CHAPTER I
INTRODUCTION

1.1 Introduction:

Nepal is a landlocked country situated in south Asia with area extending in 147,181sq.Km is one of the poorest countries having per capital income about 473 U.S. Dollar (Government of Nepal macroeconomic indicator, 2009). It is located in between the latitude 26°22' north to 30°27' North and longitude 80°4' East to 88°12' East. The average length being 885 km east to west and average breath is about 193 km, north to south. It is an independent country that lies between two powerful counties, China and India.

According to Central Bureau Statistics (CBS) projection 2008/09, total population of Nepal is 27.64 million. Population growth rate is 2.25 percent. Based on the population census 2001 result, the county's urban population is 15.20 percent and rural population is 85.80 percent. The Himalayan region covers 6.3 percent; Hilly region covers 45.3 percent and Terai region covers 48.40 percent of the total population.

Nepal has abundant natural resources, but still it is backward in term of socio-economic development because of the inability in exploiting the resources. Exploitation of the available resources helps to make economy of a nation strong by flourishing various development works. Among the various resources available in the nation, water resource is the greatest one. It is the second richest country in the world in this resource. The geography of Nepal facilitates to mine water in three forms as- snow, rainfall and ground water. These forms have generated more then 6000 river and rivulets interlinked mainly in four major river systems carving to this tiny country Nepal. These perennial river systems carry out 225 billion cubic meter of water every year and flow down to Indian Ocean via India. The water resource of Nepal can be considered as incomparable means of all round development if it is used wisely. From the perennial rivers, hydroelectricity can be generated but it can also be multi purpose source of energy and tourism. This typical gift of nature has abundant potentiality of fresh water sources for drinking purpose and hydropower generation besides other uses.
Proper utilization of this huge potential of natural resource is one of the important means for the economic development of the country mainly to harness environmentally clean and renewable energy tapping the disseminated sources for sustainable energy to fulfill the domestic need as well as for export purpose. Supply of hydro energy in affordable price can be an alternative source for daily domestic consumption of energy and control the high rate of deforestation and disaster. Efficiently generating hydroelectricity emphasizes tourism development; industrial development provides job opportunities and improves the socio-economic condition of the county by reducing the investment in other petroleum products. Besides these, exporting surplus electricity to the foreign countries may help poverty alleviation objective of the tenth five-year plan. This is possible only through the collective effort of the government and non-government originations, private and civil society.

According to the State Resource Policy formulated by Government of Nepal, a target of providing sustainable supply of drinking water all over the country, year round irrigation facility to 41% of total agriculture land has been set. Electricity generation of 50% (22000MW) of the economically feasible potential of which 15000MW will be for export has been proposed to meet the target within 10th to 14th National Five Year Development Plan through short-term, mid-term and long-term goal till to end of 2027 AD.

The Economic development of a nation is possible only through the striving of the public enterprise as well as co-operatives development. 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.

Nepal is one of the least developed and agro-based countries where nearly 90% of the total population lives in rural areas. Agriculture sector is the key sector of the Nepalese economy but agriculture sector is not free from cowed model of production and absentee landlord problems. Most of the people have tiny particles of land and some are landless also. Population is increasing in geometric progression where as food and physical amenities are increasing in arithmetic progression. Estimated per capita GDP for the year 2008/09 is US$ 473. Population is growing at the rate of 2.25%
per annum has produced a broad base, increased dependency ratio in the country. Open unemployment rate is 6%. Literacy rate is however increasing but still much lower (68%) to upgrade pace of development by making optimum use of human resource. There is a great challenge to the nation to eliminate the massive poverty in the country and provide basic needs to the people.

Most of the area of Nepal is rural, full of villages and small farmers who are depending on the profession of agriculture, cottage industries and labors such as farm labor, carpenter, rickshaw puller, animal husbandry etc. Small farmers are characterized by mass poverty, illiteracy and practicing traditional cultivation. Poverty is a relation between the essential needs of the people for survival and physical efficiency and their ability of gap between the income and expenditure of the households accounts and has no opportunity of financial intermediaries also. In general, sectoral imbalance, growth of population, large unemployment and high inequality in income and wealth distribution are found to be the major indicators of poverty of the society.

Because of the high rate of population growth, poverty is also increasing day by day. Population growth rate and structure from 1998 up to 2058 B.S. is presented below.

<table>
<thead>
<tr>
<th>Census year (B. S.)</th>
<th>Population</th>
<th>Annual population growth rate</th>
<th>Time for doubling</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
<td>6283649</td>
<td>1.16</td>
<td>60 Years</td>
</tr>
<tr>
<td>2009/11</td>
<td>8256625</td>
<td>2.3</td>
<td>31 Years</td>
</tr>
<tr>
<td>2018</td>
<td>9412996</td>
<td>1.65</td>
<td>42 Years</td>
</tr>
<tr>
<td>2028</td>
<td>11555983</td>
<td>2.07</td>
<td>34 Years</td>
</tr>
<tr>
<td>2038</td>
<td>15022839</td>
<td>2.66</td>
<td>26 Years</td>
</tr>
<tr>
<td>2048</td>
<td>18491097</td>
<td>2.1</td>
<td>33 Years</td>
</tr>
<tr>
<td>2058</td>
<td>23409331</td>
<td>2.24</td>
<td>31 Years</td>
</tr>
</tbody>
</table>

Source: Central Bureau Statistics (CBS), Katmandu, Nepal
The table above presents the increasing population census wise. The table clearly shows the population growth from 1998 B.S. to 2058 B.S. Family size is not less than 5 members. Poverty is the longing of a young boy playing outside a village school but unable to enter because his patents lack a few rupees to buy text book. Poverty is the grief of parents watching a three years old child died a routine childhood disease because they cannot afford any medicine.

These vivid pictures of illiteracy, hunger and malnutrition reveal that poverty-stricken and survival-oriented people are living in Nepal.

Nepal is an agrarian country where 80.3 percent people depend on agriculture. Agriculture is the backbone of the Nepalese economy. More than 75 percent farmers are small farmers, who are suffering from vicious circle of poverty. Nepal is one of the poorest countries of the world. 30.28 percent of the total populations are still below the poverty line; among them about 86 percent are rural inhabitants. Agriculture is the most important single occupation employing 81 percent of country's total production and contributes more than 38 percent of the total income (GDP) of the country.

1.2 Statement of the Problem

Morang District Development Committee is situated in Koshi Zone in eastern development region of the Nepalese Republic. Biratnagar the second biggest city of Nepal is situated in this district. Bihar state of India is located in the south of this district; it is surrounded by Jhapa and Ilam districts in the east, Sunsari district in the west and Dhankutta, Panchattar and Ilam in the north. Both remote hilly areas and developed industrial areas are parts of this district. The total area of this district is 3642 sq. km (Morang District Development Committee (DDC) profile) out of which 80 percent is the village area.

Nepal faced conflict situation since 1997. Maoist party did not believe the existing parliamentary system and started the revolutionary underground war to take the crown. Unequally treated people, unemployed people, unequal distribution of wealth, deprived, poor and hungry people 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 was the fertile ground for the Maoist revolution in the country. There was unequal distribution of wealth where 80 percent of the total resources were in the hands of 5 percent rich people (Economic indicator 2002). There was huge poverty gap (Adhikari Ramesh, The Journal of Economic Society, 2006). These all kinds of problems were addressed by the slogans of the Maoist revolutionaries. The people from backward areas, deprived people, people from different tribal and ethnic groups, poor and hungry and distressed people even being with the parliamentary system supported the revolutionary conflict. Thus, all these factors led the economy to the conflict situation.

The nationwide conflict was also spread in Morang district. Northern and southern parts of the district were more affected by the conflict. Additionally, mid part of the district was also affected by the conflict since 1997. All most all the police posts of rural areas were shifted towards developed as well as urban areas. Only unified command was in existence in three rural places of the district.

In the time of conflict, the commercial banks and other financial institutions besides co-operatives are gradually closed, merged or shifted towards the town area, where more security is available. The villagers of the district are seriously affected by this activity of banks and financial institutions. The villagers have no medium of finance as well as the suppliers of money. Even the regulation upon money supply and supervision to the commercial banks by the Central Bank of Nepal (Nepal Rastra Bank) was weak due to the restriction in entering the remote villages. The Maoist activists attacked banks and financial institutions of government sector. Revolutionary members of them also attacked other private firms and industries. In this conflict period, 488 numbers of industries were closed within Sunsari-Morang corridors (Department of Industry, Government of Nepal, 2007). Therefore, the number of banks, financial institutions and industries gradually decreased during this ten-year conflict period. During this period of conflict, 98 branches of Rastriya Banijaya Bank (which is a government bank), 52 branches of Nepal Bank Limited (with 41% government ownership), and 91 branches of Agriculture Development Bank (which is a government development bank) were closed (financial statistics of Nepal, 2008). Other financial institutions such as Small Farmer Development Project (which provides loan to the poor farmer), Gramin Bikash Bank etc. are closed, damaged or seriously affected (Economic Survey, 2006 Government of Nepal). Their branches were also closed,
merged, or shifted towards secured area. In Morang district, twenty-three police stations were shifted to headquarter. Health Posts, Postal Offices were seemed to be collapsed by the gun firing and bombing. Five major police posts were attacked seriously and injured many people. At least 208 people were dead and 66 were missing up to 2007 (Eastern Regional Police Directorate, Biratnagar, 2007).

It is interesting to note that during this period of conflict, the co-operatives managed by the villagers have not been affected. The numbers of co-operatives were increased in this period of conflict. In fact, many new co-operatives were established throughout the country in this period. They were not affected much and there was an increasing trend of the numbers of such co-operatives during this time. Every co-operative operated efficiently in this period. Co-operatives were proved to be the proper medium of micro-credit in the rural areas as well as urban areas where there is lesser presence and activity of banks and other financial institutions.

Nepalese financial system remains alive in rural village due to the development and activities of cooperatives during severe conflict situation in Nepalese economy. The co-operatives managed by the local people are not conflict target of the revolutionaries because of the nature and number of its members. The members of the co-operatives are widespread throughout the villages so that the villagers protect them. In the absence of government banks and other financial institutions, the co-operatives were proved to be the better financial intermediaries in the district. They provided micro-credit to the villagers in that period of conflict when the banks and financial institutions could not do so.

Co-operatives movement in modern age was started in England in 1845. It spread in 84 countries until 2003 and their total asset is 758 billion dollar, total saving is 656 billion dollar and 482 billion dollar is the loan disbursement. Irish Credit Union is the huge co-operative in the world where there are 2 million 900 thousand members and 11 billion Euro is in saving. In this union, there are 9500 volunteers, 1600 permanent staffs and 1200 temporary staffs (Co-operative Directory –2007, pp29).

The increasing members of co-operatives in Morang district of Nepal in the conflict period prove that the co-operatives are the better medium of financial intermediaries in the district. In Morang district, 226 more co-operatives have been established in the conflict period (Division Co-operative Office, Morang, Biratnagar; Status of Co-operatives in Morang-2006). In entire country, there were 830 numbers of co-operatives up to 1991 but these numbers increased to 9362 up to 2007. The
members of such co-operative societies within country are 1,234,332 in May 2007 (Development of Co-operative Sector in Nepal and its Management challenges, Mirmire, Years 36, Vol 9, Nepal Rastra Bank, Kathmandu).

The co-operatives are helpful to raise the economic condition of its members. The increasing membership of co-operatives in the period of national conflict appears to have proved it. In 1997, there were 8243 members involved in co-operatives in Morang District Development Committee, whereas there are 50262 members after the ten years of conflict period. The volume of credit provided by the co-operatives has also increased to a great extent. Total profit, their fixed assets and the number of employment provided by them is also having an increasing trend. There were 76 co-operatives before 1997 but after ten years there are 336 co-operatives, i.e., 260 more co-operatives were established.

The present research work is expected to help to know the economic status of the members. This study will be important from the point of view of the management of co-operatives in conflict situation. It may be helpful in minimizing the insurgency in the nation. The socio-economic phenomena mentioned above is new thing and very few research studies have been done on it. Thus, the present study would make an important addition to the existing literature on cooperative development in Nepal and also it will fill a research gap in this area of study. Our study will make an attempt to find answer to the central question: “Why cooperative development is possible during insurgency period in Nepal?

Therefore, the present research study is expected to show the relationship between the conflict and development of co-operative societies in Nepal. It is also expected to prove that the development of co-operatives can minimize the conflict in the society. Conflict that arises as a result of poverty may be resolved by the development of co-operatives. The main focus of this study would be to find out how co-operatives are helpful in the resolution of conflict and socio-economic development of an economy. Economic development is very difficult task; it depends upon the rural and deprived sectors' development. Government efforts aren't the cure of such backwardness of the rural area. Co-operative should apply the program for small and poor farmers and deprived ones to mobilize resources for them. Small poor farmers with their empty hands can't do anything except working as share croppers by taking lease of land from big farmers, casual/contract workers of resource owner employers etc.
Most of the people are involved in agriculture sector and a little are involved in small business, contract workers of resources owner such as rickshaw driver, bus driver, machinery operator etc. More than 75 percent farmers are small farmers. They depend upon the agriculture sector along because of their small size of land holding, they can hardly earn their livelihood from agriculture. The productivity of land is very low and on the decline because of the traditional method of agriculture.

Small farmers, who have no resource to improve their traditional agriculture, lease holder of the resources owner, who have no medium of optimum usage of such resources such kind of resource-less or empty hand, are benefited by cooperatives. Poor people cannot improve their consumption expenditure, health condition, housing and other living conditions. In such situation nobody can think about making some saving and investment.

The co-operatives provided saving facilities to the members and loan facilities to them also. The program launched by co-operatives can help to improve economic condition of the deprived section of the people who are landless, poor and needy. Co-operative has identified the needy members who have remained untouched so far.

There is widespread misuse of loan form banking sector. Poor have no accessibility to loan facilities from the bank. Rural as well as urban branches of commercial bank have been shifted toward towns because of conflict. There is no banking facility to the rural people. Moreover banking sector’s loan is used for unproductive purpose and they cannot repay the loan at the right time. Co-operatives are the right medium to touch poor people as well as to improve their economic condition. This study has attempted to explain the socio-economic impacts of such co-operatives in Morang district on the background of conflict during 1997-2007.

There are different types of co-operatives existing in Morang district (co-operative Directory 2007, pp493-561) according to the nature of saving mobilization and social work. These are:

I. District saving and credit association.
II. Agriculture co-operatives.
III. Dairy production co-operatives.
IV. Saving and loan co-operatives.
V. Multi-purpose co-operatives.
VI. Women co-operatives.
VII. Small farmer co-operatives.
VIII. Miscellaneous (health, transportation, consumers etc.)

All these types of co-operatives were flourished during the period of conflict. Each of them have played vital role in socio-economic development of the country. In this research, role of these co-operatives will be analyzed in detail. These different types of co-operatives were introduced after 1990, so our main investigation will be to find out answer to the question: What is the role of those types of cooperatives in society?

1.3 Existing Types of Co-operative in Nepal

There are many types of co-operatives society existing in Nepal. Some of them are related with finance and some of them are related with saving and credit. They are divided into different types according to their working nature. The most popular co-operatives existing in Nepal are as follows:

A. Saving and credit co-operative society: -This kind of co-operatives is working under the co-operative principle. They adopted policies directed by the co-operatives Act. They motivated their members to save and collected capital through its. They used this capital on behalf of their members and for the society. They invested their money for productive, skillful, and income generating programmes proposed by the members.

B. Multipurpose co-operatives society:-Multipurpose co-operatives societies are also helpful for providing loan facilities to the members. These types of co-operatives collected saving from their members and used this saving into different purpose and program. Multipurpose co-operatives have internal work diversification. Only one co-operative society can do many tasks, such as mobilizing saving and advancing credit, small co-operatives business, co-operatives education, development work, literacy work etc. The major numbers of co-operatives existing in Nepal are multipurpose co-operatives.

C. Co-operatives society licensed by Nepal Rastra Bank (NRB):-This kind of co-operatives society have limited right of banking transaction. These
kinds of co-operatives can provide loan in addition to the members also. They can accept saving from other persons beside members and loan can be provided to them. They have facilities of opening account in the NRB for the daily transaction. They are able to exchange the foreign currency by obtaining license from NRB. Their rules and regulations are supervised by central bank.

D. Financial co-operatives:- The major part of capital accumulation is possible by finance company, which is huge capital oriented co-operatives. They can accept saving and open account to the other people in addition to members. They provide housing, leasing and other types of hire purchase loan to the interested people. These finance companies are under the supervision of Nepal Rastra Bank. If the given rules and regulations are misused by finance company and its authorities, they are punished by law or they can be captured by Nepal Rastra Bank for sometime for improvement. In co-operatives sector, there is heavy amount of money transaction. These are also called small bank which are classified into “D” according to Bank and Financial Institution Act 2005.
1.4 Importance of the Study

Every study has its own significance for research. This study provides data on socio-economic conditions of members in Morang district. Especially in the rural area, the financial sector is not fully able to flow the credit as per the rural demand. By this reason, the potential members who have skill and enthusiasm but not resource, are exceeded from the outreach of the financial services. After the re-installation of multi-party democracy in 1990 and liberalization of the economy, the commercial banks branches are gradually going to be shifted towards urban areas, closed or merged. This type of condition has deprived the grass root people from the financial services.

1.5 Objectives of the Study

The main objectives of the study are:
A. To trace out the development of co-operatives in conflict period.
B. To analyze the activities of the co-operatives in the field of micro-credit.
C. To find out whether there has been any change in economic status of its members.
D. To investigate whether the co-operatives were running efficiently and making profit in the time of conflict or not.

1.6 Research Methodology

This study is based on an in-depth investigation of the economic activities of the co-operatives in Morang District Development Committee (DDC) for the eleven year time period between 1997-2007 A.D. Statistical inferences are the indicator of aggregate/average result and they may not reveal or match to individual unit and person in particular. Still the methodology used in a particular research work to all extent affects the overall outcomes of it. Reliability and validity of research work can be judged with the methodology adopted. So, in order to make this research work creditable, an attempt has been made to formulate the research methodology.
compatible with the research to be conducted in relation to sample selection, area selection, survey implementation, data collection, tabulation, processing and final interpretation. All derived facts have been presented by means of tables, graphs, pie charts, trend line etc. and analyzed through mathematical tools such as percentage, correlation etc.

This research is designed in such a way that can interpret the development of the co-operatives in conflict economy in the context of Morang DDC on the basis of descriptive as well as analytical research work. For this purpose, primary data based on field survey and secondary data have been collected from Co-operative Board, Division of Co-operative, Co-operative Bank, Department of Statistics of Government of Nepal, different co-operatives situated in the study area, Nepal Rastra Bank and so on. Other sources for the study are the works of well-known experts and authors' and literature as well as survey reports.

As noted above the present study is based on primary and secondary sources of data. Primary data have been made available from field survey collected through the structured questionnaire with direct interview of sample units. Secondary data have been collected from Nepal Rastra Bank, different co-operatives in Morang DDC, Department of co-operatives, Government of Nepal; securities related data to show the conflict, Economic Survey, economic indicators and other published literature contributed by experts etc.

Out of 635420 population in Morang, total 50262 are the member of such co-operatives. Out of 336 co-operatives, 10 co-operatives have been selected in which 8250 existing members will be taken into consideration. 100 members from the group of 8250 members have been taken as sample selected randomly that represents 9.94 percent of the total members. Direct interview and interactions have taken place through the well-defined questionnaire to the selected random sample. Ten co-operatives have been taken for secondary data collection. Some information will be collected from the managers of co-operative societies. Data for the period 1997-2007 have been collected on the following items:

1) The number of co-operatives within the district.
2) The micro credit provided by these co-operatives.
3) Collect the number of members from ten co-operatives and select hundred samples randomly from them.
4) The economic status of the members by well-defined questionnaire.
5) The profit making condition of these co-operatives in the district in conflict period.
6) Showing different scenarios of conflict condition during this period.
7) Testing the hypotheses of obtained data from field survey and secondary sources.

Before proceeding to interaction with the respondents, pre-coded questionnaires had been used in field surveys which have been demonstrated, posted in computer and tables have been made with computer coding of each question. That information, which is not quantifiable, has been compiled through simple tables with descriptive listing for the further explanation. Raw data from secondary sources have been compiled through different suitable tables.

Mean, percentage, correlation, graphs, pie charts and trend lines are the principal tools, which have been utilized for interpretation and analysis of derived facts. However, the main modes of presentation have been rather descriptive. First, the analyses of macro data have been made. It is expected that it has reflected the overall scenario of co-operatives, i.e., whether they are improving or not. Next, the analysis on field survey has been made.

1.7 Research Hypotheses

The following hypotheses have been tested in the study:

A) Conflict situation has led to the enormous growth of cooperatives in the study area during the period of conflict.

B) The co-operatives have helped in improving the economic status of the members in the time of conflict.

1.8 Research Questions

We shall try to find out answers to the following key questions in order to reach at the truth on various issues under study.

1) Is cooperative development possible in conflict economy?
2) Is the cooperative improving the socio-economic condition of the members participating in it? Is it helpful in providing employment opportunity?
3) Is the credit provided by the cooperatives fulfilled the basic needs of the members?
4) Is the credit disbursed by the cooperatives not in risk zone?
5) What are the facilities provided by the cooperatives to it members?
6) Were the cooperatives earning profit by running efficiently?
7) Have co-operatives helped in improving the economic status of the members in the time of conflict?
8) Is the conflict arising through poverty and cooperative development inversely correlated to each other?

1.9 Chapter Scheme

The present study contains following chapters:

CHAPTER-I: INTRODUCTION

This chapter has introduced the problem and importance of the study in the Nepalese context. The scope of the study, objectives of the study, research hypotheses, research questions, conceptual framework, justification of the study and limitations of the study have been discussed in this chapter. This chapter presents the method adopted in the research. Tools and techniques that are needed for the collection of data as well as for the analysis of data have been explained in it.

CHAPTER-II: REVIEW OF LITERATURE

In this chapter, the earlier research and learned books have been reviewed to obtain the supportive facts. This chapter has also explained the different concepts of proposed subject to make easy for the analysis of the data.

CHAPTER-III: EVOLUTION OF CO-OPERATIVES IN NEPAL

In this chapter, the historical background of co-operatives in Nepal and the evolution of co-operatives in the country have been explained in brief.

CHAPTER-IV: DEVELOPMENT OF COOPERATIVES DURING STUDY PERIOD

In this chapter, obtained data from the secondary and other sources have been presented in tables, charts, diagrams and the data have been analyzed by estimating mean, correlation etc.
CHAPTER-V: SOCIO-ECONOMIC IMPACT OF COOPERATIVES

In this chapter, obtained data from the field survey have been presented in tables, charts, diagrams and the data have been analyzed by estimating mean, percentages, pie chart, bar diagram etc.

CHAPTER-VI: A CASE STUDY OF DEVELOPMENT CO-OPERATIVES IN JHAPA DISTRICT DURING THE CONFLICT PERIOD

This chapter has shown the development of co-operatives in Jhapa district (another district situated near Morang) in the time of conflict in Nepal and has tried to examine the issues mentioned in the previous chapters with reference to the performances of co-operative societies during the conflict period.

CHAPTER-VII: SUMMARY, CONCLUSIONS AND SUGGESTIONS

This chapter has summarized the findings of the entire study. Conclusions have been drawn and recommendations for policy making have been presented.

1.10 Limitations of the Study

As noted earlier the study is mainly based on field survey and the secondary data collected from Division of Co-operatives, Morang. It has not represented the whole economy wide condition of the co-operatives though the result will have practical importance for the whole economy. Field survey has covered nearly ten percent of the total area so that it is not likely to be free from limitation. Therefore, this research has some limitation related to data, its analysis and the results.