

**PHD THESIS ABSTRACT BY  
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**CO-OPERATIVE MOVEMENT: A PEOPLE BASED DEVELOPMENT  
APPROACH, Its ROLE IN THE ECONOMY OF NEPAL**

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 enterprises in simple statistical form *I* 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 an econometric model - Data Envelopment Analysis. 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, conclusion policy implications and recommendation have been presented. Besides all this appendices and bibliography has been added at the end for reference.

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 forest for their food must have been the first example of co-operative effort or a work of cooperation. 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. According to ICA Congress, "A cooperative 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 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”<sup>1</sup>. Presently, there are seven principles of co-operation, which were adopted in 1995, at Manchester World Congress of ICA are Voluntary and Open Membership; Democratic Member Control. Member Economic Participation, Autonomy and Independence, Education, Training and Information, Co-operation among Co-operatives, Concern for Community. 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 cooperatives (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. The international network organization of cooperatives 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 covering almost every country<sup>2</sup>.

The **objectives** of this research are 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 data were collected from both primary and secondary sources. Focus 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. The

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<sup>1</sup> International Cooperative Alliance, “The Statement of Co-operative Identity”, Geneva 1995

<sup>2</sup> ICA, *World Co-operative Data*, Geneva, 2004

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 cooperatives of Nepal. The researcher 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, met and discussed with co-operative staff, members, and primary, secondary, and national level board members/leaders and collected concerned data, and opinions of all those respondents were noted and included in the study. 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 analyze, interpret, and find out the results. Some of the important variables analyzed in the study are 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 cooperatives, in addition, structural reforms in co-operative movement.

In **review of literatures**, 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. However, on exploring the literature on this subject - Cooperatives in Nepal, we did not find any comprehensive study covering the co-operative sector broadly. 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. People's organizations are defined as membership based organizations. The purpose of the peoples' organization is to serve the needs of its members. 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.

We took-up following **best-practice cases** that are '**AMUL**' or '**Anand Pattern**' **dairy Cooperatives 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 cooperative sectors respectively. The third best case '**The Grameen**

**Bank' of Bangladesh** was put under the study to cover and compare the micro credit sector. Through the examples and comparison of these best-executed and achieved cases, it would give best ways for Nepalese Cooperatives or community enterprises to improve their capacity to deliver services and sustain to a long future.

**Lessons Learned:** 'Amul' has become a popular co-operative brand not only for India but also for the world. 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. programme. 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. From this successful case of Anand Pattern dairy cooperatives in India, the peoples' dairy farm in Nepal, its government and co-operative movement could immensely learn and employ the same method.

'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%<sup>3</sup>. If this continues, for some decades along with other similar agencies

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<sup>3</sup> Md. Yunus, *Grameen Bank, Dhaka, Bangladesh*

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. 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.

In **Fifth Chapter**, we explain 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. Co-operation is ways 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<sup>4</sup>, 'Dhikuri'<sup>5</sup>, and 'Mankakhala Guthi'<sup>6</sup> are the good example of best tradition of co-operation. The Government of Nepal, in 1953, established a Co-operative Department as initiated the cooperative 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 cooperatives were promoted, established, directed, and controlled by the government through different ministries and departments until 1990. In 1990, popular movement 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. The new elected government formed a high-level interim committee named National Cooperative Development Board in place of former Sajha Kendra<sup>7</sup>. 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 1992, a new co-operative policy as well as a Co-operative Board Act 1993

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<sup>4</sup>*'Parma' means exchange of labour between agricultural farmers and labourers engaged in cultivating and haivesting the crops.*

<sup>5</sup>*'Dhikuri' is a rotation service within limited number of members for savings and credit activities in cash or in kind.*

<sup>6</sup>*'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.*

<sup>7</sup>*'Sajha Kendra' Co-operative Society Limited was established in 1960s during Panchayat Regime as a pnamaiy 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.

for itself to run permanently as a successor to former 'Sajha Kendra'. Parliament passed both the Acts, 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. 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. 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 cooperatives are registered more than Milk producers' but in productivity and per capita / cooperative 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 and loan in income generating activities as well as health and education of the children. But milk producers' co-operatives are concentrated only on about 20 plus districts where there is scope of market, can 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.

**Contribution of Co-operative Sector:** 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 Plan Concept Paper<sup>8</sup>. 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 overall contribution to the GDP of national economy, the co-operative sector's share is too low, 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 can be taken as 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% of the total milk supply in the country. However, in processing of milk products, the co-operatives role has almost none<sup>9</sup>.

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<sup>8</sup> Tenth Plan Concept Paper, 2003

<sup>9</sup> DDC or CMPCU op.cit

Government controlled Dairy Development Corporation (DOC) 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. Like wise in deposit, cooperatives 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.

The main objective of **sixth chapter** is to find out / demonstrate the performance and role of respondents' co-operatives in serving the member and public at large. 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. Suggestions for improvement of structure of co-operative movement, tax system, and respondents' opinion regarding contribution of co-operatives in the economy are explained.

In **Seventh Chapter**, the empirical analysis and the interpretation of primary data of selected primary, secondary, and tertiary level co-operative institutions applying an econometric model - Data Envelopment Analysis has been done. 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 consideration<sup>10</sup>. There are total nine efficient co-operatives in their economic activities out of 30. The reasons of efficiencies are common to some and some are not. They apply following parameters in different co-operatives as per their own situation. These efficient 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

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<sup>10</sup> See detail work on DEA by Charnes et.a!. (1978) Measuring the Efficiency of Decision Making Units". European Journal of Operation Research, 1978, 3 pp 429-444

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 women<sup>11</sup> 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.

In **eighth chapter**, we have presented the analysis and findings of primary survey on Co-operative members. The questionnaire for this survey was slightly different from institutional questionnaire, but more similar analyzed in chapter six. The main purpose of this is to present members' opinions regarding different research questions. Members participation, education / training to members and staffs, starting a co-operative business, application of co-operative principles and appropriate technology, effective and participatory leadership and management, government support and tax system for co-operatives, reduce poverty and achieve economic sustainability, reforms of the structure of co-operative movement are the major variable investigated. From the results, it can be realized that members are more concerned about the effective delivery of products and services by the co-operative enterprises to its members. 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 buying and selling of goods and services and regular participation.

Finally, in **Ninth Chapter**, summary, conclusion policy implications, and recommendations have been presented. 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.

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<sup>11</sup> 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 raring, 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.

**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 GOP. 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 DOC 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:** In our 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. Active and responsible participation of the members in cooperative business will increase and 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 and people oriented as compared to private enterprises. Nevertheless, Nepalese co-operatives today seem less member participative and have low level of members' friendliness.

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 emphasized but also, be the prerequisite 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 cooperative 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. We have recommended the strategies for co-operative development, strategies for government—co-operative relationship, and model plan for a model co-operative society/union.

The study is based on small numbers of samples in comparison to the total population samples. Study covers the co-operatives of some districts in comparison to 75 districts of the country and is limited to small numbers of members in comparison to total members of the co-operatives. 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 and credit cooperatives, and agricultural multipurpose co-operatives are more in numbers and active in Nepal, so major focus is centred to them.