

Critical Study of Agricultural Co-operatives and Informal Co-operative Farmers Movement in Nepal

A STUDY REPORT



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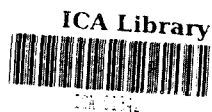
STUDY REPORT

By

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**Critical Study of Agricultural Cooperatives and Informal
Farmers Cooperative Movement in Nepal**

- A Study Report by Surya Ratna Shakya

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Foreword

In Asia-Pacific region, agriculture is the mainstay of national economies. Cooperatives have been recognized as important institutional system for enhancing productivity of agriculture and promoting food security in the country. In some of the countries, co-operatives have completed a century of their fruitful contribution to agricultural development, particularly in the areas of input distribution, finance, marketing, processing, development of infrastructure development etc. The Government has adopted these cooperatives as its principal agency to implement the programmes of agricultural development. Although Government support resulted into noticeable growth and diversification of such cooperatives, it also adversely affected the democratic and autonomous character of cooperative enterprises and thereby blunting their competitive advantage. Effects of globalization and entry of multi-nationals in the agribusiness combined with lack of professionalism and member participation have further compounded the problems of agricultural cooperatives.

International Co-operative Alliance (ICA) in Asia-Pacific Region has been focusing on development of agricultural cooperatives through its Regional Office. It has adopted development of agricultural cooperatives as one of its Key Result Areas; in pursuance of which it has been implementing a number of projects for strengthening agricultural cooperatives in Asia-Pacific. One of such projects recently implemented by ICA Regional Office for Asia-Pacific (ICA ROAP) with the support of AGRITERRA of Netherlands targeted development of agricultural cooperatives in six countries of the region, namely: Bangladesh, India, Nepal, Laos, Thailand and Vietnam. The important outputs of the project were completion of critical studies of agricultural cooperatives in these countries and formulation of country specific action plans for development of agricultural cooperatives.

These studies were conducted through country consultants with the support of Mr. B.D. Sharma, Sr. Consultant, ICA Domus Trust. I hope, the study will provide good insight into the problems of agricultural co-operatives and guide points for strengthening them in the changing times.

SHIL KWAN LEE
Regional Director
ICA ROAP

CHAPTER I

1.1 Introduction and Justification

Majorities of the countries in South Asia including Nepal are importantly featured by the agriculture as it shares a significant account in the gross domestic product (GDP) in their respective national economies. Agriculture, in this region, has remained as a mainstay of their economy both in terms of dependency and employment. It is significantly noted that farmers, landless farmers and agricultural labourers have predominated in the agriculture sector.

Poverty is rampant in these sections of the population. Since the economies of these countries, especially the Nepal's one is characterized by the subsistence agriculture which is traditional; non-mechanized and livelihood oriented sector, poverty has emerged as one of the threatening challenges along with the increasing population. Over dependence of the population on the subsistence agriculture accompanied with slow industrial growth has resulted unemployment and disguised unemployment, which have further accelerated poverty. In the economies like Nepal where there is technological deprivation, lack of innovation and lack of alternative source of employment, tremendous efforts are required in order to improve the situation of the poverty stricken sections of the population.

The trend of globalization has seriously influenced the whole economies of the Asia Pacific Region, particularly the agricultural sector. The new economic order, however, has created new challenges and opportunities for the farmers and agriculture sector. The impact seems to be more acute since the labour intensive agriculture sector of the developing countries is prone to face the competition

with capital intensive international agro-industries. The impact of globalization has, therefore, been on small farmers and food security. In such circumstances, special safeguard and mechanism are needed to protect them to reduce the impact and enhance their competitiveness in the world market.

Agriculture sector, hence, has been influenced from the incidence of both indigenous factors that have been remaining as the conventional threats and exogenous factors emerged by the new economic order-liberalization and globalization.

However, the agriculture sector of these economies, especially of a developing country like Nepal, has positively been impacted from this new economic order since the globalization and market liberalization would improve production efficiency and in the long run would increase the income of agriculture producers, alleviate poverty and attain food security which is considered to be the major headway for the socioeconomic development of these countries.

Amidst these sets of challenges and opportunities in the agriculture sector, development of agriculture cooperatives has been adopted as one of the important components of strategies for agriculture and rural development in -the Asia and the Pacific Region including Nepal. Agriculture cooperatives, therefore, seem to constitute a major segment of entire cooperative movement. Multifaceted services have been provided by them to their members. They include input distribution, finance, marketing, processing, infrastructure development etc. for the agricultural development. In order to streamline them, organizational structure has been created at various levels. Member participation lacked in the activities of cooperatives in the past since the government has played a leading role in the cooperative development. This has relatively brought negative impact on its development.

But, still a large number of constraints have remained the hindrance for the development of agriculture cooperatives.

1.2 Objectives of the Study

To critically analyze the situation of Nepalese agriculture cooperatives, this study has focused on the following specified objectives.

- a) To critically examine the existing status and state of agriculture cooperatives in Nepal
- b) To make an objective assessment of informal farmers cooperative movement and their contribution to agriculture and farmers' development and also their relationship with formal agriculture cooperatives.
- c) To identify the areas of institutional, managerial and government reforms to enhance the capacities and competitiveness of agricultural cooperatives to enable to utilize emerging opportunities from globalization
- d) To examine the sustainability and effectiveness of existing policy and legislation framework for the growth and development of agricultural cooperatives.

1.3 Methodology

This study has been conducted through explanatory and descriptive research methodology. Data collected in this study are mainly from the secondary Sources. The information and data obtained from various methods have been analyzed mainly through the numerical and analytical process. The numerical process of data analysis includes tabling and employing statistical devices like percentage, average and mean.

The methodology for this study has been adopted as specifically mentioned in the following.

- a) Necessary data maintained by the Department of Cooperatives (DOC) and Central Bureau of Statistics relevant for the study have been used to establish manifested and set objectives.
- b) Documents and study reports published by the government, development agencies, and cooperative sector have been used for the critical analysis.
- c) A number of concerned persons have been interviewed for the conduct of the study.

1.4 Organization of the study

The study report is divided into seven chapters. The first chapter includes introduction, objectives, methodology and organization of the study. Second chapter deals with the country profile under the study of socioeconomic situation where geographical environment, demography, employment situation, HRD situation, educational status, health and housing status etc. have been analyzed.

The third chapter describes the Nepalese agricultural situation where land tenure system, irrigation, use of fertilizer, productivity and production, crop diversification, cost of production, quality of production, government support, import and export situation, issues emerged by the introduction of liberalization and globalization, impact of WTO policy in the agriculture have been analyzed.

Fourth chapter deals with the situation of Nepalese agricultural cooperatives where historical background of cooperatives, present situation of co-operative movement, coverage of population, share capital, deposits, business turnover, number of viable cooperatives, structure of cooperatives, types of cooperatives, role of National Cooperative Federation, inter co-operative relation, share on the domestic and international market, management pattern of agriculture cooperatives, strategic alliance with private sector, role of agriculture cooperatives in implementing government schemes, role of cooperatives in food security, possible impact of WTO policies on agriculture cooperatives, impact of liberalization and globalization on Agriculture cooperatives, relation between formal and informal sector, support of government to informal sector, and national agriculture policy in the context of WTO are described.

Similarly, the fifth chapter deals with legal frameworks where framework for the governance of co-operative and development, co-operative legislation affecting the growth of cooperatives in formal and informal agriculture and farmers cooperatives, amendments proposal to the government have been analyzed. The chapter six describes case studies and the chapter seven deals with conclusion and recommendations.

1.5 Limitation of the Study

1. This study has been performed with special reference to the situation of Nepalese agriculture cooperatives. Therefore, it

may not necessarily represent the situation of the whole South Asian region.

2. This study is mainly based on the secondary data and information obtained from the government and non-government sources. This study, hence, is indifferent about the reliability of these data and information.
3. This study report has been carried out on the basis of existing policies and the structure of the movement. Any changes in such matters may not produce the same observation.

CHAPTER II

2.1 Socio-Economic Situation

Although the half century - long development practice of Nepal through its planned development endeavor takes overall socio-economic development as its overarching goal. Nepal's level of socio-economic development has remained among the lowest in the world characterized by low per capita income, rampant poverty, mass unemployment, low life expectancy, low literacy and living conditions that perpetuate poverty as a cyclical effect.

In the fiscal year (F.Y.) 2000/01 gross domestic product (GDP) growth at factor, cost remained at 4.8 percent while the population growth stood at 2.2 percent. Per capita GDP growth rate in this period remained at 2.6 percent. In the ninth plan period it was estimated that the GDP would grow by 3.9 percent and population by 2.2 percent. Based on this estimation per capita income will grow only by 1.7 percent in 2001. According to the estimation of 2001, the gross national product (GNP) per capita income is supposed to be \$ 236 that is Rs 18083 in terms of Nepalese currency. (See Annex 1)

The growth rate of agriculture, however contributes a significant portion on the GDP i.e. 38.7 percent, is one of the lowest compared to the neighboring countries. Despite being the priority sector in every periodic plan, this sector has been limited by the effective deliverance of agro-inputs, finance, irrigation, marketing and other necessary infrastructure. But these constraints, to some extent, have been supported by the cooperatives and other promoted self-help and user groups.

Table-1 : GDP, Population and Percapita Income Growth Rate

Particular	97/98	98/99	99/00	2000/01	2001/02	9th plan
GDP	3.3	4.5	6.2	4.8	0.8	3.9
Pop. Growth Rate	2.2	2.2	2.2	2.2	2.2	2.2
Per capita/GDP Growth Rate	1.1	2.3	4	2.6	-1.4	1.7

Source : *Economic survey F.Y. 2001/2002*

The disparities, as reflected by the Human Development Index (HDI) are shown between the rural and urban lives i.e. HDI for urban areas (0.616) far outstrips that for rural areas where more than 80 percent people live, because of far better access to services, resources and opportunities in the urban areas. Nepal's development is, thus, found to be urban biased. In part, this bias explains the persistence of poverty in the rural areas which is basically the agriculture poverty. This is due mainly to the excess pressure of the population on the subsistence agriculture which is again limited by the lack of agro-infrastructure, lack of innovation, defective land ownership and tenure system, traditional system of cultivation and weak policy implementation (service delivery).

Likewise, Nepal seems weak in the view point of governance that ensures equitable access to resources without considering the gender, social class, ethnicity, or religious affiliation. The system which can not ensure the basic spirit of good governance, transparency, accountability and predictability is the main defect of Nepalese total socio-economic fabric.

2.1.1 Geographical Environment

Nepal, sandwiched between the two giant neighbours, India and China, is a Himalayan country and the birthplace of Lord Buddha. It lies in between the 26' 22" to 30' northen latitude and 80' 4" to 88' 12" eastern longitude and elevation range from 90-88-48 meters. The total area of the country is 147181 sq. km. The average length is 885 km East to West and breadth is about 193 km. north to south.

Nepal is a landlocked country of diverse geography- high altitude mountains to plain terrain land, boardering between the two most

populous countries of the world. India in the East, South and West and China in the North.

Nepal is a place of beauty with traces of artifacts. Its North range (Himalayas) is covered with snow round the year where highest mountain of the world, Mt. Everest stands. The hilly area called as middle range includes gorgeous mountains, high peaks, valley and lakes. The southern range terai (flat land) is located in the gangaitic plain of alluvial soil and consists of dense forest area and national parks.

Nepal geographically is divided into three regions - Mountain, Hill and Terai stretching over- 35percent, 42 and 23 percent of the total land area and living 7.3, 44.3 and 48.4 percent of the population respectively.

The temperature and rainfall varies from place to place in Nepal.

2.1.2 Administrative Division

Nepal is comprised of 5 development, regions 14 zones and 75 districts from, the administrative point of view. Even the districts are divided into smaller administrative units- Village Development Committee (VDC) and Municipalities. Currently there are 3915 VDCs and 58 Municipalities exist in the country. Each VDC is comprised with nine wards whereas Municipalities spread over the wards ranging from 9 to 35.

2.1.3 Demography

The total population of Nepal according to the census 2001 is 23.2 million where male shares 49.95 and female accounts 50.05 percent out of them respectively. The average family size is estimated to 5.7 person per household. The annual population growth rate is 2.2 percent. The urban population is 14.27 percent and rural population 85.73 percent.

The crude birth rate is estimated for the 32.05 per 1,000 population where the crude death rate is about 9.03 per 1000 population. The fertility rate according to the census report is 4.1 per women whereas infant mortality rate is estimated to be 64.1 per 1000 live birth. Life expectancy at birth is estimated to have increased from 54.3 to

59.7 during this decade. (Census Report-2001)

2.1.4 Employment Situation

Full employment is an indication of the situational opportunity for works or jobs. Nepal's relatively small economy is severely inflicted by the rampant unemployment resulting heavy pressure on poverty. The mid - term evaluation of the Ninth Plan reveals that unemployed and underemployed labourforce in the economy persist 3.3 percent and 43.4 percent respectively. (See annex 2) The present employment situation of the country can be clarified from the following Table No. 2.

Table-2 : Status of Full Employment and under employment

Description	1996/97	1997/98	1998/99	1999/00
Number of fully unemployed population	365,870	417,402	397,230	339,901
Percentage	3.7	4.2	3.9	3.3
Number underemployed population	4,380,814	4,381,553	4,389,123	4,385,028
Percentage	46.3	45.6	44.7	43.4

Source : NPC, *Mid- term Evaluation of Ninth Plan*

2.1.5 Human Resource Development Situation

Nepal has been pursuing systematic development planning for nearly 50 years. However, the country's human development status remains among the lowest in the world. Despite the progress made in this fifty long years of development endeavors, human capital formation and human resources development remain inadequate and great disparities between the men and women, different caste and ethnic groups and different geographic regions persists.

However, the efforts are being made by His Majesty's Government (FIMG) of Nepal in order to create employment opportunities. Training for the skill development, and education for making attitudinal changes and providing new knowledge for men and especially for women along with the involvement of non governmental sectors are underway. Training activities have been carried out

by 14 skill development centers and two vocational training centers under the Department of Labour.

In the F Y 2000/01 different packages of training were provided to 11,389 people in different skill oriented and vocational subjects which were on demand by the labour market. Similarly, it is also noted that the Cottage and Small Industry Development Board continued to run skill oriented training packages. According to census 2001, 65.7 percent or more than 6.5 million farmers are employed under the agriculture sector and 34.3 percent or 3.4 million population are in non-agriculture sector.

2.1.6 Educational Status

As underlined the needs of access to education for all the people to the overall socioeconomic development of the country, Nepal has been moving towards achieving full literacy situation. Education is an indispensable element for the overall development, however, the present situation regarding the educational status of the country does not seem to be in the desirable level as only 53.7 percent of the population is found to be literate.

In F Y 2001/02 students under the primary level, lower secondary and secondary level include 3.82 million 1.0 million and 0.38 million respectively.

In F Y 2001/02 there were altogether 252 campus in the country. About 0.185 million students have been attending higher education.

Five universities exist at present. Out of them there are four government owned universities- Tribhuvan University (T.U.), Mahendra Sanskrit University (MSU) Purbanchal University (PU) and Pokhara University (PU) and one private university Kathmandu University (KU) providing higher education.

The literacy trend is encouraging while looking at the following percentage of three decades. This is clearly indicated in the following Table 3 and 4.

Table-3 : Literacy Trend of Three Periodical Decades

Year	Total Literacy Percentage	Male	Female
1981	23.3	34.0	12.0
1991	39.6	54.5	25.0
2001	53.7	65.1	42.5

Source : *Economic Survey 2001/02*

Table-4 : Number of Primary, Lower Secondary and Secondary Schools and Students

Years	Primary		Lower Secondary		Secondary	
	School	Student	School	Student	School	Student
1992 May	19498	3035	4230	433	2309	422
1993 May	20217	3092	4376	637	2242	273
1994 May	21102	3191	4739	670	2482	274
1995 May	21473	3263	5041	726	2654	290
1996 May	22218	3448	5506	791	2903	330
1997 May	23284	3461	6062	829	3322	359
1998 July	23885	3587	6617	842	3624	375
1999 Oct	25522	3780	7276	916	4082	385
2000 Oct	25927	3623	7289	957	4350	373
2001 Oct*	26338	3818	7302	1000	4636	383

Source: *Ministry of Education & Sports.*

* Estimated

Note : Since 1993 grade 8 is included in Lower secondary Level. Due to change in academic year in 1998/99 data collection months has been different.

2.1.7 Health Status

Sound health is considered as one of the most important factors for pushing up the economic development of the country. The government with the close partnership to the private sector has been laying down emphasis on access to health service for the people of the country. There are certain indicators that health services are being

improved. One of the examples is that the crude death rate per thousand has declined from 14.9 to 9.6 within the period of , ten years. Similarly, the average life expectancy of the people has increased from 53.5 to 59.7 within the same period of time. (See Annex 3 and 4)

2.1.8 Housing Status

Housing is considered to be one of the basic needs of the people Of the country. According to the population census 2001, 64.1 percent of the total population are found to reside in the rural areas of 3,915 Village Development Committees whereas the remaining i.e., 15.9 percent of the people reside in the urban areas of 58 Municipalities.

Most of the rural people seem to be deprived from the drinking water, sanitation and sewerage, separate kitchen and latrine facilities. Since, they are not aware of the advantages of these facilities they have been practicing the traditional system which has been adopted for generations.

Almost cent percent of rural people is found to have their own houses or cottages. Since the population pressure is increasing on the urban areas, the integrated housing projects have been growing in the urban oriented development committees for the last two to three years. The housing projects have integrated with minimum facilities like drinking water, sanitation and sewerage. The housing projects have sold plots since the F Y 1999/00. The following plots are sold in the following fiscal year.

Table-5 : Housing Projects Development Trend

Fiscal Year	Plot sold by different Housing projects	
F. Y. 1999/00	603	plots
F. Y. 2000/01	3629	plots
F. Y. 2001/02	844	plots

CHAPTER III

3.1 Nepalese Agriculture Situation

Nepal is one of the least developing countries (LDCs) importantly featured by the agriculture as the backbone of the national economy as it shares 38.1 percent to the gross domestic product and remains the major source of livelihood. Even in the entrance of twenty first century, Nepal has been following the conventional and subsistence agriculture system with high incidence of poverty and unemployment. Agriculture growth rate is very moderate that is an average of 3.0 percent during nearly 40 years efforts of agricultural development.

Because of the subsistence farming system, prevalence of traditional technology, monsoon based agriculture and the existence of small and marginal farmers who are denied access to credit and marketing facilities and lack of irrigation facilities Nepalese agriculture sector has limited to remain within very slow growth rate. Nepalese agriculture, however is considered a determining sector for the overall development of the country, has remained under the incidence of several impending factors like, fragmented size of land that is basically occupied by the household farming system, defective land ownership system and denied access to modern opportunities both in terms of infrastructure development and public facilities, unequal land distribution, dual ownership on land and inadequate agriculture infrastructure.

However, the agriculture sector, in the recent years, has emerged with new opportunities as well as challenges when the new economic order i.e. liberalization and globalization has been gradually taking place. This new liberal trend leads the economy towards efficiency in the production along with the generation of employment and in the long run will increase the income of the farmers. It

helps attain food security for the rural mass and alleviate poverty significantly through commercializing the agriculture sector in the competitive scale where more than 80 percent population live and attain food security.

But the agriculture sector of the least developed countries like Nepal can not fully realize the opportunities offered by the market liberalization due to the lack of infrastructure, poor communication facilities, inadequate market information on prices, qualities and quantities of the products and lack of credit. Likewise, the absence of positive response over the opportunities offered by the liberalization and globalization will result in the further aggravation of the pressure of increasing population, changing consumption patterns on the demand side and the declining availability and sustainability of natural resources and factor productivity on the supply side.

Hence, given such weak performance of the agricultural economy vis-a-vis the growing requirements of the people despite the injection of massive amount of resources attaining a high growth rate over a long period into the future constitutes the most challenging and at the same time the most important exercise facing Nepal. This still necessitates the growth in agriculture to overcome this constraint since 80 percent of the population are dependent on it and the opportunities for the increasing unemployed population can be generated in the same sector.

3.1.1 Agriculture Share on GDP

Agriculture occupies a predominant position in the Nepalese economy and hence considered to be the determining sector for the overall development of the country since it has a leading share both on GDP and employment. The past development initiatives in the agriculture, however, had not resulted the satisfactory outcome, as witnessed during the last 38 years (1964/65- 2001/02), the agriculture sector is found to have grown by an average rate of 3.0 percent as against non-agriculture sector by 4.9 percent and the overall economy by 3.7 percent only. Agriculture sector has contributed 38.1 percent to GDP in the F Y 2001/02 This sector engages about 80 percent of the population. (See Annex 1)

In the F Y 2001/02, the GDP growth rate at the current price of factor cost is estimated to be 4.3 percent with the growth rate of 4.9 percent and 3.9 percent of agriculture and non-agriculture sector respectively.

3.1.2 Agricultural System

Nepalese agriculture is characterized by the subsistence farming, traditional technology, monsoon fed cropping system with the dominance of small and marginal farmers and food crop farming system. This sector has perennially been constrained by the small size of land which is basically household farming, fragmentation of land, unequal land distribution, dual ownership and outdated agriculture infrastructure.

Majority of the farmers have traditional practices of mixed farming system in a small scale. (See Annex 5 a, b and c). Some of the agricultural households practice the farming of normal cereal grains and produce for their household consumption and the surplus production is sold in the local market. Most of the farmers are engaged for their subsistence while some of them, in the recent years, have been taking initiatives to diversify their agriculture crops towards commercial point of view and gaining prosperous lives.

Agriculture farming are broadly classified into the crop production and animal husbandry as it is the traditional practice of Nepalese people. The livestock production remains important in the agriculture sector. The contribution of this sector is estimated to be more than 26 percent in the agricultural GDP.

The conventional agriculture farming system is the major characteristics of Nepalese agriculture. Cultivation of crops is performed traditionally through the manual and animal oriented practice by the majority of farmers. Both chemical fertilizers and compost manure are used. Most of the farm land is monsoon based. However, the 42 percent of land is irrigated in the recent years and the use of improved seeds and insecticides is increasingly practiced.

3.1.3 Land Tenure System

The tenancy reforms programme under the Land Reforms Act, 1964 has some major features which include abolition of landlord-

ism, ceiling on land ownership, ceiling on tenancy holding, improvement on production and productivity, inevitable and permanent tenancy rights, fixation of rent, abolition of sub tenancy etc.

In 30.5 percent land area 69.4 percent of farmers own land ranging between 0.1 to 1.0 hectare. In 55.6 percent land areas 29.1 percent farmers own land ranging 1.0 to 5 hector and 13.9 percent of the farmers owns land ranging 5.0 hector and above. The average land holding is 0.96 hector. The farmers with larger holdings are mostly absentee landlords who organize production on the basis of share cropping arrangements while 69.4 percent farmers are found marginal and small farmers.

Table-6 : Number and Area of Land Holding by Size

Size of Holding in hectare	Number in '000	Percent-age	Area in '000 hector	Percent-age
0. 1-1 hectare	1,877.8	69.4	791.9	30.5
1.0-5 hectare	786.0	29.1	1,444.8	55.6
5.0 hectare and above	40.2	1.5	360.6	13.9
Total	2,704.0	100.0	2,597.3	100.0

Source : *Census 1991/92*

3.1.4 Irrigation

Being none to next on the water resources in the South Asian nations notwithstanding, Nepalese agriculture has been severely limited by the irrigation facilities. Agriculture production and productivity highly fluctuates due to the unfavourable monsoon and weather condition. On the other hand, monsoon period in Nepal is very short which generally starts from mid-June and ends by mid- September. About 90 percent rainfall occurs in this period.

Despite nearly fifty years efforts to extend irrigation facilities, only 42 percent out of the total irrigable land is estimated under the irrigation facilities. Due to the lack of proper maintenance, flood and landslide, the agricultural land under irrigation has insignificantly been growing and only 25 percent of the irrigable land has year round irrigation facilities.

It is estimated that there is total 2.64 million hectares of land is irrigable in Nepal and about 1.77 million hectares of land is estimated as potential for irrigation. Available land under irrigation is 1.1 million hectares i.e. 42 percent of the total arable land. (Economic Survey 2001/02. (See Annex 1)

3.1.5 Use of Fertilizer

Being the traditional economy and so the agriculture system, the fertilizer using pattern of Nepal is also a conventional one. Most of the farmers use compost and manure as their forefathers did, however, the use of chemical fertilizer has increasingly been increasing in the recent years. The Agriculture Inputs Corporation (AIC), government controlled enterprise established in 1966 as a parastatal organization has monopolized the fertilizer business until October 1997. Following the liberalization of the fertilizer trade in November 1997, HMG has withdrawn all kinds of, subsidies and allowed the private sector to participate in the fertilizer business. The government has deregulated the fertilizer trade under the reform schemes by elimination of controls such as price control, import limiting, lifting of foreign currency, allocation restriction, quotas allocation, marketing incidental and other restriction related to physical tariff constraints. Government intervention in the fertilizer is liberalized.

In the FY 1998/99 the import of the total fertilizer was recorded amounting to 159,498 metric tons. The market share of AIC was estimated to be 57 percent and that of private sector was 43 percent (fertilizer unit). The fertilizer use by nutrient per hectore of arable land was 26.60 kg. for 1998/99.¹

It was found that in the F Y 1999/00 to 2000/01, the National Cooperative Federation had supplied urea imported from Indian Farmers' Fertilizers Cooperative (IFFCO) as inter co-operative business linkage. In the current FY 2002/03 NCF is importing 10,000 metric tones from IFFCO for which orders have been placed, and it is in the offing.

¹ Meeting the fertilizer : A study on Nepal's fertilizer trade liberalization programme by B.B. Basneyat, October 1999. WINROCK International.

3.1.6 Crop Diversification

Nepal is heading for the diversification and commercialization of her farm products from the subsistence pattern of farming. Nowadays, farmers seem to be attracted to high valued cash crops and vegetable, which are supposed to be cost effective, i.e. the crops of high returns. Farmers have realized that the market potential of such product is acute which inclines them to be commercially involved in the production of these products. They now feel that high valued cash crops are more profitable than the food crops.

In the F Y 2001/02, shares of food crops and cash crops in the total production of major crops are estimated to be 65.6 percent and 34.4 percent respectively compared to 66.1 percent and 33.9 percent in the fiscal year 2000/01. It is also worth mentioning that per capita vegetable consumption is estimated to have increased to 59 kg. in the FY 2000/01 against 55 kg. in the year 1999/00. The population of livestock also has considerably increased in the same period.

Looking at the change in crops production and attraction in the livestock raising, diversification in agriculture has gradually taken place from traditional crops to commercial vegetable and cash crops, and from traditional livestock farming to commercial farming and from liquid milk production to varieties of milk production.

The land productivity of cereals varies from different crop. The productivity of paddy is 2.7 metric ton per hecter, that of maize is 1.8 metric ton per hecter and that of wheat is 1.8 metric ton per hecter in the F Y 2001/02. In the same FY it is also estimated that the production of paddy, maize and wheat is 4.17 million tones, 1.51 million tones and 1.26 million tones respectively.

The average productivity of milk from cow and buffalo are 397 k.g. and 830 k.g. respectively in the fiscal year 2001/02. The milk production is found to be 1.16 million tones. The growth rate of the milk and milk products is 3.08 percent in the FY 2001/02.

3.1.7 Cost of Production

The minimum cost of production is the basic factor for the competition in the open market. The increase in production is dependent

on the return of production cost involved. It is helped by an amount of incentives. HMG had adopted the policy of minimum price support scheme for paddy, maize and wheat, which are considered as the major agricultural products. Under this scheme, support prices were to be set each year by the Department of Food and Agriculture Marketing Services (now under the Ministry of Supply). These prices were determined from the local cost of production and prices prevailing in border market in India. But this system was abolished since the F Y 1998/99. The cost of paddy production” can be cited as support price fixed by the Nepal Food Corporation (NFC). The support price is often lower than the market price.

Table-7 : Price of Paddy in Different Fiscal Years

Fiscal Year	NCF Support	Market price
1991/92	3,800 to 4,000	5,250 to 6,750
1992/93	4,750 to 4,950	5,100 to 6,450
1993/94	5,000 to 5,500	5,200 to 6,450
1994/95	NA	NA
1995/96	NA	NA
1996/97	NA	NA
1997/98	NA	NA
1998/99	6,500 to 7,250	NA
1999/00	NA	7,500
2000/01	5,800 to 6,250	NA
2001/02	6,200 to 7,500	NA

Source : *Agriculture Input Corporation*

3.1.8 Quality of Production

To produce high quality product needs additional efforts and cost. The interest of the farmers to produce high quality products has gradually been increasing. The efforts too, are equally being launched to make available the several factors of production such as improved and high breed seeds, use of balanced fertilizer, favourable climate, timely cultivation and harvest, adequate irrigation, use of modern technology from the government as well as non

governmental organizations. Price incentives in terms of price support and adequate premium are absolutely necessary and highly expected for the high quality produce, which meets demands of the consumers. Therefore, the high quality produce must match according to the demand of consumers and traders. Such situation has gradually been developing in the Nepalese market.

3.1.9 Agriculture Policy

Agriculture has always remained a priority sector in the plan history of Nepal. Being one of the most important sectors of the economy both in terms of employment and gross domestic production, a substantial chunk of resource has been channeling through a series of agricultural development programmes in this half century long period, however, the result seems mixed – the progress being lower than expectation.

One of the examples of these efforts is the policy; to independently develop the agro-potential in all three regions of the country; livestock in mountain, horticulture in hills and food and cash crop in Terai which was adopted by the sixth five year plan. Likewise, co-operative approach had been followed in several plans to meet the farmers demands such as agro inputs, credit, medical service, marketing of the product, population education etc. But both campaigns were limited by partial success. Lack of practical assessment and understanding of the nature of the interlinkage and peoples' indifference coupled with weak implementation networks limited the launched programmes to realize its objectives. But the second approach entirely was the government interest and imposed on the people bypassing the basic norms of the cooperatives - need based and member oriented institutions to meet their common goal from their own effort where government could only facilitate them.

Land reforms programme, as one of the most ambitious integrated policies in the history of Nepalese development experiment related to the agriculture has also the same story that, at large was ineffective trial.

Likewise, Nepal from the ninth five year plan has headed her agriculture through the 20 years master plan known as Agriculture Perspective Plan (APP) started since the F Y 1995/96 having the

main objective of poverty alleviation lowering the poverty percent to 10 percent. In the context of slow agriculture growth, low income of majority of rural people, low saving, non - existence of investment opportunities etc., APP has set the objective to speed up the rate of overall economic development and restructuring the ongoing programmes, additional programme budget and manpower management.

APP states that it will accelerate Nepal's agriculture growth rate by two percentage points from about 3 percent per annum combined with a decline in the population growth rate from 2.5 percent to 2.0 percent, this represents a six fold increase in the growth of agriculture output per capita: from the current insignificant rate of 0.5 percent to a rapid 3 percent. It also expects that the proportion of the rural population in poverty will be only one quarter of that at present.

APP has found on the balanced agricultural development in the three regions mountains, hills and Terai. APP is found to have focused the agriculture development through the following different heads.

a) *Output Investment*

- i) Priority areas of investment will include irrigation, road and power, technology and fertilizer.
- ii) The participation of private sector will be encouraged.

b) *Priority Output*

- i) Livestock sector will be encouraged by making it competitive with the participation of private sector.
- ii) The public sector will remain as an efficient agency operating without subsidy price or capital support.

c) *Role of Private Sector*

The private sector must be responsible for expansion of the necessary production, marketing and processing activities for livestock. Market pricing system will be left to operate so as to direct activities to the most economical and effective technology and management system, with the support of the public institutions such as the

Nepal Agriculture Research Council (NAARC), Department of Agriculture Development (DOAD) and Agriculture Development Bank of Nepal (ADB/N).

d) High Valued Crops

- i) High valued crop section is emphasized through intensive high valued crop production and diversification of high valued commodities in the private sector since the role of the government is small.
- ii) Women will be encouraged to play a vital role in the production of all high valued commodities.
- iii) Emphasis will be laid on the road, irrigation and. research, public investment requirements for high valued crops and institutional support for them.
- iv) Farmers will be helped to have an access to or business relationship with traders and other market intermediaries of the larger market networks and to provide the necessary technical support for high valued crop production and marketing of sericulture, ginger processing, cardamom drying, food processing, tea and coffee processing, angora farming and dairy products, meat and fish processing.
- v) Intercropping of cash crops and high valued non-timber forest products along with the plantation of tree species will be encouraged in the forest plantation in the private, leasehold and government forest.

(e) Poverty and Food Security

- i) The poor will be helped to organize themselves into groups that can press for action to deal with the remaining poverty.
- ii) Efforts will be made to reduce regional imbalances agricultural production in mountains, hills and terai by increasing irrigation, improving technology and increasing fertilizer use.

Food at subsidized price will be available to people living in inaccessible and resource poor region in order to tackle the transitory nature of poverty and food insecurity.

3.1.10 Government Support

Out of the 81.2 percent agriculture depended population it is estimated that 65.7 percent farm population are directly involved in agriculture and more than 38 percent of the total population are below the poverty line. But the annual growth rate of agriculture sector has remained only to 2.9 percent. This reveals the fact that the country has no way but for concentrating its focus on this sector to achieve the national goal. It is equally considered that the government should come forward to provide support to the agricultural development programmes among other development activities since it is accorded the first priority in every plan.

Agriculture inputs such as fertilizers and the interest on loan were heavily subsidized by the government through AIC and ADB/N. Still the government has a leading role to support the agriculture extension services, research and information. Processing facilities for seed, milk, sugar, tea etc have been installed and run through government or through its support in the different parts of the country where farmers have an easy access to the market and trading center. The technology services are disseminated to the farmers through the education and training at village, district and national levels.

3.1.11 Import and Export

The total import of agriculture commodities i.e. food grain, live animal, tobacco and beverage accounts to Rs. 4736.2 million and 5772.4 million in the fiscal year 2000/01 and 2001/02 respectively. The import of goods had increased by 9.21 percent in the FY 2001/02. (See Annex 6)

The commodities equivalent to Rs. 3,961.4 million were imported in the FY 2001/02 as against about 3307.4 million in the FY 2000/01 compared to the two FYs 19.77 percent of import is found to have increased. In comparison between the import and export of agriculture commodities, the foreign trade of agricultural commodities is found to be imbalance. The increase of import is found to have been 23.42 percent against the export.

In view of agricultural situation, it is agreed that the agriculture has to go a long way to commercialize and to be competitive.

3.1.12 Issues Emerged by the Introduction of liberalization and globalization

The impact of new economic order emerged in the mid seventies i.e. liberalization, a school of thought for development strategy believing the free flow of goods with less government intervention irrespective to the national borders has seriously influenced the agriculture of the least developed countries like Nepal. The philosophy that advocates not only the issue of transfer of ownership from public to private but also includes functions of production, import, and marketing has become both the opportunities and challenges for the developing economies. Its major characters are de-control privatization and deregulation of trade.

In the same line, the agriculture of the developing countries has to respond to the impact of globalization-closely linked with liberalization, which refers to the term for increasingly complex interaction between -individuals, enterprises, institutions and markets across the national borders. Globalization is manifest in the growth of trade, technology and financial flows.

This new economic order has emerged two powerful winds for the Nepalese economy, particularly in the agriculture sector. On the one hand, globalization and liberalization would improve production efficiency and in the long run will increase the income of the agriculture producers, alleviate poverty and attain food security, on the other hand, the least developed economies like Nepal has experienced the negative impacts and have to find means on how to cushion the negative impact of these changes. The impact of these changes are further aggravated by the pressure of increasing population, changing consumption patterns on the demand side and the declining availability and sustainability of natural resources and factor productivity on the supply side.

The least developed countries can not fully realize the opportunities offered by the market liberalization as a result of the lack of infrastructure, poor communication facilities, inadequate market information on prices, qualities and quantities of the products and lack of credit. In such circumstances, Nepal, since is a member of international community, can not remain in isolation from the international community has to set up a social and economic relation

with a large number of friendly nations in the world. Therefore, she has to come in the fold of the global club adopting liberalization and globalization policy otherwise, it would have a hard time for her to exist among the international community. However, she has to protect not only the interest of the people but also that of the nation. The liberalization and globalization policy has emerged a number of positive and negative issues particularly in the Nepalese agriculture sector. They are as follows.

1. Although the agriculture sector is much potential sector, the government has to push up for its improvement. It has been providing technology support to farmers for the generation of productivity, production and quality improvement, financial support to them for necessary investment in their farming and fertilizer support at subsidized rate. The policy of reduction of subsidy and subsidy cut has to be adopted.
2. Since the policy of privatization is followed, the private firms have entered into fertilizer business. The decontrol and deregulation are major issues emerged in importation, pricing and marketing.
3. Decontrol of export and import of agricultural commodities has become critical issue.
4. Unhealthy competition is prevalent in agricultural commodities.
5. Sub standard fertilizer and insecticides and pesticides are widely used in the farming.
6. Low tariff wall has encouraged for importation of agriculture commodities.
7. The transfer of technology is also a significant issue.

The policy of liberalization and globalization has positive and negative impact on the Nepalese agriculture sector. Some impacts are listed below:

a) Positive Impacts

1. Role of the private sector is enhanced.
2. There is a greater degree of economic efficiency.
3. New opportunities have taken place.

4. Transfer of modern technology will be easily available.
5. Positive impact on food security,
6. Government has been free from the process of complexities of subsidies.
7. Necessary instruments have become easy.
8. Private traders are competing with each other. This has been in favour of the people.
9. Free entry has made the agriculture commodities available.
10. Poverty alleviation will be favourably supported.

(b) *Negative impacts*

1. Agricultural commodities imported have destabilized the price.
2. Monopoly of multinational corporations may suffer.
3. Widening the gap between the rich and the poor.
4. Period given to developing countries to adjust is short.
5. Agricultural commodities with sub standard are sold in the open market. Farmers complain that spurious and sub standard fertilizer use in their farming has reduced the productivity and production and spoil the farming soil.
6. People are exploited by creating the artificial scarcity of agricultural commodities.
7. Possibility of dumping of the foreign goods.
8. The price of farm products is not competitive. There have been several reasons: farmers use the traditional type of farming system, they have to use the spurious and sub standard fertilizer supplied by the private traders, productivity and production of agricultural products are very low, the cost of production is high, they are not able to get reasonable price of their farm products.
9. Majority of the people in the country are in the rural areas where their livelihood is derived from the agriculture and where majority of the people are below the poverty line. Their incompetitiveness in terms of productivity and production, use of modern technology, that of quality inputs, marketing skilled management has rather discouraged them and created the

unemployment problem. This has helped increase the poverty instead of its eradication.

10. Discriminatory provisions within WTO system, substantial declining investment in agriculture; makes developing nations more vulnerable.

CHAPTER IV

4.1 Cooperative Practice in Agriculture

Agriculture has remained both the background and the most influential sector of the Nepalese economy. It is a crucial fact that it has significant bearing in the overall development endeavour since it is the main source for over 80 percent people both in terms of dependency and employment. These people who are basically small and marginal in nature are in need of adequate support for their socio-economic activities. In such situation, agriculture cooperatives, since they are operative in those sections, are supposed to be able to help transform them from being mere producers to become better farm managers and business entrepreneurs and more market oriented to be globally competitive. For this creation of right policy environment is necessary, one that will support the adoption of more market oriented production system and create institutional and policy reforms and integrate small farmers necessary for the development of agriculture development.

4.1.1 Historical Background of Cooperative

a) *Informal Cooperative Sector*

Cooperation among relatives and members of different segments of the communities through a socially accepted institution has been in the practice of the Nepalese culture from the time immemorial and this may be a relative term for 'cooperatives' that was classically exercised through the informal sector in the Nepalese societies. Formation of such informal cooperative groups with sizable persons has remained a common component of the Nepalese socioeconomic structure for generations, however, no attempt has been made to deeply recognized them as cooperatives. The objec-

tive behind this initiation was to meet the needs of the members/ non-members of the institution or the farmers in the loose sense since they were in the subsistence economy. Those groups were a kind of self-help organizations which were not legally supported. Such groups are still being practised in a way of informal groups. Some examples of such groups are referred in the following:

i) Mankajya:

Mankajya, a classical institution evolved in the Newar community and its proximity, refers to the 'joint work' and is formed among the farmers residing in an accessible place where they can meet during the time of needs. The main objective of these organizations is to voluntarily support their members in the farming, social and cultural activities and to exchange labour within the group as per the cooperative spirit. It is still popular in the Kathmandu valley.

ii) Parma

Parma, in the common understanding, is described as mutual cooperation. It is operated among the people who voluntarily agree to join it for mutual cooperation, particularly, in the farming as well as non-agricultural activities by way of contributing voluntary labour as well as money. This is being practiced in the western part of Nepal and in the hilly areas of Kathmandu valley.

iii) Dhikuri

It is an organization in which community members voluntarily agree to join for mutual cooperation in the areas of agricultural and non-agricultural activities. Each member of the Dhikuri is morally obliged to contribute certain amount of money in the certain period of time. The group meets according to the date mutually agreed upon. The fund of Dhikuri is utilized through bidding or alphabetical order of names against the collateral and through the joint responsibility. This type of self - help group is very popular in the northern part of Nepal and even in the Kathmandu valley.

iv) Dharma Bhakari

It is literally defined as foodgrain fund for religious purpose in the farming communities. It is constituted by those farmers who are voluntarily willing to be associated with for making contribution of

foodgrains. The fund either in cash or in kind is utilized when its members need just before the start of cultivation and during the scarcity period of foodgrains. It is being practiced in the western part of Nepal. It is also considered in the modern sense that it is an organization for the food security and protects its members during the time of food scarcity.

v) Guthi

Guthi refers to a kind of cooperative trust. It is a group of people who accept to join it on the voluntary basis and who contribute a certain amount of money or labour or in kinds. The objectives of guthi are confined in the social, cultural and religious purposes which include religious and funeral performances, financial and labour support to its needy members, and other community members too who are not its members. This system is very much known by the people of Nepal and popular in each Nepalese community.

Particularly, the people associated in the guthies in Kathmandu valley are found to have maintained the Nepalese culture and heritage as well.

b) Formal Cooperative Sector

Since the informal cooperative sector has limited activities and coverage for the betterment of social, economic and cultural lives of the people, it could not take a concrete institutional shape from the micro level development point of view. Until the fifties of the last century, the agricultural development programmes and initiatives were virtually negligible. It was found that neither farmers were paid keen attention in putting necessary inputs and new technology in their farms nor the land owners made necessary investment for the growth of agricultural productivity and production. The agricultural economy was in stagnant state in the traditional farming system.

Following the collapse of autocratic family rule of Rana and the promulgation of democracy in 1951, an interim government was instituted. The interim government decided to explore the possibilities to bring changes in the economic and social life of the people.

In 1953, the Department of Cooperatives (DoC) was established in

order to improve the agricultural productivity and production.

The cooperative development was initiated as one of the important components under the First Five Year Plan (1956/57-1960/61) in the F Y 1956/57. The plan held the view "if the cooperative movement is developed in healthy and efficient manner, it will progressively abolish excessive rural indebtedness, contribute significantly to the raising of living standard and develop among the members of cooperatives, versatility, capacity for organization, self-respect and ability to conduct their own affairs in an honest and democratic way."

The plan envisaged that the cooperative development could be one of the suitable ways to improve rural poverty. It was introduced with the formation of micro credit organization known as credit cooperative in Chitawan district in Nepal for the first time. The main objectives of these cooperatives were to extend micro credit facilities and agriculture inputs to the farmers through their cooperatives in order to improve their economic and social status.

During the plan period, the Cooperative Act, 1959 and Cooperatives Rules, 1961 came into effect as the legal framework of cooperatives. A number of cooperatives, thereafter, were registered and their focus was virtually for the agricultural development. Training arrangement for the managing committees, members and employees of the cooperatives and the staff of the department of the cooperatives was made so that they might be able to run and guide the cooperatives.

The successive economic development plans were implemented keeping the agriculture sector as one of the HMG's priority sectors with the main objective of bringing improvement in agriculture. Various measures have been employed to promote and support the cooperative. But, despite these well intended efforts, the actual accomplishment from these initiations have not been realized as expected. A number of factors have been found to be responsible for such a situation.

It is commonly agreed that the government policies on cooperative development have been inconsistent and incomprehensive. Continuity has been disrupted by the several changes of the government

institutions responsible for cooperative development in this period. Likewise, the lack of professional management, dedicated and sincere leadership and elite members seemed to jeopardize the very goal of the plans and programmes for the cooperative development.

Lack of physical infrastructure and efficiently managed institutions to implement government policies and political interference against steps taken to those who have been involved in fraud, misappropriation and default were the other major drawbacks that helped set the poor performance of agriculture cooperative and they were the main disrupting factors of the cooperatives' success in the past.

The governments of the day could not realize that conducive environment was the prerequisite for the healthy growth of the cooperatives. The government and parastatal organization have been found to be negative for the cooperative development. Such situation have existed in extension of agricultural services, inputs supplies, extension of loan services and making policy etc.

Besides these constraints mentioned above, establishment of most of the cooperatives was based on the top-down approach adopted by the government. These cooperatives have not been in accordance with the needs and aspiration of the members. This has resulted in the loss of interest, dedication and active participation in their cooperative activities.

4.1.2 Present Situation of Cooperative Movement

After the restoration of the democracy in 1990, a comprehensive study about the cooperative was carried out by the National Cooperative Federation Advisory Committee. The study report laid emphasis on full-fledged autonomous and independent cooperatives and recommended that the National Cooperative Federation (NCF) should be established and replaced the then Sajha Center (cooperative center) established in 1961. In line with the past experiences and recommendations of the Committee, a big change had taken place with the cooperative legislation that came into effect since 1992. The report emphasized that cooperative would be autonomous and independent association and was to be operated with the policy of minimum government interference.

Since the cooperative movement has been freed from the minimum government interference, cooperative of all kinds and at all levels shall have to initiate and regulate their activities within its own profession and organization. As a result, a dramatic change took place all in terms of numerical growth of cooperatives, share capital, volume of business, generation of employment etc.

It also appears that HMG has underlined the importance of cooperatives by changing the name of the Ministry of Agriculture to the Ministry of Agriculture and Cooperatives.

Likewise, a big change is found on the role of DOC. The responsibility of audit has been given to the cooperatives themselves. DOC is supposed to look after promotional activities, maintenance of the information of cooperatives, monitoring and supervising and regulating formalities as per the very spirit of the cooperative

However, DOC does not seem to be effective to regulate the activities of cooperatives. One of the most and serious factors impeding the effectiveness of DOC, in reality, is that it had the strength of total 794 manpower that was until the F Y 1991/92 and it continues the same number until today whereas the number of cooperatives have increased from 884 to 6484 in the same period. The turnover of the manpower has been tremendously very high, since its manpower is under the general administrative service under which employees are transferable to any other administrative posts.

HMG, immediately after the restoration of democracy, has supplemented the movement by establishing one more parastatal agency - the National Cooperative Development Board (NCDB) under the National Cooperative Development Board Act. 1992. NCDB has been assigned with the mandate of formulating cooperative policies and plans and implement them as per the HMG's approval, providing technical support for the development of cooperatives to their promotion and protection, establishing harmonious relationship among different agencies of HMG, cooperatives and non governmental organizations etc. But the expected contribution and desired achievement of the Board as per the assigned mandatory under the act has been satisfactory so far.

It is also argued that NCDB had been established contrary to the

recommendation of the National Cooperative Federation Advisory Committee. Moreover, the then Sajha Center was replaced by NCDB. This has created the doubt among the general cooperatives that at any time, cooperative was the subject to be taken by the government and ceased the very spirit of independence. Since NCDB has been constituted as a political oriented body in nature, as it is headed politically - from the Minister of Agriculture and cooperatives. The Co-chairman and the Member Secretary (the executive head) are political appointees and the members of the Board are comprised of HMG executives the Secretary of the Ministry of Agriculture and Cooperatives and the Governor of the Central Bank (Nepal Rashtira Bank) and ex-officio members from National Cooperative Federation (NCF) and central cooperatives unions, five members from each development region of the country are nominated on individual basis.

Besides these government controlled organizations, Nepalese cooperative movement has been headed by NCF – the apex body of the cooperatives, of all kinds and levels that comprise of three Central Cooperative Unions (single propose), 105 Single Purpose and Multipurpose Cooperative Unions at district level and 6,484 primary level Single Purpose and Multipurpose Cooperatives have come into existence at present. Details about the growth, types, levels, shares and memberships of the cooperatives have been given in the Table No. 8 a, b, c and d.

After the enactment the Cooperative Act 1992, the Nepalese cooperative movement has witnessed by an unprecedented pace of development, especially in terms of numerical growth including non-agricultural cooperatives. The number of cooperatives has reached to 6,484 by the end of the FY 2000/01. Out of them, 5,792 including savings and credit cooperatives are agriculture cooperatives and represent 90.48 percent. The coverage of these cooperatives is estimated to be 1.02 million households which accounts approximately 5.10 million of individuals that is 21.98 percent of the total population of the country.

About 1.02 million members are found to have been held the shares of these cooperatives amounting to Rs. 399.56 million which is 86.99 percent of the entire share capital.

Table-8 (a) : Growth of Primary Cooperatives

S.N	Cooperatives	91/92	92/93	93/94	94/95	95/96	96/97	97/98	98/99	99/00	2000/01
1.	Multipurpose	830	980	1,130	1,308	1,622	1,802	1,787	2,075	2,212	2,504
2.	Dairy		325	377	499	661	794	1,068	1,058	1,574	1,377
3.	Savings & Credit		97	155	228	343	579	815	1,140	1,156	1,971
4.	Consumer		206	220	234	258	2521	2621	2281	2,171	208
5.	Others	54	70	119	246	248	284	416	267	572	484
	Total	884	1,478	2,001	2,515	3,132	3,711	4,349	4,349	5,871	6,484

Sources : *Departmental of Cooperatives*

Table-8 (b) : Types and Levels of Secondary Level cooperatives

S.N	Cooperatives	91/92	92/93	93/94	94/95	95/96	96/97	97/98	98/99	99/00	2000/01
1.	Multipurpose									48	45
2.	Dairy									26	32
3.	Savings & Credit									19	24
4.	Consumer									2	2
5.	Others									2	2
	Total	33	56	61	66	72	77	82	83	97	105
	Number of National Level cooperative Federation										1
	Number of Central Level co-operative Unions										3

Table-8 (c) : Information of Types, Levels, Membership and Share of Primary Cooperatives

S.N	Description	Cooperatives		Share Rs. in '000		Membership		Total
		No.	Percent			Female	Male	
1.	Multipurpose	2,504	38.60	210,180		69,992	688,918	758,910
2.	Dairy	1,317	20.30	11,713		22,840	69,758	92,598
3.	Shavings & Credit	1,971	30.40	177,670		68,313	106,026	174,-)0
4.	Consumers	208	3.20	12,408		1,191	10,157	11,348
5.	Others	484	50	47,361		13,623	83,402	97,025
	Total	6,484	100.00	459,332		175,959	958,261	1,134,220

Table-8 (d) : Growth of Secondary Level Cooperatives

S.N.	Description	Cooperatives Unions		Share Capital		Total
		Member	Percent	Rs. in '000		
1.	Multipurpose	45	42.86	1,557		805
2.	Dairy	32	30.48	753		773
3.	Saving & credit	24	22.86	295		12
4.	Consumer	2	1.9	12		12
5.	Others	2	1.9	44		16
	Total	105	100	2,661		1918

Source : Department of co-operative 2000/01

It is also observed that a large number of savings and credit cooperatives are established in the rural areas where there is an acute pressure of poverty and unemployment. However, these cooperatives have collected deposits as savings through their members and nonmembers from the sections having very limited resources at their disposal, who represent basically the poor and lower income segment in the Nepalese economic statistics. The deposits collected by these cooperatives is estimated to Rs 1057.30 million by the F Y 2000/01.

Agriculture cooperatives, on the other hand, has remained as one of the most important component of the Nepalese cooperative movement and an influential approach to address the socio-economic development of the country since they are basically established in the rural areas where majority of the population are dependent on agriculture. These cooperatives are found to have dealt very generally with the supply of agriculture inputs like, fertilizer, pesticides, seeds, agro-tools and implements as well as other activities related to agriculture production and distribution of these products such as foodgrain marketing, collection, processing, and marketing of milk and milk products including savings and credit activities. These cooperatives have total turnover of almost Rs. 6,724 million which amounts to 97.57 percent of overall cooperatives' turnover. This can be clarified from Table-9 as shown overleaf.

The numerical growth of cooperative sector, as mentioned earlier, has taken place for the last couple of years. however, their qualitative growth and sustainability have not been ensured yet, as witnessed by their deteriorating financial position day by day. There seems several impending reasons responsible for their qualitative declination to the bad shape.

It is said that the first reason responsible for this declination is the investment of a huge amount of loan without any feasibility analysis of the financial position of many agricultural Cooperatives when they were under the management of Agriculture Development Bank of Nepal (AL)B/N) in the past. The second reason may be the interest spread that was set for cooperatives – the interest rate between the payment and charge was very minimal and unable to generate profit. Such margin could not meet even the cost of loan

Table-9 : Indicators of Members, Share, Deposits, Turnover and Population Coverage by Cooperatives (2000/01)

S.N.	Description	Agriculture Coops.			Non-Agri Coops	Sub. Total	Grand Total
		Multi-propose	Dairy	Saving			
1.	a. No. of Coops.	2,504	1,317	1,971	692	692	6,484
	b. Percent of coops.	38.6	20.3	30.4	10.71	10.7	100
2.	a. No. of members	0.76	0.09	0.17	0.11	0.11	1.13
	b. Percent of members	66.93	8.2	15.35	2.52	9.52	100
3.	a. Coverage of Pop.	3.8	0.454	0.85	0.55	0.55	5.65
	b. Percent	16.38	1.94	3.66	2.37	2.37	24.35
4.	a. Share capital (mil)	210.18	11.71	177.67	59.77	59.77	459.73
	b. Percent	45.76	2.55	38.68	13.40	13.01	100
5.	a. Deposit (mil)			1,051.30			1,051.30
	b. Percent			100			
6.	a. Business Turnover	205.96	605.68	5,912.36	167.6	167.6	6,891.60
	b. Percent	2.99	8.79	85.79	2.43	2.43	100
7.	a. No. of viable Coops.	1,252	986	1,774	622	622	4,634
	b. Percent	19.31	15.21	27.36	9.59	9.52	71.47

Source : Department of Cooperatives

administration. The loan received from ADB/N was to be kept idle for a certain period of time until the loan disbursement process was completed. The interest loss suffered between the loan reception and disbursement resulted in a heavy loss.

Another limiting factor for the growth of these cooperatives was that ADB/N invested a big amount of resource in the fixed asset as godown construction without any study for business feasibility and pre consent from the concerned agriculture cooperatives. A large number of godowns were constructed in the different parts of the country for the agricultural cooperatives. Similarly, the interest incurred by the default of loan was capitalized.

Inability of loan repayment hindered the continuity to their business operation since the defaulting agricultural cooperatives were not receiving loans from ADB/N. In addition to these, there are many other factors which have contributed to make the agriculture cooperatives' economic and financial position weak. There were lack of monitoring in their activities, inconsistent government approach on cooperatives, high turnover of the cooperative employees, lack of professional staff, dearth of dedicated and sincere leadership, individualistic approach towards the activities of cooperatives, absence of transparency in economic activities, ineffective governance, lack of financial discipline, lack of member education and training etc.

Taking into account the above factors, an assumption can be made that only 61-88 percent of the agriculture cooperatives are estimated to be economically viable out of total 6,484 cooperatives. According to its break-up 2,505 agriculture cooperatives 1,317 dairy cooperatives and 1,971 savings and credit cooperatives are considered to be viable.

4.1.3 Structure of Cooperatives

The cooperative development of Nepal was government sponsored programme in the past. But the cooperatives, being one of the people centric approach need favorable environment, and some inherent components like people's active involvement, democratic culture, government's legal, physical and technical support and strong commitment, amicable relation and coordination among the con-

cerned agencies in the interest of cooperative development, maintenance of financial and administrative discipline, effective governance in a transparent manner, professional manpower, flow of information and communication etc. To prepare such environment, government agencies, parastatal agencies and cooperatives at all levels with their networks are significantly important. The organizational structure shows the position of concerned agencies' hierarchical relation and coordination, line of information and communication etc.

In accordance with the organizational structure, the Ministry of Agriculture and Cooperatives (MOAC) at highest level governs its central level networks and their regional and district level networks and parastatal i.e. semi governmental agencies. All these agencies are responsible for administering and facilitating the cooperatives for their effective and efficient operation. They are placed in the different position vertically for indicating line of authority and horizontally for maintaining mutual relation and cooperation and flow of information and communication in the interest of cooperatives at all levels.

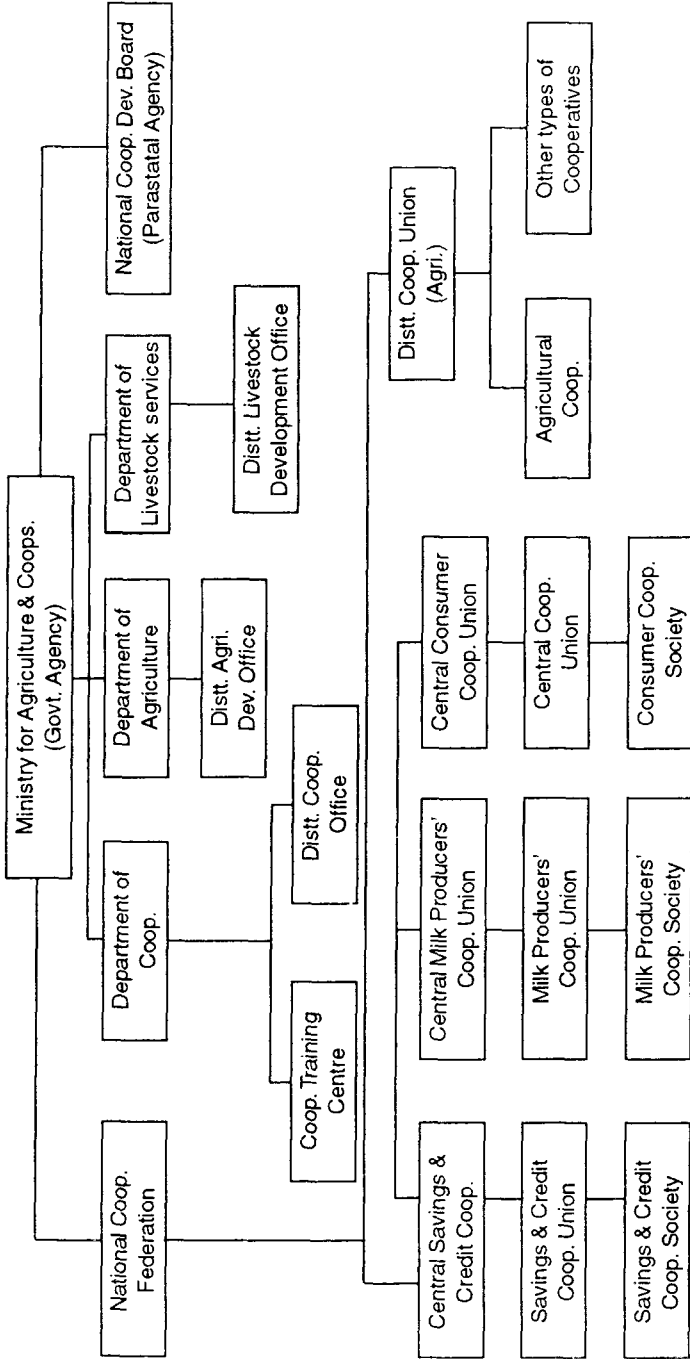
The organizational structure shows that MOAC has close relation with the NCF.

The cooperative movement comprises of three tier system in case of the agricultural cooperatives sector under which primary agriculture cooperatives operate at the grassroot level, district agricultural cooperative union at district level and NCF at national level and they are vertically related:

Specific or single purpose cooperatives have four tier system; primary single purpose cooperative at the grassroot level, secondary single purpose cooperative union at the district level, single purpose tertiary level cooperative union at the central level and NCF at the national level are vertically placed in their position.

Agriculture and specific single purpose cooperative at all levels have vertical and horizontal linkages for their mutual cooperation. NCF has remained a common organization both for agriculture and single purpose cooperatives. Every secondary level cooperative union irrespective to agriculture or non-agriculture - single purpose cooperatives and central cooperative union may join NCF

Organisational Structure of Concerned Co-operative Agencies



It is also found in the organizational structure of the Nepalese cooperative/ movement that single purpose cooperative or union are free to be associated with district agricultural cooperative union. Single purpose cooperatives can form the single purpose cooperative union at the district level and district level cooperative unions can form central level cooperative union. This system has created such a situation that secondary level single purpose cooperative union has been bypassed by the primary level single purpose cooperatives and made very ineffective.

In order to make the secondary and central level cooperative union more effective it is necessary that secondary level single purpose cooperative union should be the organization of primary level single purpose cooperatives, and central level cooperative union should be the organization of secondary level single purpose cooperative unions. And that, in the long run, NCF should be the organization of district and central level cooperative unions.

At present, it appears that only primary cooperatives are fully business oriented organizations. At this level, political interest in every affair is found to be very low that may help them to be fully professional or business oriented. Therefore, it is equally important for the cooperatives at all levels that they should compulsorily be involved more on cooperative business. Economic activities are bound to run on economic business lines. If this kind of practice is applied to the cooperatives - especially the district level to central level, one of the most important impending factors for growth of cooperatives that is ill-spirited politics, would be minimized. The details of organizational structure of the Nepalese can be seen in the organizational flow sheet. (Chart No. 1)

4.1.4 Types of Cooperatives

The Cooperative Act, 1992, with the provision, of liberal legal arrangements for governing spontaneous cooperatives has ensured that any group of people is free to organize cooperative in order to improve their social, economic and cultural lives. And consequently, a large number of cooperatives have been organized in the different parts of the country. They can broadly be categorized into two types: agricultural cooperatives and non agricultural cooperatives.

In the agriculture sector, multipurpose cooperatives mostly deal with

agriculture inputs such as small loans, fertilizers, insecticides and pesticides, seeds and implements and agriculture produce marketing, consumer goods etc. It is also observed that a large number of milk producers cooperatives have been organized during this period. These cooperatives are mainly involved in milk collection and sale, sale of dairy equipment, cans, cattle feed, veterinary equipment and medicines. Some of them are found to be engaged in milk producing activities under which milk and milk products are processed, produced and sold. Some cooperatives produce cattle feed and some have been providing veterinary services for the people involved in livestock.

Vegetable growers cooperatives, sugar growers cooperatives, tea grower cooperatives, small farmers cooperatives etc. also are emerging in the agriculture sector. Moreover, small farmer cooperatives have come into height through the group approach. Their main activities are found to be focused on the collection of small savings through the sizable groups with their present small farmers cooperatives. They seem to be involved in micro credit activities mobilizing the savings that have been invested for their member's activities basically on agriculture production, tiny grocery shop, milk production, livestock rearing (goat, sheep, cattle, buffaloes poultry pigs, ducks etc.) weaving craft work, irrigation, energy (gas) production from animal waste, bee - keeping, cocoon production, fruits production, tree plantation etc.

Saving and credit cooperatives promoted by the people themselves and by the non governmental organizations (NGOs) and international non governmental organizations (INGOs) are spread over many parts of the rural areas. These cooperatives have been in operation mostly among the farm families. Such cooperatives exist even in the urban areas where they have operated simple banking functions.

In the non-agricultural sector, varieties of cooperatives are found to be rendering different kinds of services. One of the non agricultural cooperatives is transport service which is very popular and are rendering transportation services regularly and timely to the general people at reasonable fair. Health service cooperatives also are carrying out affordable health services and quality medicine supply. Likewise, handicraft producers cooperatives deal with pro-

duction of wood carved products and metal crafts, woolen and cotton commodities, paper made goods. Women skill development cooperatives, however, very few in number, have been running to boost up women's skill development activities. They are dealing with various types of goods, and variety of processed foods.

Water users cooperatives have emerged in irrigation and drinking water sector and energy users cooperatives for electricity. Likewise, school cooperatives, printing and publication cooperatives, travels and tours have also been operated in order to render better and quality services to the general people at reasonable price.

As already stated about the secondary, tertiary and national level cooperatives variety of agriculture cooperatives including multipurpose cooperatives have the district cooperative unions which are affiliated to NCF. Agriculture oriented single purpose cooperatives include many types. But the milk producers cooperatives have milk producers cooperative union and central milk producers cooperative union.

Consumers cooperatives have secondary level union and Milk Producers' Cooperatives have also their union. In the financial sector, saving and credit cooperatives have district and central unions.

Cooperative development has a wide coverage focusing for the betterment of the lives of the people. But majorities of the cooperatives of all types do not have effective and efficient management. However, their members seriously need proper guidance and help improve knowledge and skills for their work and management too. NCF is the apex organization representing all types and levels of cooperatives.

4.2 Role of National Cooperative Federation

Founded on June 20, 1993, on the basis of universally accepted cooperative principle as the apex body of different types and levels of cooperatives, NCF has enrolled its membership to three tertiary levels cooperative unions, 56 secondary level cooperatives unions and seven single purpose cooperatives with large volume of business and networks.

NCF represents all primary, secondary and tertiary level cooperative unions operating in 74 districts of the country with approxi-

mately 1.3 million household members representing 24.35 percent of the total population of the country.

The vision of NCF is to promote and establish such Nepalese civil society operated through the spirit of cooperation from their own efforts where equality, democracy, social justice, gender balance, and sustainable development through cooperatives will be prevalent.

Some of the major objective of NCF are identified in a specific manner. They are as follows.

- a) To promote and develop the cooperative movement in the country on the basis of the universally recognized cooperative values, and principle and the people's need with their own initiative and participation.
- b) To provide necessary support to the programmes and business designed by the cooperatives and unions in order to improve the socio-economic condition of the people.
- c) To assist cooperatives and unions to strengthen their management capacity and develop their leadership capacity.
- d) To lead the cooperative movement by representing the Nepalese cooperative movement at national and international levels.

In order to achieve the specific objectives mentioned above, NCF has a number of roles which are to, be played in the interest of Nepalese cooperative movement and general people of the country and in the international cooperative movement. Some roles under three major heads are explained in the following.

1. Lobbying Role

- a) To create favourable and conducive environment for the promotion and development of the cooperative movement at national and international level.
- b) To launch massively publicity programs for creating awareness of cooperative spirit among the people and for accelerating and widening the cooperative movement and cooperative activities in a healthy manner.
- c) To motivate people for organizing need based cooperatives

which may be self-inspired, self-reliant, voluntary and autonomous and independent.

- d) To act as the chief spokesman of the national cooperatives.
- e) To organize a number of workshops, interaction programs etc.
- f) To safeguard the interests of cooperative movement.
- g) To act as a watchdog for the effective application of cooperative values and principles.

2. Servicing Role

- a) To promote member education and verities of training programs for policy makers, decision makers and business promoters.
- b) To guide committee members and employees of cooperatives in order to improve the management and business of cooperatives either through consultancy or through monitoring activities.
- c) To facilitate the cooperative and their members for having technical, physical and administrative support from various concerned agencies.
- d) To coordinate between the concerned agencies and cooperatives for establishing amicable relation in the interest of cooperatives and their members.
- e) To provide an effective leadership in order to represent the cooperative on their behalf.
- f) To monitor the activities of cooperatives

3. Business Role

- a) To promote agricultural and non - agricultural business in the interest of cooperatives and their individual members.
- b) To collaborate with the concerned cooperative and private traders/industrialists to make the business activities effective and efficient.
- c) To promote agro-based industries and other industries in the interest of producers of raw materials.

NCF, hence, has a lot of roles to play for the cooperative develop-

ment as a whole as mentioned above. However, it is severely constrained by many factors which have been remained as the impending factors for long. These limitations may be the lack of active participation as well as the absence of dedicated and honest representatives having at least the knowledge of cooperative values and principles. Likewise, lack of expert manpower in policy and decision - making level, lack of program review knowledge and skills are other limiting factor of NCF.

NCF, being the apex institution needs the knowledge and skills to some extent, about the cooperative business which is lacking at present.

NCF, however, is operational in the absence of the above mentioned many basic things. As a leader of the whole cooperative movement NCF's role is expected as a good example for all other cooperatives at all levels and replicable in nature. However, some of the roles, played by NCF are noticable but they have little effect on member cooperatives and general members of the cooperatives in the country.

The main crux in NCF, it seems, are the absence of many basic things mentioned earlier. Since NCF has been entangled with many difficulties, the roles which are to be played by NCF should be thoroughly discussed in the light of ingredients required for its effective and efficient operation. Those who occupy the policy and decision-making position, should join self criticism forum organized by NCF itself. Such programs will make their working style and behavior in cooperative environment and required knowledge and skills very clear and prepare suitable base for the improvement of NCF and its role players. In view of this, necessary steps should be taken in time. This will help make the cooperative movement in the good shape for the welfare of the people and the country.

4.3 Inter Cooperative Relation

Every cooperative' is- expected to be based on the universally recognized cooperative principles. One of the principles is the cooperation among the cooperatives. This can be termed as inter cooperative relation. The cooperation is socially and economically significant for the development of cooperatives.

Cooperatives are the organization of weaker sections of the people. And it is natural that their upper level organizations are also weak. Cooperatives are involved with the cooperation of weak people and with their unity so as to make their voice, capacity and bargaining power strong and influential.

Cooperation creates unity and solidarity. Unity is strength and power. Cooperatives are the business organizations based on the social and economic coherence.

In Nepal, cooperatives seem to be weak in terms of human and financial resources and technology. Cooperatives, at present, seems to be functioning on individual basis that they are competing instead of cooperating with each other. They are operating in dearth of everything.

Likewise, the secondary level cooperative unions are also functioning in isolation. Neither they are working in cooperation with their own member cooperatives nor they are carrying out their activities in cooperation with similar level cooperative unions. Such situation exists in the tertiary level cooperative unions too.

One of the most maladjusted parts of the Nepalese cooperative movement is the lack of inter cooperative cooperation. There seems a large number of savings and credit cooperatives which have substantial funds that remain idle without investment on the one hand and many cooperatives are in dire need of financial support for their business on the other. This sort of resource gap can be fulfilled through the inter cooperative assistance.

Besides this, there are many areas in which they can mutually establish their relation. These areas of relations may be the finance, manpower, information, technology transfer, exchange of commodities, joint marketing, sales of produce etc. Such inter relation; i.e. cooperation between cooperatives to cooperatives, union and cooperatives, union to union, unions at different levels can be maintained on various terms and conditions at vertical and horizontal levels. This will benefit all the cooperatives which have maintained relation in the specific areas.

Inter cooperative relation has not ended to national boundary. Co-operative movement has been supposed as one of the internation-

ally recognized development approaches to address the lives of the millions of the people of limited resource and poor. It has many instances of international relation between the national cooperative movement and the international co-operative movement.

Further it has already crossed national boundaries for cooperative to cooperative relations in different countries. NCF, in this very line has established business relation with Indian Farmers Fertilizer Cooperatives (IFFCO) and National Agriculture Cooperative Marketing Federation (NAFED) in the areas of fertilizers. Such inter relation within the inter country cooperatives benefits both the parties concerned. It has helped develop social and economic relation between the cooperative members of both countries and awareness of the status of their cooperatives.

4.4 Share on Domestic and International Market

Nepalese cooperatives are operated particularly within the families, of poor and limited income sections basically in the rural areas, who are dependent on agriculture. Therefore, the major activities of these agricultural cooperatives are confined to the supply of small scale and short - term loan, sales of fertilizer and other agro - inputs and production, collection and supply of milk and milk products.

In the F Y 2000/01, it is estimated that the agriculture cooperatives have contributed to 38.09 percent of the total formal loan flowed in the aggregate agricultural loan extension market. Out of this amount 47.73 percent loan has been utilized for the savings mobilization. Almost 61.91 percent agriculture loan comes from ADB/N.

Fertilizer business almost was dealt with by the agriculture cooperatives until 1997. But following the adoption of liberalization policy in the early nineties, private sector has become free to import fertilizers. But no record has been available about the volume of sales. They were found to have sold the fertilizer valued at Rs. 171.39 millions.

Likewise, the milk producers' cooperatives have been supplying a significantly large amount of liquid milk which is 63.28 million litres amounting to Rs. 1036.85 million in the F Y 2001/02. Almost cent percent liquid milk was found to be supplied to the Dairy Development, Corporation (DDC).

Table-10 : Agriculture Cooperatives Share on Domestic Market 2001

S. N	Investment	Share of Agri. Loan	Percent	Share of Fertilizer	Share of Milk	Percent	Remarks
1.	a. Agri. Coop	4,945.23	38.09				47.73
	b. ADB	8,036.60	61.31				
2.	a. Coop			171.39			saving utilized
	b. Private			N.A.			by Coop for loan
3.	a. Coop				605.68		
	b. Private				N.A.		

Source : *DOE and economic service 2001/02*

With regard to the international market agriculture cooperatives deal with coffee, handicraft materials etc. in a very little amount. Their share in the international market is immaterial.

4.4 Management Pattern of Agriculture

Management is a determining element for the success of cooperatives. The management pattern of these cooperatives is much more different than other private and multinational business organizations since cooperatives are operative in the rural areas with very limited resource where margin of profit is very low because of being service oriented institutions. The Cooperative Act, 1992 manifests the same fact that the management pattern of agriculture cooperatives is of specific nature, they are identically structured. According to the cooperative Act, agriculture cooperative can be formed by a group of minimum members of 25 farmers.

These cooperatives have the membership ranging between 25 to more than 4000. There is a general assembly, consisting of all the members of the cooperatives which meets once a year. But it may be held more than one time if it is required. General assembly is the supreme body of the cooperatives which is known as the policy making and plan formulating body. It approves the annual budget and plan, guidelines for the future action, approves audit report, constitutes managing committee and the accounts committee through the election, amends bye-laws, approves the financial and administrative rules.

In this assembly, many other functions relating to the policy issues and major financial matters are discussed and decided. The most important point is that the general assembly is free to make any decision within the framework of cooperative laws, bye-laws, cooperative rules and principle without any external interference.

The managing committee, as mentioned in the bye-laws of the cooperatives, comprised of maximum 9 members including Chairman and Vice chairman. It is fully responsible for the overall management of the cooperatives. It normally meets once in a month. It takes decision on the major issues like annual budget and programs, review of achievements and financial status, appointments of employees, formation of sub-committees for different issues, recom-

mentation of sub committee's report, member education and training activities, convening of annual general assembly, administrative and financial rules and other relevant matters.

To look after day to day and general affairs of the society, a number of employees are appointed as decided by the general assembly. A manager is appointed in conformity with the provision of the administrative and financial rules. He acts as the chief executive officer of the cooperatives and is assisted by the staff. His main duty is to carry out the activities in accordance with the budget and programs as decided by the managing committee. He performs his duties as mentioned in the bye-laws and as directed in the decision made by the general assembly and managing committee. He reports every activity including financial status and other relevant issues to the managing committee. He implements the decisions made by it. He also administers subordinate staff.

The accounts committee elected by the general assembly consists of three members including a convenor. The main duties of the accounts committee are monitoring of financial aspects and related decisions and it submits its report to the managing committee with reformative recommendations. It has also the power if it is seemed necessary, to call the managing committee meeting. It presents its report to the annual general assembly.

In order to run cooperatives effectively and efficiently, sub committee system has been provided in the cooperative law. Most of the agricultural cooperatives carry out their activities on the basis of recommendations and decisions of these sub committees.

Looking at the management pattern of the these cooperatives, it seems that their performances unlike the modern private enterprises, must have been economic, member oriented and mainly the service oriented instead of profit oriented. These institutions being the principle background of the rural development and subsequently, the overall socio-economic development of nation, management pattern of these cooperatives aims to ensure their successful growth and sustainability. But in reality these cooperatives are found to be somehow different. They are facing several constraints which have been hindering the steady growth fading their achievements. The members participation does not seem to be encouraging even in the

general assembly. Members are found to be very weak to direct the policy to the managing committee towards appropriate direction. Similarly, the managing committee has the same kind of problem since majorities of its members are poor in educational level and also are not aware of the cooperatives values and principles, management and business concepts etc. The cooperative members however are not expected that they should necessarily be perfect in every field, but they should, at least, be aware about basic cooperative knowledge and ideas. They can also appoint technical manpower who have the knowledge about the management and business operation for their cooperatives.

But the process of employing quality and technical manpower for the cooperatives is another challenge. Most of the agriculture cooperatives are not being run by competent, qualified and skilled manpower because they are not found to be able to afford handsome payment and other incentives. Choice is always there. Under-qualified employees bring about poor achievements whereas qualified employee may give good result and performance. This is another hindrance for the professional and sustainable growth of cooperatives.

Besides this, cooperatives have been running in the absence of internal and external monitoring on their business and activities. Likewise, sufficient attention is not found to be paid to education and training activities in specific areas.

4.6 Strategic Alliance with Private Sector

The developing world can not afford to ignore the development paradigm shift; the increasing trend of corporization or globalization. Market forces has been recognized as one of the most powerful forces that drives the economies of the developing countries to adjust to these changes. Cooperatives, at present has to face stiff competition with highly equipped and capital intensive private sector economies. However, they are operative within the masses of limited resource in the rural areas where there persists lack of infrastructure, poor communication facilities, denial of market access, lack of credit etc.

Cooperatives, in the past, had been carrying out their activities in

isolation from any external support except government and generous donors. But the survival of the cooperatives of the least developing countries like Nepal in the free trade regime can not be ensured ignoring this global wave of free market. Cooperatives will not remain alive before the large scale with low cost products flown to every nook and corner of the country. This necessitates the strategic alliance with private sector and other civil societies who can be prepared to join hands with cooperatives. Because there is no substitute for efficiency.

Since cooperatives are the organizations of economically weak people and disadvantaged sections of the society, it is natural that they are always in shortage of capital. Being people centric enterprises to fulfill the common needs of the member, cooperative can not render necessary and possibly the better services to their members without sufficient capital investment. Their importance and relevancy, moreover, have further increased in the context of the changing national economic environment on the one hand and the economic liberalization policy has forced cooperatives to be competitive in the market on the other. Capacity building programs such as training to agriculture workers on farm business and management, proper use of farm inputs, marketing technology and value addition are emerging as other inevitable components for them. Such situation has underlined the need and importance of capital more than before.

Capital is central to the issue of ownership and control of an enterprise. But the social purpose of the capital can not be ignored. In this context, cooperatives must look for additional capital from the two ways - generation of internal capital through the increase of share participation and external sources through collaboration with private sector and capital investment by other cooperatives within the country and abroad. One critical point is to be considered how the members' control and cooperative image and identity can be maintained in this private-cooperative venture regime. Based on these points, cooperatives need to develop strategies for the alliance with the private sector in the area to achieve their objectives.

Cooperatives, naturally exist in free economy as private sector. This does not mean that social values, members' control and coop-

erative values and principles can be overlooked. Hence, there is an alliance with non-cooperative sector, cooperative should have practical strategies in the areas which are listed as under.

- a) Objectives are to be specifically and clearly spelled out.
- b) Areas of cooperation are to be distinctly identified and demarcated.
- c) Comprehensive plan and programmes are to be designed, approved and implemented.
- d) Unambiguous administrative and financial rules are to be framed.
- e) Reporting, monitoring and reviewing system is to be prepared, and adopted and followed in order to judge the performance and achievements.
- f) Functional rules for the management are to be Formulated, approved and implemented strictly.
- g) Legal framework is to be prepared and approved

If these strategies are to be strictly maintained, the purpose of joint venture or collaboration for creating institutional effectiveness and efficiency, developing business techniques and professionalism and for preparing competitive strength can considerably be achieved. Moreover, while developing strategies, serious consideration on effective governance and transparency should be kept in mind so that cooperative image and identities can be safeguarded.

4.7 Role of Agriculture Cooperatives in Implementing Government Schemes

Cooperatives have been practiced as one of the socioeconomic development strategies from the very inception of the planned development exercise in Nepal's fifty long years of systematic planning. Considering the appropriate approach to address the issues relating to rural development, HMG introduced cooperatives for the first time to initiate resettlement programme for flood-stricken people through the multipurpose development plan in 1954 however it was government initiated effort rather than the voluntary association of the people which is the central norms of cooperative. The cooperatives, thereafter, have remained an important sub-sector

of the national economy as every successive plan has importantly integrated it in their strategic agenda.

In 1956, Credit Cooperative Society was established in Chitawail district to facilitate farmers through the effort of government. It was basically exercised to meet the credit needs of the farmers and later on the services were extended to channelize the agro-inputs, banking activities, agriculture production etc. Credit and marketing cooperatives was established in 1962 and Cooperative Bank in 1963 which was merged in ADB/N in 1967.

Likewise, a number of developmental programmes were carried out through cooperatives such as Sajha Management (cooperative management) under Back to the Village Campaign, Coordinated Development Program, Population Education Programs with Sajha etc.

But the situation of cooperatives has been quite different at present. Cooperatives are recognized to be autonomous and independent. In a real sense, they are autonomous and self-reliant. They are still assumed in the mind of people that they are a part of government. This sort of confusion has been aroused in the mind of the people as they had been promoted by the government for the purpose of using them as an economic development vehicle and they were also treated as a government body. Today the government itself recognized them as autonomous and independent body.

The government involvement in the cooperatives has now been reduced, however, it has remained one of the important policy measures in the current periodic plans.

Agriculture Perspective Plan (APP) has focused on the same fact. It is clearly mentioned in the plan document as co-operative programmes will be conducted to mobilize the economically active age groups by orienting towards business promotion, such as supply of inputs, purchase and sale of products, collection and processing through training and education. These programmes along with pre-co-operatives education will be provided to the groups who are involved in agricultural related programs in different place for income and employment generation. Even new groups, which are willing to participate, can be constituted for this purpose.

In the context of institutional capability of the co-operatives based on the co-operative principles, appropriate measures will be taken in order to support the government policies on the role and jurisdiction of NCDB. As the capital collection and investment have gradually started, encouragement will be given to develop their own financial systems which can mobilize such funds for the business of the cooperatives.

Cooperatives, being an economic institution, operate in the interest of the community and general people within the country. They are established under the country's legal framework and are involved to uplift the economic and social status of the people. The cooperatives seem importantly involved in every nook and corner of the rural areas where they have been rendering agricultural service to the people. This means that cooperatives are supplementary and complementary for the government. So far as agricultural development activities are concerned, as a matter of fact cooperatives are proved to be a social and economic development partner of the government. Even when the history of the cooperative movement is traced, cooperatives have been playing a supportive role to the solidarity of the government.

HMG has been launching many development activities in the country. But it has not yet given the full responsibility to undertake the development programmes to the cooperatives. They have always a supportive role in the development activities. Over the years, government has engaged private and public sector in the development activities. But it is argued that the performance of such involvement is not encouraging enough and consequently, has a little 'impact. It always overlooks that cooperative is the focal point to address in the rural areas and that it is a nucleus for the social and economic development schemes based on the people's participation.

Cooperatives are considered the most viable channel to deliver a number of social and economic schemes and services to be implemented in the rural areas. Those schemes may be small scale irrigation, food security, drinking water, health services, warehouse construction, foodgrain collection and electricity distribution. In addition, poverty alleviation is an important scheme being carried out

by the government, which can effectively and efficiently be supported by the agriculture cooperatives through the direct involvement of the rural people in a transparent way. Another advantage is that the impacts of these programs will appear immediately in the community and be positive.

If this situation is favourably created in the rural area, agricultural cooperatives will be actively patronized by the people and will be proved a real social and economic development vehicle. This substantially reduces the burden of the government and make it free accordingly from the burdensome responsibilities of social and economic. development activities. Economic decentralization, even in the rural areas will be achieved. The effect would be positively impact on the local people and they would be prepared to bear the responsibilities in their own shoulders.

4.8 Role of Cooperatives in Food Security

Hunger has been remaining a crucial threat and politically sensitive issue for the developing countries like Nepal. Perennial incidence of insufficient production, low income and ineffective distribution networks among the remote and varied geographical regions of the country has further aggravated the situation. Weak domestic production due to the traditional mode of cultivation coupled with the lack of successful translation of government's developmental initiatives has remained a vital threat for the national strategy to ensure food security in the Nepalese perspective.

The country seems suffering from all three important elements defined by the Food, and Agriculture Organization (FAO) on food security - availability, accessibility and affordability. Food security is a state of affairs where all people at all times have an access to safe and nutritious food to maintain a healthy and active life. As advocated by FAO, it is a situation when all people at all times have physical and economic access to sufficient, safe and nutritious food to meet their dietary needs and food preferences for an active and healthy life.

Food security has a significant bearing among the set of problems that the country has to address. This problem seems to be still acute and urgent since 85.88 percent people have been leading their lives

in the rural areas where there lies always grave impact of food scarcity. Moreover, rapid population growth (2.24 percent annually) and remote proximity to the urban areas have made this issue more serious. There seems several factors behind this problem. Despite more than 65 percent economically active population engaged in agriculture, their farm products are always unable to meet the demand. Only 42 percent of their farmland is under irrigation facility. The availability of chemical fertilizer is inadequate and irregular whereas its price has been soaring up every year. The productivity is lower which was estimated to be 2.74 percent per hectare in the FY 2001/02 while the production of major food crops, paddy, maize, wheat, barley and millet is 7.25 million metric tons in the same FY 1.1 percent. In the FY 2000/01 it was 2.6 percent. Disguised unemployment in 2001 is 43.40 percent. In 2001/02 the import of food and live animals was of the value of Rs. 3877 million against the export of Rs. 4,615 million. The negative trade balance is 738 million.

Besides this, lack of infrastructure development and effective channel to distribute food in these areas and the absence of alternative source of income for the masses has made the problem of critical concern.

The issue of food security has emerged with a new face when agriculture sector was integrated to the WTO regime. Tariffication of non tariff barriers, phasewise removal of subsidies and protection are key instruments of trade liberalization agreed by WTO signatory countries. The agreements, however, provide special and differential treatment for developing countries to enable their integration into the global trading system. The main issues like poor people's greater access to resources, improved farm income, increased participation in development planning and implementation and improving local communities are of serious concern to ensure food security.

As followed by the structural adjustment programmes launched by the International Monetary Fund (IMF) and the World Bank (WB) these two Brettenwood institutions in 1987, had added some force i.e. international trade was fully liberalized, the financial system was deregulated with no control. Investment rate and subsidies

were substantially scaled down. Fertilizers subsidy, capital and interest subsidy on irrigation and public distribution of their inputs for agriculture were reduced. However, subsidy on fertilizer is not completely withdrawn in price and transportation. Subsidies on food supply to remote places with food deficit is now limited but the price subsidy is given.

Privatization of the fertilizer supply has helped to increase the availability but the low quality of fertilizer has degraded crop production and soil. The other trade policy adopted by the government was unrestricted export of rice even when the country has a production shortfall. This has caused price rise amounting to more than 30 percent in a year. Such situation has posed a serious food security threat to rural, landless, marginal and small households who are food buyers, unskilled earners, labourers and low class public sector employees.

In such a situation, cooperative can play an important role to produce more food even in the inaccessible places. Until today, HMG has been taking a short term plan with very temporary measures. Instead of such measures taken by HMG, a long term plan is to be formulated and implemented in the remote area as a sustainable food security scheme.

Cooperatives can move forward to increase the agricultural production with integration to irrigation, distribution of fertilizer, technical backslapping from the concerned agricultural technology etc. They can also undertake the responsibility of handling all the marketing activities warehouse construction etc.

Cooperatives, if encouraged by the government policies will be able to motivate farmers to be involved in more and quality food production with attractive participation. They (cooperative) will be involved in marketing activities on the basis of service motive and ensure economic and social justice.

This will help maintain active and healthy life through the availability, accessibility and affordability of quality and nutritious food. To develop such system the government policy commitment must be serious.

4.9. Relation Between Formal and Informal Sector (Cooperatives)

When the interest of the government and its development partners was shifted to the community development strategy particularly in the rural areas, informal sector promoted by different development agencies and government itself has emerged as an unquestioned tool to tackle the poverty and unemployment through a number of income generating activities.

Informal sector initiatives, therefore, have a significant bearing to Nepal's socio-economic transformation. Since informal cooperatives are operative mainly in the rural areas of the country where there is low income, low investment, inaccessibility of credit, low agriculture productivity and production, use of inadequate inputs, low level of social and economic infrastructure and that of institutional delivering capacity, they are, increasingly treated as the appropriate development vehicle to uplift the poverty stricken masses of these areas.

There seems an unprecedented growth of informal and formal cooperatives implemented among the rural people in every sector of the economy during the last few decades. The traditional types of informal cooperatives explained earlier are still popular, however they have very limited activities.

To improve the situation of poor social and economic situation in the cooperatives were introduced with the government initiatives for making available micro credit particularly to farmers and were formally registered under the Cooperative Society Act 1959. In the formal sector various types of agricultural and non agricultural cooperatives have been organized and recorded to be 6,484 which includes agricultural cooperatives, multipurpose, milk producers cooperatives, saving and credit cooperatives and non agriculture cooperatives, consumers cooperatives, transportation service, health service publication, electricity service cooperatives etc.

Under the small farmer development programs small farmers groups have been organized since 1975. Such groups are found to be 33,288 with total membership of 126,305 under 457 village development committees by the FY 2000/01.

In the forestry sector, the development of the informal cooperatives through community and leasehold forestry is assess worthy. In order to improve the economic status of the community members and the forest situation, 224 groups under the community forestry programs and 43 groups under leasehold forestry programs, have been established as informal cooperative groups initiated by the Department of Forest (DoF) in 2001/02.

There are irrigation users groups, electricity user groups, livestock development service group, in the informal cooperatives. Several NGOs and INGOs have promoted the community based informal cooperatives to provide financial support and other service to them. The total number of NGOs have reached to 13,681 whereas NGOs who are promoting informal groups are Action Aid Plan, Save the children, South Asia Partnership, Canadian Center for International Study and Cooperation (CECI) etc. It is worthy to mention that the major funding agencies for the promotion of informal cooperatives are GTZ, Danish Embassy, Japanese Embassy, IFAD, Neer Japan etc.

Table-11 : Number of NGOs Established in Different Fiscal Years

Fiscal Year	NGOs	Cumulative Number of NGOs
11996/97	No. of NGOS	5,978
1997/98	No. of NGOs	1,410
1998/99	No. of NGOS	1,490
1999/00	No. of NGOs	2,155
2000/01	No. of NGOs	1,351
12001/02	No. of NGOs	1,297
Total		13,681

Source: *Social Welfare Council*

It is estimated that more than 50,000 informal cooperatives groups are promoted be a large number of NGOs and INGOs, through the several community development and micro finance development projects. Those projects last for 2 to 5 years. Just before their termination efforts are made to turn informal groups into formal groups.

A very few informal groups are formally registered within the life of the projects. The rest remains as informal groups. Most of the informal groups appear to have been collapsed after the projects are terminated.

It is also found that small farmer groups exist within the formal small farmers cooperatives.

Likewise, formal cooperatives provide necessary support to informal co-operatives in terms of supply of commodities to farmers as required while the informal-cooperatives have wide coverage of activities such as savings and credit, vegetables and seed production, marketing, health care service, drinking water, irrigation service, electricity, education, forest promotion and protection, handicrafts, skill development, livestock development, dairy development, rehabilitation of school, improvement of trail, construction of pit latrines, women empowerment etc.

4.10 Support of Government to Informal Sector

HMG has given a top most priority to rural development through the participation of rural community. Emphasis also is laid on development of informal sector. HMG is found to have encouraged the rural community through the INGOs and NGOs in terms of savings mobilization and financial inter-mediation under the rural financial development and all round life improvement activities under the rural community development programmes.

HMG has recognized South Asia Poverty Alleviation Program (SAPAP), United Nations Development Program, Credit Program for Rural Women (CPEW), Women's Empowerment Program (WEP), Micro Credit Project for Women (MCPW), Self-help Program, Participatory District Development Program (PDDP), Rural Micro-Finance Development Center (RMDC), ADB/N, Nepal Bank Limited (NBL), Poverty Alleviation Fund, Small Farmer Development Programme (SFDP) etc.

These programmes and agencies are allowed to carry out fairly finance development and community development activities. Legal supports are provided by HMG through the Nepal Rastra Bank Act, 1955, Company Act, 1997, ADB Act, 1967, Finance Companies Act, 1978, Development Acts, 1978, Societies Registration Act,

1978, Financial Intermediary Societies Act, 1998, Insurance Act etc. for facilitating micro finance for the development of informal sector. Even the Ministry of Social Welfare and Women Development and Social Development Council are taking care of the informal sector.

Despite all these supports, a lot of scope is there for improved support to informal and formal sector cooperatives on government's part. The areas for the improvement are suggested as:

1. Liberal control of interest rate
2. Stop political support for debt forgiveness and distribution of cheap loan.
3. Exemption of tax
4. Policy support through recognition of the role of savings and credit organization, priority to support savings and credit organizations.
5. Mechanism for coordination among donors.
6. Mechanism for strong and better supervision and monitoring.
7. Legal support for conversion of informal groups into formal groups.

4.11 Possible Impact of WTO Policies on Agriculture Cooperatives

WTO established on January 1995 by replacing the General Agreement on Tariff and Trade (GATT) requires removal of quantitative restrictions on the trade and reduction of tariff rates globally. Out of the 29 WTO agreements that governs WTO members, the agreement relating to the agriculture has a far-reaching impact on the agriculture of the developing countries like Nepal. WTO agreement on agriculture sets out a program for progressive liberalization of trade in agriculture. It focuses on three major areas of commitments namely; market access, domestic support, and export competition. There are a number of different commitments, which are to be maintained by the different countries, developed countries, developing countries and least developed countries.

WTO, as it is known, will eventually open the doors to free flow of trade and allow a large number of commodities with reduced

tariffication at competitive price. Integration of agriculture sector with the free trade regime offers a big challenge to Nepal like other developing Countries in the region. On the one hand, this is also taken as a window of opportunity for correcting market distortion, increasing efficiency, and improving food security at the national and household levels. But on the other hand, there are arguments that it also allows unrestricted flow of cheap food which may displace the poor farmers unless the umbrella of safety nets are provided and playing fields are levelled off so to speak.

Tariff reduction and binding of tariffs are termed as the tariffication which is under market access commitments. Developing and least developed countries enjoy preferential status in terms of tariff reduction. But the level of tariff can not be discriminated.

Domestic support emphasizes on limiting the effect of trade distorting measures. It includes three forms of subsidies. Firstly farmers can determine the internal and external price so that they can get higher price of the commodities. Secondly, they are provided the subsidized agricultural inputs so that they can compete their commodities in the market. Thirdly they are provided subsidy in terms of cash. The developed countries must reduce aggregate measure by 20 percent within six years and the developing countries should reduce it 7 percent within ten years while the least developed countries are not required to follow it.

The agreement refers to that since export subsidies are considered as trade distorting, it bars their use unless they qualify under some exceptions.

The eligibility of membership of WTO depends upon the meeting of its all the requirements. Since 1989, Nepal has been participating as an observer in the meeting of GATT replaced by WTO as decided by the government in 1996, necessary actions have been processed for its membership. In this regard, memorandum on foreign trade regime has already been submitted. HMG has also sent replies of 457 questions including the questions related to the subsidy support.

4.12 National Agricultural Policy in the Context of WTO.

The agreement on the agriculture seeks to transform the international trade liberalization through different measures. The agreement lays stress on making direct and indirect control over the sub-

sidies on agricultural commodities. It binds WTO member nation to reduce the export subsidy on agricultural commodities. Likewise, other commitments is to control such commodities. One important point is that WTO member nations are obliged to transform the non-tariff import barriers replacing fixed tariff or by maintaining the list of such commodities.

However, some flexibility is granted for products with no existing market. Accordingly, member nations may take special safeguard actions under specific conditions for appropriate response to sudden increase in imports. The developing countries may waive obligation of traffication in case of balance of payment difficulties.

Similarly, they can be given the flexibility to bind their tariff at ceiling rates. Such tariff ceiling may be higher than their applied rates. In addition, the developing countries and least developed countries enjoy preferential status in terms of tariff reduction.

In the context of provisions mentioned above, HMG has adopted a number of policies in relation to WTO agreements. It may be noted that Nepal has voluntarily followed many provisions of the Uruguay Round of Trade Negotiations. Main policies followed are in the following.

1. Import process has been liberalized and simplified
2. Tariff has been reduced
3. Some subsidies have been removed or reduced
4. Foreign currency in the current account has been made full convertible

For the adoption of the policies indicated above, Nepal requires to reduce tariff even after it receives WTO memberships. Rather it can fix the tariff ceiling, binding of upper level compared to the existing tariff.

In case WTO membership is granted to Nepal, some possible impacts are expected in general may be;

1. Technical and economic assistance she will avail of.
2. Legal matters will be transparent and long term for attracting local and external investment

3. Free trade will increase the commercial activities. This will help create more employment
4. WTO membership will be beneficial to avail any trade dispute with the foreign countries
5. Nepal will be able to export any commodity selected on competitive advantage.
6. Since the concurrence is required, the changes of trade policy and legal matters, will not be flexible. This will ensure the long term Plan for local and external entrepreneurs.
7. The issue of transit facility will somehow be solved.

The agricultural cooperatives, although, they have very much limited imports and export activities at present, have gradually been increasing. It is expected that they should also be availed of any support as other private entrepreneurs will receive under WTO agreements.

CHAPTER V

5.1 Framework for the Governance of Cooperative Development

The cooperative development in Nepal is as old as about four decades. It is felt that after the enforcement of Cooperative Act, 1992, a dramatic change has taken place in the growth of number, types and levels of cooperatives and its operational style and their legal governance. But their operational style and performance are yet to be improved.

Cooperative system as such is considered to be more effective and most appropriate in democratic set-up to improve the social and economic status of the people in the context of liberalization and globalization and it is to be competitive.

The big challenge is to give a boost to cooperative spirit and to make cooperatives transparent. Another challenge is to provide better service to the members of the cooperatives. The board, of directors and professionals are responsible to meet the challenges mentioned earlier. These two parties have the same goal in order to achieve the set objectives and should be effortful to set up good governance in the cooperative without any compromise with self-interest of a group of individuals or of individuals. Members of cooperatives always look for good governance in their cooperatives through the implementation of cooperative values and principles and legal norms and procedures. Good governance will be experienced if the existing laws are honestly applied and if cooperative spirit with due respect is put into practice.

Good governance is a fundamental factor for the effectiveness or success of the cooperatives. It has four elements as mentioned in the annual report of ADB 1998 – accountability, transparency, predictability and participation.

In cooperatives the board of directors and staff are answerable to the ultimate beneficiaries – general members for whom they perform their duties and exercise powers or authority.

Any decisions to be taken or any activity to be carried out in the cooperatives are to be transparent. If any member wants to obtain information about them, arrangement should be made for their availability with least cost to them.

New policies, rules and regulations or performances to be implemented are to be clear and to be informed in advance to cooperatives. Such predictability will benefit them. Any remarks and suggestions will help improve actions to be taken shortly.

Cooperatives need active, sincere and dedicated participation in their activities from all the sections of the people – group of elected members, general members and staff. Such participation will be very productive and beneficial.

The four elements mentioned above are found to be important framework for the governance of cooperatives and their development.

But the situation of effective governance among the cooperatives in Nepal is not found to be satisfactory as expected. And this has significantly impeded to the quality performance and rapid quality growth of cooperatives so far. If good governance is followed in each of the cooperatives, their quality growth may be possible.

5.2 Cooperative Legislation Effecting the Growth of Formal and Informal Agricultural Cooperatives

Cooperatives recognized by the laws are considered formal cooperatives. But there are a number of cooperatives, which are not recognized by the law but operating as informal cooperatives. The growth of both formal and informal cooperatives is in continuation. The new Cooperative Act has been formed as per the spirit of universally accepted cooperative principles.

The informal cooperatives, though are not recognized by the Cooperative Act, are allowed to operate their activities, as adopted by HMG policies and other legal arrangement.

The contribution of both formal and informal cooperatives is signifi-

cantly assessable in the social and economic development of the people. No operational barriers are found and both are operating on equal footing.

However, both formal and informal cooperatives are to be prepared to face the new challenges created by the liberalization and globalization and to follow the universally accepted cooperatives values and principles.

The Cooperative Act claims that it has adopted the very spirit of cooperatives values and principles – voluntary and open membership, full autonomy and independence etc. However, it does not seem to be free from the criticism. People from some corners are very much critical on different aspects of the Cooperative Act. As argued, the implementation of the Cooperative Act is not in its spirit, the cooperation as such required has not been well-defined and cooperatives principles are not incorporated. Moreover, monitoring of cooperatives is not being done in time.

Therefore, a serious consideration has to be given to understand the critical comments raised from the different corners as mentioned above. The qualitative growth of formal cooperatives will be ensured only when the necessary amendments are made. With regard to the informal cooperative sector, specific legal arrangement seems to be lacking for its operation. The critical comment in sustainability of informal cooperatives is that such cooperatives runs with the full support of NGOs and INGOs for the lifetime of their projects. But after the expiry of the projects, either they are collapsed or registered as formal cooperatives in the poor condition. This has caused a waste of resources and hindered their sustained growth. Even the provision as such, can be incorporated in the Cooperative Act that the informal cooperatives will be regarded the pre cooperatives and converted into full-fledge cooperatives in certain conditions and within the limited time period.

As indicated above, necessary measures are to be taken into consideration in the cooperative legislation for the growth of formal and informal cooperatives.

5.3 Proposals on Amendments in Cooperatives Legislation

The cooperative legislation has helped make rapid growth of for-

mal cooperatives. At the same time, informal cooperatives have grown tremendously. Such growth has created problems in some areas which are mainly dealt with the conceptual framework, structural framework, monitoring and legal actions against misuse of fund. Some proposals on amendment in the existing act are suggested in the following paras:

1. Most of the people who operate cooperatives are ignorant and confused about the cooperative concept, values and principles. Therefore, cooperation should be defined and cooperative values and principles should be incorporated in the act in brief.
2.
 - a) As mentioned in the provision in the act, primary level single purpose cooperative is eligible to join central level single purpose cooperative union. The single purpose cooperative with the big volume of business and wide network throughout the country is also eligible to be associated with NCF. This reflects negative effect on district and central level unions because the primary cooperatives neglect them. Hence, there should be restriction of membership i.e. the single purpose cooperative should be allowed to join district level cooperative union only. Any kinds of primary cooperative too should be restricted to become the member of district level union.
 - b) The Act has made a provision that district level union maybe organised from the administrative point of view. To organise district level union, it is required to have a minimum five primary single purpose cooperatives. Similar purpose of required number of single purpose cooperatives may not be available within the district. In such circumstances, single purpose cooperatives should be allowed to organize district level union operating beyond the boundaries of one or more districts. Similarly, two or more single purpose cooperative unions should be allowed to organize union recognizing as district level union.
 - c) A Provision should be made for the organization of pre-primary and union level cooperatives at least for one year with some conditions in relation to business. If the condi-

tions stipulated are fulfilled by them within the time limit they should be recognized as full-fledged cooperatives. It is expected that the above mentioned amendments will automatically solve the problems of recognition of formal and informal cooperatives.

3. As experienced, the numerical growth of cooperatives have caused serious concerns in respect of lack of frequencies of monitoring, fraudulent misuse of fund collected, violation of legal norms etc. A few people with ill-intention and bad motive are found to have been involved in fraud or misuse of funds. There should be checks by making provisions for strong actions against such persons in the act in order to protect the interest of members.

DoC is responsible for monitoring of cooperatives. But in fact it's size of manpower has become smaller compared to that of number of cooperatives in DoC. In such case, the Registrar should have the power to designate federal institutions which can undertake the responsibility of monitoring and supervision.

The proposed amendments will help check solve the misuse of cooperative forms of enterprise, fraudulent misuse of funds and misuse of power. Besides they will solve the problem of unsustainability of informal cooperatives through their conversion into formal cooperatives in easy manner.

CHAPTER VI

6.1 Conclusion and Recommendations

Keeping in view the present economic situation, the predominance of agriculture, will continue in the country's economy for a longer period. The overall activities, except HMG's supportive agencies are either under the private sector or cooperative sector. It is felt that the scope of agricultural development is very wide with active participation of farmers and formal and informal cooperatives.

To improve the present agricultural situation, huge capital investment, improvement of inputs and outputs delivery and receiving mechanism, output quality improvement and strengthening of marketing system are needed.

Farmers have realized that savings are the potential source for the capital investment, marketing is the way to realize the cost of production and profit generation and the institutional capacity for handling of all the agricultural activities is still weak. The scope for improvement of agricultural sector through formal and informal agricultural cooperatives is wide. Their roles are vital. In the first place, they have to play the role for mobilizing savings so that investment in agriculture may be possible internally.

In the second place, quality inputs should be regularly provided and supplied to their members in time. In the third place the output marketing should be intensified and broadened through the efficient collection, price guarantee, procurement, storage, processing and sales in the domestic and international market. In the fourth place, information and communication in relation to the price and market should be developed for the agricultural cooperatives and their members. In the fifth place, HMG's agriculture service delivery mechanism should be linked with the agricultural cooperatives and

their members not only at the central level but also at the grassroots level.

In the sixth place, a cooperative development bank with two tiers -- central and local levels should be established in order to meet the financial needs of cooperatives and coordinate them.

Lastly, member education and varieties of training on various aspects of cooperatives and agricultural development should be available to the general members and office holders of formal and informal cooperatives. They should move ahead to the concrete action plan in due course.

CHAPTER VII

7.1 Case Studies

7.1.1 A case study of Prakash Village Bank, Ratnanagar, Chitawan (Informal Cooperatives)

(a) Socio-economic Situation

Chitawan is one of the 75 administrative districts under the Central Development Region which is one among the five development regions. It is connected with the district boundaries of Gorkha and Dhading in the North, Tnahun and Nawalparasi in the West, Makawanpur and Persa in the East and India in the South.

There are two Municipalities and 36 Village Development Committees in Chitawan district. It is situated in the inner terai (plain land). It has a very suitable climate for different agricultural crops such as paddy, maize, mustard, wheat etc and livestock product, cow and buffalo milk and meat, poultry, piggery etc. Ratna Nagar is a town and has municipality which is one of the two municipalities of the Chitawan district. It is about 15 kilometer away from Bharatpur which is district headquarter and municipality. The population size of Chitawan district is 472,048. Of, them, 37,791 people live in the Ratna Nagar Municipality. Male population is 18,931 while female population is 18,860. The Municipality comprises of 7,456 households. The average size of family is 5.08 persons per household. It has an area of 2,218 square kilometers. The population density per square kilometer is 213.

There is a varied range of caste and ethnic communities in the Municipalities. Tharu ethnicity is one of them. This community is backward in the economic educational status and remains aloof from the development initiatives of the state. Majority of the Tharus population are found to be engaged in agriculture.

In this community, women are found to be more active than men. They participate actively in the farming activities as their male counterparts and look after farming and the household management. They are eking out their lives at subsistence level. Their level of education is found to be very low and mostly are illiterate and particularly, womenfolk of the community has no access to education and loan. Their health condition is very poor and way of life is very much traditional.

(b) Prakash Village Bank

To assess the informal sector cooperative's emergence and Success in the whole movement, Prakash Village Bank (PVB) has been identified for the study. The PVB is an agricultural based informal cooperative though it is known as the bank by name.

PVB has been promoted by one of the local NGOs – Nepal Indigenous Development Society (NIDS) collaborated with the Private Agency Collaborating Together (PACT) of Nepal in the Ratna Nager Belsi on 6th February 1998. To uplift the poor condition of the Tharu community, it been organized with 26 local women. The objectives of PVB are specifically identified to collect savings, utilize them among the members of PVB, to generate income through agricultural production and other activities.

PVB has been able to explore the sources of its income through the savings from the members, nursery plantation, vegetable farming, opening shop, interest on loan, renting of sprayer etc.

(c) Management

PVB members have constituted a group operation committee consisting of 4 members – Chairman, Secretary, Treasurer, and Controller. All decisions are made unanimously. Specific rights and duties are assigned according to each position held. Chairperson is responsible for overall activities of PVB. Treasurer carries out his duty as maintenance of record, and keeping of income and expenditure. The Controller exercises her power to look into the account maintained for transparency.

Likewise, the Secretary takes care of organization of meetings and day to day management. Normally, the group operation committee

meets every week while group meeting is held fortnightly. PVB is the informal group which does not have legal entity. It is a voluntary organization united for achieving objectives of raising living standard of the group members as a whole.

(d) Business

Savings deposit is one of the main activities of PVB. It is done by two ways. One is mandatory and the other voluntary. Each member of PVB is obliged to deposit Rs. 15 as saving every fortnightly. If she failed to deposit the obligatory savings, she would be fined as decided by the group operation committee. But such cases are found to be very rare.

Whatever PVB collects savings it distributes them as loan to its members in accordance with the group operation committee's decision. The interest rate of loan is 24 percent. The group loan is extended to the group member through the cooperative sustainability joint collateral. The loan preferably are used in nursery plants, vegetable farming, operation of grocery shop which will be owned by the group itself.

PVB has made its income from other sources such as subsidy granted by NIDS, sales of books on women empowerment programme, earning from interest, contribution collection thorough the ceremonial group (Deusi Vailo) rent from sprayer a part from group farming activities mentioned earlier.

The income trend of PVB is encouraging for the last five years. The total income of the Bank accounts to Rs. 165,049. Out of income dividend is distributed every six months as decided by PVB meeting. The amount of dividend is debited to its member's personal account. PVB has also invested an amount of Rs. 10,000 on land purchase where farming activities are being carried out. (See Annex 7)

(e) Achievements

PVB is found to be one of the most successful informal groups in Chitawan district. The savings collection is regular, its mobilization is effective, loan recovery is cent percent, group income is comfortable and the financial position is strong enough. The group

members are coherent. No dispute or discord is found among them. Decision is always amicable or unanimous. Accounts and documents and their implementation are fully transparent. Good governance is well maintained.

(f) Constraints and Suggestions

PVB, however, seems to be limited by some constraints. One of the them is their accounts which are not formally audited except rough calculation. It lacks technical back stopping, capability building and training for its members is also lacking for its institutional and financial sustainability. Improvement in the above areas are emphatically suggested.

7.1.2 A Case Study of Formal Milk Producers Cooperative Union, Palpa

a) Socio-economic Situation

Palpa, a hilly district is located in the Western Development Region. It is surrounded by Gulmi, Syngja and Tanahu districts in the North, Nawalparasi in the East, Rupendhi in the South and Arghakhachi in the West. The area of the district is 1,373 sq. km. The size of population of Palpa is almost 268,558 of which male is 46.57 percent, female 53.43 percent). The density of population is 156 person per sq. km. The district has 49,942 households at the rate of average 5.3 8. size (according to population census 2001. It has 66 Village Development Committees and one Municipality – Tapsen, which is also the headquarter of the district. The population in the municipality is 20,431 of which male and female are 49.95 percent and 50.05 percent respectively. Total number of households are 4,813.

Livestock rearing is an integral part of agricultural farming system of Palpa district. It has two major benefits as a major source of compost and fertilizer for farming as has been traditionally practiced and as consumption of milk in household and making regular source of income through its sale. In some cases livestock manure is used for the generation of households energy - *gobar* (cow dung) gas.

Livestock farming in Palpa has become the most attractive source

of income, besides their traditional crop and farm activities people are increasingly involved in rearing cows and buffaloes for milk production. The produced milk was sold in the local market. They sell their milk, in most of the cases on credit. The recovery of credit was experienced very difficult.

Milk producer farmers can sell their milk to the dairy processing plants. But it does not seem to be profitable to deliver their milk to the plant on individual basis from the cost point of views. Therefore, some of the farmers of Palpa district have organized milk producers cooperatives (MPC) and others have joined them.

In Palpa it is found that there are 19 milk producers cooperatives. They had been supplying their milk to the milk supply scheme (MSS) Butawal under the Dairy Development Corporation, a parastatal organization in the past. But the farmers had acutely suffered from the milk holidays that MSS Butawal would announce from time to time that ranges between 1 to 4 days in a week for about four months. The result was – MPCs big losses. This again aggravated the problem of farmers and were found to have been demotivated to produce more milk. MSS Butawal on the other hand was not able to collect the produced milk by MPCs because it did not meet even the cost incurred in collection of milk.

Amidst these problems, District level Milk Producers Cooperative Union of Palpa (MPCU), set up in the year 1995 had taken an initiative to resolve the problem.

In January 1999, MPCU Palpa established a chilling center by installing a chilling vat borrowed from MSS Butawal in the district headquarter – Tansen. Out of 19 MPCs in the district, 6 MPCs agreed to contribute Rs.10,000 each for the operation of chilling vat.

But only 10 MPCs of 19 have been supplying their milk to MPCU. They have easy access to deliver their products. The rest are still in problem to deliver their milk to the union due to geographic inaccessibility to the location where the chilling vat is installed.

At the initial stage MPCU had started to sell milk partially in open market in the urban areas of Palpa and MSS Butawal. Some quantity of milk would be delivered to MSS Batawal particularly during

the flush season when the milk production would have increased excessively. At that time MPC had incurred a heavy loss due to spoilage of milk, due to high temperature on the way to delivery of milk.

A chilling vat with a capacity of 1,000 litres was bought from the National Dairy Development Board (NDDB) on the basis of installment payment in February 2000. The old chilling vat belonging to MSS Butawal was returned.

At present, 9 MPCs of Palpa are regularly supplying their milk to MSS Pokhara due to easy accessibility.

It is also noted that farmers nowadays are found to be fairly motivated to produce more milk than before. The reason behind this is that they can sell their milk to MPCU and other local markets. MPCU, Palpa also has been able to absorb more quantity of milk products such as liquid milk, ghee, yoghurt, paneer and khuwa (Milk Product). However, the milk production is inconsistent. During the lean season it decreased tremendously and it is excess during the flush season. In such cases, MPCU, Palpa also has to face a difficult situation in order to absorb the milk supply.

Despite a number of problems, MPCU, Palpa has been able to supply 15,000 liters of chilled liquid milk, 245 kilogram of ghee, 145 liters of yoghurt, 25 kilogram of paneer and 7 kilograms of khuwa every day to the urban consumers through some vendors and outlets.

Recognizing the activities and their performance the Village and Town Partnership Development Programme (TPDP) under Tansen municipality, District Development Committee (DDC) Palpa and Local Initiative Support Project (LISP) have come forward to provide support in terms of share capital and loan. From this support MPCU, Palpa has bought two more chilling vats with a capacity of 1,000 litres from NDDB with the terms and conditions as in September, 2000. Necessary assistance was also provided by the Asian Development Bank funded under its dairy machinery supply scheme. Three storeyed building with the amount of Rs. 0.65 million has been constructed with a view to installing a milk processing plant with support of all the agencies and project mentioned earlier.

MPCU, Palpa has planned to sell 3,750 liters of liquid milk to the local market and 10,000 litres of preserved milk to MSS, Pokhara and 375 kg ghee, 42 kg paneer, 17 kg khawa, 334 litres yoghurt, 167 kg hard cheese per month. Out of the total business, MPCU has been able to make net profit of about two hundred thousands in the FY 2001/02

b) Management

As mentioned earlier MPCs are affiliated to MPCU, Palpa. They form a general assembly which meets every year.

The general assembly elects a Managing Committee consisting of 7 members and an Accounts Committee consisting of 3 members for a period of 3 years. It is responsible for providing policy guidelines to the managing committee for the operation of MPCU, Palpa whereas the Managing Committee is responsible for the operation of day to day works. With the help of employees the total dairy business and administration are handled by a manager with the help of employees as per decisions of Managing Committee and provisions mentioned in the bye-laws and financial rules.

d) Accounts and Audit

As prescribed in the bye-laws and Cooperative Act, and Rules the books of account maintained by the employees, supervised by the accounts committee and audited by the external auditor are approved by the Registrar of DoC.

ICA CO-OPERATIVE IDENTITY STATEMENT

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 Principles of Co-operation are guidelines by which Co-operatives put their values into practice.

First Principle: Voluntary and Open Membership: Co-operatives are voluntary organisations, 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 Principle: Democratic Member Control: Co-operatives are democratic organisations 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 also 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. Members 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 their 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 organisations controlled by their members. If they enter into agreements with other organisations, 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-operative provide education and training for their members, elected representatives, managers, and employees, so that they can contribute effectively to the development of their Co-operatives. They inform the general 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 the Community: Co-operatives development of their communities through policies approved by the

