

CHAPTER III

EVOLUTION OF CO-OPERATIVES IN NEPAL

3.1 Early Evolution of Cooperatives

Co-operative is as old as the development of society. 'Arma', 'Parma', 'Mangka Khala', 'Dharmabhakari', 'Dhikuri' were the traditional co-operatives. They were in use differently according to their community, religion, custom and society. 'Armaparma' is used in hilly region. Armaparma means exchange of labor to each other. Mangkakhala is primitive co-operative of Newar community in Katmandu valley. "Dharmabhakari" was related and established with religious point of view. This co-operative was opened to collect cash and goods on behalf of its member. These kinds of co-operatives were in existence up to 2007 B.S. (1950 A.D.).

After the democratic revolution of 1950, people were free from the autocratic ruler and people as well as government made effort towards improvement of rural farmer's standard of living. Co-operative Development Department was established to increase standard of living of rural farmer in 1953(2010 B.S.). In 1954 (2011B.S.) government established 'Shaja Sanstha' to provide loan for flood affected people to increase production. For this, government had taken foreign aids also. During the initial stage of planned development (1956), in the first five year plan, government operated 'Rapti Doon (valley) Project' through co-operatives. In 1959, (2016 Bhadra 14) Co-operative Act was passed to improve effectiveness of cooperatives.

Cooperatives are stated to have started in Nepal on April 4, 1956 with registration of 1st cooperative in Rapti Doon area of Chitwan district –Bakhan Credit Cooperative Limited. However, cooperatives had ups and downs until 1991, as only 830 primary cooperatives came in operation during 35 years, from 1955 to 1991. But they started expanding fast after early dawn of democratic system in Nepal. Some of the cooperatives specialized in saving and credit and they are known as saving and credit cooperatives. Their number increased to 4349 by mid-July 1998 and to 9720 by mid-July 2007 out of which 3392 were credit and saving cooperatives (Department of Cooperatives, 2007).

3.2 Plan Period wise Evolution of Cooperatives

The revolution of cooperatives during different plan period in Nepal shows that the number of cooperatives was increased in ninth plan period rather than others plan period. The table 3.1 below can help us to explain evolution of cooperative during the different plan period.

Table -3.1

Evolution of Cooperatives in Different Plan Period:

Plan period	No. of co-operatives	No. of district
1956- 1961	378	20
1961-1962*	203	34
1962-1965	542	44
1965-1970	366	56
1970-1975	251	60
1975-1980	427	65
1980-1985	78	67
1985-1990	830	72
1992-1997	3792	75
Total	7328	

Source: Development and Management of Co-operative in Nepal (2003)

*Without plan year

At the end of mid-July 2003, co-operatives registered in co-operative department and other related office belongs to the categories as given in table 3.2 below.

Table - 3.2

Total Cooperatives with Classification

Classification	No. of cooperatives
Multipurpose co-operative	3044
Saving and loan co-operative	2350
Diary product co-operative	1362
Consumer co-operative	194
Not classified (other)	495
Total	7445

Source: - GoN Cooperative Department, (2003)

According to Table 3.1, 378 co-operatives were established throughout the nation and there were 11059 members during first five-year plan period. Out of which 188 were multipurpose shaja, 144 were loan co-operatives, 18 were cottage industry shaja, 3 were dairy product and 4 were shaja buying, selling and loan co-operatives and 9 were others.

1961-2062 is called as without plan year, in which 203 shaja were established out of them, 168 were multipurpose shaja, 23 were loan co-operatives, 3 were cottage shaja 1 was consumer shaja, 2 were shaja buying, selling and loan and 5 were others.

In 2nd three-year plan periods, co-operative movement was spread to 44 districts of the nation and 542 new co-operatives were established during this period. Out of which, 397 were multipurpose, 85 were dairy products 14 were consumer, 8 were buying, selling and loan and 15 were others.

In the period of 3rd five- year plan, co-operative movement was spread over 56 districts and 366 new co-operatives were established. Out of which 341 were multipurpose, 4 were loan shaja, 1 was cottage, 1 was dairy, 10 were consumer, 7 were buying selling and loan and 2 were others.

In 4th five -year plan period, 251 co-operatives were established in different parts of the nation and spread over 60 districts. In this plan period, co-operatives qualities were increased by merging co-operatives.

In fifth five-year plan period, district level co-operative association was established in 33 districts. 1 national seminar, 4 regional seminars and 60 training were programmes held during that period.

In sixth five-year plan period, 32 small farmer shaja and 37 shajha were established. 9 shajha warehouses were built in the kingdom. At the end of this plan period 13,90,121 members were in co-operatives activities.

In seventh five year plan period co-operatives spread over to 72 districts where 830 agriculture co-operatives and 33 district co-operative associations were formed. At the end of this plan period, such transaction of co-operatives was about of Rs.67 crores.

In eighth five-year plan period 3711 primary co-operatives, 77 district level associations, 3 central level associations and 1 central association were established. In this plan period, Co-operative Act 1991 was issued, Co-operative Rules 1992, National Co-operative Development Board Act 1992 etc. were issued.

3.3 Structure of Cooperatives in Nepal

During the ninth five -year plan period different policy program were adopted. Co-operative education and training were held to maintain quality of such co-operative, infrastructure development and increment of the co-operatives capacity to promote further more of them. Effective execution of co-operative program was under supervision. Manpower were encourage for training. Co-operatives education included school level curriculum also in this five-year plan period. First year of 10th plan (2003), co-operatives were spread all around rural as well as urban area of the country and 7445 co-operatives were established throughout the nation up to mid July 2003. There were 34 financial co-operative at the end of FY 2002/03. They have Rs.19245 lakhs deposited and Rs.14632 lakhs of loan toward the members.

Table - 3.3

Cooperatives Structure in Nepal

S.N.	Name	Number
1	National Cooperative Federation	1
2	National Cooperative Bank	1
3	Central Cooperative Unions	5
4	District Cooperative Federations	49
5	District Cooperative Unions	83
6	Primary Cooperative Societies	9720
	Total	9859

Source: Department of Cooperatives, mid –July 2007

There is only one cooperative federation in Nepal. There is one National Cooperative Bank having 35 branches all around Nepal. There exits 5 central cooperative unions and 49 district cooperative federations. 83 district cooperative unions working together in the country. In Nepal, there are 9720 numbers of primary cooperatives working in different subject and area in the country.

Table -3.4

Number of Primary Cooperatives in Nepal

S.N.	Categories	Number	Percentage
1	Agriculture Cooperatives	1218	12.53
2	Saving & Credit Cooperatives	3392	35.90
3	Dairy Cooperatives	1564	16.09
4	Small Farmers Cooperatives	215	2.21
5	Herbals Producer Cooperatives	24	0.25
6	Tea Producers Cooperatives	22	0.23
7	Coffee Producers Cooperatives	66	0.68
8	Health Cooperatives	30	0.31
9	Multipurpose Cooperatives	2532	26.05
10	Consumers Cooperatives	103	1.06
11	Science & Technology Cooperatives	84	0.86
12	Electric Cooperatives	226	2.33
13	Others cooperatives	244	2.51
	Total	9720	100

Source: Department of Cooperatives, mid July-2007

In Nepal, the numbers of cooperatives are increasing day by day. There were 7445 numbers of cooperatives in 2003 where there are 9720 numbers of primary cooperatives. Out of total number of cooperatives, 12.53 percent are agricultural cooperatives, which are mainly related with agriculture activities and agro-development. Saving and credit cooperatives played crucial role on economic activities, investment and saving. The majority of cooperatives are working on this field. In Nepal, there are 3392 numbers of cooperatives, which covers 35.90 percent in total cooperatives. Cooperatives helped the dairy development sector so that 1564 cooperatives are operating till mid-July 2007. Dairy development cooperatives cover 16.09 percent of the total numbers. Some cooperatives provide loan and technical assistance to the small farmer. There are 215 number of small farmers cooperatives which covers 2.21 percent. Herbal producers, tea producers, coffee producers and health service provider cooperatives are also in operation in the Nepalese economy. There are 2532 multipurpose cooperatives having multiple work diversity in different societies covering 26.05 percent total number of primary cooperatives in the country. Consumer's cooperatives, science - technology and electricity cooperatives are also

providing social services to the needy and poor people by giving appropriate assistance and education to the members. Other cooperatives cover 2.51 percent of the total number of cooperatives.

3.4 Membership Structure of Cooperatives in Nepal

The membership of the cooperatives in mid July-2007 shows the male and female numbers of members in the country. Male as well female both are participate in the activities of the cooperatives. But the participation of female members in such societies needs to encourage. The following table shows the subject wise participation of members on cooperatives in Nepal.

Table - 3.5

Membership of Cooperative Societies in Nepal

S.N.	Categories	Male	Female
1	Agriculture Cooperatives	178665	53221
2	Saving & Credit Cooperatives	230274	172852
3	Dairy Cooperatives	59952	30500
4	Small Farmers Cooperatives	49009	22570
5	Herbals Producer Cooperatives	817	269
6	Tea Producers Cooperatives	512	532
7	Coffee Producers Cooperatives	937	619
8	Health Cooperatives	2263	269
9	Multipurpose Cooperatives	280031	98478
10	Consumers Cooperatives	4639	1228
11	Science & Technology Cooperatives	5263	1098
12	Electric Cooperatives	6723	1295
13	Others cooperatives	28215	29516
	Total	847300	412447
	Grand Total	1,259,747	

Source: Department of Cooperatives, mid-July 2007

There is huge number of members in saving and credit cooperatives. Such members cover at least 13.7 percent of the total numbers of members. There are 1,259,747 numbers of members in these different types of cooperatives. Male members as well as female members are actively participating on cooperative movement. Table 3.5 shows that the multipurpose cooperatives cover 378,509 members on the country where as dairy cooperatives have 90,452 members on

different places. The total numbers of members are increasing continuously over different fiscal years.

3.5 Saving and Investment of Cooperatives in Nepal

The following table depicts the saving and investment of the cooperatives in Nepal in mid-July 2007.

Table - 3.6

Saving & Investment Status of Cooperatives Societies in Nepal (In Rs.'000)

S.N.	Categories	Saving	Investment
1	Agriculture Cooperatives	251241	335883
2	Saving & Credit Cooperatives	8962913	15098546
3	Dairy Cooperatives	37594	33835
4	Small Farmers Cooperatives	217140	592253
5	Herbals Producer Cooperatives	823	15
6	Tea Producers Cooperatives	7332	5520
7	Coffee Producers Cooperatives	367	0
8	Health Cooperatives	26100	42428
9	Multipurpose Cooperatives	9864808	7893717
10	Consumers Cooperatives	8534	16219
11	Science & Technology Cooperatives	41509	59054
12	Electric Cooperatives	5697	6128
13	Others cooperatives	93459	64149
	Total	1,95,17,517	2,41,47,747

Source: Department of Cooperatives, mid-July 2007

Table -3.6 shows the contributions of each cooperative on total saving and investment in the economy. Agricultural cooperatives contributed Rs.2,51,241 thousand saving and Rs.3,35,883 thousand on investment. Saving and credit cooperatives contribution on saving is Rs.8,962,913 thousand and on investment is Rs.1,50,98,546 thousand. On the other hand dairy cooperatives contribution on saving is Rs.37,594 thousand and on investment is Rs.33,835 thousand. Small farmers cooperatives saved Rs.2,17,140 thousand and invested Rs.5,92,253 thousand up to mid July 2007. Herbal, tea, and coffee producer cooperatives also saved and invested notable amount of money as indicated by the Table. Multipurpose cooperatives

contributed Rs.98,64,808 thousand of saving and Rs.78,93,717 thousand of investment on the country's economy. Consumer's cooperatives, science - technology and electricity cooperatives are also contributing large amount of saving and investment in the societies as well as country's economy.

3.6 Assets and Liabilities of Co-operative Societies (Terai)

Cooperative societies in the country were grown equally in different areas of Terai region. On the basis of sample survey, Nepal Rastra Bank researched that the financial cooperatives have increased the status of capital, deposit, loans and advances, incomes, fixed assets etc. The following table shows the aggregate assets and liabilities of co-operative society in Terai.

Table - 3.7

Aggregate Assets and Liabilities of Co-operative Societies (Terai)

(Amount in Rs. '000)

Particular	Licensed NRB		Licensed by HMG	
	1998/1999	1999/2000	1998/1999	1999/2000
Capital fund (Rs)	24514	29949	2328	5056
Deposits	131174	177793	5504	33867
Borrowing	7064	7349	291	129
Liquid assets	52510	56335	1018	6251
Investment	3580	3589	114	21
Loans and advance	103828	154562	6868	29587
Fixed assets	2801	3050	134	905
Other assets	16965	20124	151	2885
Income	23661	29708	1078	4215
Profit	2396	5914	279	(210)

Source: - NRB Sample Survey, Research Department, (2005)

According to this table, the figure shows the aggregate assets and liabilities of co-operatives societies within Terai region in two fiscal years. In FY 1998/1999 the capital fund of co-operatives licensed by NRB in Terai is Rs.24514 thousand and Rs.29949 thousand in FY 1999/2000. But the capital fund in GoN's licensed co-

operatives is Rs.2328 thousand in FY 1998/1999 and in FY 1999/2000 is Rs. 5056 thousand. Deposit of co-operatives licensed by NRB in FY 1998/1999 is Rs. 131174 thousand and Rs. 177793 thousand in FY 1999/2000. Co-operatives societies licensed by GoN's have Rs.5504 thousand deposits in FY 1998/1999 and Rs. 33867 thousand in FY 1999/2000. Borrowing of co-operatives licensed by NRB is Rs.7064 thousand in fiscal year and Rs.7349 thousand in FY 1998/1999. But in GoN's licensed co-operatives the portion of borrowing is Rs. 291 thousand in FY 1998/1999 and Rs. 129 in FY 1999/2000. The Liquid asset of the co-opertives licensed by NRB is Rs.52510 thousand in fiscal year 1998/1999 and Rs. 56335 thousand in FY 1999/2000. But in GoN's licensed co-operatives the portion of liquid asset is Rs.1018 in FY 1998/1999 and Rs. 6251 in FY 1999/200. The investment of the co-operatives licensed by NRB is Rs.3580 thousand in FY 1998/1999 and Rs.3589 thousand in FY 1999/2000. The investment of government licensed co-operatives is seem to be poor i.e. Rs. 114 thousand in fiscal year 1998/1999 and Rs. 21 thousand in FY 1999/2000. Loan and advances of co-operatives in fiscal year 1998/1999 is Rs.103838 thousand and Rs. 154562 thousand in FY 1999/2000. Government licensed co-operatives loans and advances are Rs.6868 thousand in FY 1998/1999 and Rs. 29587 thousand in FY 1999/2000. Fixed asset of co-operatives in FY 1998/1999 under NRB licensed is Rs.2801 thousand and Rs.3050 thousand in FY 1999/20000. But in other side, the co-operatives licensed by GON' has fixed asset of Rs.134 in FY 1998/1999 and Rs. 905 thousand in FY 1999/2000. Income of the co-operatives licensed by NRB is Rs.23661 thousand in FY 1998/1999 and Rs.29708 thousand in FY 1999/2000. But in other side, GoN' licensed co-operatives has income of Rs.1078 thousand in FY 1998/1999 and Rs. 4215 thousand in FY 1999/2000. The portion of profit of co-operatives licensed by NRB is Rs.2396 thousand in FY 1998/1999 and Rs.5914 thousand in FY 1999/2000. The profit of co-operatives under licensed by HMG is Rs.279 thousand in FY 1998/1999 and in FY 1999/2000 there is negative profit by Rs.210 thousand. GoN's licensed co-operatives economic condition is falling due to the mismanagement.

3.7 Classification and Growth of Co-operatives

The following table can show the annual growth of co-operatives in different subject within Nepal in different fiscal year:

Table – 3.8

List of Classification and Growth of Co-operatives

Particular	2054/055	2055/056	2056/057
1. Classification			
i. National co-operative union	1	1	1
ii. Central co-operative union	3	3	3
iii. Dairy production co-operative union	1069	1058	1156
iv. Loan and saving co-operative union	815	1138	1574
v. Consumer co-operative union	262	228	217
vi. Multipurpose	1787	2084	2212
vii. Others co-operative union	416	263	512
viii. District co-operative union	82	82	97
Total	4435	4837	5772
2. Transaction (in Rs.10 lakhs)			
i. Agriculture production material	358.3	216.2	375.4
ii. Consumer material	171.6	111.2	95.1
iii. Agro product	15.7	52.6	81.7
iv. Manufacturing material	31.4	15.7	52.9
v. Milk (Dairy)	252.1	502.7	480.2
vi. Others	2.3	0.1	0.3
Total	857.4	898.5	1085.6
3. Borrowing			
i. Loan borrowing	176.0	145.7	142.5
ii. Loan repay	111.1	85.2	103.6
iii. Total loan	642.9	628.7	667.6
4. Investment			
i. Loan investment	281.0	415.4	1157.8
ii. Loan reverse	161.7	211.5	602.1

Particular	2054/055	2055/056	2056/057
iii. Loan balance	491.8	61.4	1276.0
5. Share capital	282.7	205.1	400.0
6. Members	1064197	827631	1029838

Source: - NRB Research Department Studies (2005),

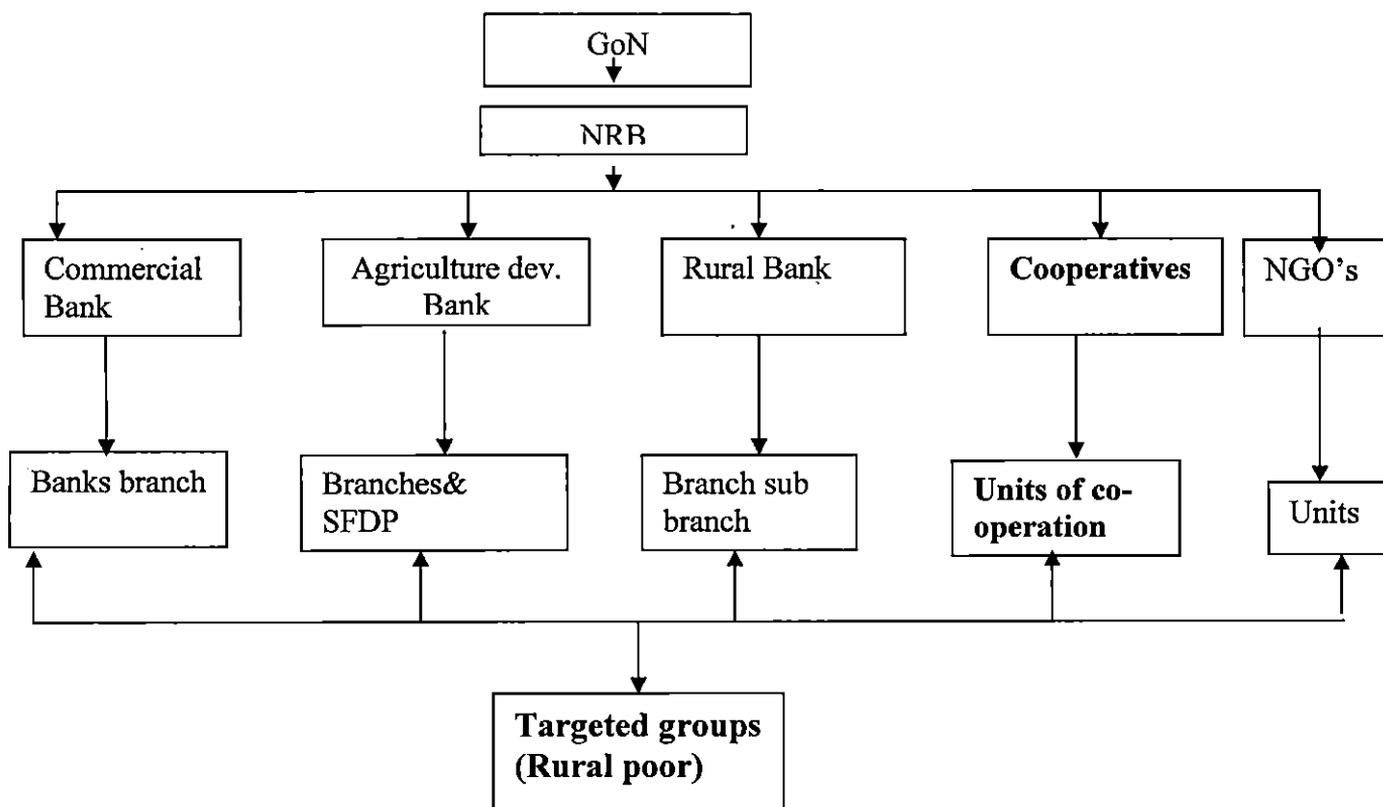
The Table – 3.8 shows the overall scenario of co-operatives. In which, the classification of co-operatives, transaction of co-operatives, borrowing, investment condition, share capital and the whole no of members of co-operatives are presented. In which 5772 number of co-operative deals Rs.10846 lakhs of total transaction. They invested Rs.11578 lakhs and reverse Rs. 6021 lakhs during that fiscal year. At the end of fiscal year 1999/2000 there are 1029838 members in co-operatives.

3.8 Rural Financial System in Nepal

Nepalese financial system is strengthened by cooperative development. There are a lot of cooperatives working in the field of micro credit and cooperation. The role of co-operative is important in the Nepalese financial system. The following chart represents the contribution of cooperatives in the financial system.

Figure -3.1

Nepal Rural Financial System at a Glance



Sources: - Eastern Rural Development Bank's Contribution on Social Economic Condition (NRB) (1997).

This figure represents the Nepalese rural financial system. The flow chart is very much useful to analyze the system at which the overall flow of finance is flowing. There are many financial intermediaries in Nepal. The commercial banks were the major provider of finance in Nepal in the past. Although the role of agriculture development banks, rural development banks, co-operatives and NGO's cannot be neglected. But in the time of conflict, cooperatives and NGO's are proved to be better medium of finance to the remote and rural area. In rural sector, the co-operatives are proved helpful to finance the needy one. They provided short term as well as mid term loan to the people. Group loan, loan without collateral and share loan are provided by co-operatives to their members. The loan provided by co-operatives is more secured than other medium of finance. According to the cooperative's management, member people played vital role on the time of disbursement. They helped authorities to bring back loan in given period of time.

Nepal is one of the poorest countries in the world. There are a lot of resources but not yet properly utilized. Development of such resources may be possible by the proper utilization over the country. These funds or resources are collected by the different types of cooperatives and may be utilized by them the behalf of its members and societies.

Chapter Summary

In Nepal, cooperative movement has no greater experience than world's cooperative activities. It has only 50 years of experience but shows the greater result on its norms and basic principle. This study based on the cooperative development on the background of severe conflict led by armed militant. The study periods is taken 1997-2007, shows the notable development on the side of cooperative and have the valuable role on social and economic activities in the villages. This period seemed to be fertile period for the development of this system which government has recognized as third tire of economy and gave the greater priority in the budgetary activities. Nepalese financial system and organization mainly based on urban sector where 80 percent villages are far from the services of the banks and financial institutions. So

that, those rural people were started to organized and established cooperatives societies to fulfill the financial needs and activities. Therefore, these cooperatives societies were expanded and established on different parts of the country as many as the people acquainted on the basic principle. Many people have taken membership on it and the number of members also increases on these societies.

The revolution of Nepalese cooperatives was started from 1959 in an organized and formal way. But it encountered many ups and downs as well in the past/ dawn of democracy in 1989. After the resettlement of democracy, the new Cooperatives Act was launched in 1991, which institutionally recognized the cooperative societies. It is found that instable political situation led lower level of cooperative development within 1991-1997. But after 1997, these development speeds up and enormous growth seemed on the cooperatives system. There were 9720 different types of primary cooperatives in mid July 2007. In the same way, there were 1259747 members on the cooperatives in Nepal. The collected saving amount of these cooperatives was Rs.19517517 thousand and investment was Rs.24147747 thousand on that time (GoN, 2007).