

Role of Cooperative Planning in Mixed-Economy and Its Impact on Development in Nepal

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Abstract

This paper discusses the importance of cooperative planning in the country that followed the mixed economy. This paper is based on the qualitative approach and the data were collected through secondary sources. A developing country like Nepal may not be adequately sustainable without the development of both private and public welfare sectors. After 1950, more enterprises were introduced in Nepal to uplift the existing status of the cooperatives for development in a mixed economy; the effort could not able to give satisfactory results however, the path of gradual and steady economic recovery as market space in development found to be started for the pro-poor in Nepal. Cooperative planning has introduced the principle of three pillars (public, private, and cooperative) of development in a mixed economy to address the demand and interests of poor and marginalized people in society. For this purpose, co-operatives have been providing foundations for uplifting their livelihood through the process of capital formation, lending, and saving in Nepal. However, most of the cooperatives in Nepal have operated and are controlled by rich and elite sections of society. Consequently, the activities of cooperatives are not found to follow the pathway of the three pillars of the economy. Hence, there is still a gap between reality and rhetoric in the operation of cooperatives in Nepal that should be reduced to uplift the livelihood of the poor and marginalized people.

Keywords: Cooperatives, development planning, mixed-economy, poverty reduction

Introduction

A cooperative is an association of persons who have voluntarily joined together to achieve a common end through the formation of a democratically controlled business organization, making equitable contributions to the capital required and accepting the fair share of the risks and benefits of the undertaking in which the numbers actively participate (ILO 1960). Cooperatives are service-oriented organizations rather than profit-oriented, although it makes any profit they

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will distribute among the members on the basis of their share investment. The term 'co-operative' comes from Latin words where "co" means together and "operative" means work, which means working together. Therefore, a cooperative is a joint venture of two or more people to meet their common specific goals (Jhingan 1982). Similarly, planning is the systematic management of resources for the purpose of achieving definite targets or objectives within a specific period of time. Hence, the formulation and implementation of the economic program to achieve the national objective is development planning (Haughton &Khandker, 2009).

Cooperative planning is a part of economic development in developing countries. It has been taken as a prominent strategy for poverty reduction targeting the livelihood of the ultra-poor and marginalized groups. Many studies in Nepal have been done on different dimensions of cooperatives such as the role of cooperatives in planning in mixed-economy and the effectiveness and constraints in cooperative planning of rural development in Nepal (Jhingan, 1982; Bharadwaj 2012, Khatiwada, 2015; Dhakal, O'Brien&Mueser 2021). Thus, this study may be more useful to assess the issue of the role of cooperatives and cooperative planning in mixed-economy.

The concept of economic development emerged as a debatable issue between various thoughts and theories. Therefore, the concept and meaning of development are contested and controversial. However, economic development is conceptualized by mainly two views in practice: the traditional view of development and the modern view of development. The first one is concentrated on economic growth followed by the modernization approach. This approach dominated the development discourse from 1950 to 1970. The latter emphasizes the social, and environmental dimensions. After the 1970s, the economic growth approach re-emerged as an alternative economic development that focused on poverty reduction, inequality, unemployment, happiness, and self-respect in development (World Bank, 1991). This was a turning point in development discourse cooperatives also supported the latter perspective of development.

History of Cooperatives in Nepal

Cooperative development in Nepal legally flourished after the establishment of democracy in 1990. The government of Nepal has brought the Co-operatives Act 1992 and the Co-operative Regulations 1993. These legal legislations opened the opportunities for the people to open and do activities through establishing autonomous cooperative societies for their improved livelihood and fulfill their necessities (National Cooperative Policy, 2069).

Co-operatives Act (1992) stated that Nepal has provisioned bye-law doing activities of a set of cooperative union societies, registration and conducting both economic and non-economic activities for inter-alia societies. A cooperative is an autonomous association of persons united voluntarily to meet their socioeconomic and cultural needs and aspirations through a jointly owned and democratically controlled enterprise. Co-operatives are based on the values of self-help, self-responsibility, democracy, equality, equity, and solidarity. In the traditions of co-operatives founders, members of coops believe in the ethical values of honesty, openness, social responsibility, and caring for others.

The first amendment of Cooperative Act (2000) made co-operative activities more flexible for farmers, craft persons (*kaligadh*), low capital and low-income class people, and landless and unemployed people to support social and economic development. Co-operatives Act (2017) has provisioned financial and socio-economic, cultural upliftment of members of cooperatives through the integration of a third section including low income and marginalized poor communities.

ICA 2005, in the case of cooperatives sustainability, workers' co-operatives are probably more sustained than others because their internal regulation is formally defined by regimes that are democratically agreed upon and accepted by the worker-members. They shall be autonomous and independent before the state and third parties in their labor relations and management, and in the usage and management of the means of production.

In Asia and Africa colonial governments of trading companies fostered rural cooperatives to speed the monetization of the rural economy and to control peasant production (WB, 2001). In most countries, cooperatives were originally initiated for the purpose of providing rural credit and later diversified into other areas to deal with consumer activities as well. Currently, the co-operatives consist of single-

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purpose and multi-purpose organs, and credit work is being considered as an important activity and their constraints to effective co-ops development.

International Cooperative Alliances (2020) has developed the 2020-30 strategic plan that is committed to promoting a Social and Solidarity Economy (SSE) at the international level and within the UN system, as well as establishing strong partnerships with other global SSE organizations. ICA recognizes a significant contribution that can make by SEE to inclusive and sustainable development that benefits people and the planet. Similarly, micro-finance has been recognized as one of the most significant contributors to poverty alleviation in the 20th century (Bajracharya, 1960). However, Subidi (1991) argues that the majority of cooperatives are not in a position to provide goods and services to the people. Most of them are burdened by unbearable and nearly insurmountable loads of bank loans and are constantly looking for government grants. As a result, the rate of poverty reduction in Nepal is slower.

Over the last few decades, Nepal RastraBank (1994) has recognized the rural credit system as a necessary condition for the growth of Nepal's rural economy. However, low saving, low investment, and low income are the main constraints to economic growth in rural society. The strength of such a credit system is primarily determined by how responsive it is to the needs of rural society. The effective and easily accessible rural credit system can support alleviating poverty. Therefore, it is essential to the expansion of rural credit coverage in a more effective way as well as improvement in the financial status of banking institutions and adopts a more different and cost-effective system of credit delivery. Thus, the co-operatives group can increase the awareness of the people who are involved in productive activities through planning and implementing community development activities in the decision-making process.

Studies have widely recognized the importance of cooperatives for economic growth. It can support to enhancement of the economic life of the people. The development of industrial sectors and the public welfare sector are crucial for it. In this context, co-operatives can provide foundations for uplifting their livelihood through the process of capital formation, lending, and saving in Nepal. This paper

finds the role of cooperatives in planning rural development in Nepal that followed the mixed economy for poverty reduction.

Methodology

This study was descriptive and followed qualitative in nature. Besides it, in some content, socio-metric was analyzed. Textual analysis was taken as the main method in the paper. The required data were gathered from secondary sources like published and unpublished articles, books, and documents. Therefore, a desk review was the main method of the study. The analysis was done based on the thematic ideas.

1. Result and Discussion

All the development plannings have based on major two thoughts of the economy: they are planning in capitalism and planning in socialism. However, in developing countries, the planning of a mixed economy was adopted. Such planning was adapted for economic growth after 2nd World War (Lewis, 1954).

4.1. Planning in Capitalism

Capitalism is a free market economy. It is also called the market-led development approach in development discourse (Lewis, 1954). In this economic system, all the means of production are controlled and governed by the private sectors. The production activities are done by the private sectors. The government has no role or responsibility for the planning. The market price of goods and services is determined by market forces. It is sacred and sacrosanct of the capitalist economy. Therefore, it is the major characteristic of laissez-faire capitalism that advocates the non-interference of the state and the non-existence of the central planning authority. Due to the absence of central economic planning, planning in capitalism is called piecemeal planning (Jhingan, 1982). As an example, there has been no existence of a central planning authority (CPA) under capitalism. In the UK and the USA, there are no central planning systems in whatever planning are exercised. It is drawn (carried out) through price mechanisms, private ownership, and private entrepreneurs.

4.2. Planning in Socialism

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Socialism is an alternative to a capitalist economy. All the means of production are under the control of the government. It is also called the state-led development strategy in the development discourse. All means of forms, factories, financial institutions, schools, shops, internal and external trade, means of transportation and communication, etc. are controlled and regulated by the state and its mechanisms. In other words, the total economy is operated by the government in which individuals are only workers and paid staff. The major roles of the state are to command and direct the economy and develop the planning. There is the existence of central planning authority which is based on a trickle-down approach. This is the main feature of planning in socialist strategies (Ropke, 1936).

Planning in socialism is based on the central plan. There is complete centralization of power under the center plan authority. The former USSR planning, also known as the GOS plan was the example of planning in socialism. GOS plan was a determined authority that took the economic decision on the basis of a comprehensive survey of the economic system as a whole. In this economy, the government itself is the business enterprise. Government organizations allocate and control all the resources for achieving definite objectives and goals (Jhingan, 1982).

4.3. Planning in Mixed Economy

The mixed economy is neither pure capitalism nor socialism; it is a combination of a capitalistic economy and a socialistic economy. Being a mixed economy, it has adopted the good features of both economic systems in the planning. Therefore, it is also the middle path of the economy (World Bank, 2001).

Planning in the mixed economy has adapted to the three pillars of the economy. Firstly, the government controls and regulates the production and distribution of public sector enterprises. Government invests in public-related basic infrastructural sectors such as transportation, energy generation, communication, security, and public utility service. Secondly, the private sector also invests and provides services in the decision. Government induces the private sector to invest by giving various facilities such as credit row materials cheap power, tax holidays, etc.

However, the state gives direction to the private sector to invest in the national interest. Finally, cooperative planning is for respecting the third section of the mixed economy (Pronko, Kolesnik, and Samborsska, 2021).

The existence of cooperative activities in the mixed economy is based on the principle of cooperation. These co-operatives are established for the common interest of producers and service providers. These co-operatives are organized by the people. Such co-operatives are assisted and reasserted by the government department. Thus, planning in a mixed economy is neither comprehensive like socialist planning nor piecemeal planning like capitalism. The private sector is regulated and controlled through various government measures and interventions. Hence, the ultimate goal of planning in a mixed economy is to promote social welfare and economic growth avoiding the weaknesses of a capitalism economy and a socialism economy (Sexton and Iskow, 1993).

4.4. Cooperative Planning in SAARC

The South Asian Association for Regional Cooperation (SAARC) covers only around three percent of the world's landmass although it represents around 24% of the world's population. Therefore, it is considered the area with the highest population in the world. Out of the total population of SAARC around 67% of the population lives in rural areas who depends on agriculture, fishery, and forestry for a living (SAARC, 2018).

SAARC has recognized the importance of cooperative farming through the SAARC Agriculture Vision 2020. The Vision has pointed out those small-sized farms in South Asia face serious constraints in adopting modern technology and marketing their produce. Contract and cooperative farming can be one of the strategies for the mitigation of the disadvantages of the small size of the land. At the 18th SAARC Summit, its leaders recognized the potential of cooperatives in achieving inclusive, broad-based, and sustainable economic growth and development. It has emphasized the sharing of experiences, expertise, and best practices among the members of SAARC countries. An intergovernmental process to finalize the SAARC Plan of Action for Cooperative Cooperation is also underway. The First SAARC Agricultural Cooperatives Business Forum is an

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important step in that direction. Representatives from SAARC Member States' Ministries of Agriculture and Departments of Cooperatives, as well as representatives from SAARC farmers' organizations, gathered in Kathmandu, Nepal, on August 28-30, 2018, for the first SAARC Agriculture Cooperatives Business Forum.

Participants in this Forum shared and learned from one another's experiences organizing and strengthening family farmers' agricultural cooperatives in order to promote sustainable incomes, livelihoods, and rural development. The Forum has made four fundamental recommendations. They were to build and strengthen the capacities of concerned government agencies and leaders of family farmers' organizations in establishing and strengthening family farmers' cooperatives and their enterprises, to encourage and support the strengthening of cooperatives through enabling government policies at the national level, promoting coop-to-coop partnerships and businesses at country and regional levels with other international and intergovernmental institutions such as the International Cooperative Alliance (ICA), The ASEAN, and the local governments, and constitute and support a multi-stakeholder Working Group on Agriculture Cooperatives within the SAARC.

4.5. Cooperative Planning in Developing Countries

After 2nd World War, most of the third-world countries adopted mixed economies and development due to the cooperation regimes and hegemonic struggle seeking both the opportunities and challenges for developing countries in planning consisting of both public and private sectors in development (Caria, 2022). However, in recent years public enterprises are being felt a burden to the state. Public sector outlays are increasing every year but adequate financial resources are not available in such countries. In public sector enterprises there exists bureaucratic control, overstaffing of purses personal corruption, and nepotism. These are the serious problems of public enterprises, resulting in the following productions and emerging losses. Hence, many public enterprises are being shifted to the private sector. In a mixed economy, there is non-cooperation between the two sectors. The business community complains that the government treats the private sector like a stepchild. They complain that the private sector is heavy taxation and it has to

operate under various controls and regulations (Sexton and Iskow, 1993). As they point out the government is giving performance to the public sector. This is the compulsion to the business community on the one hand and on the other hand, the government charges the business sector with black marketing as profit-making not working in the national interest. However, in the public economy of less developed countries, there is an important responsibility of the government to provide basic utility services and protect people from various exploitations from the private sector.

4.6 Cooperative Planning in Nepal and Its Services

In the context of Nepal, there is a long history of co-operative in Nepali society. They were operated in rural society as *parma*, *dhikuri*, *guthi*, and other many informal rotating community credit systems belonging to different groups. However, some of these are becoming common among all groups of people in the town and village areas in Nepal (Chettri, 1995). Formally, the cooperative was established in 1953 A.D. It was called the Department of Cooperative which was then under the Ministry of Agriculture and Planning Development (MoAPD) Nepal. It was formally launched on April 2, 1957, with the establishment of "Bakhan Sahakari Sanstha" in the Chitwan district. The main goal of MoAPD were to increase production, income, and people's living standards, and make farmers free from exploitation. In the 1990s, the democratic system was restored in Nepal. The democratic government enacted a new Co-operative Act 1991 and Co-operative Rules 1992 with aim of granting real autonomy to the co-operative sector (NEFSCUN, 2019).

Nepal is a country that adopts the dual economy system through a mixed economy. The sector related to Social Overhead Capital (SOC) is led by state control and the sector related to Direct Productive Activities (DPA) is led by the private sector's autonomy. But in the study, planning in the mixed economy has developed some principles regarding the implication of the model in developing countries with the spirit of the three pillars model adding the cooperative planning for the economic development of the pro-poor in the society. According to the Department of Cooperatives, 34,512 cooperatives have received operating licenses. Among them, 13,578 are savings and credit cooperatives and 4,371 are multipurpose

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cooperatives that are licensed to carry out banking functions. These cooperatives hold deposits totaling more than Rs300 billion (NEFSCUN, 2019).

Cooperatives in Nepal had 65,12,340 shareholders as of mid-March 2019, with a share capital of Rs. 76.34 billion. Only 5.39% of Co-operatives had mobilized Rs.345.59 billion in savings and Rs.332.71 billion in credit as of mid-March of the FY 2018/19. In the corresponding period of the fiscal year 2017/18, Rs. 323 billion in savings and Rs. 300 billion in credit mobilization were mobilized. It is estimated that nearly 63,500 direct jobs were created in the co-operatives sector through mid-March of the fiscal year 2018/19. Since mid-August 2018, the license of cooperatives established under the Cooperative Act of 1991 with limited banking transaction permission from Nepal Rastra Bank has been revoked (MoF, 2019-20).

The government's plan to involve cooperatives intensely in economic activities to achieve the goal of 8.5 percent growth is likely to be a non-starter due to the lack of an effective monitoring system at the federal, state, and local levels. The budget has emphasized the role of cooperatives in economic development and permitted them to engage in manufacturing, energy generation, and farm modernization, among other sectors. "The scope of cooperatives was extended to manufacturing industries, tourism, energy, housing, education, and health sectors in the fiscal year 2019-20 (Khanal, 2020).

The overall financial status of co-operatives in Nepal was found satisfactory than the previous year.

Table 1: Financial Status of Cooperatives in Nepal

SN.	Liabilities	2019/20 (in Rs)	2018/19(in Rs)
1	Share Capital	496002700	177912400
2	Statutory and other Resources	147118582	55588954
3	Other Fund	18140636	40741782
4	Member Saving Deposits	8741503823	4277462653
5	Other Liabilities	333111208	121611388
Total		9735,876,949	4846,645,860
SN.	Assets	2019/20 (in Rs)	2018/19(in Rs)
1	Property Plant & Equipment	128264757	84216213
2	Investment	2061311000	461311000
3	Loan & Advances	4867558025	2726506862
4	Cash and Cash Equivalents	2602456451	1545163417
5	Other Assets	76286716	29538368
Total		9735,876,949	4846,645,860

Source: NEFSCUN Annual Report, 2019/20

The figures presented in Table 1 show the progressive economic growth and savings in the co-operative sector in Nepal in the year 2019/20 than the fiscal year 2018/19. It has been found as the flourishing economic financial institution in the country's GDP on the basis of its contribution. After the country went into a federal system, the government handed over the task of overseeing cooperatives to the provincial and local levels. A new Cooperative Act and regulation have been enforced, but many sub-national governments have devised their own legal measures to keep tabs on cooperatives. The government has also emphasized the three pillars of the Nepali economy i.e., the public sector, private sector, and cooperatives. However, the provincial and local governments do not have a separate bureaucratic set up to monitor these institutions which will pose a risk in the field of development of the cooperative sector.

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In Nepal, cooperatives have been providing various services like saving products, loan facilities and products, non-fund products, and e-business. The saving Products include deposits, recurring savings, regular savings, general saving deposit, special saving deposit, and super saving deposits. Loan facility and product includes agriculture and agriculture project loan (monthly installment) other project loans in monthly installment, monthly installment loan (term loan), hire purchase loan, microfinance loan, housing/real estate loan, liquidity management loan, working capital loan, loan against the deposit, deprived sector loan. Similarly, the non-funded business includes bank guarantee, remittance, - NCBL remittance, Money Transfer, and utility payment. Likewise, e-product includes SMS banking, internet banking, and enters banking payment system (IPS).

Above all the services and products have been delivered to its stakeholders by the co-operatives as a successful financial institution or business hub but its activities were not found as per the spirit of the three pillars of the planning in the mixed economy. Without this, it is hardly able to improve the economic status and the livelihood of the real pro-poor people in developing countries like Nepal. Even today, most of the cooperatives in Nepal have been operated and controlled by the rich and elite groups. The financial transaction saving and credit and decision-making processes at the policy level have also been controlled by very few and a limited number of rich and elite groups in Nepal.

Conclusion and implication

Actually, co-operatives and cooperative planning are very essential for promoting and enhancing the economic life of the people. Without the development of industrial sectors and the public welfare sector, the country's development is not possible. The economic recovery begins when more enterprises will be introduced in the country because two sectors market-led and state-led planning could not be able to address the economic activities of pro-poor third section people in the case of developing countries like Nepal. For this purpose, co-operatives and cooperative planning in the mixed economy could be better to provide foundations for uplifting their livelihood through the process of capital formation, lending and saving. However, the spirit of cooperative planning is not

really metalized with the provision and principle of cooperative planning in mixed-economy in Nepal.

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