

Governance of Co-operative Societies in Nepal: A Case Study of Makawanpur District*Ishwari Shilpakar (Department of Social Science, Nepal Open University)***Abstract**

This study describes the governance of cooperatives in Nepal with a focus on Makawanpur district. Key governance aspects such as transparency, accountability, member participation and financial management were analyzed. 18 cooperatives were selected from about 300 cooperatives in Makawanpur district through a purposive sampling method. It was found that only 66.6 percent submitted financial transparency reports, 44.4 percent followed accountability rules and 39.0 percent involved members in the decision-making process. Among these facts, accountability and involvement of members in the decision-making process are very weak. Along with political interference and inadequate management, these governance weaknesses put cooperative stability and members' funding at great risk. Strengthening governance mechanisms is critical to the trust, credibility and long-term success of cooperatives in Nepal. Addressing the issues of transparency, accountability, member engagement, inclusiveness, and financial governance is essential for improving the sustainability and credibility of cooperative societies in Nepal.

Keywords: *Accountability, Financial Governance, Cooperative Governance, Professional Management and Transparency*

Introduction

According to Novkovic and Miner (2015), for the governance of the cooperative, the cooperative needs to pay attention to the following: First, there should be transparency in the cooperative to create an atmosphere of trust among the members. Similarly, in the second, there is a need for accountability, which internally the service users and externally the government agencies can take satisfaction and trust in the work of the cooperative. Similarly, number three requires participation, which helps develop relationships between the cooperative's employees, managers, and the community. In addition, to protect members' savings, it is necessary to pay attention to elements such as inclusiveness, policy discipline and framework, internal and external professional management, compliance with the cooperative code of conduct, financial governance and risk management. If these elements can be made effective, it helps to strengthen the stability, credibility and trust of the members of the cooperative. (Novkovic & Miner, 2015)

Bakhanpur Loan Cooperative, established as the first cooperative in Nepal, is an important milestone in the country's cooperative movement. As a result, April 2nd is celebrated as National Cooperative Day every year to unite the cooperative workers, create public awareness, inform the relevant authorities about the importance of cooperatives and promote good governance in the cooperative sector. However, due to poor governance, problems and risks are increasing in cooperatives. Factors such as political interference, incompetent leadership, weak policies and regulations and lack of skilled and adequate staff have exacerbated these problems. The problems within the cooperatives threaten the state's financial system and contribute to the current economic crisis. More than 1 trillion Nepali rupees depositors' funds are at risk due to misappropriation of savings and misappropriation of loans in unproductive sectors. As ensuring the return of savers' money has been a challenging task, urgent and strong steps are needed to curb these harmful trends and restore confidence in the cooperative sector. It emphasizes the urgent need for improved governance, stricter regulations and effective leadership to protect depositors' interests and stabilize the financial system (Khanal, 2023).

Transparency: Cooperatives must follow the rules of transparency for governance. Of which two main tasks should be paid attention to. The aspects to be considered are as follows: 1) Financial reporting; Cooperatives should regularly publish clear and transparent financial reports publicly. 2) Information flow: The cooperatives should inform the members about the organization's activities and decision-making process from time to time and through meeting programs (Meira, Bandeira, & Santos, 2022).

Poudel (2023) has stated that the following elements that should be included in the cooperative's report for transparency in the research related to 'Transparency and Financial Risk in Nepali Cooperatives':

- Assets: Cash, bank deposits, fixed assets, movable assets, etc. assets of the cooperative should be clearly mentioned in the reports of the cooperative for transparency. Which is likely to give financial benefits in the future.
- Liability: For transparency in the reports of the cooperative, the liability of bank loans, business loans, tax arrears, etc. should be clearly mentioned. which is likely to result in financial benefits in the future.

- **Equity:** Share capital, accumulated profits, equity etc. should be clearly mentioned in the reports of cooperatives for transparency. which is the shareholder's wealth, which includes the portion of the company's assets that avoids deducting liabilities.
- **Income:** Sales income, interest income, service charges, etc. should be clearly mentioned in the reports of the cooperative for transparency. Income is the profit arising from the business activities of the cooperative.
- **Expenditure:** Raw material cost, labor cost, administrative cost, interest cost, etc. should be clearly mentioned in the reports of the cooperative for transparency. Expenses are expenses incurred in the business activities of the company.

Accountability: Cooperatives should focus on two main functions for accountability: 1) Committed working committee; The working committee members of the cooperative organization should be committed to fulfill their responsibilities. 2) Monitoring and Evaluation: The activities of the organization should be monitored and evaluated regularly. According to (Kyazze, Nkote, & Isingoma, 2017), In the research conducted in developing countries, it was found that management decisions, social committee reports and policy approvals were not followed. Also, it was found that the monitoring of the cooperative was not effective. Accountability of cooperatives should be focused on these main tasks.

Participation: Cooperatives should focus on two main activities for participation: 1) members' participation; Active participation of the members in all the programs and activities of the cooperative organization. 2) Participation in the decision-making process: Whether it is a meeting or any other gathering, the participation and contribution of members in the decision-making process should be ensured.

Verhee, Sergak and Duk (2015) stated that the active membership is important for cooperatives as it leads to better performance. This is also the key to competition between cooperatives. However, active membership has declined in many cooperatives. It is important to know what motivates members to become active. Cooperatives' values and offerings are not the only ones that motivate members to become active members. Therefore, it is necessary to study the social characteristics of the members to make them active. Their research results show that active membership is built on social characteristics such as cooperative culture, open communication, trust and engagement. This benefits both the cooperative and its members (Verhee, Sergak, & Duk, 2015).

Inclusiveness: Co-operatives should focus on two main tasks for inclusiveness; 1) Inclusive policy: A policy should be adopted to involve members of all communities, genders, and social groups. 2) Equal opportunity: Since there are various types of members in cooperatives, all members should be provided with equal opportunities in service facilities and decision-making processes. Gicheru (2018) highlights in his research paper, cooperative is an autonomous organization that unites for the common economic and social fulfillment of the people. Jointly owned cooperatives should be treated equally and run according to democratic conduct. For economic and social development, the social and commercial areas of cooperatives should be widened. Cooperatives should not be purely profit-oriented but should respect all values and run on the principles of inclusiveness (Gicheru, 2018) .

Policy Framework: Cooperatives should work by making clear policies and frameworks to organize the organization's operations: 1) Clear policies; Clear and transparent policies should be prepared for the operation of cooperatives. 2) Regular improvement; The cooperative should review and improve the policies from time to time so that they do not conflict with the policies made by the center based on their need (Pherson , 2015) . Cooperative organizations are operated and managed based on the Cooperative Act 2074, Cooperative Regulations 2075, and related state and local laws and regulations for cooperative operations. In addition to direct laws, other laws are also used depending on the nature of the organization's business. For example: agricultural co-operatives are related to agriculture, educational co-operatives are related to education, health co-operatives are related to health legislation. In this way, the main topics of some legal provisions that concern cooperatives of all natures about the effective legal system related to the organization's business are called the cooperative operating policy and framework.

Rodriguez and Walters (2017), on the Professional Management: To enable cooperatives professional management should focus on two main functions; 1) Training and Development: Conduct necessary training and development programs for staff and members. 2) Use of technology: Working efficiency should be increased by using modern technology. According to Rodriguez 2017, the performance of employees in cooperatives affects the lower level of the organization. For this reason, one must be aware of the importance of the impact of training and development on the performance and evaluation of employees. Employee training and development helps organizations and employees to improve morale, sense of security, employee engagement and achieve specific job competencies. Leaders of

cooperatives should use systematic approaches to evaluate employee performance, which results are usually determined on individual, organizational, environmental, motivation, skill level, competence or role perception factors. Appropriate training and development opportunities as well as effective employee performance appraisal approaches will enable employees to compete in today's global marketplace. Therefore, training and development is important in employee performance and evaluation (Rodriguez & Walters, 2017) .

Code of Conduct: In order to operate the cooperative according to the rules and to provide assurance of governance to the customers and for the sustainability of the organization, both the members and the directors should focus on two main tasks for following the code of conduct; 1) Ethical Conduct: All the members of the organization should follow ethical conduct. 2) Discipline: Discipline should be followed.

According to the International Federation of Cooperatives (Rocky Weber, 2024), a cooperative is an autonomous organization of individuals who voluntarily come together to meet their common economic, social, and cultural needs and aspirations through jointly owned and democratically controlled businesses. According to the constitution's guiding principles, policies and responsibilities, it is an organization that achieves rapid economic growth through the maximum utilization of available means and resources through the participation and development of the public, private and cooperative sectors. For the sustainable economic development of the country, its aim should be to create a society free from exploitation by ending economic inequality through fair distribution of achievements. Cooperative organizations have been constitutionally recognized as the economic objective of the state to develop a socialist-oriented, free and prosperous economy by making the national economy independent, independent and progressive.

Financial Governance: The financial governance of a co-operative society is the policy or practice adopted to ensure transparency and accountability in the financial management of a co-operative society. This is a very important aspect for the stability of cooperatives. For this, the cooperative should focus on two main tasks; 1) Financial Discipline: Discipline should be maintained in proper use and expenditure of financial resources. 2) Audit: Internal and external audit should be done regularly.

Risk Management: Cooperatives must identify potential risks in their operations and activities. Financial risk under the risk of most cooperatives; debt non-payment risk,

profit/loss volatility, cash flow problems, operational risk; operational errors, managerial weaknesses, regulatory and legal risks; Risk of non-compliance with government regulations and legal provisions, technical risk; cyber security, system failure, reputation risk; There are negative effects on the image of the organization. Identification of risks helps in their management. For which the cooperative should do two main things; 1 Risk Identification: Potential risks should be identified. 2 Risk reduction: Necessary measures should be adopted for risk reduction.

Risk Assessment: Risk assessment is the process of identifying, analyzing and evaluating potential risks in a cooperative so that necessary steps can be taken to control the risks. Identified risks are assessed based on probability and impact. For risk assessment, cooperatives should do two main tasks: 1) Probability of risk: How likely is it that the risk will occur. 2) Impact of risk: How risk can affect the cooperative.

All these variables together form the basis of governance in a cooperative and play a vital role in ensuring the long-term success of the organization.

Research Methodology

This study involved a library-based research design using secondary sources to examine the governance of cooperatives in Nepal. For this, 18 were selected out of about 300 savings and loan cooperatives in Makawanpur district using purposive sampling method. Data were collected based on the annual reports published by cooperatives, programs conducted annually, such as cooperative education programs, review reports, progress reports, weekly and monthly reports, as well as meeting minutes. Only situational facts related to three themes and ten variables were collected. Theoretical and empirical research papers on cooperative governance, with particular focus on Nepal, are analyzed. Policy documents, guidelines and reports published by the Government of Nepal and relevant ministries overseeing cooperatives have been reviewed. Reports and studies conducted by NGOs, international development agencies, and cooperatives are examined. Bylaws, financial statements and annual reports of selected cooperatives are analyzed to understand their governance structures and practices. All sources for ethical considerations are properly cited. Research ensures that it adheres to academic standards to avoid plagiarism. It has also maintained objectivity and neutrality in the analysis and presentation of findings without any bias.

Literature Review

According to Kaufman, Kraay and Mastruzzi (2009, p.5), “Governance comprises of the practice by which consultant in a country is exercised which includes the process by which governments are selected, and monitored. Moreover, the capacity of the government to effectively formulate and implement sound policies and the respect of citizens and the state-owned institutions that administer economic and social relations”. Based on different views of cooperatives and governance, good governance in cooperatives can be assumed as the good administration of a cooperative where members’ common financial, and social needs and hopes can be addressed through a jointly owned and fairly controlled power exercise. So, cooperative governance is a means to attain members’ joy by protecting their basic rights and liberty. It is the remedy in cooperatives which is as important as heart of the human being and main mechanism of the watch. In absence of good governance, cooperatives will be just like a tree without green leaves (Lal & Lavanchawee, 2016).

Cooperative members can get revenues at two levels from the cooperatives. They earn income at the household level by retailing their product to the cooperative. Moreover, when cooperatives create margins from competent operations and add value to the products, these incomes are returned to members in section to the business they do with the cooperative or member’s equity held in the cooperative. Nowadays, cooperatives can provide selective motivations such as access to their credit unification. If cooperatives need working capital to expand the trade, the members may make financial aid, often in quantity to the business what they do with the cooperative. Cooperatives also can obtain capital by mergers with other cooperatives or by issuing equity capital to outsiders, who generally do not have voting rights. However, the kind of investment arrangements and the level of cooperative development may vary from country to country based on cooperative rules and regulations.

One of the study focuses that the cooperative model in Nepal shows a joint action where individuals link together to succeed common minimum economic, social, and cultural objectives. It reflects cooperative norms that center on autonomous decision-making, shared possession, and equitable sharing of benefits which supports international cooperative principles during adapting to the specific social and economic contexts of Nepal. In the Nepalese context, cooperatives have emerged as vital institutions that address various economic and social challenges.

Cooperatives institutions play an important role in rural and urban settings, bridging gaps in economic facilities, cultivation, and other different sectors. On the other side, this relative significance is underlined by the country's unique socio-economic setting, considered by various ethnicities and geographical variations as well as changing needs (Paudel, 2023).

Othman et al. (2013) discuss governance and internal weaknesses expressing that how cooperatives can suffer from poor governance when internal weaknesses such as member indifference and management inadequacies rise which focuses the openness of cooperatives to different governance concerns and the need for transparency to discourse these tasks (Paudel, 2023).

The study of Novkovic and Miner (2015) highlighted the importance of transparency, accountability, participation, inclusiveness, policy framework, professional management, adherence to code of conduct, financial governance and risk management in cooperative governance. It emphasizes that these elements are important in building trust and stability among cooperative members (pp. 10-15).

Meira, Bandeira, and Santos (2022) focus on the importance of transparency in cooperative governance. It ensures clear financial reporting, effective communication among members as well as well-informed decision-making processes and procedures as needed for the organization's activities (pp. 5-7).

Kyazze, Nkote, and Isingoma (2017) state that a study conducted in developing countries reveals that ineffective management decisions, social committee reports and policy approvals contribute to poor governance in cooperatives. This emphasizes the need for regular monitoring and evaluation to improve accountability (pp. 2-6).

Verhee, Sergak, and Duk (2015) examines how active member participation plays a role in cooperative success. It recognizes that social characteristics such as cooperative culture, open communication, trust and involvement are essential to motivate members and ensure good performance (pp. 43-50).

According to Gicheru (2018), his research paper discusses the need for inclusiveness in cooperatives, advocating policies that include all community members, gender and social groups. It emphasizes that cooperatives should not be purely profit-oriented but should respect the principle of democratic conduct, equality, equity and inclusiveness (pp. 27-30).

Rodriguez and Walters (2017) highlight the need for performance-based training and development programs to develop employee capabilities in cooperatives and explore its implications. Which also highlights the importance of professional management and use of modern technology to increase the efficiency and effectiveness of cooperative operations (pp. 208-210).

The literature of Kaufmann, Kraay, and Mastruzzi (2010) defines governance as the selection, monitoring and replacement of governance, formulation and implementation of concrete policies, and respect for traditions and institutions that exercise authority in a country. For that, it presents suggestions for organizations to conduct economic and social interaction (Kaufmann, Kraay, & Mastruzzi, 2010).

Lal and Lavanchawee (2016) conducted a study on "Correlation between cooperatives' participation and performance in cooperatives in Nepal". This study highlights how governance in cooperatives is essential to address the economic, social and cultural needs of members through a democratically controlled power structure (Lal & Lavanchawee, 2016).

Othman et al. (2018) in this article discuss the governance and internal weaknesses in cooperatives, it is found that the apathy of members and management inadequacies need to be addressed to improve governance. They have emphasized the role of management for good governance in cooperatives and the importance of continuity in relation to the interests of members (Othman, Elwahab, Abed, Hassan, & Moustafa, 2018).

According to Paudel (2023), cooperative model of Nepal has been emphasized to address economic and social challenges in rural and urban areas. This research discusses the need for cooperatives to adapt to Nepal's unique socio-economic context (pp. 30-35).

Argument

Nepalese cooperative societies' governance is structured around essential principles like transparency, accountability, participation, inclusiveness, policy framework, professional management, adherence to codes of conduct, financial governance, and risk management. Key practices include publishing clear financial reports, fostering member participation, implementing inclusive policies, maintaining clear and evolving organizational policies, providing professional development, using modern technology, ensuring ethical conduct, upholding financial discipline through regular audits, and effectively managing risks. Together, these elements form a robust governance framework that enhances stability, credibility, and trust among cooperative members, promoting sustainable success.

Effective governance in Nepalese cooperatives depends to a large extent on transparency and accountability. Regular financial reporting and effective information flow increase trust among cooperative members. Thus, inclusiveness and active member participation are critical to the success of cooperatives.

Inclusive policies ensure that all members, regardless of their background, have equal opportunities to contribute to and benefit from the cooperative. Professional management and continuous training are essential for the effective operation of cooperatives. The use of modern technology and staff training increases the overall effectiveness of cooperative operations.

Maintaining financial discipline through regular audits and implementing comprehensive risk management strategies are essential for the stability and credibility of cooperatives. Likewise, adherence to a code of conduct and a strong policy framework is essential for the development of a sustainable and successful cooperative environment.

Discussion

Table 1:
Conditions of Compliance with Transparency Rules to be Followed by Cooperatives

Transparency Activities	Very weak	Weak	Good	Very Good	Total
1. Cooperatives regularly publish clear and transparent financial reports.	20.4	13.0	39.8	26.9	100
2. For transparency, have cash, bank deposits, fixed assets, movable assets etc. been clearly mentioned in the report of the cooperative or not?	11.1	22.2	55.6	11.1	100
3. For transparency, have the liabilities of bank loans, business loans, tax arrears etc. been clearly mentioned in the report of the cooperative or not?	16.7	16.7	61.1	5.6	100
4. For transparency, have the share capital, accumulated profit clearly mentioned in the report of the cooperative or not?	22.2	11.1	22.2	44.4	100
5. For transparency, have sales income, interest income, service charges, etc. clearly mentioned in the report of the cooperative or not?	27.8	11.1	33.3	27.8	100
6. For transparency, have the raw material cost, labor cost, administrative cost, interest cost etc. clearly mentioned in the report of the cooperative or not?	33.3	5.6	33.3	27.8	100
7. The cooperative inform the members about the organization's activities and decision-making process from time to time and through the meeting program or not?	11.1	11.1	33.3	44.4	100
Average	20.4	13.0	39.8	26.9	100

Source: Survey, 2081

From the above table, the majority of the respondents (more than 55%) agreed that for transparency, cooperatives had cash, bank deposits, fixed assets, movable assets, etc.

clearly mentioned in the report of cooperative transparency activities. Besides this, for transparency, they had the liabilities of bank loans, business loans, tax arrears, etc. been mentioned in the report of the cooperative. Also, most of the respondents agreed that co-operatives regularly publish clear and transparent financial reports as well as they had the share capital, and accumulated profit mentioned in the report of the cooperative. The cooperative also informed the members about the organization's activities and decision-making process from time to time and through the meeting program. However, they were weak in various transparency aspects, such as the cost of raw materials, labor cost, administrative cost, interest cost, etc. which is not mentioned in the report of the cooperative clearly.

Table 2:
Conditions of Compliance with Accountability Rules to be Followed by Co-operatives

Accountability	Very Weak	Weak	Good	Very Good	Total
1. Are the working committee members of the cooperative organization committed to fulfill their responsibilities or not?	33.3	16.7	27.8	22.2	100
2. Do the working committee members regularly monitor and evaluate the organization's activities or not?	50	11.1	16.7	22.2	100
Average	41.7	13.9	22.2	22.2	100

Source: Survey, 2081

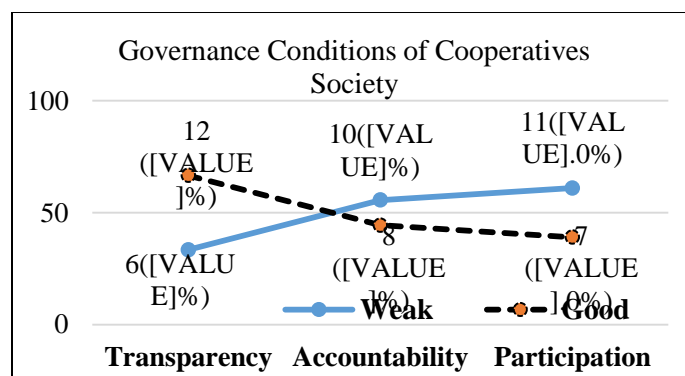
From the above table, most of the respondents agreed that working committee members of the cooperative organization committee were very weak in fulfilling their responsibilities and nearly half of the total respondents responded that working committee members are very weak in monitoring and evaluating the organization's activities regularly.

Table 3:**Conditions of Compliance with Participations Rules to be Followed by Co-operatives**

Participation	Very weak	Weak	Good	Very Good	Total
Do the members actively participate in the main programs and activities of the cooperative organization or not?	38.9	22.2	22.2	16.7	100
Whether it is a meeting or other gathering, do members participate and contribute to the decision-making process or not?	33.3	27.8	16.7	22.2	100
Average	36.1	25.0	19.5	19.5	100.0

Source: Survey, 2081

From the above table, most of the respondents agreed that the members were very weak in actively participating in the main programs and activities of the cooperative organization as well. Besides this, they were very weak in the case of whether it is a meeting or other gathering. Also, it is found that members who participated and contributed to the decision-making process were very weak.

**Figure 1: Overall Results of the Governance Situation of Cooperatives****Findings**

Transparency and accountability were the major issues in cooperative governance in Nepal. Many cooperatives lacked clear financial reporting and information to their members.

There was weak participation and engagement from cooperative members in decision-making and organizational activities.

Leadership and management in many cooperatives lacked commitment and fail to monitor various activities properly.

Inclusiveness and equal opportunities for all members were not effectively implemented in many cooperatives.

Financial governance and risk management practices were often insufficient, threatening stability and credibility.

Conclusions

The governance of cooperative societies in Nepal faces significant challenges in terms of transparency, accountability, member participation, professional management, and financial oversight. Many cooperatives do not follow good governance principles, undermining their effectiveness and sustainability.

Recommendations

Improve transparency through regular, clear financial reporting and better information sharing with members.

Strengthen accountability by enhancing monitoring and evaluation of cooperative activities.

Increase member participation through education and creating more opportunities for engagement.

Implement more inclusive policies to ensure equal opportunities for all members.

Provide professional development and training for cooperative leadership and staff.

Enhance financial governance through stricter auditing and risk management practices.

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Annexure

Table 4:

Themes and variables		Facts about the situation					
1 Transparency		Very weak	Weak	No Answer	Good	Very Good	Total
1.1.1 Assets	For transparency, have cash, bank deposits, fixed assets, movable assets etc. been clearly mentioned in the report of the cooperative or not?	2	4	0	10	2	18
1.1.2 Liabilities	For transparency, have the liabilities of bank loans, business loans, tax arrears etc. been clearly mentioned in the report of the cooperative or not?	3	3	0	11	1	18
1.1.3 Equity	For transparency, have the share capital, accumulated profit clearly mentioned in the report of the cooperative or not?	4	2	0	4	8	18
1.1.4 Income	For transparency, have sales income, interest income, service charges, etc. clearly mentioned in the report of the cooperative or not?	5	2	0	6	5	18

1.1.5 Expenses	For transparency, have the raw material cost, labor cost, administrative cost, interest cost etc. clearly mentioned in the report of the cooperative or not?	6	1	0	6	5	18
1.2 Transparency regarding information flow	Does the cooperative inform the members about the organization's activities and decision-making process from time to time and through the meeting program or not?	2	2	0	6	8	18
2 Accountability							
2.1 Committed Working Committee	Are the working committee members of the cooperative organization committed to fulfill their responsibilities or not?	6	3	0	5	4	18
2.2 Monitoring and evaluation	Do the working committee members regularly monitor and evaluate the organization's activities or not?	9	2	0	3	4	18
3 Participation							
3.1 Participation of members	Do the members actively participate in the main programs and activities of the cooperative organization or not?	7	4	0	4	3	18
3.2 Participation in the decision-making process	Whether it is a meeting or other gathering, do members participate and contribute to the decision-making process or not?	6	5	0	3	4	18