

CHAPTER II

REVIEW OF LITERATURE

2.1 Review of Literature

Co-operatives have been assigned a pivotal role to play in the planned economy of Nepalese Republic with a pledge for socialism and democracy. It is considered as a powerful lever to vitalize the rural economy through catering to the financial needs of rural people. Resource less people in the country are benefited by the co-operative societies. Their small pieces of land may be utilized in proper manner by the suggestion and support of co-operatives. The cattle holding, small and cottage industries and small business are supported by the policies of co-operative societies and they take advantage of the credit and other facilities.

The structure of the co-operative movement in Nepal is based on three-tier system. It consists of national co-operative board on the top and village agriculture credit societies, multipurpose saving and credit co-operatives and dairy production co-operative societies at the base and the divisional co-operative offices serving as a link between them. At present 8345 co-operatives are functioning in Nepal. There is only one central co-operative board, only one central co-operative bank having 35 branches at the district level. There are 73 divisional co-operative offices, which provide license to the newly opened co-operatives. In Morang, there are 336 co-operative societies working in different parts and sectors.

The slogan "co-operatives in villages to villages provide employment to each household to household" helps to generate the co-operative movement in villages as well as urban areas. The co-operative societies provide effective leadership to the primary agricultural credit, animal husbandry, small business, cottage industries and dairy industries. They serve them as friend, philosopher and guide.

The word 'cooperation' is derived from the Latin word 'co-operari' where 'co' means 'with' and 'operari' means 'to work'. In other words, co-operation means working together with each other for a common purpose.

The Webster Universal Dictionary defines co-operation as "an association of a number of persons for a common benefit especially in carrying on some branch of trade or industry, the profit being shared or divided among the members".

Co-operation has been defined as a form of organization in which persons voluntarily associate together as human being on the basis of equality for the promotion of their economic interests (Laxmikantamma T. (1915).

The preferred ways of preventing industrial conflict in the views of workers were good working condition, timely and duly settlement of conflict, better personnel policies and programs, involving workers in management, adopting cooperatives and human relations behavior in approaching the problems, prompt and proper handling of grievance of workers and communicating the limitation of management to workers. (Katuwal, 2006).

Co-operatives under the license of Nepal Rastra Bank are helpful in providing the economic resources and financial support to the rural poor in the conflict period even though other banks and financial institutions are gradually shifted toward the urban area (NRB, 2005).

Co-operatives provide assistance to its members, especially the resource less poor. During war or post war period; assistance, grants and other means of cooperation help the people in the world. If the people are seriously disturbed by conflict, the assistance through the foreign agencies as well as local agencies is helpful to minimize the conflict in a country. The caste conflict in the Sarajevo war made them enemy but the co-operation to each other after the war made them the nearest friend. (Anderson, 1999).

In Nepal federation level co-operatives, multipurpose co-operatives, saving and loan co-operatives, dairy product co-operatives, consumers' co-operatives, agriculture co-operatives, animal husbandry co-operatives, transportation co-operatives and other development activities oriented co-operatives have been established throughout the country. (GoN, 2006).

The activities of co-operatives change the socio-economic status of a village. Every deprived people can enjoy loan facilities at low rate of interest. The loan amount is utilized for right purpose so that they can increase their earnings. Co-operatives are helpful to those people who have no resources. In Nepal being members of co-operative societies many people have acquired toilet facilities, safe drinking water facilities and have more cattle belonging, have better fuel resources and many more. Majority of the members feel that the co-operatives have changed the socio-economic status of the villages. They manage their toilet facility, use safe drinking water, can earn money by animal husbandry, possession of durable good, more uses of

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and availability of finance is possible by the development of co-operatives (Koirala, 2006).

Reforms in rural financial system were initiated in 1956 by the government with the formation of a number of savings and credit groups under a settlement program lunched in Raptidun valley (Pradhan, 2007). A legal framework was created by enacting "Co-operatives Act 1963" and co-operatives rules were formulated. This provided a legal basis for the registration and operation of multipurpose co-operatives. During that period, co-operatives were seen as an important vehicle for rural saving mobilization and credit delivery. Separate bank for the co-operatives known as Co-operative Bank was set up in 1965. Though by 1976, altogether 1059 such co-operatives were registered; the co-operative movement could not gain public confidence. As a result, these co-operatives suffered from financial and managerial problems as well as political interference. After the democratization in 1991, co-operative movement got momentum. The new co-operatives act was formulated in 1992. There are 8031 co-operatives (as of Mid-January 2006) in operation. Out of this, 2345 are savings and credit co-operatives where women single-handedly run more than 500 co-operatives. The formation of women co-operatives is the result of "Production Credit of Rural Woman (PCRW)" and "Micro Credit Project for Women (MCPW)" lunched by Nepal Rastra Bank with a loan assistance from International Fund for Agricultural Development and Asian Development Bank , Manila. Thus, the co-operatives in Nepal are major institutions that mobilized savings and provide credit in the time of conflict. Furthermore, these institutions are found efficient even in the current insurgency scenario prevalent in Nepal.

Generally, conflict occurs when there are incompatibilities (Pyakuryal, 2004). In other words, discontent in terms of violence is manifested when we ignore the growth of society, which is fragmented by caste and community; and with linguistic, regional and cultural differences. This is what has been experienced in Nepal over last half-century. Added to this dimension, especially in Nepal, it is the pending development agenda to deal with extreme poverty, higher level of unemployment, low level of quality education, limited access to basic health services, negligence to overcome problems of livelihood and failed effort to strengthen governance. Since insurgency in Nepal aimed at overturning established order as was done in Cambodia and Columbia, it was a revolutionary war. The economic dimension of conflict may therefore be explained in terms of conflict. As a result, in the proposed study, the cause of conflict, its impact,

and selected issues in economic restructuring in post-conflict Nepal will be explained to help restore peace and sustain economic development. Mainly the conflict may arise by the inequality in distribution of wealth in the societies. The impact of conflict in Nepal can however, be seen in the falling of aggregate output, falling exports with a tendency to shifting towards domestic markets to sustain domestic consumption, sectoral shift from tradable to non-tradable sectors and increasing aid dependency. For the sustained development, there must be people's participation in development and financial activities through the way of cooperation.

Dr. Ramsaran Mahat, the Finance Minister said that the government is going to introduce new programmes to encourage small co-operatives in the country (*Kathmandu Post*, Jan 21, 2008). To quote him: "The government is coming up with new programs for small co-operatives recognizing the significant role played by them in mobilizing local cash during the insurgency when commercial banks were displaced from the villages". Now the government is implementing the program through a supplementary budget. There appears to be a strong relationship between democracy and co-operatives for economic development of the Nepal.

Nepal needs immediate resources for reconstruction, rehabilitation, and reforms. People displaced due to the conflict, need immediate support to return home and lead a normal life. Problems of hunger, deprivation, disease and unemployment, which provided fertile ground for violent insurgency, need to be addressed with utmost urgency. International community has been supportive, but additional and timely support is crucial (Mahat, 2007).

Mr. Dependra Bahadur Kshetry, Member of National Planning Commission, Nepal (2007) observed the unpredictable activities among financial co-operatives registered under Financial Mediation Institutions Act 1998 licensed by the Co-operatives Department. Some of these co-operatives even rank equivalent to 'B' class financial institutions as defined in Banks and Financial Institutions Act 2006, an umbrella Act. As reported in the financial Survey 2007, financial co-operatives command Rs. 8 billion savings and Rs. 14 billion-investment in spite of the conflict and transitional situation in the economy.

In Nepal's case, thousands of saving and credit cooperatives and many other rural finance institutions are registered under cooperatives Act 1992 at respective District Cooperative Offices under the Department of Cooperatives. Some cooperatives are self-promoted and others are program-promoted, that is poverty-focused. Many

saving and credit organization (co-operatives) at the grass root level, financial intermediary Non-government organization authorized from the central bank and non-bank financial institutions are emerging in a large numbers with the aim of providing financial services to rural poor. But around 1.1 million as against the estimated demand of 3.6 million poor households in rural Nepal has reached with financial services. More than 70 percent poorest families have yet to be covered by the micro finance services (Bashyal, 2006). As of mid January 2004, the number of registered/unregistered micro finance institutions in Nepal has reached to almost 3000 mostly saving and credit co-operatives registered under the district co-operative Department. These include saving and credit co-operatives authorized with limited banking license from Nepal Rastra Bank and managed under Nepal federation of saving and credit cooperative. However, these large numbers of cooperatives operating in the country are able to cover hardly five percent of the costs and able to maintain adequate capital standard to expand their outreach (Bashyal, 2006).

In the present observation on development of Maoist conflict, Nepal seems to be politically integrated but not 100 percent physically and socially integrated (Adhikari, 2006) because of geographical complexities and poor performance of the plan on physical linkages with rural area. The distribution of resources, opportunities and fruits of development towards the poor and rural areas has been critically weak. So, the negative correlation between poverty and the plan efforts deepen the growth of poverty and its vicious cycle. Poverty is a root case of development and strength of Maoist conflict; otherwise, Maoist has been only political party, instead of arm rebels. Effective land reforms measures, investment in human capital, development of rural infrastructure, participatory and cooperative development activities, participation and access to the poor must be increased are the better measures to reduce poverty in Nepal.

There were five thousand cooperatives opened until 1999/2000 and one million have members within its. The growth of such numbers of cooperatives in 2000 was 25.4 percent than the previous year 1999 (NRB, 2001).

There are no specific plans for financial cooperatives, which has taken license for limited banking activities. They come under the preview of various organizations. However, it is better the government should suggest and encouraged all financial cooperatives move towards financially string and transparent. To enhance operational efficiency and technical up-gradation, concerned authorities always focus on financial

support to financial cooperatives and financial non-government organizations. There are big numbers of development banks, finance companies, financial cooperatives and financial non-government organizations conducting limited banking activities in the country. Their contribution and effort for employment generation, resource mobilization and poverty eradication cannot be ignored. Survival of cooperatives is very crucial in the context of common people, which are ensuring financial solutions through better and simplified methods (Paudel, 2008).

There are 9362 co-operatives registered in Department of Cooperative under cooperative Act 1990 (Subedi, 2007). There are one million 234 thousand 332 cooperative members altogether in Nepal. Total capital is Rs.983 million 457 thousand, total saving is Rs.19 billion 394 million 899 thousand and total investment is Rs. 24 billion 128 million 493 thousand until December 2007(Government of Nepal, 2007).

Small Farmer Development Program had high operating cost and slow growth in outreach; therefore, an innovative model was adopted. Under this model, small farmers were encouraged to build up autonomous and viable institutions owned, managed and controlled by them in the form of Small Farmer Cooperative Limited (SCFL). The main purpose is to empower local people by enhancing their capability to undertake the activities of SFCL through their own autonomous cooperatives. This was the fruitful decision in the field of cooperative movement in the country (Nepal Rastra Bank in Fifty-two years).

Both institutional and individual researchers study socio-economic impact of co-operative towards deprived sector. Economic development of the backward society is possible only by the medium of co-operation in the name of co-operatives society, small farmer cooperative financial co-operative etc. Rural bank concept is also possible by the medium of co-operatives. For the conflicting economy co-operatives is the cure of economic problems. In the time of contradiction co-operatives are the sources to reach towards the deprived people. Many studies indicated that co-operative has had positive impact on social as well as economic well being of the beneficiary people. Co-operatives provide demand base services to large number of real rural poor of the country in short span of time and it also will help to significantly reduce the overhead costs involved in members led local institutions that could manifested rapid economic growth of poor there by reducing small rural poverty and inequality prevailing in the country.

In view of the complexity involved in determining the eligibility of individual households and skills as well as information required for accounting incomes different sources, a simpler approach of assessment may be appropriate (Adhikari G,1994). Ranking individual households in area in order of poverty through Participatory Rapid Rural Appraisal (PRRA) to identify the eligible households seems to be a more practical approach. Households that can, at least, meet the basic needs can be separated from others that cannot assess eligibility. Through this procedure may invite political problems at certain places, informing the larger members about the services provided by co-operatives for them may help.

According to Dr. Govinda Ram Agrawal (1981) has mainly focused on "group marketing" of small farmers/members of such society. This study has indicated problems especially in marketing of small farmer/rural poor like low production inadequate irrigation facility attack of viral diseases on animal and agriculture product, lack of insecticides and other medicine and modern equipment and tools for agriculture transportation problem, capital shortage of veterinary services etc. For this cooperative transformation of the society is helpful one.

According to Acharya, Pitambar Prasad (1989) entitled "small farmer development program an experience in rural development in Nepal" traced out the problem of poor farmers like, poor ability of farmers to received their defective distribution system, ignorance and the low level of income of small and poor farmers, To highlight these problems the study has made area survey and household survey. The small farmers submitted the application form to join into the group and sign the memorandum of the groups. This study has also highlight the socio economic activities and has indicated that the credit injection may serve as a toll to mobilize the rural poor but the credit would not alone be productive until the other service could reach in the area. So this study is mainly concerned with the change of life of poor farmers only injecting the various social and economic activities. This study also focused that the imbalance growth of social and economic activities of poor farmer led to negative result ion the level of their income. Lastly. This study has showed that the small farmer co-operative in an experimental basis is quite successful.

Next study was carried out by Acharya Shanker Prasad (1998) entitled, " Socio-economic Impact of Eastern Rural Development Bank" focused different types of program like creation and /or supply of the physical infrastructures, accessibility if poor on factor of production, education and tracing social communication, birth control,

employment creation, food safety, technological innovations for poor, labor service export, special program for ladies, special program for backwards, augmenting effectiveness of running program had been lunched. It concluded that you have skill, enthusiasm, devotions say every thing but if you don't have money all these means and devotion are worth less because you can't mobilize those potentialities with out capital. Thus this immense that of capital is provided by such rural bank and co-operatives.

According to Rajbhandari Gajendra Prasad (2003), in his book entitled "Development and Management of Co-operative in Nepal" concluded that accumulation and mobilization of capital, employment opportunity, mobilization of local inputs, resources and skill, poverty alleviation, end of exploitation, supply of necessity of goods and services, broad people participation, assistance to the formation of development infrastructure, development in industrial and business sector and emphasis on planned economic development are the basic significance of co-operatives from which they are proved as back bone of the economic development.

According to J.S. Mill (1876) - "Co-operative transforms human life from a conflict of class struggle for opposite interests to a fair rivalry in the pursuit of common goods of all."

NRB Research Department, Financial Institution Branch conducted study on- "Present Status of Financial Co-operatives Institution, Problem and Solutions in Nepal" (2007). NRB concluded that co-operative society are able to collect rural as well as urban spread saving or resource mobilization. They must accepted deposit by their members not by other customers. Co-operatives are divided into two part, they are ;(1) Licensed by NRB (2) Co-operatives that are registered by GoN's department of co-operative. The co-operative licensed by NRB are regularized NRB and the other type of co-operative regularize by GoN's department of co-operative. Male members in both types of co-operatives are in large number than that of female. In each co-operative, share capital and reserve fund are more in quantity. Saving account is popular in such co-operative. Short-term loan is popular in co-operatives. Profit of such co-operative is distributed to those different funds creating by co-operatives as well as bonus to the share members. The membership of those co-operatives is increased day by day. At the end of FY 1999/2001 the members were 1029838 in such co-operative.

Rural sector is far from the bank and financial institution. This rural sector is benefited by such co-operative. Co-operatives in rural, Terai, Hill and Mountain are the medium

of saving mobilization. Loan facilities are provided by such co-operatives in rural deprived sector. NRB suggested that the co-operative should be free from the NRB regulation and these must be another supervision mechanism to promote and supervision, mechanism to promote and regularization of co-operative.

Gautam, Biji (2003) concluded that co-operative are in operation in urban area rather than rural area. For the present conflict time co-operative should be opened rural area and the saving of members should be mobilized in proper way without misusing. All co-operatives should be treated by legal consideration. They should be supervised by authorized institution or by NRB.

Australia co-operatives development program history shows that, in 1978 the New-south Wales Government had established a work co-operative program with a \$ 3 million budget. This program inspired groups in Victoria to establish their own co-operatives-primarily to generate employment opportunities for young people who were unemployed. The Victorian Government's formal interest in co-operatives began with the Work for Tomorrow Conference in 1979 when Premier Rupert Hamer foreshadowed support for co-operatives as an employment initiative. The origin of all the co-operatives was to create employment opportunities for young people. Community co-operatives were established, owned and controlled by disparate members of the local community to create employment opportunities for the unemployed. Few workers employed by the co-operatives and even fewer were members. A majority of the members and directors of all the co-operatives were employed individuals who had a genuine interest in assisting the unemployed but not a genuine interest in the co-operatives as being for their use and benefit. Co-operatives development Program recognized the importance of co-operatives as that they must be created by individual and communities for their use and benefit.

Sharma, T.M., etal. (2009) conclude that cooperatives economy is neither public nor private; it is the third sector of economy. In Nepal it is one pillar of economy out of the three pillars i.e. public, private and cooperative sector. The contribution of cooperative sector in GDP is about 1 percent where as its contribution is estimated at 7 percent in financial sector of the country. According to article 26(1) of the cooperative Act 2048, all cooperatives, weather financial and non-financial, are authorized to collect the savings and provide loan within members. However the financial cooperative societies can play a vital role in mobilizing the saving of the rural and poor people. To

meet the working capital deficiency of the rural cooperatives there should be a policy to mobilize the residual saving of the urban-based financial cooperatives. The production and service-oriented cooperative have to upgrade the quality and consider price to compete with the global competitive market. There is no other appropriate means except the cooperatives system of economy to uplift the living standard of the rural and poor people of Nepal.

In Nepal there are altogether 9859 cooperatives having 1.26 million members with share capital of NRs1046 million. The saving and investment status of the various cooperative societies are recorded as NRs. 19518 million and NRs. 24148 million respectively. The number of saving and credit cooperatives are 3392 having 403 thousand members with share capital, saving and investment status in Nepal recorded as NRs.450 million, NRs.8963 million, NRs.15099 million respectively. The cooperative societies in Nepal provide 15828 numbers of employments (GoN, 2007).

Cooperatives are the best means of mobilizing small residual resources of the rural poor farmers (Nepalese Financial System: Growth and Challenges July-2009). They are also regarded a way of living of the poor farmers. They are used as the means of bringing social and economic development of the weaker section of the community. They are as the important sources of institutional credit provide financial assistance to the members. They eliminate middlemen and protect their members from the exploitation of the moneylenders. They encourage savings and investment among the members and other people. Cooperatives are also helpful for the supply of better quality goods and services at cheaper rates. They generates employment opportunity, promote cottage and agro-based industries in the country. They may be the tools for fair economic distribution among the people. They help to maintain ethical/moral standard in the society through boycotting the social evils like gambling and drinking. They also develop the feeling of cooperation and mutual support among the people.

The concept of cooperative is so versatile and universal. Cooperatives differ in terms of size and operating practice (2009). However, cooperatives in different countries have gained a remarkable achievement. About half of all sugar production of India is through cooperatives. Iceland is referred to as cooperative-Island due to well developed cooperative system in all branches of economy. The agriculture cooperatives of France have the second largest credit and banking system in the world. Cooperatives of Spain are the largest manufacturers of refrigerators and household appliances. Cooperatives of Poland are famous for housing construction and they

shared more than 75 percent of construction works of the country. The dairy marketing cooperatives of Gujarat (India) operate some of the largest and most modern milk processing plants in the world. In Malaysia the largest insurance system is a cooperative. In Canada, one third of the populations are members of credit cooperatives and the country's 75 percent grain is handled by marketing cooperatives. Cooperatives run buses and taxis in Israel, Canada and several other countries in the world. There are successful school cooperatives in France, Poland and the Philippines, which supply books and other educational materials to the student. In Columbia, cooperatives are responsible for health care service for 15.5 percent of the population, marketing 33.78 percent of coffee and 35 percent of agriculture produce and holding 30 percent of banking service market. In Norway, cooperatives are responsible for production and marketing of 99 percent of milk, 76 percent of timber products and export of 8.7 percent of fishery products. Singapore consumer's cooperatives hold 55 percent share of the market. Brazilian cooperatives are responsible for the production of 72 percent of wheat, 44 percent of barley, 43 percent of soybean, 39 percent of milk, 38 percent of cotton, 21 percent of coffee and 16 percent of maize. All over the world, cooperatives provide over 100 million jobs i.e. 20 percent more than multinational companies. In Nepal, there are 15828 people are employed fully where as other 100 thousand than more people employed partially in cooperative societies (GoN, Department of Cooperatives 2007).

Different working class organization feared the increasing likelihood of 1st world war. The ICA was apprehensive that a war could jeopardize co-operative expansion and ties at the international level (Rhodes, Rita, 1995). At the Glasgow Congress it took stand on peace although the maintenance of peace had been one of the earliest aims of the Alliance. This had taken more definite form when, in 1900, the ICA began to have informal links with the international Peace Bureau in Berne. Mr Hodgson Pratt, who, as a representative of the Labour (co-partnership) Association, had attended the 1892 meeting at Crystal Palace which began the organization of the ICA's first Congress three years later, became a member of Peace Bureau. He presided the over the 11th International Peace Congress in Monaco in 1902 and forwarded copies of its resolutions to ICA. These resolutions had urged that the International Peace Bureau and national peace societies should approach workers' organizations, including the co-operatives movement, to encourage joint actions in support of peace. The ICA's 1902 Congress in Manchester passed a resolution declaring its readiness to work with the

International Peace Bureau, and Hodgson Prat became the Alliance's formal representative with the Bureau. On his death in 1907, his place was taken by Mr Aneurin Williams who, that year, had become Chairman of the ICA's Executive Bureau.

The Executive Committee of the International Co-operative Alliance, in view of the state of war existing in Eastern Europe and the grave outlook, desires to remind co-operators in all countries that co-operation has peace among all nations as one of its essential principles (Watkins 1970). The Executive, therefore, in the name of co-operators generally, expresses the hope that war may not spread to any powers not yet involved and that peace and good government may soon be established in the area affected. Co-operators in all countries are earnestly required to use every endeavor to bring and maintain peace and concord between the nations of the world.

Some of the cooperatives operated Automatic Tailor Machine (ATM) in their own building. Laliguransh Multipurpose Cooperative also operate ATM in it own office (Kantipur National Daily, 2010).

Amana Khatun, a house woman has no land in the past seven years residing on government land. But now she has 3 kattha own land and her sons reading boarding school now. Her life is changed by the activities of cooperatives and micro credit institution. Rural poor got at least 8 billion credit without giving any collateral to the institution. Sahara Nepal Cooperative, Nabodaya Cooperative, Karnali Cooperative, Sramjibi Cooperative and other cooperatives played vital role on providing credit facilities to the rural poor (Kantipur Daily, 2010).

Community oriented cooperative named Small Farmer Agro Cooperative in Siraha Provided 10 million loans to its members for agricultural tools, livestock, livestock insurance and fertilizer. Even though, there is subscription demand, rival group who asked for donation- but cooperative operating smoothly earning 700 thousand profits. There are 373 members out of which 228 are women, which prove woman participation on cooperative activities (Kantipur Daily Jan, 2010).

Micro credit institutions have helped 1 million 800 thousand small farmer and rural poor in Nepal within Himalayan, Hilly and Terain region. Their target is to provide assistance to 8 million 600 thousand people in the country. These all institutions are not affected by the ten years' long conflict and sustain development in monetary sector is possible by it (ibid Jan 19, 2010).

Cooperatives used to play an important role on delivering inputs and seeds, providing markets for agriculture products, providing financial services and providing market for milk (Mali, 2005). With growing privatization since 1990s, the role of providing inputs, seeds and market for agriculture products, especially in the peri-urban areas, have been assumed by the private entrepreneurs from the cooperative sector. Yet, cooperatives are providing such services significantly in the rural areas. The financial services and dairy business remains the stronghold of cooperatives in the rural areas. Both the finance and milk sectors of cooperatives are the prime sectors that have helped cash inflow into the rural areas. Be it through the inter-lending program of Nepal Federation of Savings and Credit Union (NEFSCUN) or Rural Self reliance Fund (RSRF) the savings and credit cooperatives have been able to access external sources of loan to on-lend to their members. Similarly, through the sales proceeds of milk the money from urban areas flow to the rural areas. On the conflict situation that is ongoing in Nepal, most of the external financial organizations and systems functioning in rural areas have been either destroyed or phased out. But the rural and community based savings and credit cooperatives and the dairy cooperatives are the only grass root institutions that are still functioning without much problem in the conflict areas. In the same way, savings and credit programs and the dairy cooperatives are among the very few programs that have worked as a system in these areas (ibid 2005).