

## Capital Increment Trend of Nepal Multipurpose Cooperatives Society

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### Abstract

*This study aims to analyze the capital increment trend of Nepal Multipurpose Cooperatives Society (NMC) in the last 9 years. NMC was established on 8 March 1994 as a cooperative organization. This article reciprocally analyses the changing situation of its capital and number of members during ten years. NMC is an autonomous institution. However, its financial activities and positions are not independent. They depend on various external financial factors, i.e., the overall changing in the capital scenario of Nepal's Capital Market, level of competition among financial institutions, recent trends of capital situations in its internal affairs, government policy towards cooperatives, general attitudes of people and some internal movement regarding its operational activities. Basically, growth of a cooperative organization depends upon the managerial skills and responsible authorities of a cooperative organization and some crucial external factors which directly or indirectly affect the institutional activities. The increasing trend of capital and number of shareholder members indicate the increasing volume of the institution which shows NMC is a growing organization. Mainly, share capital, institutional capital, number of shareholder members, per member average share capital profitability as a form of earning per share are analyzed in this article. Capital increment trend is also analyzed with the eight years' strategic business plan.*

**Keywords:** capital increment, institutional capital, multipurpose cooperatives, service centers, share capital

### Introduction

Cooperative organizations are established to provide quality service to the shareholder members and to form judicially ideal society with mutual good behaviors among all shareholder members. 'Each for all and all for each' is the basic fundamental assumption of every cooperative organization (Dhakal, 2021, p.26). According to International Labor Organization, "A cooperative organization is an association of

persons, usually with limited means, who voluntarily join together to achieve a common economic end through the formation of a democratically controlled organizations, making equitable contribution to the capital required and accepting a fair share of risks and benefits of the undertaking" (Shrestha, 2015). Even a cooperative is a form of business with tiny profit earning objective. Every cooperative organization has a basic norm of mutual help and cooperation among the members (P. 120).

According to Katuwal et al. (2021), "If any cooperative society is established to perform multiple functions, that is called multipurpose cooperative. Such cooperative society works in the area like credit, saving, production, housing farming, marketing environment, education, etc. It provides a variety of services to the members" (P. 174). NMC was established at Kakarvitta with a registration number 3/1/3(31)2050/51 from the Department of Cooperative, Government of Nepal on 8 March 1994 with a capital of NRs. 2,53,000 and 26 founder members with 4 females (NMC, 2019). From the time of establishment, it has very clear vision, mission, goal and objectives for smooth operation which helped for extension, strengthening and growth of the institution. Due to the good and visionary management, since 27 years, it has spread over three districts Jhapa, Illam and Morang. At the mid of July 2021, NMC has the capital exceeding 11.8 billion rupees (Annual Report, 2021). Thus, NMC is a multi-business organization and it operates in five different business sectors namely saving and credit, dairy industry, model agriculture farming, cooperative shops and tea processing industry. For the operation of all five businesses, it has got its permanent account No. 301563239 from the Inland Revenue Office Jhapa (NMC, 2019). The organizational structure of NMC is found very clear. It has a management committee with 15 members which functions as the executive board and plays crucial role for the management, operation and control of all the activities. NMC has an Account Supervisory Committee with three members which plays significant role in supervision and monitoring of overall institutional activities. Similarly, there are different sub-committees, viz., Incumbent Sub-committee with five members which is a central level executive sub-committee, five business related sub-committees, six regional coordination sub-committees, eight subject wise sub-committees, 45 official sub-committees and 251 unit sub-committees (By laws of NMC).

Capital is not only important but it is inevitable factor to establish and operate any business. So, it is the life blood of every business organization. According to Koirala et al. (2021), "The amount of money invested at the beginning or any period of time by the investors is called capital. It also involves the investment made in other

forms that can be expressed in monetary terms" (P. 19). It is a permanent liability of enterprise lent from the entrepreneurs. Capital is invested by entrepreneurs for the establishment and operation of business institutions. No one can imagine for the establishment and operation of business without capital investment. Therefore, every cooperative business requires the adequate volume of capital for the establishment and smooth operation of the business and economic environment. Capital increment trend refers to the increase of volume of capital in comparison with the previous years. The capital increment trend shows the development of the size and the volume of the organization. So, I selected this topic to analyze the changes form of capital of NMC and how the institutional development has gradually occurred in the passage of time. The reason to write this article on this topic is because this is a large size multiple business organization in the local surroundings.

Generally, the volume of capital of cooperative organization depends upon the number of members involved and their investment to the organization. Cooperative is a community and member-based organization (Ghimire, 2014, P.3). Thus, the establishment, operation and growth of any cooperative organization depends on the certain vision, mission, goal and their effective implementation. Gaining the faith and belief by any cooperative institution in present competitive business surrounding is a complex and challenging task because the controlling and the monitoring system of government of Nepal towards cooperative organization are not strong. Therefore, for the successful operation of a cooperative institution, the effective managerial and community-based (trust worthy financial) activities are to be done continuously.

In this study, the volume of capital increment trend between the years(2012 to 2021 A.D.), growth of number of shareholders, size of capital and average size of capital investment by each member of NMC have been analyzed in the tabulated and diagrammatic form along with their reciprocal relationship with other related variables.

For the good governance of institution and transparent conduction, all policies and procedures (60) have been formed and enacted by NMC. Among them, there are 38 corporate office-related, 14 saving and credit financial transaction-related, two dairy business-related, three cooperative shop-related, two unified model agriculture farm-related, and one tea processing business-related policies (NMC Policies, 2021) have been formed.

At the end of September 2021, there were more than 34000 cooperative institutions running in Nepal and more than NRs. 4.78 trillion (US \$ 3,907.87 million)

is in deposit (Sahakari Sanjal, 2021, p. 35). In the same period, out of total financial institutions, around 154 banks and financial institutions have the deposit amounts of NRs. 45.1 trillion(US \$ 36,871.37 million) . So, the deposit amount of the cooperative of national perspective has contributed 11.47% (Khanal, 2021). People are involved in the various cooperative organizations across different sectors including agriculture, finance, consumer, marketing, multipurpose, health, retail purchasing, producer, social activities (Khanal, 2021).

Cooperative organizations play crucial role for social integration and make harmonious society. The management system of cooperatives in Nepal has been developed since 1991, when the new cooperative acts and cooperative rules were enacted. Constitution of Nepal has emphasized to enhance positive role of cooperative in national capital formation (Nepal Law Commission, 2015). Cooperative institution helps in social democratization of people. According to the data presented by the National Cooperative Department in 2021, more than 52 percent members are female. Around 40% female are in board member (Khanal, 2021). The data shows around Rs.3.5 billion capital is in social control due to the operation of cooperative organization in all over Nepal (Khanal, 2021). In the context of Nepal, the cooperatives have helped to utilize the local resources for the optimum productive works and it has emphasized to make equitable society.

This study has been carried out on the base of general comparative analytical theory. Different share capital related variables of a cooperative institution were comparatively analyzed. The objective of this study is to point out and analyze some major indicative factors such as increase of share capital, position of institutional capital, number of share holders, earning per share of different years, and their relationships of a renowned cooperative institution.

### **Methodology**

Logical and numerical volume-based methods were utilized for making the presentation of the capital increment trend and other related phenomena during the efflux of time frame mentioned in this article. Likewise, the secondary source of data collection and tabulation methods were used for the presentation and comparative analysis of capital position during the mentioned years. To analyze the share capital, numbers of shareholder members, per member average share capital, and share capital increment percentage; institutional capital were studied. To find out the annual dividend per share and their changes during the nine years' period,

some of the documents such as annual reports(2010/11 to 2020/21), Silver Jubilee souvenir, policy and procedures, strategic business plan (2015/16 to 2022/23) of NMC, National Consumer Price Index published by Nepal Rastra Bank (Central Bank of Nepal) were analyzed.

### Findings and Discussions

As per the number of shareholders and capital size, NMC is a leading cooperative organization in Nepal. The study regarding the changing position of capital and other relative phenomenon helps to dig out the clear position and fundamental base about the basic components of institution.

The detail analysis about capital and other relative components of capital of NMC during ten years from July 2012 to July 2021 can be shown as follows:

**Table 1**

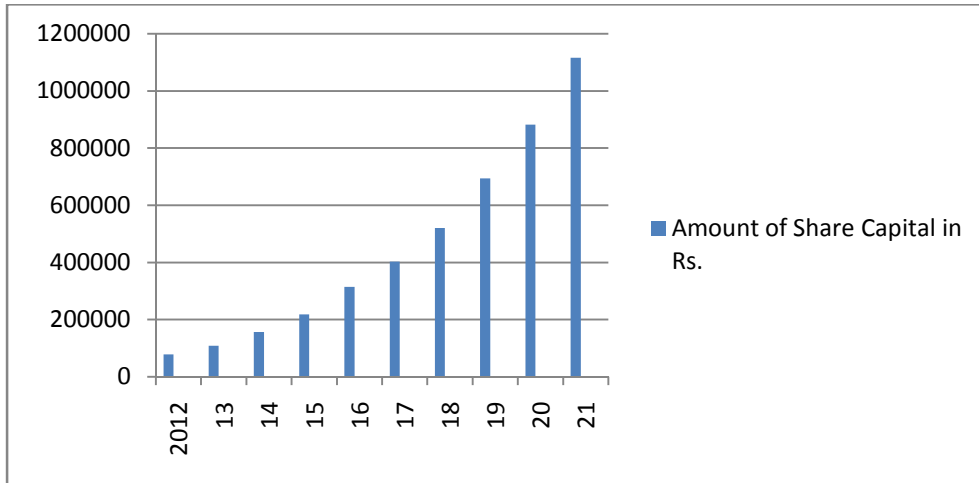
#### Capital and Capital Related Particulars

Year	Volume of share capital in Rs.	No. of shareholder members	Average capital per member	Annual capital increment in percentage	Yearly dividend per share @Rs.100	Institutional capital	No. of service center
2011	58634018						
2012	78293583	6447	12144.19	33.53	15	25153022	9
2013	108681347	9056	12110.03	38.81	15	55876670	10
2014	156253849	14802	10556.27	43.77	15	77193506	10
2015	218460452	21513	10154.81	39.81	15	110127707	13
2016	314740733	33057	9521.15	44.07	13	160570436	15
2017	403380600	42095	9582.63	28.16	15	236999484	15
2018	520248900	53191	9780.77	28.97	13	326124571	15
2019	694130200	68870	10078.85	33.42	15	418052087	36
2020	881903700	85136	10358.76	27.05	12	358913528	40
2021	1116006200	105821	10546.17	26.55	12	706780228	45

*Source: Annual Report of NMC (2011-21)*

**Figure 1**

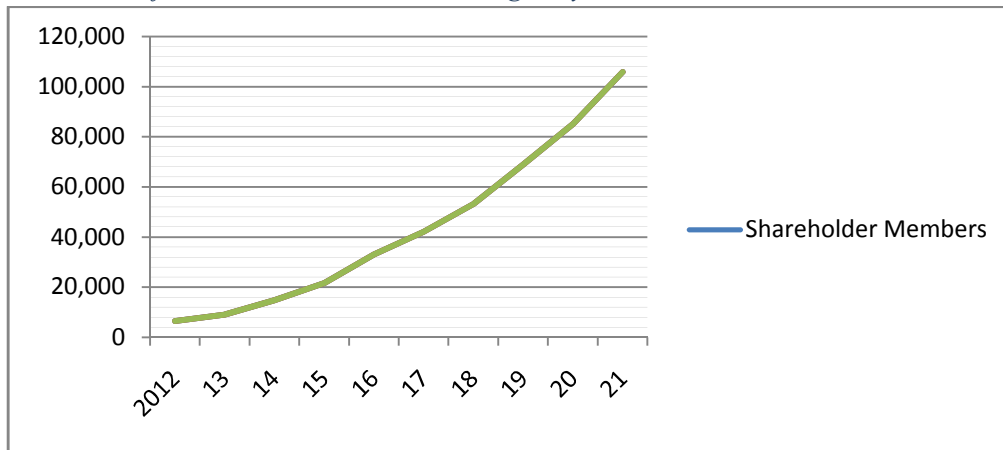
*Share capital increment trend of NMC [Capital Amount in Rs. ( $\times 1000$ )]*



Source: Annual Report of NMC (2012-21)

**Figure 2**

*Increment trend of shareholders members during ten years*



Source: Annual Report of NMC (2012-21)

Based on the data presented in the tables and figures above, the findings regarding NMC have been described in the following headings:

### **Capital Increment Trend in NMC**

Despite the intense competition an increasing trend of number of cooperative shows that the volume of capital and shareholder number in NMC has grown up which can be seen in the table and diagrammatic form.

The analysis of above table in the period of nine years shows that the volume of share capital of NMC has increased by 14.25 times whereas the number of shareholders in the same period has increased by 16.41 times.

The average volume of capital per member at the end of July 2016 is NRs.9521.15 (US \$ 77.84) which is the lowest among all average volume of capital per member during ten years period where as the highest average volume of capital per member can be seen at the end of July 2012 is Rs.12144.19 (US \$ 99.28).

Annual capital increment percentage of nine years period may be analyzed at the lowest range 26.55% of 2021 and the highest range of 44.07% in the year 2016. Even though the number of service centers or branches in the year 2014 has remained unchanged, the share capital has been increased by 43.77%. From the year 2016 to 2018, the number of service centers has remained constant but the share capital in the same year has been increased by exceeding 28% in both of the years. However, in the year 2018 to 2019, the number of service centers has been increased from 15 to 36 and share capital amount has also increased by 33.42%. The share capital increment percentage has been shown in Table 1, 5<sup>th</sup> column.

Like other business organizations, members' share capital of a cooperative business is also a permanent liability. Instead of share capital lent by the shareholder members, NMC should bear proper cost as dividend but it is unconditional which may be different in different years. Generally, the dividend per share is determined on the basis of profit earned by the business. So, the cost of share capital of a cooperative organization depends upon the annual profit of the institution. In this context, Table 1, 6<sup>th</sup> column shows the dividend per share as an annual cost of capital borne by the organization.

### **Shareholder Increment Trend in NMC**

In comparison to the number of shareholders of July 2012, the total number of shareholders in July 2021 has increased by 16.41 times. During the nine years period, the number of shareholders increment trend is compared to the share capital and found almost in the same ratios. Generally, in the cooperative business, the amount of share capital depends upon the number of shareholders and their capital investment. (Table 1, Column 3)

At the mid of July 2012, there were nine service centers of NMC. However, it was increased by five times during the nine years period. The growth of NMC service centers has been presented in Table 1, 8<sup>th</sup> column. So, it is found that the increasing

number of shareholders, to some of the extent, depends upon the increased number of service centers.

### **Institutional Capital vs Share Capital**

The comparative analysis of projected share capital and actual share capital from 2015/16 to 2020/21 in the year 2015/16 and 2016/17 were found with positive value but in the last four years (2017/18, 2018/19, 2019/20 and 2020/21) were found with negative value which denotes that NMC has not achieved the result to meet targeted share capital in the last four years. Institutional capital is the retained earnings of cooperative business. The financial institution should not bear any kind of cost on the use of it. So, it is called the gold money of financial institution. It can be seen in increasing form in itself and in comparison to the annual actual paid up share capital; it is increased in satisfactory level. In this study, the changes of institutional capital do not directly affect the changes in profit on proportionate basis (Table 2, 6<sup>th</sup> & 8<sup>th</sup> column). So, instead of certain ratios of institutional capital, there may be other reasons for determining the volume of profit. Earnings per Share (EPS) can be seen in the fluctuated form (Table 2, 8<sup>th</sup> column). In the year 2011/12, there was the highest EPS value, in the year 2015/16, there was the lowest EPS value and other had the moderate level of EPS value.

**Table 2**

*Comparative Capital situation of NMC for the 10 years*

Years	Project Share Capital in NRs.	Actual Share Capital in NRs.	Achievement	Institutional Capital in Rs.	Percentages of Institutional Capital on Share Capital	Profit of the Year in NRs.	EPS NRs.
2011/12		7,82,93,583				3,28,04,545	41.90
2012/13		10,86,81,347				3,79,18,580	34.89
2013/14		15,62,53,849				5,53,68,402	35.43
2014/15		21,84,60,452				8,55,36,663	39.15
2015/16	29,03,00,000	31,47,40,733	24440733	13,63,00,000	43.31	4,99,71,173	15.88
2016/17	39,03,00,000	40,33,80,600	13080600	23,75,00,000	58.88	13,93,16,807	34.54
2017/18	53,63,00,000	52,02,48,900	-16051100	43,27,00,000	83.17	11,71,93,366	22.53
2018/19	73,63,00,000	69,41,30,200	-42169800	58,42,00,000	84.16	15,38,80,711	22.17
2019/20	1,00,63,00,000	88,19,03,700	-124396300	78,85,00,000	89.41	17,52,47,171	19.87
2020/21	1,36,13,00,000	1,11,60,06,200	-245293800	1,06,65,00,000	95.56	2,58,87,81,88	23.20

*Source: Annual Report 2011/12-2020/21 and Strategic Business Plan of NMC (2015/16-2022/23)*



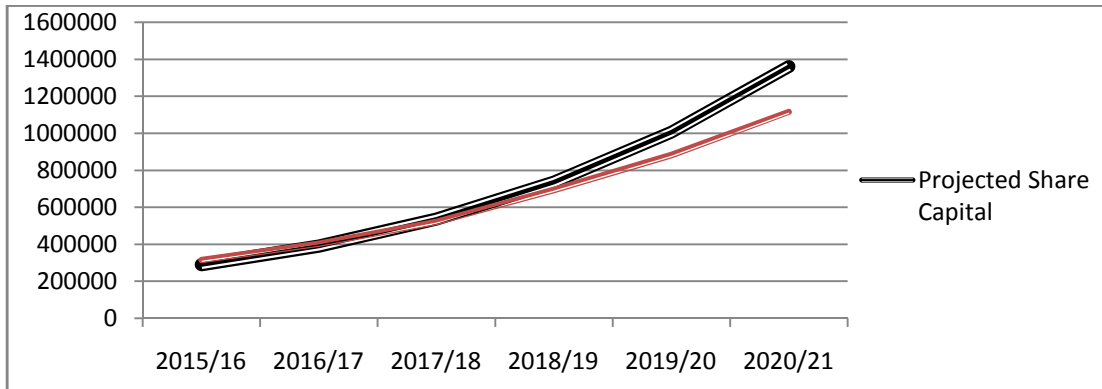
*Note: (1) Institutional Capital of the NMC is computed by adding with the value of general reserve fund, loss compensation fund, cooperative development fund, land and building fund, good governance fund, capital grants fund for dairy business, agriculture business and tea processing business.*

*(2) The figure of amount in NRs. denotes the Nepalese currency (NRs. 122.32 is equal to one American Dollar on 13 April 2022).*

Comparative trend analysis of projected share capital mentioned in the strategic business plan (2015/16 to 2022/23) and actual share capital mentioned in the annual report (2015/16 to 2020/21) have been presented below.

**Figure 3**

*Comparative Capital Analysis (×1000)*



NMC has been implementing the eight-years strategic business plan from July 2015 to July 2023. It was found that NMC has formulated the plan on several crucial bases. These bases are the involvement of the more than two decades experiences of management team, 25 points Letang Declaration enacted from 31<sup>st</sup> January 2015 at Letang, Morang. A workshop was organized by NMC on 20 and 25 April, 2015 held in Kakadvitta to formulate eight years strategic business plan and recent SWOT analysis of the institutions (Table 3).

**Overall Impression of NMC**

The annual share capital increment trend between the years of 2012 and 2021 were found exceeding by 27.05% and 44.07%. Along with the share capital increment, the number of shareholders and number of service centers were also found in increasing form (Table 1).

The projected share capital and actual share capital between the years of 2016/17 and 2020/21 were found in positive as well as negative form. The achievement of 2016/17 to 2017/18 was found in positive form while that of 2017/18 to 2020/21 was found negative form. Earning per share (EPS) from 2012/13 to 2020/21 was found in fluctuated but almost in decreasing form (Table 2).

Several targeted figures under different headings of eight-years strategic business plan of the institution have been presented in Table 3.

**Table3**

*Some Targeted Figures of Strategic Business plan of the Institution (2015/16-2022/23)*

Particulars	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
No. of Share holders	29,000	56,000	66,500	77,000	88,000	1,00,000
Share Capital in NRs.	29,03,00,000	53,63,00,000	1,00,63,00,00	1,36,13,00,000	1,84,13,00,000	2,50,00,00,000
Deposit	2,60,00,00,000	4,49,60,00,000	7,71,40,00,000	10,21,40,00,000	13,51,40,00,000	18,00,00,00,000
Loan	2,99,00,00,000	5,21,69,00,000	9,22,69,00,000	12,32,69,00,000	16,52,69,00,000	22,00,00,00,000
Doubtful Debt. Amount in NRs.	11,96,00,000	15,65,07,000	18,45,38,000	18,49,03,500	16,52,69,000	16,00,00,000
Investment in different business	9,25,00,000	15,30,00,000	20,80,00,000	23,80,00,000	27,80,00,000	35,10,00,000
Institutional Fixed Assets	11,61,00,000	17,15,00,000	24,99,00,000	28,58,00,000	35,29,00,000	43,99,00,000
Annual Profit in NRs.	12,00,00,000	21,50,00,000	40,00,00,000	54,50,00,000	73,50,00,000	1,00,00,00,000
Institutional Capital	13,63,00,000	23,75,00,000	43,27,00,000	58,42,00,000	78,85,00,000	1,06,65,00,000
Other funds	13,31,00,000	20,75,00,000	34,68,00,000	45,60,00,000	60,30,00,000	80,37,00,000
Balance Sheet Amount in NRs.	3,58,53,50,000	6,23,14,41,500	10,81,21,95,500	14,25,93,95,500	19,08,18,95,500	25,29,00,00,000

*Source: Strategic Business Plan of NMC (2015/16-2020/21)*

### Conclusions

More than 62,000 people are directly employed in cooperative and it contributes more than 4% contribution in National GDP (Khanal, 2021). According to the constitution of Nepal, Cooperative Sector is also prioritized as strong pillar of national economic development. Before 1989, there were only 830 agriculture-based cooperatives and 54 non-agricultural cooperatives in Nepal (Khanal, 2021).

Based on the analysis of the figure of share capital from 2011/12 to 2020/21, minimum 26.55% and maximum 44.07% annual increment can be seen. It denotes continuous efficient management contribution. During this period, the number of share holders was also found to have increased with satisfactory level tentative in the same ratio of the increased volume of share capital. The deviation of average capital per member during this period has not been fluctuated largely. Since the fluctuation range is not so high, it is considered as normal. Dividend per share of that period is deviated from 12% to 15% which is not so dissatisfactory level in comparison to the national inflation rate published by Nepal Rastra Bank. There were nine service centers in the year 2011/12 which was increased upto 45 in the year 2020/21, i.e., five times excess. However, in the same period the volume of capital increased by 14.25 times. In this study, it was seen that the increased ratio of capital has been changed as in the higher ratio of increased number of service centers which can be seen in Table 1, 2<sup>nd</sup> and 8<sup>th</sup> columns. In the year 2013/14, the number of service centers remained constant, i.e., the number of service centers were 10. In the year 2015/16, 2016/17, and 2017/18, the number of service centers have remained constant but the capital has increased in the year 2016/17 and 2017/18 by 28.16% and 28.97% respectively which denotes even in the same number of service centers, the capital increased in satisfactory level where in the year 2018/19, the number of service centers increased by 140% but in the same period the capital increased by 33.42% which indicates that the capital change is relatively in the proportionate form as in the changing number service centers, i.e., branches.

In the comparative analysis of capital and various indicators of other relative factors with the capital during the years of 2011/12 to 2020/21 has also been changed. As per the changing situations, other related factors were found satisfactory and the percentage of institutional capital on share capital were also found in increasing form but earning per share of the institution were in fluctuated form and in the latest year it was found in decreasing form (Table 2, 6<sup>th</sup> and 8<sup>th</sup> column). This is a challenging situation to the management committee to improve the earning per share. Overall, it can be assumed that management aspect of NMC is strong and visionary in the operation and growth of the institution.

### **Recommendations**

During ten years period, Earning per Share (EPS) was found in fluctuated form but the EPS were not found as in changes form with changes in some form with the institutional capital. In this study, it was found that instead of institutional capital, other

internal as well as external factors are responsible for determining the earning per share amount of NRs.100. So, it is recommended to control other factors to the stable desirable increment of EPS of the institution.

The increasing trend of share capital was not found as the proportionate form of increased number of members (Table 1, 2<sup>nd</sup> and 8<sup>th</sup> column). So, it is essential to make balance between capital and member relations. In some last years, the actual share capital of the institution had not been found in increasing form as projected by eight-year strategic business plan. It is also recommended to executive team for the reformation of increasing ratio of actual paid up capital of the institution.

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