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Social and Solidarity Economy

Cooperatives as a means of fostering Integrated and Sustainable Development

A case study of Nepal

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Abstract

The present paper intends to explore the role of cooperatives in the continuation and sustenance of socio-economic activities of the members in a conflict economy. It is a case study of cooperative development in Nepal with insurgency problem during 1997 to 2007. We have made an attempt to find answer to the central question: How development of cooperatives was possible during the recent insurgency period in Nepal? It has been argued that development of cooperatives is achievable in a conflict economy. Even if banks are closed down cooperatives can continue their activities and earn profit and run efficiently during insurgency period. It is feasible for cooperatives to provide small loan without difficulty and the members can improve their socio-economic status. The Nepalese case study proves that cooperative movement can foster integrated and sustainable development during a period of insurgency. The study is based on an in-depth investigation of the economic activities of the co-operatives in Morang District of Nepal for the period from 1997 to 2007. This is a descriptive as well as an analytical research work.

Keywords

Cooperatives; Sustainable Development; Nepal, Conflict Economy.

Bio

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I. INTRODUCTION

Economic development of a developing country is greatly facilitated through the striving of the public enterprises as well as development of co-operatives. As a business model, cooperatives are fundamentally different from conventional profit-driven companies. They operate in line with the values of self-help, participation, democracy, equality, equity and solidarity. The success and failure of the co-operatives on achieving the set goal depends upon their strategy, policies of government and the active participation of the people.

The present paper intends to explore the role of cooperatives in the continuation and sustenance of socio-economic activities of the members in a conflict economy. This study shows that cooperatives are helpful in minimizing the insurgency problem in a nation. There have been very few research studies on the sustenance of socio-economic activities in a situation where civil war like circumstances prevails. This is a case study on cooperative development in Nepal with insurgency problem during 1997 to 2007. We have made an attempt to find answer to the central question: How development of cooperatives was possible during the recent insurgency period in Nepal?

It has been argued in this paper that development of cooperatives is possible in a conflict economy. They can actively work in the field of micro credit for providing small loan facilities and the members can improve their economic status. Even if banks are closed down cooperatives can continue their activities and earn profit and run efficiently during insurgency period. Cooperative societies can set strategies to facilitate improvement in socioeconomic condition of the members in a situation of conflict.

The focus of this study is Nepal, a country located in South Asian region. Nepal is one of the least developed and agriculture-dependent countries where nearly 90 per cent of the total population lives in rural areas. Most of the farmers possess tiny parcels of land and many are landless. Open unemployment rate is 6 per cent. Though literacy rate is increasing over the years, it is still much lower (68 per cent) in comparison to the need for accelerating the pace of development with the adequate availability of human resources. There is a great challenge before Nepal to eliminate massive poverty and provide for basic needs of the people.

Background and Motivation

Nepal faced conflict situation since 1997. Communist Party of Nepal, Maoist (presently it is Communist Party of Nepal) did not believe in the existing parliamentary system and started revolutionary underground war to capture power. Unequally treated people, unemployed people, deprived, poor and other unsatisfied groups of people supported the war. Initially the war was in the middle-west region of the nation. In a short time, the conflict spread all over the country because of the unstable and weak government. The government at that period could not address the immediate needs of the needy people. In 1997 nearly 42 percent people were below the poverty line, which formed the fertile ground for the Maoist insurgency. There was unequal distribution of wealth where 80 percent of the total resources were in the hands of 5 percent rich people. There was huge poverty gap. All these problems were addressed by the slogans of the Maoist revolutionaries (Gautam and Bagchi, 2016).

In the time of conflict, the commercial banks and other financial institutions except co-operatives were gradually closed, merged or shifted towards the urban area, where more security is available. The villagers of the district were seriously affected by this move of banks and financial institutions. The villagers had no source of availing finance. Even the regulation upon money supply and

supervision on the commercial banks by the Central Bank of Nepal was weak due to the hindrances created by the Maoists in entering the remote villages. The Maoist activists attacked banks and financial institutions of government sector. Revolutionary members also attacked other private firms and industries. Therefore, the number of banks, financial institutions and industries gradually decreased during this eleven-year conflict period.

It is interesting to note that during this period, the co-operatives managed by the villagers had not been affected. Numbers of co-operatives increased in this period and there were active participation of the members. In fact, many new co-operatives were established throughout the country during this period. Every co-operative operated efficiently during this period.

In this study we have tested the following hypotheses with the support of secondary and primary data:

- Conflict situation led to enormous growth of cooperatives in Nepal especially in rural areas, during the recent period of conflict.
- Cooperatives helped in improving the economic status of the members even in the time of conflict.

In addition to the general discussion on the role of cooperatives as a means of fostering integrated and sustainable all round development of Nepal through secondary data, we have made a case study of its Morang district. This study is based on an in-depth investigation of the economic activities of the co-operatives in Morang District for the eleven-year time period from 1997-2007. This is a descriptive as well as analytical research work.

The structure of the paper is as follows: Section I is introductory. Section II presents brief review of relevant literature. Section III has dealt with development of cooperatives in Nepal during the study period. In section IV, a case study of growth of cooperatives in Morang district during the conflict period has been made. Section V presents concluding observations and policy recommendations of the study.

II. BRIEF REVIEW OF LITERATURE

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

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

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

Co-operatives provide assistance to its members, especially the underprivileged ones. During war or post-war period; assistance, grants and other means of cooperation help the people in the world. If the people are seriously disturbed by conflict, the assistance through the foreign agencies as well as local agencies is helpful to minimize the conflict in a country. The caste conflict in the Sarayevu

war made them enemy but the co-operation to each other after the war made them the nearest friend (Anderson, 1999).

Reforms in rural financial system were initiated in 1956 by the Government of Nepal with the formation of a number of savings and credit groups under a settlement programme launched in Raptidun valley (Pradhan, 2007). A legal framework was created by enacting "Co-operatives Act 1963" and co-operatives rules were formulated. This provided a legal basis for the registration and operation of multipurpose co-operatives. During that period, co-operatives were seen as an important vehicle for rural saving mobilization and credit delivery. Separate bank for the co-operatives known as Co-operative Bank was set up in 1965. Though by 1976, altogether 1059 such co-operatives were registered; the co-operative movement could not gain public confidence. As a result, these co-operatives suffered from financial and managerial problems as well as political interference. After the introduction of democracy in 1991, co-operative movement got momentum. The new co-operatives act was formulated in 1992.

In the context of development of Maoist conflict, Nepal seems to be politically integrated but not 100 percent physically and socially integrated because of geographical complexities and poor performance of the plan on physical linkages with rural area. The distribution of resources, opportunities and fruits of development towards the poor and rural areas have been critically weak. So, the negative correlation between poverty and the plan efforts deepened the growth of poverty and its vicious cycle. Poverty is a root cause of development and strength of Maoist conflict; otherwise, Maoist only belonged to a political party, instead of armed rebels. Effective land reforms measures, investment in human capital, development of rural infrastructure, participatory and cooperative development activities involving all stake holders especially the poor are the better measures to reduce poverty in Nepal.

Both institutional and individual researchers have studied socio-economic impact of the co-operative sector. Their studies have revealed that economic development of the backward society is possible only by the medium of co-operation in the name of co-operatives society, small farmers' cooperative, financial co-operative etc. Rural bank concept is also possible by the medium of co-operatives. In a situation of internal conflict in the domestic economy co-operatives are the medium to reach the deprived people and a means of addressing their economic problems.

Acharya (1989) has traced out the problems of poor farmers such as their ignorance and the low level of income. To investigate these problems he has made area survey and household survey. This study has highlighted the socio-economic activities of farmers and has indicated that the credit injection may serve as a tool to mobilize the rural poor but the credit would not alone be productive until other services could reach in the area. This study has shown that the small farmer co-operative in an experimental basis is quite successful.

Bhandari (2003) in his study has concluded that accumulation and mobilization of capital, employment opportunity, mobilization of local inputs, resources and skill, poverty alleviation, end of exploitation, supply of necessary goods and services, broader participation of people, assistance to the formation of development infrastructure, development in industrial and business sector and emphasis on planned economic development are the basic areas of intervention of co-operatives in which they are proved as backbone of economic development.

Cooperatives have been found to be the best means of mobilizing small residual resources of the rural poor farmers in Nepal (Sharma et al, 2009). They are also regarded as way of living of the poor farmers. They are used as the means of bringing social and economic development of the weaker sections of the community. They act as the important sources of institutional credit to provide financial assistance to the members. They eliminate middlemen and protect their members from the exploitation of moneylenders. They encourage savings and investment among the

members and other people. Cooperatives are also helpful for the supply of better quality goods and services at cheaper rates. They generate employment opportunity; promote cottage and agro-based industries in the country. They may be the tool for fair distribution of income and resources among the people. Cooperatives help to maintain moral standard in the society through shunning off the social evils like gambling and drinking. They also develop the feeling of cooperation and mutual support among the people.

Cooperatives used to play important role in Nepal in delivering inputs and seeds, providing markets for agricultural products, providing financial services and providing market for milk (Mali, 2005). With growing privatization since 1990s, the role of providing inputs, seeds and market for agricultural products, especially in the peri-urban areas, have been largely assumed by the private entrepreneurs from the cooperative sector. Yet, cooperatives are providing such services significantly in the rural areas. The financial services and dairy business remains the stronghold of cooperatives in the rural areas. Both the finance and milk sectors of cooperatives are the prime sectors that have helped cash inflow into the rural areas.

III. DEVELOPMENT OF COOPERATIVES IN NEPAL DURING THE STUDY PERIOD

During the conflict period (1997-2007), the cooperative societies experienced an enormous growth. Government banks and other financial institutions were either closed or shifted towards towns but new cooperative societies were established at the same time in the villages. Commercial banks could not improve their deposit base as required because they had to spend more amounts for the maintenance of security personnel. On the one hand, they were the targets of armed militants. On this background, they shifted their office from the villages or closed the rural branches. Even Nepal Rastra Bank (NRB) (central Bank of Nepal) also closed the Ilam and Bhadrapur branches at this time (NRB, 2005b). Thus, the cooperative societies were in the position of enormous growth in the Nepalese economy.

The number of cooperatives in the country as a whole had been increasing in the study period. It means the total number of cooperatives in each fiscal year had increasing trends. The numbers of additional cooperatives in the economy were increasing. Table 1 below shows the number of cooperative institutions, which were added in each financial year (F/Y).

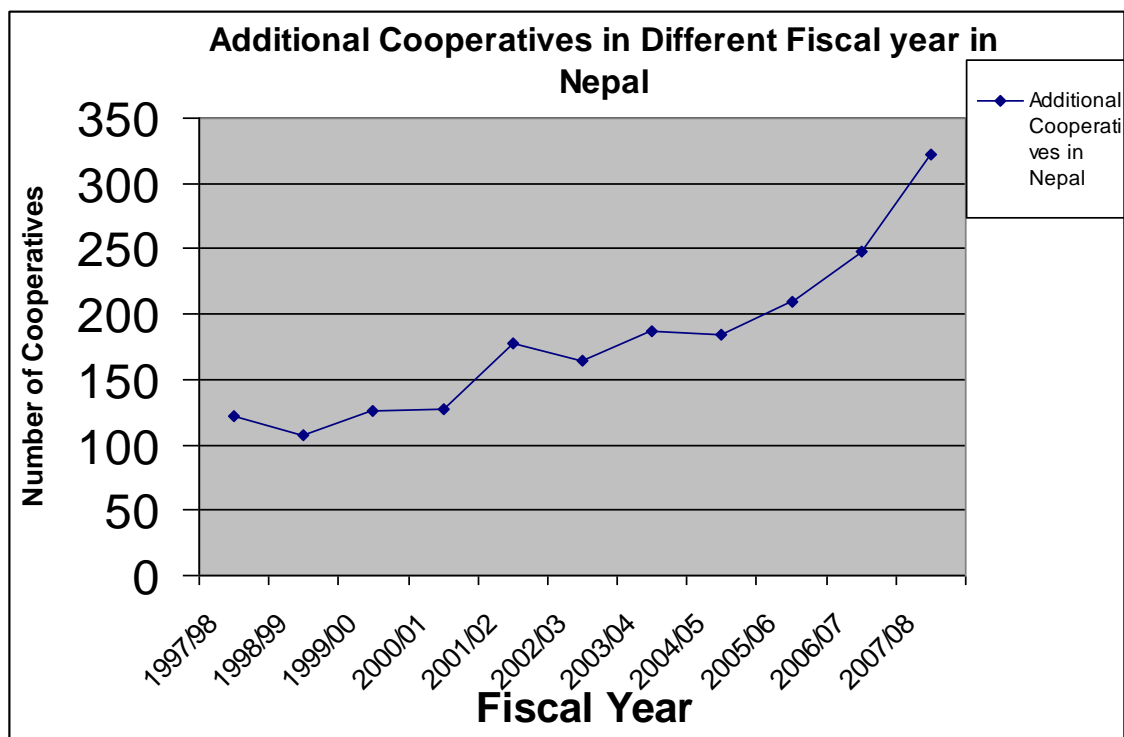
Table 1
Increasing Trends of Number of Cooperatives in Nepal

Fiscal year	No. of Additional Cooperatives	Cumulative Numbers	Percentage Change per year
1997/98	122	122	
1998/99	108	230	88.5
1999/00	126	356	54.8
2000/01	127	483	35.7
2001/02	178	661	36.9
2002/03	165	826	25.0
2003/04	187	1013	22.6
2004/05	184	1197	18.2
2005/06	209	1406	17.5
2006/07	248	1654	17.6
2007/08	322	1976	19.5
Total	1976	1976	1519.7 *

Source: Cooperatives Directory, 2007. *Total percentage calculated on the first fiscal year base to the cumulative number of F/Y 2007/08 data.

The number of cooperatives was not only having increasing trend in certain areas but in overall Nepal also it was showing increasing trends. Because of the spread of conflict all over Nepal, the expansion of cooperative institutions was also widespread in the economy. They proved to be better medium of finance to the remote areas as well as many village areas in Nepal. In total, 1976 cooperatives were added in the cooperative system during the conflict period. The nationwide increasing trend of the cooperatives is depicted by the following Figure 1.

Figure 1



Source: Cooperatives Directory, 2007.

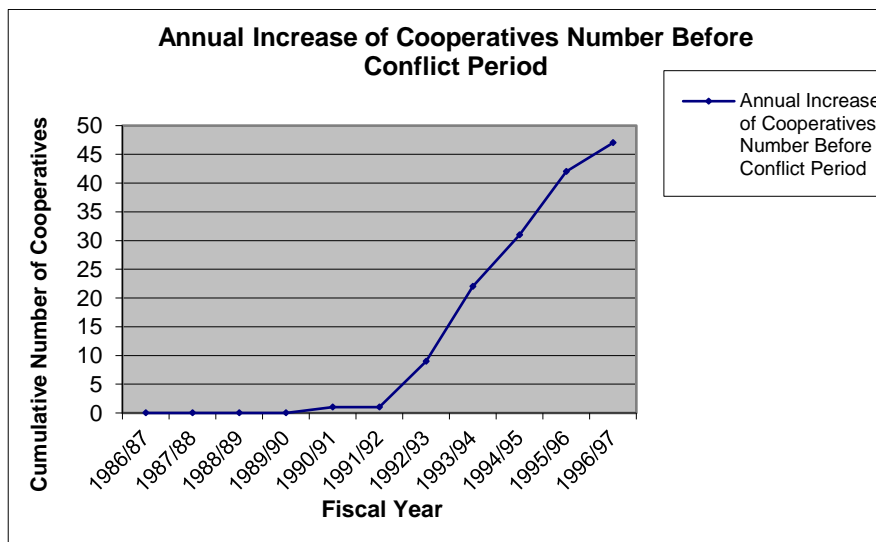
IV. GROWTH OF COOPERATIVES IN MORANG DISTRICT DURING THE CONFLICT PERIOD – A CASE STUDY

Densely populated Morang district on the background of conflict was chosen for this research study. This district was chosen in view of the rapidly increasing activities of co-operatives along with the whole country. Ten co-operative societies were chosen for in-depth investigation. Published data on the activities of each co-operative for the period 1997-2007 were obtained by using a structured questionnaire. All secondary data had been collected from the publications of the Department of Co-operative of the Government of Nepal. Out of total 50262 members of cooperative societies, 100 members had been selected for field survey from ten co-operatives. Samples for the field survey were drawn randomly. Selected members belong to different occupation, origin and economic status.

Annual Growth Rate of Cooperatives before Conflict Period

The cooperative development in Morang district before the conflict period was characterized by a slow and halting progress. There were traditional and cultural cooperatives in the district. The numbers of organized cooperative institutions in the district were rare. People at that time had a little knowledge about the functions of cooperatives though they had established some cooperatives. There were only 47 cooperative societies established during eleven years of time before conflict period. Figure 2 shows the annual progress of cooperatives establishment in Morang district before the conflict period.

Figure 2

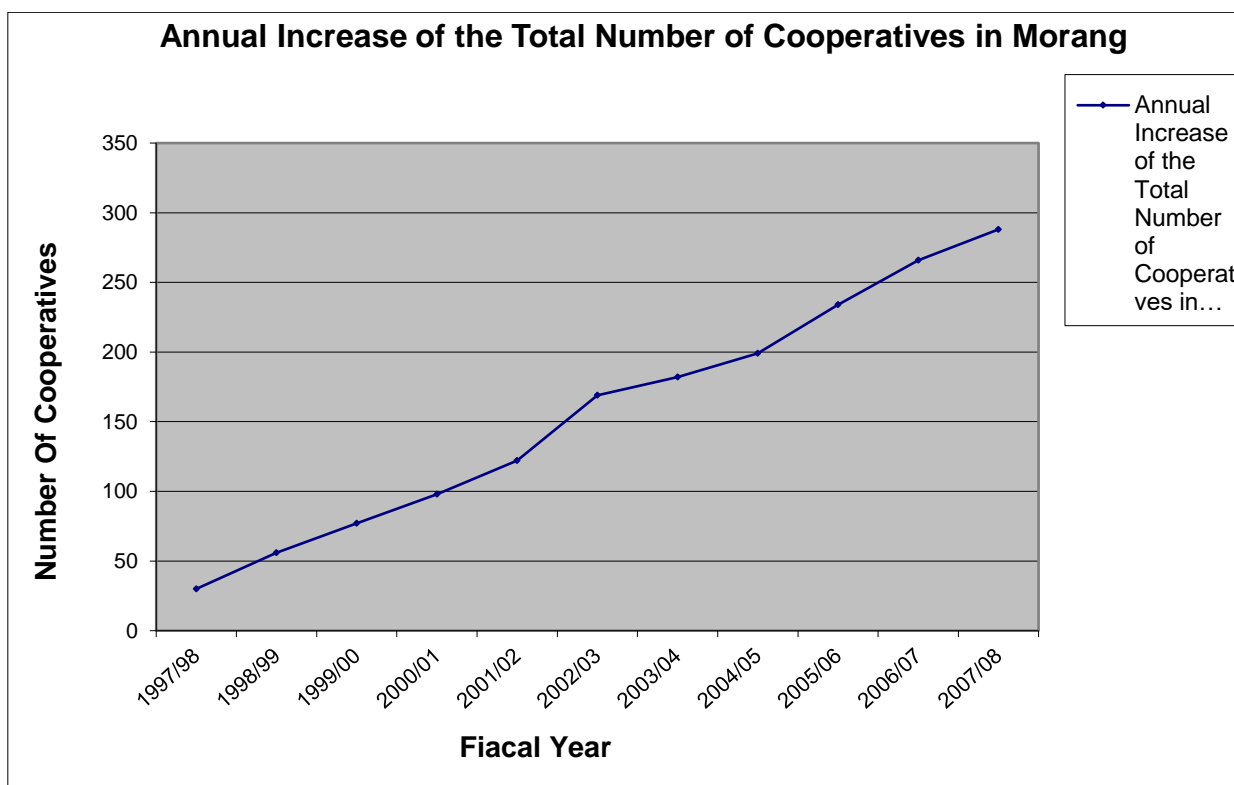


Source: Divisional Cooperative Office, Morang.

Annual Growth Rate of Cooperatives during Conflict Period

There was difficult period for the financial intermediaries in the time of conflict. Organized banking and financial institutions were shifted away or closed from the place where they were providing services. This created financial vacuum in the villages and thus the needy people organized financial and self-service cooperative societies. These cooperatives provided different resources such as financial, technical, subsidy, social insurance etc to their members. Due to its multiple benefits, it became extremely popular to the people and many cooperatives were established in Morang district during the insurgency period. Figure 3 displays annual development of cooperatives during the conflict time.

Figure 3



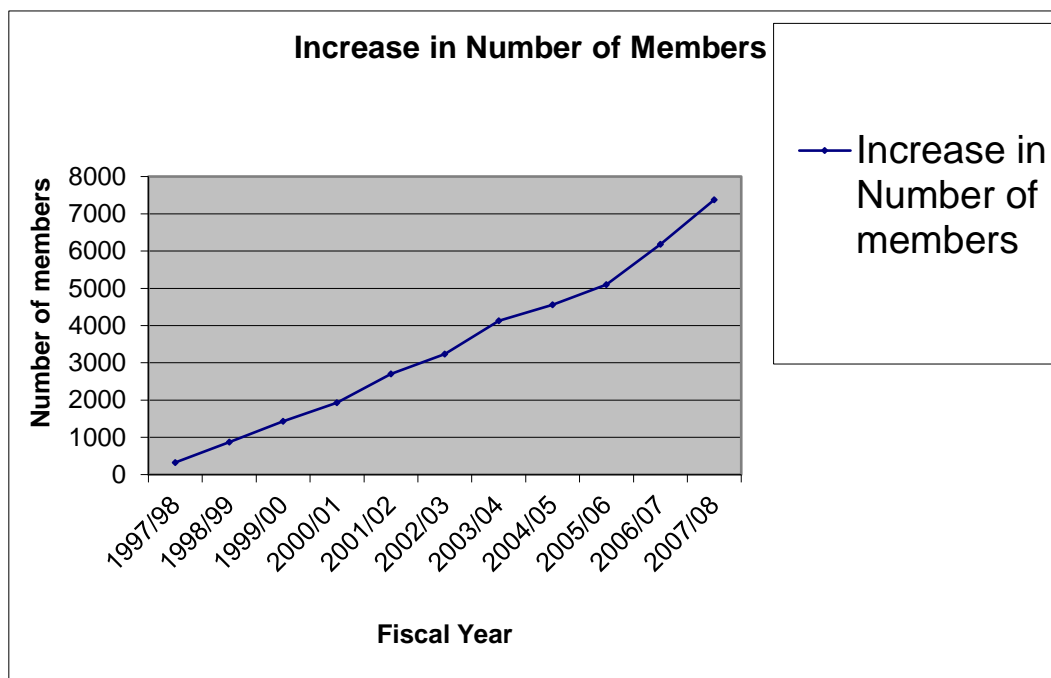
Source: Divisional Cooperative Office, Morang.

Figure 3 shows the enormous increase in the numbers of cooperatives in Morang district in the time of conflict. There was cumulative increase in the numbers of cooperatives in each fiscal year. Large numbers of cooperative societies were established and were in existence in the time of conflict because they proved to be the better medium of finance in the villages.

Increasing Trends in the Number of Members in Study Area

The numbers of members in the study area during the selected period of analysis was found to be increasing. In each of the cooperatives number of members increased barring exceptional cases. The conflict took place since 1997/98 and the increasing trend of numbers of members was apparent since that point of time. The conflict gradually increased from that time and the number of members of such cooperatives was also found to increase continuously. The trend line in Figure 4 shows the increase in number of members.

Figure 4



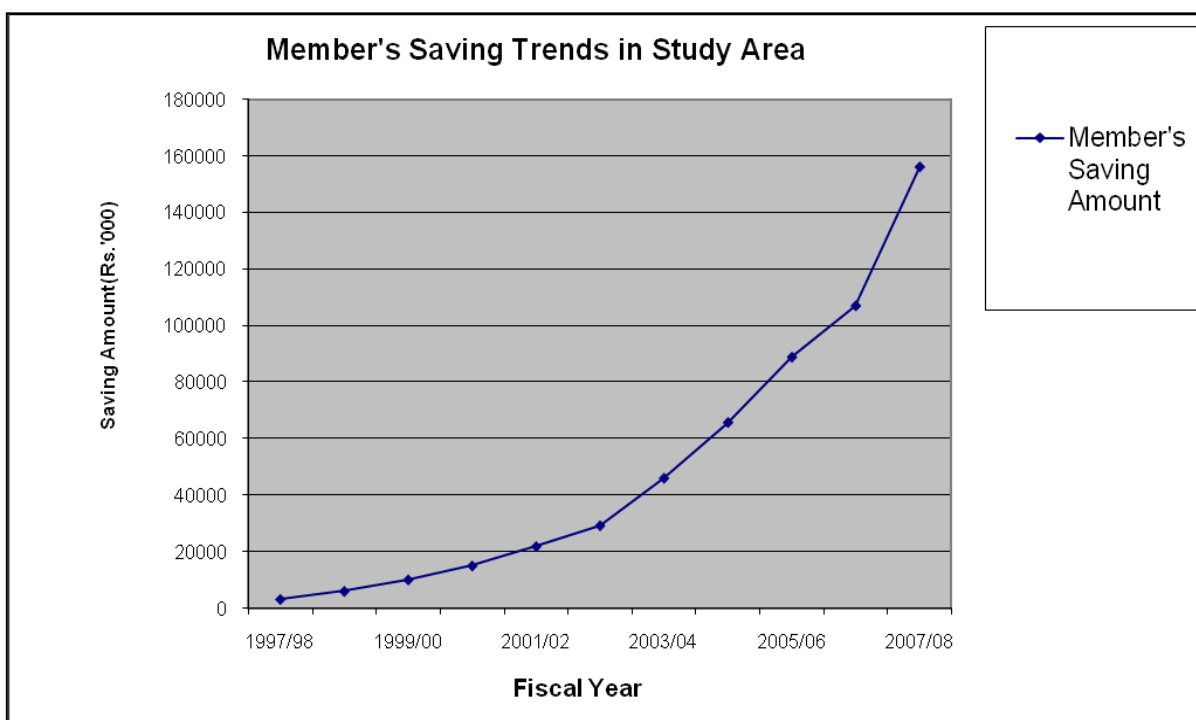
Source: Annual Reports of the Selected Co-operatives.

Figure 4 shows the regular increase in number of members in cooperative societies in Morang district during the period 1997-98 to 2007-08. It is because of the fact that during these years banks and finance companies gradually shifted to urban areas or closed due to the severe conflict situation. But cooperatives were flourishing in such situation by increasing their number of members.

Member's Saving Amount in Study Area

Members deposited their surplus amount of money in the cooperatives. This saving is helpful for further investment in the economy. Members had faith on the cooperative societies in their own surrounding because they are share holders of such cooperatives. Revolutionary party members themselves were also the members of these cooperative so that such cooperatives were not the target of their attack. The members of cooperatives protected their institution for better use of their resources and to fulfil the then rural demand for fund. They provided short-term loan to the members during the severe conflict situation when landlords, businessmen, banks and other institutions were not ready for providing resources (loan) to the borrowers. Collection of loan as well as saving for the cooperative societies was easy and people felt safe to keep their money in such institutions. Cooperatives were proved to be the better medium of finance in rural areas where the banking system was either not accessible or shifted to urban areas from rural areas or were closed on that place due the conflict. The figure 5 below shows the saving trend of the members in different fiscal years.

Figure 5



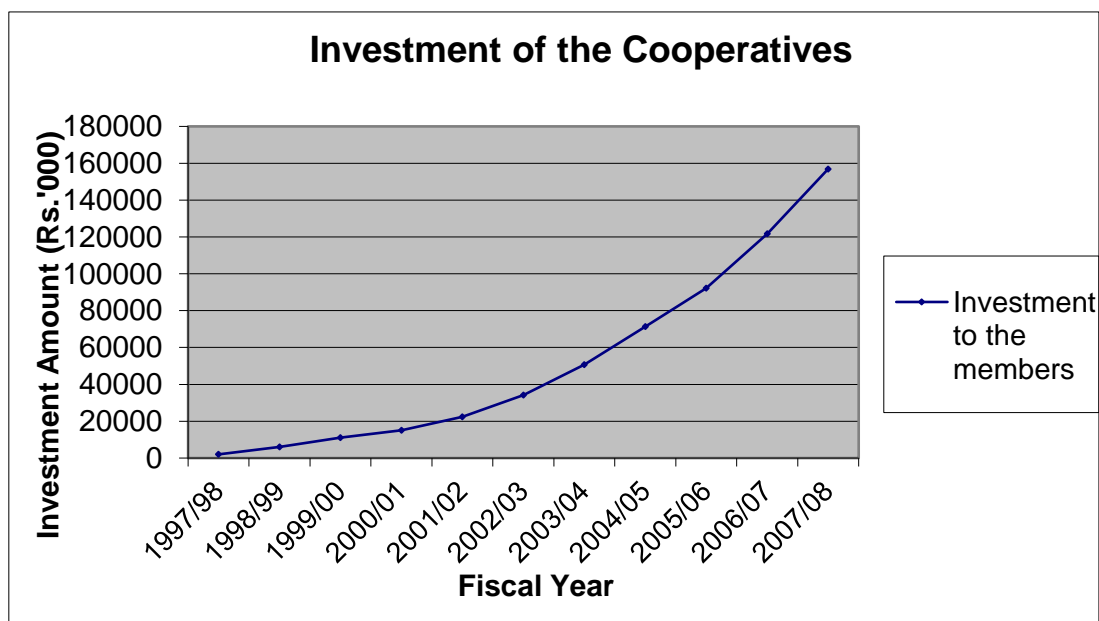
Source: Annual Reports of the Selected Co-operatives.

Figure 5 shows the saving trend of the members of cooperative societies in the district during the conflict period. It depicts the increasing trend of saving in each of the fiscal year. The members saved more in the cooperative societies because there was no scope to save money anywhere else except the cooperative societies.

Investment Amount of Cooperatives in Study Area

Investment by an institution is needed for the better operation of that institution by making profit. But the profit margin is related with investment in safe and secure schemes. For the same reasons the investment by cooperatives proved to be the foundation for the integrated and sustainable development of the cooperatives. Investment on the one hand provides resources to the members; and on the other hand earns profit for the members. In the same time, the banks and other financial institutions reduced their investment to the rural areas because of the fear of loss in a civil war like situation. This increment in investment by the cooperatives in Morang district during the period of insurgency is being shown in the Figure 6 below.

Figure 6



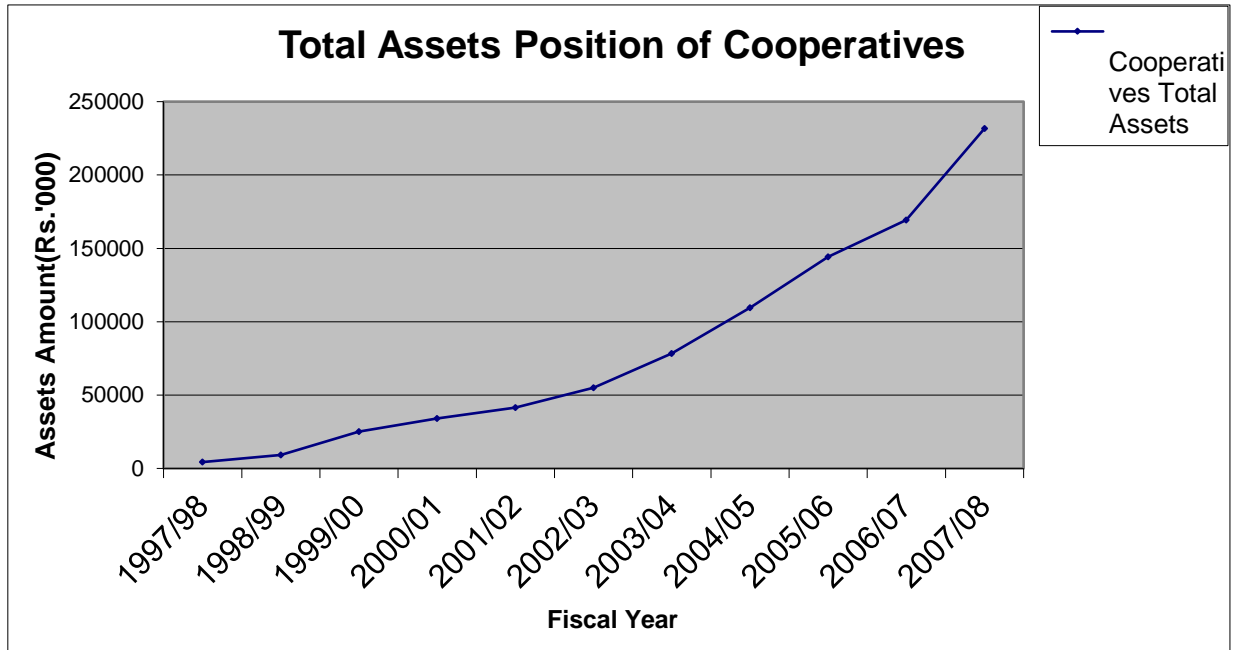
Source: Annual Reports of the Selected Co-operatives.

Figure 6 shows the trend line of investment in each of the fiscal year. The line, which starts from the origin, has moved gradually upward to the right in the figure. This figure clearly shows that investment in the study period had been continuously increasing. This proves that the insurgency problem could not adversely affect the investment activity of the cooperatives in the economy.

Total Assets of the Cooperatives

Total asset is one of the tools for measuring the development and performance of a cooperative society. Assets acquired by the cooperatives are helpful to assess their economic condition. Cooperative societies in Morang district added good amount of assets in each of the fiscal year during the conflict period. These total assets were either collected from the member's shares or from the effort of the institutions. Total assets include cash balance, bank balance, investment, loan to the members, furniture-fixture, machine, land and building and others. Figure 7 below shows the position of total assets of the cooperatives in the study period, which was continuously increasing throughout the eleven-year time period.

Figure 7

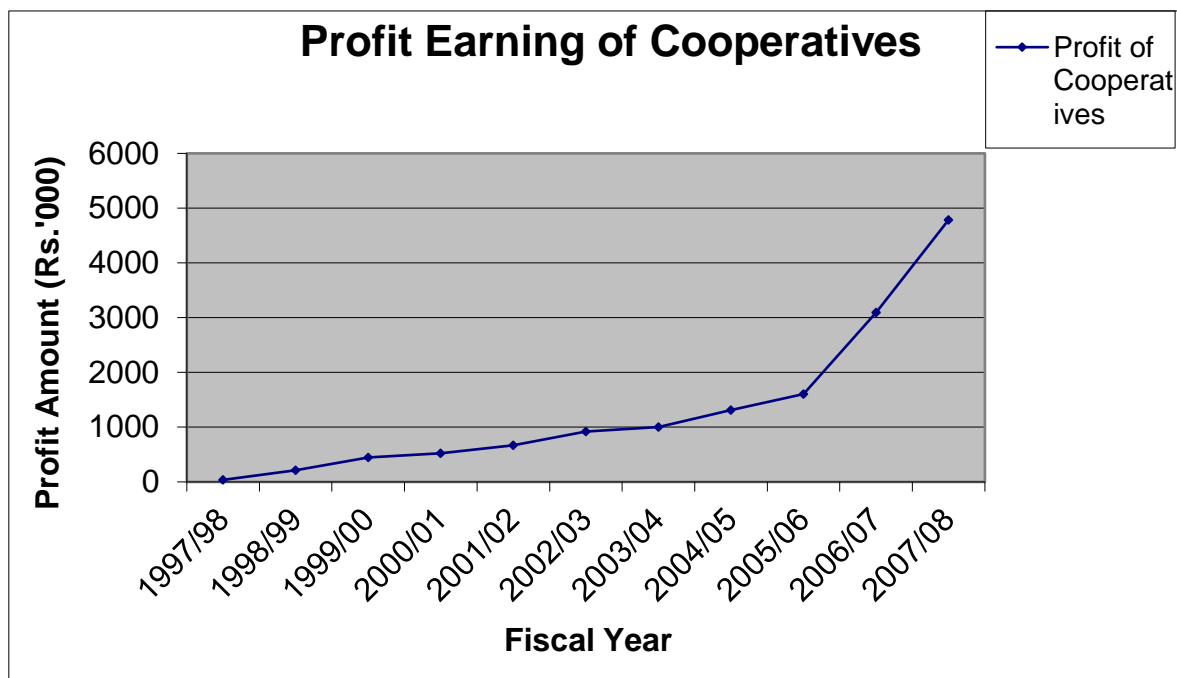


Source: Annual Reports of the Selected Co-operatives.

Annual Profit of the Cooperatives

Every financial institution has the objectives of earning profit in each fiscal year to distribute some dividend to the shareholders. This profit is conducive to the further growth of such institutions. Cooperatives cannot run efficiently, if there is no profit. But during the insurgency period, the selected cooperatives earned profit normally. The profit amount of the cooperatives increased annually barring some exceptional cases. Figure 8 below shows the profit trend of the cooperative societies during the conflict period.

Figure 8



Source: Annual Reports of the Selected Co-operatives.

Figure 8 shows that there is positive slope of the trend line of profit earning. The profit of the cooperatives societies gradually increased in each fiscal year. The net profit of the cooperatives increased in spite of socio-political obstacles prevalent in the study period. It proves that the cooperatives sustained well in the time of conflict. Those cooperatives are the part and parcel of members' life for cooperation, resource mobilization and depository of surplus money. Though the profit amount of the cooperatives seems to be small but it has hidden benefits to the members in various forms such as ability to incur health expenditure either through the group insurance or through the direct money transfer in members' account.

V. CONCLUDING OBSERVATIONS AND POLICY RECOMMENDATIONS

Concluding Observations

Cooperative societies registered enormous growth in Nepal during the conflict period. These institutions increased their investment, saving, shares, total assets, fixed assets as well as profit margin during the study period. In the same way, the number of members of the cooperatives increased by many times in each of the fiscal years. People wanted to be the members of the cooperatives during the conflict period because the insurgency was creating financial deadlock when the organized banking sector had moved out from the villages.

These cooperative institutions experienced growth not only in terms of increase in the number of members but also through the creation of employment opportunity in their offices. As a part of social solidarity economy, cooperatives mobilized the resources of the society in proper manner

by giving interest to the depositor, provided loan to the entrepreneurs and employment to the people either through direct recruitment or through the indirect activities related to the cooperation. It is found that the earlier trends of profit, increasing deposit, increasing membership and the level of share capital were sustained during the conflict period in the selected cooperatives of Morang district. Disbursement of loan amount for the cooperatives was found to be easy task during that period when 80 percent cooperatives could easily disburse the loan amount, whereas, banks and finance companies feared to disburse the loan. Therefore, cooperatives are useful in the time of social conflict if they are used for fulfilling the expected social objectives.

Thus the study shows that cooperative development is possible in an economy during a major social upheaval. It is revealed that cooperatives were actively working in the field of micro credit provision. They were helpful tools for improving socio-economic condition of the members even though there was a severe conflict situation. Thus the hypothesis, that conflict situation led to enormous growth of cooperatives societies in Nepal during the period of conflict has been proved to be true.

Collapse of the rural economy in Nepal could be resisted as a result of sustained economic activities of cooperatives during the crisis period. The cooperatives managed by the local people were not target of the revolutionaries because of the nature, number and socio-psychological characteristics of its members. The members of the cooperatives were present extensively throughout the villages so that the villagers protected them. The Nepalese case proves that it is possible for cooperative movement to foster integrated and sustainable development during a period of insurgency.

It can be inferred from the delineations made above that development of cooperative societies in Nepal during the insurgency period facilitated in achieving several targets of SDG 16. First, it promoted a just, peaceful and inclusive society. Participation of both men and women especially belonging to underprivileged sections of society in large numbers in cooperative activities helped to fulfil the conditions needed for achieving a just and inclusive society. It also created conditions for peace and normalcy in a society marked by violence made by a group of people who were themselves members of cooperative societies. Their membership helped their families to sustain stability of family income which in turn resulted in a less violent and less troubled society in the disturbed situation. If they did not become members of cooperative societies then their uncertain and unstable income could have made them more violent.

Secondly, in addition to reduction of nationwide violence created by the trouble makers as explained above, violence at household level was also reduced as a result of participation and empowerment of women members of cooperatives especially belonging to the deprived and marginalized families.

Thirdly, activities of cooperative societies have facilitated to reduce bribery and corruption because the members felt that these societies are their own. In fact, their sense of belonging to their societies was quite high. Their feeling was that cooperative societies were for them, of them and by them. Therefore there were slightest need and chances of bribery and corruption. Moreover, in Nepal moral lessons are imparted to the members through cooperative education on corruption, environmental protection, respecting the elders, and on the need for standing by each other in times of need through regular meetings and workshops organized by the societies throughout the country as a component of their social activity. Level of transparency in running the cooperative business also appeared to be very high. During Annual General Meetings of the societies results of financial accounts and social audits are presented, shared and discussed with the members in a transparent and cordial manner.

Finally, increased level of inclusion and participation of common people that happens through cooperative movement in the above means made the fostering of integrated and sustainable development possible to a large extent during the conflict period in the Nepalese economy and society.

Policy Recommendations

On the basis of this study, the following policy recommendations can be made for the further progress of cooperatives in Nepal, which may be applicable for other developing countries with similar levels of social and economic development.

Lack of regular inspection, lack of capital, inadequate knowledge of accounting and file keeping are the common problems of cooperatives. Tax burden upon the institutions, low level of fixed assets such as own land and building, a little expertise on the managing of the cooperatives also adversely affect the cooperative societies. It is necessary to establish a separate agency to supervise these institutions.

The density of cooperatives is more in the urban areas rather than in rural areas. Therefore, encouragement should be made to establish more cooperatives in rural areas by giving special discount on tax, by providing subsidy and other supports. Regular inspection and supervision of the registered cooperative societies should be done. Government should guide the cooperative sector by the appropriate policies and plans. It should provide seed-capital to the rural cooperatives for solving their problem of capital deficiency.

Participation of lower and lower middle class members should be encouraged by policies and programmes of the cooperative societies. More and more female membership should be encouraged to take membership of cooperatives as half of the population is female in the study area and also because the cooperatives operated by female members were found to be more successful.

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