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## Mini Review

# Role of Cooperatives in Poverty Alleviation of Rural Farmers in Nepal: Empirical Evidences

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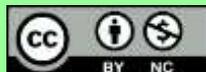
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### Abstract

Cooperatives are community-based autonomous organization which is member-owned, managed, and controlled. The cooperative model of production and marketing at the grassroots (i.e., community) of Nepal is seen as an instrumental strategy towards agricultural growth and commercialization. The persisted cooperative movement of Nepal up to 1991 and breakthrough as Cooperative Act 1992 has helped to alleviate poverty through empowering the poor community at institutional, economic and social level through employment generation, increasing incomes, improving health, education and sanitation, women's empowerment, better physical infrastructure, and also due to food security. Despite of these impressive outcomes of cooperatives, there are still a lot of lacunae to be addressed at different aspects like managerial, policies, human resource management, and R&D. Thus, the attitudes of government and the generality of the people must be changed positively towards cooperative development, since it will be too difficult to achieve meaningful balanced development without involving abundant small farmers, for whom cooperative approach is highly contributing to capture economies of scale.

**Keywords:** Commercialization; Cooperatives; Farming; Poverty trap; Rural farmers

#### Abbreviation:

R&D- Research and Development; ICA- International Cooperative Alliance; ILO- International Labor Organization; VDC- Village Development Committee; FAO- Food and Agriculture Organization; HDI- Human Development Index; DI- Development Initiatives; NPC- National Planning Commission

## Introduction

Cooperatives are democratically established and people entered enterprises which are aimed to fulfil the common needs (ICA, 2019). It is egalitarian concept to raise economic, social and cultural situation to new level so as to realize their peoples' aspirations. A cooperative is an autonomous association of women and men, who unite voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise (ILO, 2002). An agricultural cooperative is a formal form of farmer

collective action for the marketing and processing of farm products and or for the purchase and production of farm inputs which play an important role in supporting small agricultural producers and marginalized groups such as young people and women (Agriculture for Impact, 2019). The concept of agricultural cooperatives refers to the conventional classification of cooperatives. It is an association of farmers and other rural households who have voluntarily joined together to fulfill a common socio-economic objective (basically raising income) by



undertaking suitable business activities, making contribution to the capital required and accepting fair share of the risks and benefits of the business according to the principles of cooperation as reformulated by International Cooperative Alliance (ICA). They empower their members economically and socially and create sustainable rural employment through business models that are resilient to economic and environmental shocks. Cooperatives offer opportunities and a wide range of services to small agricultural producers, including improved access to markets, natural resources, information, communications, technologies, credit, training and warehouses (FAO, 2012). Cooperative functions with the guiding philosophy of group principle, self-help development and institutionalization of networks at the grassroots level to reduce poverty. A cooperative is guided by democratic norms and values which are shared by the members who empowered with one member one vote for the general assembly purpose (Tiwari & Nepal, 2017a).

In case of Nepal, establishment of Cooperative Division under the Ministry of Agriculture in 1953 heralded the institutional beginning of cooperative movement. Cooperative program at field level were launched in 1957 by establishing 13 cooperatives in Chitwan under the Rapti Valley Development Program, with an aim of reducing poverty and uplifting the livelihood of the vastly poor rural people who were facing numerous problems including lack of professional manpower, lack of road and communication facilities, economic destitution, vulnerability, social exploitation, drudgery and lack of employment opportunities (Simkhada, 2013).

Cooperative can be a key organization in the promotion of sustainable agriculture and rural development. These objectives can be achieved through enhancing people's participation, promoting market oriented production systems, increasing the bargaining power of the farmers, supplementing the existing service delivery system, providing credit and mobilize savings, facilitating the implementation of the government programs (James & Madaki, 2014). Cooperative marketing is emerging as an efficient marketing system in Nepal now days. Cooperatives help its members to raise their socio-economic status by reducing number of intermediaries providing appropriate value of their produce. Cooperative are involved in value addition through processing, helping the farming community indirectly by stabilizing the market place, and developing the new markets or creating new consumption by supplying newly developed processed items. In addition, it protects local farmers and consumers by checking and interfering in the business carried out by large private companies, who try to maximize their benefits in domestic markets by unfair market control. It strengthens the bargaining power of member farmers as they are not compelled to sell over-produced volume at dumping level

prices when cooperatives have the capacity to absorb this excess volume. It provides complementary banking services and other marketing activities (Poudel, Mamoru, & Muto, 2015).

Small Farmers Cooperative (SFC) is a multi-service cooperative designed to deliver primarily financial, but also non-financial services to its members in rural areas. SFCs are civil society organizations, which pool their joint resources to meet basic needs and to defend their members' interests. They are member-owned and controlled and have an open membership policy towards "poor" farmers. SFCs deliver various financial and non-financial services. Financial services include various forms of voluntary and compulsory savings products, a variety of loan products as well as a livestock insurance scheme. Non-financial services include construction of irrigation channels, establishment of milk collection centers, nursery programs and women empowerment programs as well (Tiwari & Nepal, 2017b).

This mini review has been conducted with an objective to examine the role of cooperatives in agricultural development of Nepal. It is an attempt to solve the following research questions.

1. Do cooperatives really uplift the socio-economic conditions of farmers in Nepal as assumed and what researches show?
2. If it is, how cooperatives are influential to dislodge the farmers from poverty trap?
3. What are the major constraints and critical success factors of cooperatives for efficient and sustainable system in case of least developed countries like Nepal?

## Cooperatives: Historical Status

Poverty is multi-dimensional concept and specific to location, time period and social groups. It measures the levels of deprivation that encountered by human beings, community or society as a whole (Anand & Sen, 1997). In economic term, it resembles to income poverty which means unable to meet the basic needs that a person, household or community requires to have a basic standard of living like food, clothing and shelter (DI, 2016). Other concepts representing poverty are vulnerability, multiple deprivation, social exclusion and spatial exclusion (Birchall, 2003). As said, "the poor are poor because they are poor". It signifies the vicious cycle of poverty trap. Without having collective strength of poor themselves, they can only stay trapped at individual level (Birchall & Simmons, 2009). The poor need to get organized, but what organizes them?

There are several types of organizations that enable poor to get organized, like the public sector, private for-profit sector, non-governmental organizations (NGOs),

community-based organizations (CBOs) and co-operatives. Among these cooperatives are best form to unlock poverty trap. Cooperatives are quite representative of local people as a whole including poor people and endorse self-help approach. Poverty can be reduced through rural cooperatives. Rural cooperatives create the employment opportunities, help for capacity building of rural people, and more importantly a means of fund raising which help rural people in financial aspects (Aref, 2011; Wanyama et al., 2008).

In context of Nepal, around 25 % of people were below poverty line in 2010 (NPC, 2018). And also, around 65.6 percent of Nepalese are agriculture based which contains significant number of small landholdings. The cooperatives as independent and autonomous organization can change a lot for those small landholding poor farmers as show in Fig. 1. It shows that within poverty trap zone, income of today has least effect on income for tomorrow. So, big push (that could be cooperatives) is needed for those poor farmers to release from that zone and to gain higher productivity from today's capital (Fig. 1).

### Cooperatives: Key to Open Poverty Trap and Instrumental to Poverty Alleviation

Cooperatives have multidimensional role to uplift the socioeconomic condition of farmers. The major concept behind the poverty alleviation through the means of cooperatives is due to rural banking concept, or in other word as microcredit concept (Pokhrel, 2011). The others reason behind it are through employment generation,

institutional building, increased income, better health and well-being, women involvement and enhanced governance (Simkhada, Sharma, & Shrestha, 2006).

Cooperatives are found to effective arrangement in breaking the vicious cycle of poverty in the rural socio-economic context. This can be supported by the study conducted by Bharadwaj, (2012) found different levels of correlation between poverty factor and cooperative factor. For example, the correlation coefficient of numbers of cooperatives and per capita income was found to be 0.963. Similarly, numbers of membership with per capita income was found to be 0.982. Cooperative number was negatively correlated with HDI rank (-0.404) while cooperative distribution and regional poverty distribution was highly correlated (0.946).

Cooperative has also role in socio-cultural and political empowerment of Nepalese women which ultimately reflects on maintaining the social relationship, reducing the gender disparity, and involvement in social program (Poudel & Pokhrel, 2017). Earnings of women are more useful to invest in their children's education, family health treatment, family food and other social activities. The study conducted by Tiwari (2016) on the financial status of Small Farmers Cooperatives Limited (SFCL) in Surkhet district observed that women led management in SFCL Uttarganga (96% female) was better than Mehelkuna SFCL (34% female) in terms of deposit savings and income earnings. By nature of democratic, inclusive and participatory of cooperatives, it is helpful to make society integrative and peaceful (Bagchi & Gautam, 2019).

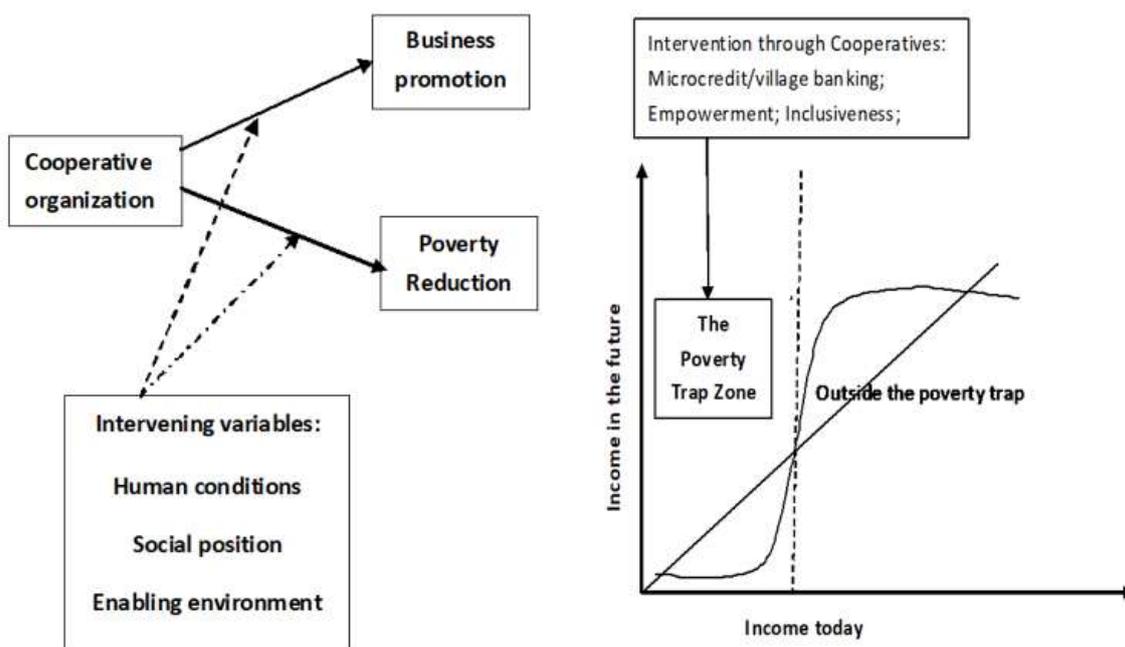


Fig. 1: Conceptual framework: Cooperatives as a tool for poverty alleviation, and S-curve model given by Banerjee and Duflo. [Source: Adapted from Sumelius, et al., 2013; Banerjee & Duflo, 2011]



The study conducted by Poudel, (2007) on farmer cooperatives for food self-sufficiency, commercialization and socio-economic development of Nepal found that farmers are empowered and economic growth is stimulated through cooperatives. Farmer cooperatives which are formed by the farmers, governed by the farmers, and run by the farmers in a democratic fashion are an ideal mechanism to increase agricultural production and farm income, enhance agricultural sustainability and food self-sufficiency, while promoting Nepal's socio-economic development through poverty alleviation.

A study of Sharma (2012) to examine role of saving and credit cooperative for poverty reduction in rupandehi district found that the poverty level of the study area has dramatically decreased to 8.2% from 24.1% after becoming cooperative members. The area of housing land is also found increased by 3 percent while decrease in use the use of land by 2% in own cultivated and 2 % in rented in and 6% in rented out land after comparing the membership of before and after in cooperative. The reason behind this was as people's attraction decreased in such professions due to the low productivity in agricultural sectors and they are more tended to other different job fields etc. Similarly, in study area after becoming cooperative share members, they have been able to increase their income by 175% from animal husbandry (cattle raising). Similar kind of results have also been exposed by the study of Tiwari and Nepal, (2017), which revealed that average annual income of surveyed households before and after joining the cooperative is found to be NRs. 313936.84 and NRs. 587188.94 respectively. This is because of the financial literacy and managerial capability of household gets increased after involvement in cooperatives.

### **Cooperatives: For Efficient Marketing System and Commercialization**

Marketing cooperatives, a society of farmers where the agricultural products being surplus is marketed and sold help the farmers to obtain the profits by reducing the cost incurred in transaction between producers to consumers. Co-operative marketing shortens the marketing channel. The study of Janagarathi vegetable and fruit producer agriculture cooperative (JVFPACL) of Vandara Village Development Committee (VDC) of Chitwan District showed that 80% farmers of sell their produce through cooperatives. JVFPACL farmers who were affiliated with the cooperative market channel were able to sale their produce on high price than other market channels by Rs 16.40 /Kg (Poudel *et al.*, 2015). Similarly, cooperatives play the role of mediator between traders and farmers with higher bargaining power than individual farmers. Marketing cost could be reduced to zero transportation cost and less commission cost (Poudel, Mamoru and Muto, 2015). In the countries like Nepal where more than 50% of farmers have

less than 0.5 ha of land for farming, the model of cooperatives could be instrumental to include the all farmers into common landing and farming system to commercialize the production and marketing of agriculture capturing economies of scale.

There are various forms of production and marketing systems, among which contract farming through cooperatives is fascinating. The findings of Mishra *et al.* (2018) on smallholding tomatoes farmers of Nepal found that contract farming through cooperatives in tomatoes tends to have higher profits compared to independent tomato growers by average of 73% (about NRs. 200,381/ha), while yield was 3,896 kg/ha (or about 27%) higher as compared to independent producers. The requirement of workers was significantly less for this model because of division of labour and hence, contributive to yield and profitability gain.

The involvement of cooperatives has increased the risk bearing capacity of farmers and helped them to direct on commercialization of production systems. For instance, the study carried out by Neupane *et al.* (2015) in Devdaha Village Development Committee (VDC) and Manpakadi VDC of Rupendehi district revealed the significant difference in the productivity of rice wheat and maize among cooperative and non-cooperative farmers. The productivity seemed to be highest in rice which was 1.78 qt/kattha with mean difference 0.36 qtl followed by wheat with mean difference of 0.24. The major reasons behind it was because of difference as risk bearing capacity and improved farming practices of the cooperative farmers. Sixty percent of non-cooperative farmers of those VDCs did not sell any of the products and 40% of them sold less than 25% of their product whereas the scenario was found to be very different among the cooperative farmers. Fifty five percent of this group sold 25-50% of their product and 45% sold more than 50% of their product. This clearly signified the impact of being involved in the consciousness about commercialization of farming system.

Thus, agricultural cooperatives have been responsible for introducing the exchange economy in remote rural area, thereby facilitating food trade and ensuring better food security. By doing so, cooperatives have not only been responsible for developing modern markets in rural areas where the co-operatives provide a ready market for farmers' crops, but also been able to reduce the transaction costs, which would otherwise hinder small farmers from market and production integration (Khatiwada, 2014).

### **Constraints and Possible Interventions Needed for Efficient and Sustainable Cooperative System**

On the basis of various literatures and research conducted about cooperatives in Nepal, cooperative model have been



proved to be effective for providing financial and social services for poor smallholding farmers of Nepal. However, it is not sufficient and needs a lot of reformation and attentions to strengthen the cooperatives in Nepal. The study conducted by Poudel (2007) found that appropriate governmental policies, programs, rules/regulations, and support systems are essential for the success of farmer cooperatives. A scientific farmer cooperative movement that empowers farmers, commercializes agriculture, enhances food security, transforms socio-economic conditions, and contributes to rural development in Nepal is necessary (Poudel, 2007). The Nepalese cooperatives also have some severe problems which require exigent attention at rural level. Major problems of cooperative development in Nepal are dormant members, weak governance and management, inadequately trained human resources, lack of business plans, weak monitoring information system (MIS) reporting and performance standard, absence of targeting and weak portfolio management are major problems of cooperatives in Nepal (Simkhada, 2013). The unbalanced situation between the investment and credit pattern is also prominent problems of Nepalese cooperatives. Similar result was revealed by Maharjan (2016), while doing case study on Kirtipur Multipurpose Cooperative Limited. The author has concerned on overflow of credit as compared to investment. Because, which may arise the problem of discontinuity and conflict between the members of the cooperatives.

Summing up literatures, continuous effort to improve governance of the cooperatives; targeting to increase participation of women and disadvantaged groups; institutional building for effective management; maintaining high portfolio quality; social and community development program and amalgamation of cooperatives are suggestion and factors to make sustainable system of cooperatives.

## Conclusion and Recommendations

Cooperative plays important role in poverty alleviation of small farmers and agricultural development in country like Nepal where weak economic units predominate. Small units in agricultural business, vast numbers of small industrial enterprises, artisans, laborers and consumer units cannot derive many of the economies of large-scale operations. But this shortcoming could be overcome if these small units join together to work in the form of cooperation. Cooperative can be means for common production system, source of employment and entrepreneurship. Thus, through cooperatives, farmers and rural life can be empowered and economic growth can be stimulated, which can be big push for poor to escape from poverty trap. Cooperative as marketing system is very useful for small holding farmers to commercialize the production and maintain profit. However, there are lots of flexibility, negotiations and

critical thinking required for successful cooperative. For this, capacity building of members, efficient communication system, appropriate governmental policies and programs, rules and regulations, credit availability, insurance policies, and governmental support systems are crucial.

## Conflict of Interest

The authors declare that there is no conflict of interest with present publication.

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