, around 50% are getting benefit of person-to-person marketing. From this data, it can be revealed that Nepalese co-operative movement is far away from applying modern marketing technique and get into the mainstream competition. Data shows that, technology transfer is almost none in the co-operatives, though three respondents' co-operatives (5%) are sharing some technical skills. Application of new technology and professionalism has not yet reached to the Nepalese co-operatives.

6.6 Situation for Success and Failure of the Co-operatives

20 co-operatives among 53 interviewed have more than 65% success rate. The following table would give the brief picture of the success and failure situation in the Nepalese co-operative sector. Though, these opinions are from the selected samples respondents under this research. The successful co-operatives are those who are keeping their members happy, as well as aware of co-operative affairs. Members are spontaneously pro-active to participate in the business; that will certainly lead to road of success for a viable people based co-operative enterprise (See Table-6.6 below).

Nevertheless, 14 co-operatives have said that their level of failure rate is above 50%, which means other half of them are successful. They mentioned the acute problems in the co-operative are low morale of employees, lack of good leaders, and bad management that ultimately, leads towards the failure. According to respondents, around 40% co-operatives are near to fail. Most of the old / government sponsored multipurpose agricultural co-operatives are now unviable. They are either already collapsed or on the verge of collapse, except few cases after autonomy. In old, days, they were surviving with the government support until the autonomy was declared but after that, they are incapable of managing themselves because of several reasons. There was a huge amount of loan with Agricultural Development Bank (ADB/N) more than 500 millions of rupees and the most of the amount is still unsettled¹. It seems that they are not able to payback with their present business volume and financial position. No arrangements of steady phase-out from government control to democratically elected autonomous management

¹ *Agricultural Development Bank Nepal, Annual Report, 2003*

have been made. Thus, repositioning of the remaining debt with Agricultural Development Bank was the main drawback of the new law vis-à-vis a new co-operative policy of the then government after 1992 autonomy. Therefore, most of these old co-operatives fell under failed co-operatives in Nepal.

Table - 6.6 Situations of Success and Failures in the Co-operatives

Issues and Response / Opinions	Yes Higher %	Moderate %	No%
Situation of Success in Business Operation in the Co-operatives			
Profit Increasing	26%	52%	22%
Growing Membership	34%	34%	31%
Good Professional Staff and Management	26%	43%	31%
Growing Business Volume	40%	34%	26%
Growing Satisfaction of members/staffs	14%	47%	40%
Achieved Financial Independence	26%	28%	47%
Standard of Living Raised	21%	43%	36%
Mean	27%	40%	33%
Failure Situations in the Co-operatives			
Decreasing Profits	21%	19%	60%
Decreasing Members	24%	21%	55%
Decreasing Business Volume	24%	17%	59%
Low Morale / Satisfaction	29%	19%	52%
High Dependency on External Finance	24%	17%	59%
Loosing Share Capital	14%	19%	67%
Untrained Staffs and Weak Management	32%	22%	46%
Mean	24%	19%	57%

Source: Ratios / Information Compiled from the Primary Survey Data

6.7 Hindrances for the Smooth Operation of Co-operative Enterprises

Researching the barriers for the smooth development of co-operative enterprises, 62% respondents said that there was a lack of capital finance. 74% because of politics, 33% because of staff's non-performance / incapacity, 69% because of government's non co-operation / tax burden, and 19% because of board's non-performance hinder the co-operatives in their growth (See Table 6.7 below). From the primary data, it shows that most of the failures are caused by low level of participation of members in the issues of co-operative business. The other major causes are mismanagement of working capital by the staff as well as the board members' carelessness; both groups were getting involved in misuse of members' property in gross.

However, newly registered co-operatives are autonomous and independent since their establishment. Moreover, some in savings and credit co-operative sector showed rather mala-fied intention to misuse the members' deposit for personal interest and run away from the scene. Such crimes are now seems under control. Most of the respondents realize that there should be an active participation of members in co-operative affairs. There should be an effective backing of the government in finance and market promotion until the co-operatives become self-dependent. These are the crucial factors for the success of the co-operatives.

Table- 6.7

Relative Hindrances for the Operation of Co-operative Enterprises

Response	Lack of Capital / Finances	Poor Management by Members / Leader / Being in Politics	Government's Control / Tax / Non- support	Staffs' Non-performance
Yes	62%	74%	69%	33%
No	22%	17%	22%	38%
NA	16%	9%	9%	29%

Source: Ratios / Information Compiled from the Primary Survey Data

6.8 Government Support / Tax System, Contribution of Co-operatives in the Economy and Suggestions for Improvement of Structure of Co-operative Movement

Just 26% say that they are benefited from the present tax system; these are only dairy and agriculture co-operatives. Even if they are agriculture and dairies, the members have to pay taxes on interest earned from their savings or fixed deposits with their co-operatives. In addition, they have to pay income tax. A huge two third, 67 % respondents say that they are not benefited by the present tax system. All non-agricultural co-operatives and their members are paying double taxation. More than 72 % co-operatives are of the view that they are facing the problems from tax system; therefore, they like to make the co-operative sector a tax-free zone. However, they have given further suggestion that if co-operatives were taxed then they should apply single tax policy (i.e. income tax only) and fixed the slab of profit (e.g. of about 2/3 lakh) after which co-operative would be taxed under single taxation policy.

About 74% think that co-operatives contribution at local level is up to 20% and could be high if implemented properly. Likewise 26% think that it can also contribute to a national level economy. Co-operatives contribution could be up to 3 to 10% in the field of agriculture, employment, and rural finance and in dairies at national level production and supply. However, this does not look realistic in comparison to the real contribution made by the co-operative sector, which is below 1% of national economy. But this can be taken as people's aspiration and thought regarding co-operatives' contribution. And in milk sector, co-operatives are contributing clearly above 10% of total milk business in Nepal. However, in real value at present, the co-operative sectors' contribution to the GDP is below or around 1% only¹. At local level, it would have been expanding the volume of business but not in the same size as number of co-operatives' registration grows. Almost everyone think and suggest that co-operative enterprises promote employment, self-employment and alleviate poverty in the society.

Table-6.8
Government Support / Suggestions / Improvement
Regarding Tax System, Structure of Co-operative Movement

Issues and Responses / Opinions	Percentages
Opinions Regarding Existing Tax System	
Benefited by the Tax system	26%
Faced Problem by the Tax System	74%
Suggestions for Tax System Improvement	
There should be No Tax	72%

¹ Annual Statistical Reports, Ministry of Agriculture and Co-operatives, Kathmandu, Nepal, 2003

Issues and Responses / Opinions	Percentages
Apply Single Tax System Only	28%
Whether There is Good Scope for Co-operative in the Country	
Yes Very Good Scope	43%
Yes Moderate Scope	36%
Yes Good, if There are Good Leader	12%
No scope	9%
Whether There are Supporting Operators for Co-operatives in the Country	
Yes	22%
No	78%
Opinion Regarding Contribution of Co-operative Sectors to the Economy	
Contributing at local level economy	74%
Contribution at National Level also	26%
Suggestions to Reform Structure of Co-operative Movement	
Keep 2 tier	29%
Keep 3 tier	52%
Keep 4 tier	7%
NM/NW	1%

Source: Ratios / Information Compiled from the Primary Survey Data

In addition, more than 80% think that it would be the means of sustainable socio economic development, if the enterprises follow the co-operative principles, value based management system, member based planning, one village one co-operative policy, and leadership is honest, and then certainly co-operatives would be helping to create an economically sustainable society. Around 80% respondents feel that there is a good scope

of co-operative system of enterprises in Nepal, if there are good co-operative leaders and if government creates positive environment. Nepal is predominantly agro based rural economy, where the importance of people centered socio economic organizations is certainly high. Only 9% feel no scope for the co-operatives. This is the higher commitment of the people towards the co-operative sector. Around 22% think that there are supporting partners in the market but they are not promoting co-operatives sufficiently. Where as 85% thinks that there is a good and bright future for the co-operative development if more supporting collaborators come up and do better support for co-operatives.

Suggestions regarding Improvement of Present Structure of Cooperative Movement: 52% respondents think that three-tier structure would be better like (Primary Societies, District Unions and Central Level Business Union) and 29% think it should be just two tier (Primaries and Central) to do the better business efficiently. Only 7% said that present four tiers would continue to work. 12% do not know about the structure nor has suggestion for this to improve.

6.9 Conclusion

From the primary data, the trend of changes in co-operative movement in Nepal is clear that it needs overall revitalization. A strong but honest leadership with value based professional management who could capitalize the interests of co-operative enterprises and lead them to success in large scale. Government support in line of promotion or facilitation with

equity participation without administrative control is crucial for Nepalese co-operatives who would later become sustainable in economic and business sense. The most important factor above all is members' active participation in business and management to keep natural and spontaneous business character. There should be no political playing if they really want to survive for long run in business-goodwill and to become capable in competing national and multinational giants. There are many problems faced by them, such as lack of technology and capital, lack of milk market (milk holiday), lack of awareness of universal co-operative principles. In addition, they lack quality work force having relevant skills, facing cutthroat competition with the private market player, lack of professionalism in management. Other problems are, unnecessary control of Nepal Rashtra Bank (Central Bank) to those co-operatives who are having license to run limited banking services, tax burden, lack of secured investment, hard to recover loan, open boarder with India, which creates undue competition, and price manipulative informal trade that reduces the scope of formal co-operative business. For healthy development of co-operatives business, above mentioned problems and barriers must be resolved gradually if not solved at once.

CHAPTER SEVEN

EMPIRICAL ANALYSIS – II

Data Envelopment Analysis (DEA)

DEA is commonly used to evaluate the efficiency of a number of products or services provided by several organizations. Here we apply to the co-operative organizations to find out the efficiency and inefficiency of the variable organizations in use. DEA is a linear programming procedure for a frontier analysis of inputs and outputs. DEA assigns a score of 1 to a unit only when comparisons with other relevant units. Moreover, it assigns an efficiency score less than 1 to relatively inefficient units. However, this does not provide evidence of inefficiency in the use of any input and output. A score less than one means a linear combination of other units from the sample could produce the same vector of outputs using a smaller vector of inputs. The score reflects the radial distance from the estimated production frontier to the decision-making unit (DMU) under consideration¹.

There are total 9 efficient co-operatives (see Table -7.1 below), one primary milk producers society, one primary Agro marketing society, one National level Agro-marketing federation, two district agro marketing unions, three primary level limited banking societies, and one primary level savings and co-operative society look efficient from the above results because of

¹ See detail work on DEA by Charnes et.al. (1978) "Measuring the Efficiency of Decision Making Units". *European Journal of Operation Research*, 1978, 3 pp 429-444

following different reasons. In these reasons, some are common to all and some are not. They apply these parameters in different co-operatives as per their own situation.

In the results from DEA model demonstrated in the table below, nine co-operatives were found efficient or nearer to efficiency (.75 to 1) in their economic activities. The tentative reasons of efficiency may be these co-operatives have minimum but qualified professional staff with proportionately higher business volume and assigning optimum workloads. There is a higher and regular participation of board members in co-operatives' work such as in every board meetings, purchase and sale committee meetings, price fixation committee meetings, and supervision and monitoring of overall works of the co-operatives. In the same way, regular participation of general members (who are always active or pro-active) in business like buying and selling of goods and services; in day to day management, in general body meeting and any work that comes forward benefiting co-operatives in general. They have regular savings and credit mobilization program in different schemes of business; and are very careful in using the balance or surplus money (after investment in other scheme) in their own co-operatives' business activities. These co-operatives are motivating and encouraging women¹ members to remain active and participate regularly in cooperative activities. They have high per capita profit because their business turnover is very high and retaining a limited number of members to maximize per capita income. For

¹ *Actually, women are sincere in saving their small portion of money they make from different sources. They are trained and motivated by the co-ops management/staff to start a small income generating activity like goat rearing, poultry, vegetable production, sewing/knitting, petty trade, vegetable and fruit vendor etc. from which women member earns and ultimately save again in their co-operatives. Selected women members/leaders are taken exposure trip /observation tour to best practice projects in different parts of the country, which further enlighten/encourage them to work more on one's business and or in co-operative works.*

this, they maximize business turnover and diversify business activities but do not increase non-active/non-participative type members to reduce the chances of loss making business. They provide regular guidance and trainings to members, each member is running at least one of the income generating business activities, and co-operatives helping them to market their products as well as supplying required inputs to the members. These co-operatives' overhead and other costs/expenses are based on income, means if there is less income there must be less expenses, the practicing principle is mentioned in our discussion. In such case, they are applying and maintaining strict budgetary control and business planning. Expenses are incurred to make more income or to provide quality services to the members and not to waste the co-operative property. In our observation, in these co-operatives, members look satisfied with the increased transaction that led to increased savings and investments, which ultimately pays higher patronage bonus to the members.

There is full understanding and maintenance of faith among board members, management, Staff, and general members in operating the co-operative affairs. They said if there is harmony and conflict free situation in the co-operatives, which lessens suspicion among each other, leads to smooth running of the business activities. Co-operatives are also concerned with the social problems of their members/community and get involved to solve those problems. Participation in each other's private affairs e.g. marriage, death, or any other emergency keep them in comfortable bond and remain in satisfactory mode. These reasons are leading those co-operatives to be efficient, profit making and sustainable.

The common reasons of efficiency for 30 secondary and tertiary co-operatives unions under this test are: very few secondary Unions (three) are efficient or nearer to efficiency level. They are doing wholesale business only, selling goods and services to member co-operatives and sub-dealers. These co-operative unions are strict to the rules to promote and sustain their retailer-member co-operatives in business by providing increased level of profitable business services. They have standard and uniform pricing policy and retain minimum profit margin that increases the volume of business. They maintain faithful understanding¹ with the business parties (members and non-members) and Bank having high level of reputation and goodwill. They have professionally managed operation system, skilled, motivated, and honest staffs that are loyal and transparent to the co-operatives. There is higher participation of board members and representative of member societies in the unions' activities, such as in market promotion, business operation, supervision and monitoring, business policymaking and have high spirit of voluntarism in co-operative activities. These co-operative unions advocate or take problems and issues related to them on behalf of the member societies to the concerned government offices as well as other support agencies to solve and capitalize benefit. These factors led to high economic efficiency and success in business of those cooperative unions.

¹ Faithful understanding and strict to contractual agreement with business parties (such as members, banks, producers/suppliers, non-member bulk buyers like government agencies is a vital factor to keep business going and increase volume day by day. This assures quality and maintenance of business ethics like re-payment of bank loan or part/full payment of credit purchase or supply to the parties.

The common reasons behind inefficient and unsuccessful co-operative societies and unions: Out of 30 co-operatives, more than 22 are economically inefficient, found in the test. They are having incapable, careless, and corrupt board members¹, some of the board's members took co-operatives working capital away as an advance without paying any interest, no time bound document signed to settle the co-operative assets, and sometimes took away even without proper accounting records. There is overstaffing, unskilled and unprofessional people ² hired through a coercion-hiring attitude of the board members. There is non-activeness and non-participative trend of members in any business activities of the co-operatives. The non-availability of additional resources to promote business further because money is either taken away by some board members as an advance or loan taken by some ill minded members who default the repayment. These co-operatives are sometime adopting business of un-feasible goods and services to the members. There is severe lack of education, trainings, and motivation to the members. There is lack of regular training in relevant subjects, lack of proper communication between members make automatic loss of business, which reduces the

¹ *Careless, corrupt, and incapable board members are those who just do not care about board meetings, and other committee meetings in the co-operatives. They remain absent without any reason, do not participate in the decision and sign later blindly in the minutes for allowances, not aware of benefits or loss could come in the head of co-operatives in future transactions. These people are promoting self-interest, looking what benefit could be drawn from the co-operatives rather than to look after a community business in favour of members.*

² *Overstaffing in the inefficient co-operatives here means unscrupulous recruitment of unskilled, un-required, and unproductive people belonging either to board members or to staff who do not care about co-ops business but one's own interest. There becomes ratio of staff more than what they can produce results or increases volume of business.*

production and selling of goods and services in the co-operatives. There are so many non-active and non-participative board members that they do not make or participate in formulation of business plan and policy, they are not seeking any reasons of failures or loss in business and not attempting to eradicate the already existed problems but adding more sometime. The board members and staffs make more unplanned expenses than income; there is no budgetary control and no attempt was made to minimize unproductive expenses. It was also found in our observation and discussion that they blame each other for the wrong doings. There is seen/unseen kind of stake / self-interest of the board members; some co-operatives are having their manager non-transparent towards board and general assembly. In such case, general members are unaware and board members are too weak to take action against the staffs, those commit the mistakes. The representing person of member societies or groups shows carelessness or no knowledge/not seen attitude towards such irregularities. There is political or personal biasness in passing resolution in the general assembly and in the board because of some kind of inclination between themselves.

Some of them are irresponsible and self-centered¹; imposing own ideas only, ambitious board members in execution of resolutions from general meeting and the boards. These factors led to growing inefficiency of those co-

¹ *Irresponsibility here we mean that knowingly or unknowingly the results of their action (board members and staff) goes wrong and face loss or failure of the projects, which makes suffering of the members economically.*

operatives suffering losses and not paying any bonus to the members' investment nor providing any non-monetary social benefits.

Table-7.1 Presentations of Results: Data Envelopment Analysis

S. No.	Observations	Fi (y,x C,S) Gross Profit And Capital	Fi (y,x C,S) Per Capita Profit And Capital
1	Gaindakot MIPCS	0.35	0.33
2	Amritdhara MIPCS	0.27	0.31
3	BansaGopal MIPCS	0.00	0.00
4	Umadevi MIPCS	1.00	1.00
5	Siddhartha MIPCS	0.48	0.48
6	Deepdhenu MIPCS	0.00	0.00
77	Janavikas AMPCS	0.00	0.00
8	Kisan AMPCS	1.00	0.94
9	Nepal CFAMPCS	0.47	1.00
10	Rupandehi DAMPCS	0.38	1.00
11	Inruwa AMPCS	0.09	0.09
12	Sunsari AMPCS	0.00	0.00
13	Chitawan DAMPCS	0.29	0.75
14	Janasewa AMPCS	0.00	0.00
15	Janajagriti AMPCS	0.43	0.27
16	Jhumka AMPCS	0.00	0.00
17	WEAN Mkt Co-op	0.20	0.29
18	Kohalpur AMPCS	0.38	0.31
19	Kalyankari SACCOS	0.18	0.19
20	Women S/C Co-op	0.01	0.01
21	Himalaya LimBank	1.00	1.00
22	Janavikas SACCOS	0.25	0.23
23	VYCCU SACCOS	0.02	0.02
24	Amarawati LimBank	0.00	0.00
25	SamuhikVika SACCOS	1.00	1.00
26	NepalFin LimBank	1.00	0.99
27	Navakshitish LimBank	0.97	0.60
28	Ekta Co-op SACCOS	0.28	0.54
29	NepalCo-op LimBank	0.02	0.04
30	Sagun Co-op LimBank	0.06	0.03

Fi(y,x | C,S) Gross Profit and Capital; Input for This Result Are: X1=Total Share Capital; X2= Ratio of AM/TM; X3= Ratio of TS/TM and Output is Y1= Total Profit

Fi(y,x | C,S) Per Capita Profit and Capital; Input for This Result are: X1= Per Capita Share Capital; X2= Ratio of AM/TM; X3= Ratio of TS/TM and Output is Y1= Per Capita Profit

CHAPTER EIGHT

EMPIRICAL ANALYSIS – III

Primary Survey: Users/Members Point of View

Total 250 samples were selected for questionnaire distribution out of which 98 filled up and returned to us; respondents were both members and staffs of the co-operative enterprises. In case of staff, they are also members of any other co-operatives, so it is understood that all respondents are ultimately co-operative members. The objective of this chapter is to present the analysis and findings of primary survey on co-operative members. The questionnaire for this survey was slightly different in some cases, and some similarity with institutional questionnaire analysed in chapter six. The main purpose of this is to present members' perspective regarding different research questions. In real sense, results obtained from using descriptive statistical tools, demonstrate the members' opinions what they had experienced in co-operatives.

8.1 Backgrounds and Income Status of the Respondents

Among the total interviewed, 89% of the respondents were general co-operative members and 11% are co-operative experts and staffs associated with governments and co-operative organizations. However, all of them are also the members of any of the co-operative societies. Out of total respondents, 63% are earning their livelihood from agriculture and livestock, 30% are salaried / wage earners, 5% are doing business and 2% are doing cash crop farming.

Table 8.1
Backgrounds and Status of the Respondents

Issues and Responses / Opinions	Percentage / Ratio
Classification of Respondents	
Co-operatives Members	89%
Co-operatives Expert	7%
Co-operatives Staff	4%
Sources of Income	
Agricultural/ Livestock	63%
Cash Crops	2%
Daily Wages / Salary	30%
Trade / Business	5%
Having any Debt Burden / Loan Taken	
Yes from Co-operatives	25%
Yes from Development and Commercial Banks	28%
No	47%

Source: Ratios / Information Compiled from the Primary Survey Data

Only 25% members are taking loan from co-operatives, 28% from bank, 47% are taking no loan at all (See Table-8.1). This indicates that almost half of the members are away from loan and probably also from any business activities. The Interest rate paid by them varies from minimum of 12% to

maximum 20%, but mean interest rate is 16%. Duration of loan period also varies from 1 to 6 years but average loan period is 1 to 1½ years. The size of average land holding among the respondents is 15 'Kattha'¹, though half of them have less than 10 kattha, which is insufficient to grow enough food grains for a family. About 47% members do not have kitchen garden and 53% members who have kitchen garden very small and that too though for home use only. Therefore, most of the co-operatives members are marginal farmers or agricultural labourers' i.e. daily wage earners for whom co-operative enterprises would be of great help.

8.2. Availability and Use of Modern Agricultural Inputs

About 44% member farmers are using chemical fertilizers in agro-farming and 56% of them are still not using chemical fertilizer. People who are using chemical fertilizers mostly buy from private sectors; only 13% members buy from the co-operatives. Nepalese co-operatives are losing their traditional business and presently not able to compete with the private sectors (See Table-8.2 below). Data shows that 52% i.e. a large number of people are still not able to purchase the chemical fertilizers. This demonstrates the backwardness of Nepalese agriculture. Only 40% members farmers say there is availability of fertilizers in their village or near by locality. This means, farmers are highly deprived of agro-inputs to raise the food production. That directly affects the livelihood of the farmers and agricultural labourers, and the country's economy in the long run.

¹ 'Kattha' is the 1/20th Portion of 1 Bigha of Land

Table- 8.2
Use of Agricultural Inputs

Issues and Responses / Opinions	Percentage / Ratio
Use of Chemical Fertilizer	
Yes	44%
No	56%
Purchasing of Fertilizer	
Yes From Co-operatives	13%
Yes From Private Traders	35%
Not Purchasing	52%
Availability of Fertilizer in the Village / Locality	
Yes	40%
No	60%

Source: Ratios / Information Compiled from the Primary Survey Data

8.3 Milk Productions and Marketing by the Respondents

Out of total respondents, 67% produce and sell the milk. Average milk production per member is 7 litres per day. More than half of the members produce milk below 5 liters per day (2 liters to 30 liters). An average milk sale per member is 5 litres but majority is sold below 3 litres (1 to 25 litres). Their mean sales price is Rs. 16 per liters however; price varies in between Rs. 14 to 20 from place to place. Almost none have insured their milking animal except one member who insured his milk cattle.

8.4 Co-operatives Helping their Members to Do Business

From the data, it is clear that the co-operatives are not in good stand to help their members to do business. Only 36% says there are some trading areas where they receive help but 64% are out of help to do business, this is the most serious matter for members. Traditionally, people may be in subsistence agriculture, but they are now interested in doing some kind of entrepreneurial / trading activities.

Table- 8.3

Whether Co-operatives Help Members to Do Business

Issues and Responses / Opinions	Percentage / Ratio
Co-operatives Promote Members to do Business	
Yes	36%
No	64%
Does Co-operatives Supplying Required Goods and Services	
Yes	12%
No	88%
Opinion of Respondents Regarding Market Situation	
Good Market	20 %
No, Market and Price Stability	11%
High Price for Purchase, Low for Sell	21%
No Good Market	48%

Source: Ratios / Information Compiled from the Primary Survey Data

Out of total respondents, 12% says co-operatives are supplying goods and services that are required by the members. Nevertheless, 88% are still not getting goods and services what they require (See Table-8.3 above). This

shows that Nepalese co-operatives are not giving attention what members want. Members feel that there is no good market place and profitable price for their products; almost 80% are saying that there is lack of market along with fair price. Attempts should be made by the government and co-operatives to create market for farmers to sell their products and services.

8.5 Members Participation

Only 5% members say that they fix their product's price, but this also sometime depends on the market situation. Price is controlled by the private sectors in food and non-food items, other than milk price, which is controlled by the HMG / DDC. Therefore, co-operative members' participation in fixing the price is very low. In total 25% (producers, consumer, and members), only take part in price and interest fixation matters (See Table-8.4 below). This shows that there is nominal role of the members in fixing the prices and interests, which should be increased considerably to benefit them. However, almost 87% respondents say that, members do participate in the general body meeting and are equally involved in selecting or electing the board members, this is a positive sign in co-operative business. In addition, members' regular participation in business activities is vital for the success for a co-operative.

Table-8.4**Members Participation / Fixation of the Interest
And Prices of the Goods and Services**

Issues and Responses	Percentage / Ratio
Participation in Fixing the Interests and Prices of the Goods and Services	
Board Members	12%
Producer Themselves	5%
Consumers	8%
Private Traders	47%
HMG / DDC	16%
NM / DN	10%
Members' Participation in AGM	
Yes	87%
No	13%
Members' Participation in Election / Selection of Board Members	
Yes	89%
No	11%

Source: Ratios / Information Compiled from the Primary Survey Data

8.6 Education / Training to Members and Staffs

Most of the respondents possess skills related to agriculture and livestock and few of them have handicraft skills (See Table-8.5). Nevertheless, 76% of them are using their traditional skills (mainly agriculture and livestock) to produce products and services for their livelihoods. About 52

% of them are using their skills for home use and only 20% use for small business while 28% are satisfied with present use of their skills.

Table- 8.5

Education / Trainings and Trade Skills

Issues and Responses	Percentage / Ratio
Members Having Special Knowledge and Skills	
Cash Crops	1%
Livestock	46%
Sewing /Knitting	20%
Bamboo Crafts	2%
Straw based Items	13%
None	17%
Use of Skills	
Yes	76%
No	24%
Purpose of Using those Skills	
Providing Training	5%
Doing Business	20%
Home use / Livelihood	52%
Not using	22%
Are they Satisfied with the Skills they have Now	
Yes	28%
No	72%
If Satisfied with Present Skills and Work – Why	
Low Cost High Production	24%

Issues and Responses	Percentage / Ratio
Products are Easily Sold	4%
Raw Materials Easily Available	7%
Others /NM	64%
If not Satisfied with Present Skills and Work – Why	
Lack of Skills	11%
Lack of Market	26%
Lack of Raw Material	12%
Tough Competition	13%
Lack of Capital	15%
Loss Bearing	11%
Do they Need / Want of Further Trainings	
Yes	84%
No	16%

Source: Ratios / Information Compiled from the Primary Survey Data

About 5% respondents are also using their skills to provide training to others to increase productivity while 22% are completely not using their skills and probably remained unemployed. Almost 72 % people are not satisfied with their present skills, want further training, and work in hand. This states that they must be further interested for more use of skills and have lucrative work. Total 84% of them are interested for further training to upgrade their skills to expand or start a new business. Majority of respondents say that there is a lack of raw materials, capital and good market to sell their products and services. Market development, food, and non-food products processing

and trading practices are the major thrust area for the development of co-operative members and people at large.

8.7 Starting a Co-operative Business

More than 57% respondents still want to get involved in agriculture and livestock occupation to raise their income (See Table-8.6). In addition, 37% think that it is expensive to start a new business and 58% have to take loan if they want to start a new business now. They say that 18% have their own capital and 14% have group fund for this purpose. About 63% respondents say, though it is expensive to start a business, total 76% of them want to start business if encountered problems are solved. This is a very enthusiastic matter that so many percentages of the respondent members who are really want to produce more and do business, which should be the major focus in a co-operative.

Table- 8.6

Whether Members are Interested to Start a Business

Issues and Responses / Opinions	Percentage / Ratio
How, they are Thinking to Raise their Income Further	
Through Livestock / Agriculture	34%
Through Vegetables / Horticulture	23%
Through Business / Trade	26%
Daily Wages / Skilled Work	17%
Yes, Interested in New Business if Problems are Solved	
Yes	76%
No	24%

Issues and Responses / Opinions	Percentage / Ratio
Does it Expensive to Start a New Business	
Yes	37%
No	63%
What Type of Capital Resources They have Now or Need	
Group Saving Fund	14%
Own Capital	18%
Loan	58%
Not Mentioned / DK	10%

Source: Ratios / Information Compiled from the Primary Survey Data

8.8 Application of Co-operative Principles and Appropriate Technology

Only 33% member respondents mentioned that they are aware of co-operative principles and applying to some extent. Two third of them do not know and have not even heard of those principles (See Table 8.7 below). This is the dark side of the co-operative enterprises, without applying universal co-operative principles no enterprise could call itself a co-operative. In response to the application of modern marketing techniques to promote, buy, and sell of their products and services, the answer is almost none, 97%, except 3% respondents. These three respondent co-operatives have advertised sometime in local newspaper and broadcasted information by radio.

Table- 8.7

**Whether they are Applying Co-operative
And Marketing Principles**

Issues and Responses / Opinions	Percentage / Ratio
Applying Co-operative Principles and Values	
Yes, Some Extent	33%
No / Don't Know	67%
Application of Modern Marketing Principles	
Yes, Some Extent	3%
No, Not Applying	97%

Source: Ratios / Information Compiled from the Primary Survey Data

This shows that Nepalese co-operatives are far backward and non-competitive in this globalised market era. Co-operatives must take themselves forward to apply these co-operative and marketing principles to survive and grow to serve the members and public at large.

8.9 Effective and Participatory Leadership and Management

In respondent members' co-operatives, average number of board members is 10 (9.57), though number varies from 5 to 21. A very few of them (11%) are aware of inter co-operative business operation to expand or diversify their business. According to respondents, 67% board members are participating in co-operatives' business and meetings, and 66% say they are efficient and loyal to the co-operatives (See Table-8.8).

Table- 8.8

**Effective Management and Operation of
Inter Co-operative Business**

Issues and Responses	Percentage / Ratio
Inter Co-operative Business Operation	
Yes	11%
No	89%
Board Members Active Participation in Co-operatives	
Yes	67%
No	33%
Board Members Efficient and Loyal to the Co-operatives	
Yes	66%
No	34%

Source: Ratios / Information Compiled from the Primary Survey Data

Until and unless active but loyal and participatory leadership is not there in a co-operative, it has no future even if members like to participate in business. The institution like Amul and Grameen Bank would not have been successful if such dynamic leadership like Varghese Kurien and Md. Yunus were not there to promote peoples organizations.

8.10 Government Support and Present Tax System for Co-operatives

Mostly, agricultural and milk producers' co-operatives are unaffected by the present tax system, i.e. they are enjoying tax-free period. However, almost all savings and credit and consumers co-operatives are suffering by the present tax arrangements by the government. They are not happy with the

present taxable rules (almost 54%, see Table 8.9) and want the same benefits as rural agricultural co-operatives. The suggestions given by the respondents to improve co-operatives laws and rules are to make new broad based co-operative law and rules, propose tax rebate and to make representative oriented general meeting if there are 500 or more members.

Table- 8.9

Present Laws / Tax System for Co-operatives

Issues and Responses / Opinions	Percentage / Ratio
Present Laws/Tax System for Co-operatives	
OK	46%
No Good	54%

Source: Ratios / Information Compiled from the Primary Survey Data

It is suggested to revise acts and rules as time changes, keeping provision of tax free/rebate arrangements for rural but farmers/labourers based co-operatives. There must be independent but strong regulatory authority able to provide guardianship and proper monitoring. Laws should secure the members property, co-operatives fund through proper rules, and regulation, inspection, reform, and make co-operatives people centered business organization.

8.10.1 Role of Facilitators / Support Organisations:

According to the respondents the government's role should be to promote, monitor and evaluate the co-operatives' operation, come up with viable good policy provide education and training. It should provide sufficient credit with technical expertise, make very effective but liberal rules and acts to

facilitate, and control corruption, misuse of co-operatives assets and fund. The support organizations such as (NCDB, NDDB and by lateral or multi-lateral Donors) should better provide promotional services like, education and training, research and development, monitoring and evaluation and technical expertise. Donors and governments' autonomous support agencies should also provide considerable financial assistance, the seed capital, and investment in shares through trickle down approach.

8.11. Reduce Poverty and Achieve Economic Sustainability

More than 87% members believe that co-operative movement can reduce the poverty level to some extent (See Table-8.10 below), but actually it does not happen at that level as members think. Members' participation is the major factor of sustainability of the co-operatives according to most of the respondents. Moreover, government's support in their work is very important for the road to success. Education and training is also another important factor of sustainability for a co-operative. Almost everyone thinks that co-operative enterprises could promote employment / self-employment, can alleviate poverty in the society. In addition, more than 80% think that it would be the means of long sustainability in socio-economic development if it followed the co-operative way.

Table- 8.10
Economic Sustainability of the Co-operatives /
Would Co-operatives Reduce Poverty

Issues and Responses / Opinions	Percentage / Ratio
Would Co-operative Enterprises Reduce Poverty	
Yes to Some Extent	87%
Not Possible	13%
Factors of Economic Sustainability of the Co-operatives	
Government Support	21%
Education and Training	13%
Member Participation	48%
Share Capital	5%
Work as per Co-operatives Principles	6%
Production and Consumption	4%
Good Staffs	3%

Source: Ratios / Information Compiled from the Primary Survey Data

Application of co-operative principles, value based management, member based planning with one village one co-operative, and honest leadership is some of very important factors for the good results in a co-operative.

8.12 Reforms of the Structure of Co-operative Movement

About 18% respondents want to reduce the present 3-4-tier structure of the co-operative movement to 2-tier (See Table-8.11 below). The reasons are to reduce the overhead costs and expand the business directly between them. More intermediary secondary unions increase the costs and time. Probably it

may be good to keep two tiers in poor country like Nepal. Almost 62% favour 3 tiers would be good and some of them suggest 4-tiers too.

Table- 8.11

Reforms / Improvement in Co-operative Structure

Issues and Responses	Percentage / Ratio
Suggestions Regarding Structure of Movement	
Two Tier (Primary and Central)	18%
Three Tier (Primary, Secondary and Tertiary - Central or National)	62%
Four Tier (Primary, Secondary, Central and National)	9%
DK / NM	11%

Source: Ratios / Information Compiled from the Primary Survey Data

Compulsory membership of upper tier should be there and be allowed to make regional co-operative unions, which would be better than district level unions. Upper tier means NCF and CCUs, they must work for down line members. Government should establish a co-operative bank with its equity participation to look after the small size village co-operatives credit societies as well as urban limited banking co-operatives.

8.13 Conclusion

From the data and the trend of co-operative movement in Nepal, it needs an overall reformation in business operation system of the co-operative enterprises. There should be strong and honest leadership in place with professionally trained staffs. General members should equally have responsibility towards their co-operatives e.g. loyalty in buy and sell of goods and services and regular participation. They should capitalize the interests of

co-operative enterprises and take them in a road to success in large scale. Government's non-controllable support in line of promotion or facilitation with equity participation is crucial for Nepalese co-operatives, who later can return government equity and would become sustainable in economic and business sense. The most important factor above all, is members' fullest participation in business and management. Co-operatives must follow spontaneous growth and should maintain natural / organic business character. There should be no political playing in co-operatives. If they really want to survive for long run in business-goodwill, become capable in competing national and multinational giants. Government should help to promote co-operatives by providing funds, share participation, technology transfer, and skill trainings, good pro-active government policy and regular inspection. Member participation, education, trainings, and application of co-operatives principles are necessary in co-operatives. Co-operatives should better do advance market planning; mobilise maximum savings and invest in people. The national level support organizations such as NCF, NCDB, and DOC should work hard overtime in qualitative manner to promote and safeguard co-operative enterprises.

Presently, members are facing some problems in training, like lack of professionally qualified trainers with co-operative specialties and vision, no practical internship, lack of good and professionally equipped training institute, not using co-operatives principles and values properly and lack of financial resources etc. There is lack of appropriate technology and proper planning, and exists very weak management. There is also lacking of proper training to staff, no financial security, incentive to the staffs, and no retirement benefits. There is shortage of capital; expansion of marketing is almost stagnant; lack

of awareness and appropriate entrepreneurial business skills among the members. Cutthroat competition with the private sector in the market makes co-operatives virtually incapable to survive. There is also lack of professional people in the management of supervisory and regulatory organisations such as DOC, NCDB, NDDB, and NRB. Unnecessary control without sufficient understanding about co-operative business by Nepal Rashttra Bank (Central Bank) over limited banking co-operatives is also a problem. Problem of double taxation, lack of secured investment environment - hard to collect loan, and open boarder with India makes undue competition and larger level of manipulation in boarder trade, which reduces the degree of fair business practice that ultimately harm co-operatives' business turnovers.

CHAPTER NINE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Co-operative is a working together concept, co-operators being generally, persons with small resources, place more stress on their willingness to work hard than the money they possess. The concept of co-operation, thus envisages a group of persons having one or more common economic needs, who voluntarily agree to pool their resources both human and material and use them for mutual benefit, as an enterprise managed by them on democratic basis. Therefore, this is an act of working together for a common purpose or benefit; joint action to do economic production, purchase, or distribution for their joint benefit. They are involved in social activities and interact among members/organizations living in a certain area for shared mutual benefit. Co-operative organization is owned by its members and operated for the benefit of those people who are using its services.

The objectives of this research were to study the status and the role of co-operative movement in Nepal. We also studied the best practice cases of co-operatives and micro-finance institutions in Sri-Lanka (SANASA), India (AMUL), and Bangladesh (Grameen Bank) to learn the lessons. We intended to find out obstacles related to it and recommend the strategies for co-operative development and appropriate model for Nepal to modernize co-operative movement. Both primary and secondary data were collected through different sources. We visited AMUL in Gujarat, SANASA co-operatives in Sri Lanka and Grameen Bank of Bangladesh to collect data on best practice cases. Opinions of all those respondents were noted and

included in the study. The tentative period of secondary data in the study was from 1980 to 2000 but in some cases, it has covered complete period from 1956/57 to 2001/02. Period of primary data was of 2001/02 to 2002/03.

The Methodology: Primary data were collected using two sets of questionnaires for co-operative enterprises and members respectively. We used purposive sampling method to select the sample respondents in case of institutional questionnaire and random sampling in case of members. One hundred questionnaires were distributed for co-operative organizations and 200 questionnaires were distributed to the members of different type of co-operative societies. Total 58 institutional and 98 member respondents had answered. Primary questionnaires were processed and analyzed through SPSS and On-front software packages. Different statistical techniques from simple descriptive tools to econometric models e.g. Ratio Analysis, Chart-Graph-Bar diagrams, and Data Envelopment Analysis model were applied to analyse, interpret, and find out the results.

Empirical Results

Nepalese co-operative movement grew in slow pace with occasional ups and downs during 1960s to 80s. Since 1992, this has grown considerably in numbers and volume of business. Co-operative enterprises in Nepal have a very insignificant role in the economy, having merely 1% contribution in the GDP. Only 2% is the share of co-operative sector in total financial services industry. In milk sector, it has a considerable role with 10% of total milk production and over 50% share of commercial milk supply to DDC and private dairy factories. According to the empirical analysis, majority of co-operatives

in Nepal are not yet efficient and economically viable. Other than active member participation, self-help and autonomy, staff member ratio as well as capital show no role in the economic efficiency. Co-operatives with small number of members proved to be more efficient (technically) rather than with large number of members, though both types have high profitability. Only nine co-operatives are efficient out of thirty, we measured the technical efficiency and most of them are financial services co-operatives. Agricultural multipurpose co-operatives are far behind, some of the milk producers' co-operatives are efficient and growing fast.

Indian and Sri Lankan co-operative movements are more active and operate in large scale contributing considerably in the different sectors of the economy. In Bangladesh though it is certainly larger than Nepal, it is not growing in such a pace that the large NGOs like Grameen Bank, BRAC, and ASHA are shadowing the co-operative sector. Nepal has a lot to learn and replicate from the best experience from all three cases in both co-operative and micro credit sectors.

Conclusions

From the primary data and the trend of changes in the co-operative movement in Nepal, it is clear that it needs an overall revitalization. There should be an honest leadership value based professional management, which could capitalize the interests of co-operative enterprises and take them to a road to success in large scale. Government support for promotion or facilitation with equity participation without administrative control is crucial for Nepalese co-operatives. The most important factor above all is members'

fullest and active participation in business and management to keep spontaneous growth in co-operatives. There should be no political manipulation by the party workers, if they really want to survive in business. Co-operatives should be capable to compete with the national and multinational giants in this era of globalization.

Policy Measures and Implications

The most important factor of co-operative business is members' participation, which should not only be emphasised but also, be the pre-requisite of a society to establish and run. Therefore, this must be included in the laws and criteria of registration and operation by the co-operative department. There should be an expansion of rural credit to each needy agricultural farmer through co-operative credit societies including regional rural banks, and other development and commercial banks. Government should give emphasis on milk producers, micro credit, savings, and credit co-operatives to modernize especially in animal husbandry and dairying, organic farming, and horticulture and plantation sectors to uplift the farmers. Massive expansion of livestock clinic and availability of artificial inseminations should be in place to increase milk production.

Government should provide special package to promote technological up-gradation in agriculture, agro-processing and milk processing through co-operative enterprises. Restructuring or write-off of old debt should be done to enhance the further accessibility of loan to the farmers through co-operative enterprises. Government must settle the old loan of the co-operatives with the ADBN. It had been provided to multipurpose co-operatives for last 40 years to

make the final settlements and revive the multipurpose co-operatives. Promotion of independent self-help groups or pre-cooperative groups before making them registered as a sustainable co-operative or a company. Co-operative must increase the level of participation of the members in co-operative business and management of the organization in a compulsory manner. Co-operatives sector should be recognized as a catalyst, the third sector alongside the public and private sectors in the nation's economic development. Government should give priority to the grass root participative members based on co-operative societies to grow and back support them. Co-operatives should be competitive, geared towards eradication of poverty, creation of employment and business opportunities by upgrading the life of the people based on co-operative principles.

Recommendations in General: Strategies for Co-operative Development

There should be an adherence of the co-operative principles and philosophies in co-operative acts, rules, and by-laws, which should be implemented in a practical manner. Government should recognize co-operative movement as a contributor to the economic growth of the country. There should be an Increase in the sources of capital. Government should participate in share capital of primary, secondary, and tertiary unions' period to make co-operatives sustainable. They should massively promote inter-co-operative and intra co-operative business including third parties to raise the level of business. Improve the quality of products and services to compete with private sector and even establish superior co-operative brand to take on the market.

To strengthen professionalism in National Co-operative Development Board as an investor in co-operative business and as a business promotion entity including policy advisor to the government. Establishment of National Co-operative Development Council of higher stature would be the best. Legislative reform – co-operative acts and rules must be amended in line with globalization, private market competition, and under-privileged society in almost all rural areas. Networking through exchange of business in vertical and horizontal level including merger and amalgamation among co-operatives must be encouraged. Establish and enhance the research and development, to fulfill members' needs and requirements, continuously improve the quality of products and services that are to be offered by the co-operative sector. Application of prudent tax policy like tax exemption and or tax holiday for the period of 5 to 10 yrs would encourage the co-operative sectors. After that, government can apply single taxation system for co-operative sectors. Government and co-operative sector should jointly establish the co-operative business park especially, to promote the co-operative business with massive participation of practicing farmers, labourers, and professional workers.

Strategies for Government–Co-operative Relationship: Government should act as a promoter, facilitator, and regulator for genuine co-operative development. Government should create conducive environment (legal, financial, business opportunities, education, and trainings) to promote sustainable co-operatives. Neutrality in co-operatives should be maintained and there should be no discrimination in political, religious, ethnical and gender sense. Government and tertiary co-operative unions should ensure

that active and higher percentage of women's participation in co-operatives' leadership and management level be held. Government should ensure and take care of active and responsible role of central / apex level co-operative organizations to furnish the duties towards their members.

Recommendations for a Model Co-operative Society and Union

From our observations and studies, a model co-operative society/union should apply the following points or deserve / adopt following factors:

Establish and Run as per ICA Principles: The major factor of a co-operative is its members. Therefore, a co-operative must be member driven in all stages, to establish it for specific purposes related to members themselves. It must be controlled, managed, and economically participated by the members. Moreover, here members do not mean 'one' or 'three' in all, but majority of them in a co-operative must participate and should remain satisfied with their operations. General and board members of the co-operative must be aware and operate the co-operative, as per the seven ICA principles.

Preferably, if members are of homogeneous nature by purpose, race, religion, culture or the principles that would work much better than the heterogeneous group. Nevertheless, co-operative should keep open its doors to every one for membership, maintaining its secular nature and work as per co-operative principles. Uniformity in business and other services could make co-operative possible to become a specialized organization of visible identity.

A co-operative society at the grass root must operate in a specific area such as adjoining villages, municipality, or certain geographic area relating to good transportation and communication facilities. Even climatic point of view

should be considered to provide easy services to the members. Co-operative should target 100 % membership or at least majority of the people in an area where all interested people could become member, buy, and sell the goods and services. If it goes beyond appropriate or targeted area trapping people from hither and thither, then it cannot provide proper services, cannot reach all members, may cause excessive overhead cost. Mix-up of heterogeneous people could lead to a potential conflict in the co-operative society. Therefore, it should run in a limited area like one or two VDCs. In a same geographic area, there should be more number of VDCs or wards of a municipality. In Nepal, VDC's population is more than 5,000 15,000 and in municipality more than 10 to 5 hundred thousands.

Secondary and tertiary unions should work as a wholesaler and distributor of goods and services to member co-operatives, except in big urban areas where it needs heavy investment and primaries cannot cover. Co-operative unions and federations should work as a main transporter and warehouse keeper of goods for primary co-operatives. In the same way, primary co-operatives should do retail trade including buying and selling of members products. Tertiary and secondary co-operatives should allocate the resources rightfully to all member co-operatives, in case of any government or donor fund received. Generate fund for member co-operatives by writing projects and request the donors to provide financial and technical support. Co-operatives should also work as price stabilizer in the working areas and beyond.

Inter-Co-operative Business/Processing and Marketing of the Members' Products: The secondary and tertiary unions should buy and sell the member

society's products, process them by applying modern technology including grading, packing and packaging. These processed and packed products should be resold again to primary members for retailing in the market. Secondary and tertiary unions should be involved in marketing promotion and publicity of the co-operative products. They should regularly monitor the quality of the products and services. On the other side, they should also buy inputs and other products from open market and sell them through primary member societies. Co-operative should emphasize more on member promotion than profit orientation. They are there only because of their members. Unions are the association of members therefore, they are supposed to work hundred percent perfectly, in favour of member co-operatives.

Board members and staffs should be honest and loyal to co-operative cause. They should be able to work voluntarily except in some professional assignments that deserve the quality and capacity. Board members should be good representative, negotiator, and arbitrator to all the parties for co-operative cause. A co-operative should remain transparent to its members regarding business operation, financial and administrative matters. Co-operative should be able to give all information in time through different channels, which would leave good impact on the members. Co-operative unions and federation should maintain the data bank of their members so that anytime data could be known whenever required. Well-maintained current data are the base of every work undertaken in the co-operative enterprises.

Co-operatives must apply modern system of corporate governance to run the enterprises. Standard accounting and management practices should

be applied to operate the co-operative as a corporate enterprise. Then they will be able to compete with other private market players. Therefore, primary, secondary, and tertiary unions should ensure and train the members for their co-operatives. Other important task of the union should be an audit, monitoring, and an evaluation of the member co-operatives. There should be a uniform system of audit in time to show the exact financial picture of the co-operative. General primary members would be more aware after knowing the transparent financial audit and monitoring reports of the business operation. Though according to present Act, audit has become co-operative's business, government has nothing to do with this matter. Moreover, co-operatives should actively involve in resolution of disputes between the members. They should represent, advocate, and lobby on behalf of the members, whenever required.

Table-9.1 Model Action Plan for the Co-operative Sector

Objectives	Strategies	Activities	Indicators	Outcome	Responsibility
1. Increase Efficiency Of the Co-operative Enterprises	Increase Vocational & Operational Trainings to members and staffs	More Training Centre with Quality Trainers	Increased Quality	Growing Co-operative Business by ... %	Tertiary and Secondary Unions, Primary Societies, Board of Directors, Accounts Committee Members and Staffs, CCTC, DOC, NCDB, MOAC
	Increase Members Active Participation in Business and Decision Making	Regular Information and Communication to the Members about Co-ops Business Activities etc.	Increased Members Satisfaction	Growing Members Standard of Living by ... %	
	Decrease Corruption, Irregularities and Mismanagement	Close Watch, Supervision and Monitoring of the Business and Decision Making Process	Reduced events of corruption and Irregularities	Increase Profit Income and Goodwill / Image	
2. Increase Productivity (Agricultural+) and Income Level of the Members	Encourage Co-operative Farming	Increase Nos. of Technical Staffs	Increased Agricultural Production; Increased productivity per capita; Increased Production Quantities; Increased Financial Flow	Growing high Quality Production and Distribution System by ...%	BODS, Staffs And Members Of Co-operatives, DOC NCDB, MOAC
	Increase Extension services with Modern Technology	Increase number of extension staffs with technology supply			
	Increase Members' Access to Modern Agro- Inputs and Machineries	Increase supply of modern inputs and Credit			
	Increase Members access to finance and credit delivery	Enhanced rural Banking Saving/Credit to the target farmers Members; Expansion of Bank branches			
3. Develop National and International Markets	Encourage Coops for Marketing Expansion (Members / Clients) and Market Infrastructure	Increase number of Market Outlets and Co-op Stores	Higher Turnover in Coop Business as well as Members themselves	Higher Income and Profitability for the Co-operatives and Members	BODS, Staffs And Members Of Co-operatives, DOC NCDB, MOAC
	Encourage Members to Buy and Sale through Co-operative Enterprises	Members Buy and Sell in Markets/ Hats to be increased	Increased Buy and Sell, Marketing		

Limitations of the Study

The study is based on small numbers of samples in comparison to the total population samples of co-operative enterprises. Study covers the co-operatives of some districts area in comparison to 75 districts of the country. The study is limited to small numbers of members in comparison to total members of the co-operative enterprises in Nepal. The opinions of limited sample respondents and researcher's approach too few numbers of experts and specialists regarding primary data and opinions. The study is based on the available secondary data from ministry of agriculture and co-operatives of Nepal and other related departments. Milk producers' co-operatives, savings, credit co-operatives, and multipurpose agricultural co-operatives are more in numbers and active in Nepal, so major focus is centred to them.

APPENDICES

APPENDIX ONE

THE STATEMENT ON THE CO-OPERATIVE IDENTITY

The Statement on Co-operative Identity was adopted at the 1995 General Assembly of the International Co-operative Alliance (ICA), held in Manchester on the Alliance's Centenary. The Statement was the product of a lengthy process of consultation involving thousands of Co-operative Experts around the world.

Definition: A co-operative is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly owned and democratically controlled enterprise.

Values: Co-operatives are based on the values of self-help, self-responsibility, democracy, equality, equity, and solidarity. In the tradition of their founders, co-operative members believe in the ethical values of honesty, openness, social responsibility, and caring for others.

Principles: The co-operative principles are guidelines by which co-operatives put their values into practice.

First Principles: Voluntary and Open Membership

Co-operatives are voluntary organizations; open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political, or religious discrimination.

Second Principles: Democratic Member Control

Co-operatives are democratic organizations controlled by their members, who actively participate in setting their policies and making decisions. Men and

women serving as elected representatives are accountable to the membership. In primary co-operatives, members have equal voting rights (one member, one vote) and co-operatives at other levels are organised in a democratic manner.

Third Principle: Member Economic Participation

Members contribute equitably to, and democratically control, the capital of their co-operative. At least part of that capital is usually the common property of the co-operative. They usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing the co-operative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the co-operative; and supporting other activities approved by the membership.

Fourth Principle: Autonomy and Independence

Co-operatives are autonomous, self-help organizations controlled by their members. If they enter into agreements with other organizations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their co-operative autonomy.

Fifth Principle: Education, Training, and Information

Co-operatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their co-operatives. They inform the public - particularly

young people and opinion leaders - about the nature and benefits of co-operation.

Sixth Principle: Co-operation among Co-operatives

Co-operatives serve their members most effectively and strengthen the co-operative movement by working together through local, national, regional, and international structures.

Seventh Principle: Concern for Community

While focusing on member needs, co-operatives work for the sustainable development of their communities through policies accepted by their members.

(Adopted in Manchester (UK) by ICA World Congress on 23 September 1995)

APPENDIX TWO

MAP OF NEPAL AND FOUR DISTRICTS COVERED IN THE STUDY



Source: World Atlas.com

APPENDIX THREE

A COMPARATIVE STATUS OF THE ECONOMIES OF DEVELOPED/DEVELOPING AND LEAST DEVELOPED COUNTRIES FOR THE YEAR 2001/02

Social Economic Indicator	USA	China	India	Sri Lanka	Bangla Desh	Nepal
Land (sq. km)	9,631,418	9,596,960	3,287,590	65,610	143,998	147181
Population 81 (Mill)	223	872	690	15	90	15
Population 01 (Mill)	290	1,270	1027	19	133	23
Pop. Growth rate (%)	1.0%	1.0%	1.4%	1.0%	2.1 %	2.2%
Pop. Density per sq km	32	136	312	304	1025	157
Urban Population 81 (%)	75%	17.4%	22%	22 %	10%	5 %
Urban Population 01 (%)	78%	37.0%	28.0%	24 %	26%	14%
Rural 81 (%)	25%	82.6	78%	78 %	90%	95%
Rural 01 (%)	22%	63.0%	72.0%	76 %	74%	86%
Literacy 81 (%)	99%	70 %	36%	82 %	28 %	25 %
Literacy 01 (%)	99%	90 %	65 %	92 %	43 %	53 %
Literacy Male (%)	99%	95 %	76 %	94 %	54 %	64 %
Literacy Female (%)	99%	87 %	54 %	90 %	32 %	42 %
Life exp. at birth 81 Yrs	73 yrs	65 yrs	52 yrs	65 yrs	50 yrs	49 yrs
Life exp. at birth 01 Yrs	77 yrs	72 yrs	64 yrs	73 yrs	62 yrs	59 yrs
Infant Mortality 81 ('000)	15 per 000	70	120	48	130	150
Infant Mortality ('000)	7 per 000	24	56	17	63	67
Person per Doctor 81	520	1000	3640	4000	10,000	50,000
Person per Doctor 01	362	500	2083	2439	5,000	25,000
Under nourished (%)	0%	9%	24%	23%	35%	29 %
Total GNP - 81 in billion \$	2,946	300	179	6	14	2.5
Total GNP-01 in billion \$	10,000	1160 ^{(5414)*}	477 (2930)	16.0 (60)	47 (214)	5.6 (31)
GNP per capita 81 US\$	12,820	344	260	400	150	150
GNP per capita 01 US\$	34,870	911 (4000)	462 (2840)	849 (3180)	350 (1610)	236 (1310)
GNP Growth rate (%)	2.0%	9 %	5.9 %	4%	4 %	3%

Social Economic Indicator	USA	China	India	Sri Lanka	Bangla Desh	Nepal
Land under forest (%)	60%	30 %	21 %	35%	15%	33 %
Land under cultivation (%)	18 %	16 %	58 %	15%	62%	20 %
% of Irrigated land under cultivation	30 %	45 %	50 %	62%	43%	30%
Per capita availability of land in ha	3.33	.75	.33	.35	.10	.64
People below poverty line	12%	10 %	26 %	25 %	45%	42%
People below P/L Rural	2%	9 %	35 %	30 %	46%	44 %
People below P/L Urban	12 %	3 %	20 %	10 %	30 %	23 %
Below 1 \$ a day (%)	0	16 %	34 %	7 %	36 %	38 %
Below 2\$ a day (%)	12 % (11\$)	47 %	80 %	45 %	83 %	83 %
(%)Of Diff Sectors in GDP						
Share Agricultural Sector	1 %	14 %	23 %	19 %	23 %	40 %
Share of Industry Sector	30 %	53 %	27 %	26 %	25 %	20 %
Share of Services Sector	69 %	33 %	50 %	55 %	52 %	40 %
Total Export (in billion \$)	795	583	69	5	7.5	.600
Total Import (in billion \$)	1476	552	89	7	10	1.4
Total FDI in billion \$	288	39	2.5	.173	.280	.040
Total Foreign Debt Bill \$	1400	193	115	11	20	3
Total Labour force (Mill)	148	761	483	8	66	11
Workers in Agriculture	1 %	49 %	60%	38%	67%	80%
Unemployment Rate	5.5 %	9.8 %	9.2%	7.8%	10 or 40%	15 or 47 %
Average Household size	4	4	5.2	4.5	5.4	5.5
Access to safe D/ W	100%	85%	86%	78%	80%	84%
Total black top road (km)	4,180,053km	3,195,410 km	1,448,655 km	11,547 km	20,000 km	4,617 km
Household with electricity	100 %	75 %	60%	63 %	25%	15 %
Tel. Lines connection	340 Mill	532 Mill	56 Mill	26,98,000	25,00,000	350,000
Total tourists arrival	45 Mill	35 Mill	2.5 Mill	400,000	25,000	363,000
HDI Rank	7	104	127	99	139	143

Sources: World Development Report, World Bank, 2003; National Co-operative Data Bank of NCUI, 2002; Human Development Report, UNDP, 2003; CIA, Fact sheet, 2003; UNESCAP 2004

APPENDIX FOUR

Name of the Sample Co-operative Enterprises:

Milk Producers' Co-operatives
1. Gaindakot Milk Producers' Co-operative Society Limited
2. Amritdhara Milk Producers' Co-operative Society Limited
3. BansaGopal Milk Producers' Co-operative Society Limited
4. Umadevi Milk Producers' Co-operative Society Limited
5. Siddhartha Milk Producers' Co-operative Society Limited
6. Deepdhenu Milk Producers' Co-operative Society Limited
7. Piprahawa Milk Producers' Co-operative Society Limited
8. Central Milk Producers' Co-operative Union Limited
Agricultural Multipurpose Co-operatives
9. Janavikas Agricultural Multipurpose Co-operative Society Limited
10. Kisan Agricultural Multipurpose Co-operative Society Limited
11. Majuwa Agricultural Multipurpose Co-operative Society Limited
12. Krishnanagar Agricultural Multipurpose Co-operative Society Limited
13. Inaruwa Agricultural Multipurpose Co-operative Society Limited
14. Sunsari Agricultural Multipurpose Co-operative Society Limited
15. Mahendranagar Agricultural Multipurpose Co-operative Society Limited
16. Janasewa Agricultural Multipurpose Co-operative Society Limited
17. Janajagriti Agricultural Multipurpose Co-operative Society Limited
18. Jhumka Agricultural Multipurpose Co-operative Society Limited
19. Kohalpur Agricultural Multipurpose Co-operative Society Limited
20. Dhor Barah Agricultural Multipurpose Co-operative Society Limited
21. Bardaghat Agricultural Multipurpose Co-operative Society Limited
22. Janajagriti Agricultural Multipurpose Co-operative Society Limited
23. Rupandehi Agricultural Multipurpose District Co-operative Society Limited
24. Baglung Agricultural Multipurpose District Co-operative Union Limited
25. Chitawan Agricultural Multipurpose District Co-operative Union Limited
26. Lalitpur Agricultural Multipurpose District Co-operative Union Limited
27. National (Agricultural Multipurpose) Co-operative Federation Limited
Women and Other Co-operatives
28. WEAN Producers' Marketing Co-operative Society Limited
29. Women (Savings and Credit) Co-operative Society Limited
30. Baglung Vegetable Producers' District Co-operative Union Limited
Limited Banking Co-operatives
31. Amarawati Limited Banking Co-operative Society Limited
32. Himalaya Limited Banking Co-operative Society Limited
33. Nepal Finance Limited Banking Co-operative Society Limited

34. Navakshitish Limited Banking Co-operative Society Limited
35. Nepal Limited Banking Co-operative Society Limited
36. Sagun Limited Banking Co-operative Society Limited
Savings and Credit Co-operatives
37. Janavikas Savings and Credit Co-operative Society Limited
38. VYCCU Savings and Credit Co-operative Society Limited
39. Kalyankari Savings and Credit Co-operative Society Limited
40. SamuhikVika Savings and Credit Co-operative Society Limited
41. Ekta Savings and Credit Co-operative Society Limited
42. Yati Savings and Credit Co-operative Society Limited
43. Samuhik Savings and Credit Co-operative Society Limited
44. Jhimpa Savings and Credit Co-operative Society Limited
45. Aincho Paincho Savings and Credit Co-operative Society Limited
46. Harichaur Savings and Credit Co-operative Society Limited
47. Galkot Savings and Credit Co-operative Society Limited
48. Deepnagar Savings and Credit Co-operative Society Limited
49. Wami Savings and Credit Co-operative Society Limited
50. Kharbang Savings and Credit Co-operative Society Limited
51. Dhaulagiri Savings and Credit Co-operative Society Limited
52. Dhangadi Savings and Credit Co-operative Society Limited
53. Parbat Savings and Credit Co-operative Society Limited
Government Co-operative Agencies (Experts)
54. National Co-operative Development Board (1 Set)
55. Department of Co-operatives (2 Set)
56. Central Co-operative Training Centre (2 Set)
Total 58 Institutional Questionnaires Filled up

APPENDIX FIVE

Institutional Data for Efficiency Measurement of Co-operative Enterprises in Nepal

Name	Share Capital	Profit / Loss (-)	Total Member	Active Member	AM / TM Ratio	Total Staff	TS / TM Ratio
1. Gaindakot MPCs	607600	412769	454	340	0.748899	12	0.02643
2. Amritdhara MPCs	20500	55844	99	90	0.909091	5	0.05051
3. Bansa Gopal MPCs	18200	-14800	182	182	1.000000	2	0.01099
4. Umadevi MPCs	19600	320460	109	109	1.000000	10	0.09174
5. Siddhartha MPCs	13500	106062	135	135	1.000000	9	0.06667
6. Deepdhenu MPCs	23100	-28320	77	55	0.714286	3	0.03896
7. Janavikas AMPCS	59180	-47343	3418	2000	0.585138	8	0.00234
8. Kisan AMPCS	65000	238946	710	600	0.845070	5	0.00704
9. Nepal CFAMPCU	425000	374913	67	27	0.402985	14	0.20896
10. Rupandehi DAMPCS	180000	221524	18	18	1.000000	3	0.16667
11. Inruwa AMPCS	531886	91900	500	300	0.600000	7	0.014
12. Sunsari DAMPCU	36300	-187406	21	16	0.761905	4	0.19048
13. Chitawan DAMPCU	210000	157000	23	16	0.695652	38	1.64493
14. Janasewa AMPCS	36640	-92744	1630	1426	0.874847	4	0.00245
15. Janajagriti AMPCS	52700	64053	602	200	0.332226	5	0.00831
16. Jhumka AMPCS	416938	-41652	189	142	0.751323	5	0.02646
17. WEAN Mkt. Co-op	569300	231857	150	120	0.800000	8	0.05333
18. Kohalpur AMPCS	1117550	649326	2842	2132	0.750176	6	0.00211
19. Kalyankari SACCOS	956950	320000	480	452	0.941667	3	0.00625
20. Women S/C Co-op	8408500	25462	527	395	0.749526	19	0.03605
21. Himalaya Lim Bank	14361000	5651000	588	470	0.799320	15	0.02551
22. Janavikas SACCOS	410000	135000	541	81	0.149723	9	0.01664
23. VYCCU SACCOS	1278900	45767	950	807	0.849474	13	0.01368
24. Amarawati Lim Bank	5245500	451	890	420	0.471910	13	0.01461
25. Samuhik Vika SACCOS	1909570	3352507	958	958	1.000000	4	0.00418
26. Nepal Fin Co-op LimB	13403200	1255861	583	100	0.171527	20	0.03431
27. Navakshitish LimB	18599000	3058000	1081	650	0.601295	12	0.0111
28. Ekta Co-op SACCOS	2690000	750194	183	128	0.699454	8	0.04372
29. Nepal Co-op LimB	25276700	121124	280	220	0.785714	25	0.08929
30. Sagun Co-op LimB	9491670	186944	1743	900	0.516351	20	0.01147

Source: Data Processed and compiled from our Field Survey

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