

An Exploration on Success and Failure of Cooperatives and Microfinance

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Abstract

Cooperatives and microfinances are regarded as a vehicle of development. The history of cooperatives and microfinance development is relatively short which dates back to the 1970s. With the assistance of cooperatives and microfinances, households can expand opportunities for income generation. Small size of loan, group savings, small-scale entrepreneurs, diversified utilization and simple and flexible terms and conditions on credit are the determining characteristics of microfinance and cooperatives. Basically this study is based on the review of past studies and research documents and has tried to collect detail information regarding the history, success and failure of microfinance and cooperatives. It covers the information of advanced countries as well as developing countries like Nepal. In course of research, the study found that cooperatives and microfinance have contributed too many households including backward people, women and marginalized groups. It has assisted to poverty eradication, inequality reduction, women empowerment, unemployment reduction which all result to economic development. These outcomes lead to the success of cooperatives and microfinance whereas public policy issues, fraud of the management team, lack of accountability, unproductive use of cooperatives and microfinance lead towards its failure. On the basis of the findings, it can be concluded that there is rapidly expanding number and size of cooperatives and microfinance institutions in many parts of the world, and in course of time these are moving towards commercial sector rather than being oriented to backward people.

Keywords: *Cooperatives, Microfinance, Economic Development, Success, Failure*

1. Introduction

Microfinance is a category of financial services targeting individuals and small business who lacks access to conventional banking and related services. It provides easy credit facility to the needy people. The International Cooperative Alliance (ICA, 2005) defines a cooperative as ‘an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise’. Micro-finance is termed as the financial services rendered to the deprived groups of the people and small entrepreneurs in savings, credit, remittance and rural insurance to help them in developing self-employment opportunities and various income generating activities. Small size of loan, group savings, small-scale entrepreneurs, diversified utilization and simple and flexible terms and conditions on credit (without collateral) are the determining characteristics of its definition (NRB, 2007).

Cooperative and microfinance in most cases are methods of working together with others who have the same or similar needs or problems such that the need of individual member of the group is met

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at one point or the other provided such an individual complies with the rule of the cooperative and microfinance program (Oluyombo, 2013). Micro financing is the provision of financial services to poor and low-income households without access to formal financial institutions (Conroy, 2003). To eradicate the poverty in most of the developing countries, financing small and micro enterprises is considered a “new paradigm” for bringing about development and alleviating absolute poverty (Khan et al., 2010). In this context, the cooperatives and microfinance started as a grass root organizations in the Western Europe, North America and in Asian countries in the nineteenth century.

Nepal has not been an exception to this trend and culture. It is also applying the cooperative and microfinance practice in the country with the objective of providing financial assistance to the poor and marginalized group who are of a distance from easy financial access and empowering women in the country. Institutionally and formally, government of Nepal established the department of cooperatives under the ministry of Planning, Development and Agriculture in 1953.

During the course of review, various studies found that cooperatives and microfinance have played a significant role to reduce poverty and women empowerment in various parts of the world including Nepal. Besides having success stories, the various studies found the problems on this sector due to some institutional weakness and global event such as COVID-19 pandemic, war and so on. With this background, this study aims to review the history of microfinance and cooperatives and highlights the success and failure of this system in the economy.

The first section of this paper delineated the introduction of microfinance and cooperatives and their interrelationship followed by the second section with the history of microfinance and cooperatives, their origin and systematic development in the nation. The third section covers the discussion related to factors responsible for the success and failure of the microfinance and cooperatives in the economy of the world basically, in the Asian countries including Nepal. Finally, last section concentrates on the conclusion.

2. Literature Review

Hambolu (2021) found that financial advices from microfinance banks positively influence the rural women entrepreneurial success while social services rendered by cooperative societies also show a high influence on women’s entrepreneurial success. Michael (2006) examined the role of group based microfinance and found that it is the supreme cause to alleviate poverty. Shylendra (2013) explored the linkage of inclusion and sustainability with microfinance and cooperatives and found that constraints of policy and organizational disability are the major hurdles of the adoption of microfinance and cooperatives in India.

Nyoro and Ngugi (2007) analyzed the role of government to affect the performance of cooperatives and explore that the retreat of government in a legal and regulatory vacuum adversely affected the performance of many cooperatives. Sunghye and Sang-ho (2020) studied about the agricultural cooperatives in Rwanda and suggested that cooperatives should reinforce their sense of ownership to achieve the long term goals of self-reliance and sustainability by setting clear feasible short term goals and achieving them one by one through cooperation among members.

NRB (2008) investigated the role of microfinance towards empowerment of disadvantage groups in Nepal and found that rural credit program has been considered as one of the strong component of poverty reduction program and policy of the government and a better output has been come out with the extension of microfinance program in Nepal.

Hwlme and Moore (2006) found that visionary leadership, a supportive policy environment, effective action by donors, a suitable physical and social environment, improved industry standards have been key factors for microfinance success in Bangladesh. Badruddoza (2011) examined the role of microfinance experienced by South Asian countries and found that most microfinance institutions in South Asia are still dependents on the external sources of funds, subsidy from foreign donors and from government. Ismail (2019) viewed that the success and failure of microfinance and cooperatives depend on the usage of them. Government should intervene in these sector where necessary.

3. Research Methodology

This study has followed explorative research design. The information gathered from past academic papers, review of authoritative publications, books that are readily available, research studies and articles are used to fulfill the purpose of the study. The necessary information and data are also collected from Department of Cooperative and Nepal Rastra Bank.

4. Results and Discussion

4.1. Cooperatives and Microfinance: A Glance

Cooperatives

If we move through the history of cooperatives in the world, it started as a grassroots organizations in Western Europe and, North America and Japan in the middle of the nineteenth century. Rochdale Pioneers is regarded as the prototype as the modern cooperative society and the founder of the cooperative movement. In 1844 AD, he started modern cooperative in Lancashire, England. Since then the cooperative movement has flourished, extending across the globe and encompassing all sectors of the economy. The cooperative movement started in some African countries during imperial period, pre-colonial period and colonial period. During the imperial era in Ethiopia traditional cooperatives existed between 1932 and 1974. Tanzania's cooperative system started informally during 1925 when farmers started cooperative associations to reap trade profits. It was during 1932, the cooperatives legislative law was enacted and government started promoting cooperatives for the development of its economy. During pre-colonial period, Kenya had organizations based on the principles of self-help and cooperation and during colonial period government promoted cooperatives to increase productivity. Nigeria's agricultural cooperatives were more under the control of government to enhance the production and distribute commodities and services. Various policies have been changed that led to weakening of cooperatives in Nigeria. It was observed that the cooperatives worked under tightened regulations and therefore the member's participation was weak. If we see the emergence of agricultural cooperatives in South American countries like Brazil, Argentina, Chile, Bolivia and Guyana their emergence was much earlier to the Asian countries and African countries. These countries emerged between 1889 and 1958 (Sultana, 2022).

The cooperatives were initiated at the time of British rule in countries like India, Sri Lanka and Malaysia. Whereas Philippines cooperatives were initiated during American regime, Vietnam had more service cooperatives in their first phase and China had their cooperatives under government control (Bijman, 2007; Ahmed, 2006; Sananayake, 2013; Aurallo, 2006; Axel, 2008 and Report of high powered committee on cooperatives, 2009).

If we see the experience of Nepal, Theco-operative concept has been used as different form since very beginning in Nepalese societies. Institutionally and formally government established the department of cooperative under the ministry of planning, Development and Agriculture in 1953 AD.

First modern cooperative movement started from Chitwan district as a part of flood relief and resettlement program. The development of cooperatives is closely incorporated with development plans in Nepal. In the first five year plan (1956-1961) government had approved the Agricultural Multipurpose Cooperatives (ICA report, 2019).

In 1969, the government of Nepal launched a large-scale organization program which continued till the end of the fourth five year plan (1970- 1980). The program focused on strengthening the business efficiency of cooperatives. The government started the movement of cooperatives gradually on the pace of small farmer's benefits. The strategy for inclusive development has been the evolution of three pillar economic system comprising of the state, cooperatives and private sector (Khatiwoda, 2014).

Since 2000, the cooperatives moved as a multi-dimensional way such as efficient role in service delivery, market promotion and infrastructure development in Nepal. They have been actively promoted by the government of NCFN (ICA report, 2019).

There are more than 30,000 cooperatives are in operation. A total number of 91,301 direct employment has been generated in cooperative sector. A total of 8,765 cooperative organization have been connected into cooperative and poverty related management information system (CoPOMIS), an online technology developed for making cooperative activities reliable and transparent as well as for integrated statistics. It has added the positive value in cooperative sector as stated in Economic Survey (2022/2023).

Microfinance

The culture of microfinance originated from Bangladesh. Taking the history as evidence, the economist professor, Dr. Muhammad Yunus started microfinance by providing \$27 from his pocket to 42 local women in 1976 and later established the Grameen Bank in 1983 to alleviate poverty. His model was based on collateral free and group based lending system for the poor. Later on, this model became popular all over the world for poverty reduction.

The beginning of microfinance in Europe dates back to the 16th and 17th century. In response, microfinance in a number of European countries evolved from informal beginnings as a type of banking with the poor, juxtaposed to the commercial and private banking sector. Almost from the onset, microfinance meant financial intermediation between microsavings and microcredit, and was

powered by that intermediation. Legal recognition, prudential regulation and mandatory supervision evolved in due course and led to a process of mainstreaming during the twentieth century when microfinance became part of the formal banking sector. However, in one case, that of Ireland, regulation has also been used, upon the initiative of commercial banks, to curtail the further growth of microfinance.

The early history of microfinance in Ireland covers the period 1720 to 1950; it is unrelated to recent initiatives to introduce credit unions. It is the story of how self-help led to a financial innovation, legal backing and conducive regulation created a mass microfinance movement, and adverse regulation instigated by commercial banking interests brought it down. The so-called Irish loan funds emerged in the 1720s as charities, initially financed from donated resources and providing interest-free loans, but soon replaced by financial intermediation between savers and borrowers. The history of the Irish Loan Funds thus comprises three phases: a century of gradual growth as informal institutions; a few decades of rapid expansion as formal institutions in a conducive regulatory environment; and a century of decline due to financial repression.

The story of microfinance in Germany, covering more than two centuries, is one of self-help, regulation and supervision, which have created, relative to its population, the largest microfinance sector of any country. It comprises two networks: community savings funds, now referred to as savings banks, and member-owned cooperative associations, now referred to as cooperative banks.

Different European countries have taken different paths in microfinance. European countries like Germany and Italy have stuck to a multitude of local financial institutions, the Netherlands have created a central cooperative banking institution, Rabobank; France has its *Crédit Agricole* which is the French international banking group; and Sweden has merged its savings and cooperative banks into a single national banking institution. One may hypothesize that Germany is a federation and therefore tends to institutional diversity; but Italy shows a similarly diversified structure of local financial institutions and is not a federation (Seibel, 2005).

In South Asia, the modern microfinance movement started from Bangladesh in the 1970s. In India, substantial microfinance system based on self-help group (SHGs) was developed. Comparing the genesis of microfinance in south Asia with Latin America, it becomes apparent that the microfinance in the two regions has developed distinct characteristics. In Latin America, microfinance was typically urban rather than rural, was more focused on financial services for micro enterprises on poverty, and saw itself as a business potentially as a branch of commercial banking. In South Asia, modern microfinance effectively started during a time in which poverty was extensively examined (WB, 2006).

Although the coverage of microfinance has not rural oriented, it has covered around 15 percent of the overall credit requirement in South Asia (WB, 2006). The coverage was particularly impressive in Bangladesh and Srilanka where microfinance reached more than 60 percent in 2005. Even in a socially conservative countries such as in Afghanistan, microfinance activity has focused on women. In Pakistan and Nepal, the potential of microfinance demonstrated by the experience has captured

the attention of government that has created specified legal frameworks to facilitate its growth (WB, 2006).

Microfinance history in Nepal dates back to 80's like in other SAARC countries. In Nepal, the microfinance model as adopted by Yunus in Bangladesh was started in the early 1990s to reduce the poverty and provide the credit facility for the unbanked people (Lohani, 2022).

Small Farmers Development Program (SFDP) was launched by the Agricultural Development Bank of Nepal in 1975. Intensive Banking Program (IBP) and women focused Production Credit for Rural Women (PCRW) were commenced through the support of two government owned commercial banks with the directive of the Central Bank. With the financial liberalization policy, NRB started allowing the private sector to open the microfinance institutions similar to rural development bank. Hence the first microfinance institution from the private sector was opened in 1998. NRB granted a license in 1999 to undertake microfinance activities. Since then, the private sector has started taking initiation on establishing for microfinance institutions gradually. As a result, the number of microfinance institutions increases rapidly.

Since 2018/19, merger process among microfinance institutions started, and the number of MFIs reduced to 84 till 2020. Till the end of Poush 2080, a total number of microfinance are 57 as stated in NRB report (2023/24). The number of microfinance has declined due to incentives provided for mergers and acquisitions process of NRB.

4.2 Success and Failure of Cooperatives and Microfinance

This section presents the history of success and failure scenarios of cooperatives and microfinance based on the past literatures. Most people believe that cooperative and microfinance are for the poor in rural areas of developing nations. However this concept has been challenged by Singh (2004) stressing that there is a high demand for cooperatives all over the world and that cooperative services is not limited to rural societies alone but is applicable to both the developed and developing countries (Oluyombo, 2013). The performance of cooperatives is affected by several factors. In a review about fishing cooperatives in Turkey concluded that the management skills is one of the internal factors affecting on these companies' success (Vnal et. al, 2009).

Success

The community based microcredit scheme in Thailand has contributed to reduce poverty level of Thai people. The Thai government has supported community based microcredit scheme for more than 30 years. The benefited members of microcredit scheme are mostly women. Donor agencies and NGOs play a major role in supporting community based microcredit through their programme (UNDP 2006).

If we see the microfinance structure of China, it has taken a more market-oriented approach and has promoted institutional reforms in rural microfinance since 2005. Government of China implemented various anti-poverty program through microcredit in the form of village mutual aid fund, community fund and community development fund (ADB, 2014).

The south Asian success of microfinance institutions are revolved around the Bangladeshi three leading microfinance: Grameen Bank, The Association for Social Advancement (ASA) and Building Resources Across Communities (BRAC). These institutions contributes nearly 75 percent of total borrowers in South Asia.

The SAARC region microfinance history is interesting. The government of Afghanistan has been looking for supportive measures in microfinance sector. The various studies show that around 70 percent of the microfinance program beneficiaries are women in Afghanistan. The 40 percent beneficiaries are located in rural areas.

In Bangladesh, the microfinance model is the group based Grameen Model. The impact of microfinance in Bengali can be found in increased income level and hence expenditure, improved social indicators, enhance management capacity, incorporating the poor under formal financial system and so on. The state of the microfinance Summit Campaign Report 2006 states that microcredit is one of the most powerful tools to address global poverty. Yunus said that Bangladesh will be free from poverty by 2030 with the expansion of microcredit to all over the country.

In India, the self-help group bank linkage program is supported by national bank of agriculture and rural development is a successful microfinance model. It has been working towards poverty alleviation.

In Maldives, various government authorities have been carrying out microcredit projects with the focus on developing different sectors. Most of the projects are financed mostly by donor funds received from international organizations such as ADB, UNDP, UNICEF etc., the project lent out small scale loans without collateral.

Then various studies showed that Pakistan entered the microfinance sector relatively late to other South Asian countries. By mid 1990s, microfinance attracts tremendous interest from the donor community as a tool for poverty reduction with a unique promise of financial sustainability. Pakistani regulatory and policy initiatives combined with sector initiatives and innovation Pakistan's microfinance industry to grow in a sustainable and inclusive manner.

Srilanka had better socio-economic indicators than other SAARC countries till 2010. The country adopted several models of microfinance such as individual lending using a group as a focal point, village banking, self-help groups and individual lending, establishment of livelihoods, improved housing and sanitary facilities, household and business assets building, empowering women and poor are the contributing sectors of the microfinance institutions in Srilanka.

Bhutan has the different experience of microfinance. The microfinance in Bhutan was necessary to correct the huge mismatched in demand and supply for financial services, majority of poor excluded from the financial services mainly due to collateral based lending and so on. With the introduction of microfinance in the country, the positive impact has seen on rural life, women and deprived sectors people in Bhutan.

Failure

Microfinance and cooperatives are regarded as the vehicle of sustainable growth and poverty reduction. Microfinance automatically functions as sustainable development and poverty reduction instruments. It makes a genuine and substantive economic and social impact in the local economy. Yet, if people do not use microfinance and cooperatives in correct way or if they do not use them in productive way, the cooperatives and microfinance reduces the income and assets of the poor. In this section, some reviews are collected which states the causes of failure of cooperatives and microfinance.

Various studies concludes that the debility of management, lack of education, the conflict between members and lack of capital are the most important factors affecting cooperative's failure. Van Niekerk considered the debility of management as the most important reason for failure of cooperatives.

People start to take a strategy to repay a microloan when the original micro enterprises fail. They borrow from friends and family or relatives to repay their original microloans. This has been quite extensively documented in Bolivia (Milford, 2010). People start to take another microloan from another microfinance to repay their original microloan. Such problems have arisen in Bangladesh and India which assisted to failure of cooperatives and microfinance (Mathew, 2006).

In Bangladesh, India, and Pakistan as in many other South Asian countries, land seizures from defaulting borrowers are very common and growing which is the major issues expanding in the cooperative and micro finance system (Milford, 2010). Commercialization in the economy is the positive aspect to go ahead to progress in many situation. But commercialization of microfinance in 1990s went wrong for the poor but quite well for wealthy and powerful people. As Milton Friedman formally said that the sole and only purpose of a private business is to maximize the profit, commercialization in microfinance pushed away to reap the benefit from microfinance to the poor (Milford, 2010).

The study that used a sample of 832 MFIs from 74 countries for the period 2003 to 2010 found the conclusion that excessive liquidity, higher proportion of deposits over loans and more loans per employee increase the probability of a crisis (Fenandez, 2015). It has been presented by the Karnani in 2007 explained that microfinance and cooperatives are not favorable to all the people of a country. Microloans are more beneficial to borrowers living above the poverty line where as it is not favorable to the people who live in below the poverty line.

Microfinance helps the poor people gradually and progressively cross the poverty line and get them help to integrate into the rest of the society. In this manner, microfinance presents a potential instrument for alleviating poverty in the South Asian region but on the contrary, the microfinance system in the South Asian Region reveals still lacking a clearly defined and articulated microfinance policy. Numerous microfinance system are operating to have the test of time (Wifewardena, 2004). In South Asian region except Nepal, all the other countries have chosen to leave microfinance for regulation by themselves. So, for the growth and the spread of MFIs in the countries, self-regulation is most useful tool.

4.3. Success and Failure of Cooperative and Microfinance of Nepal

Microfinance and cooperatives have, no doubt played significant role in alleviating poverty. Many more people have got employment opportunities and many more of them got chance to improve their life standard. Not only that, microfinance and cooperatives have directly helped to cut down import and increase export especially, in livestock and farming. Yet, there is lot to be done and corrected. As Lohani writes the experience Nepal learnt is a bit different. Nepal started the microfinance model in the early 1990s to reduce the poverty and provide access to financial services for the unbanked people (Lohani, 2022). Before this, the government of Nepal formally and institutionally established the department of cooperative under the Ministry of Planning, Development and Agriculture.

Simkhada believes that a major change in cooperative sector took place in 1992 after the promulgation of cooperative Act 1992 (Simkhada, 2013). Khatiwada mentions that the government of Nepal took initiation for the movement of cooperatives on the line of small farmer's benefits to uplift the life of small farmers. (Khatiwada, 2014). Kathiwada and Simkhada both agree with Lohani their works go in harmony each other. Their claims regarding the role of cooperatives and microfinance are similar.

Mass poverty, problem of unemployment, backward agriculture sector, low rural development, negligible industrial development, underutilization of resources, capital inadequacy and so on are the key characteristics of Nepalese economy. 15.1 percent of Nepal's population is under the poverty line. It means these populations live below \$1.90 purchasing power parity as stated in Economic Survey (2022/23). Nepal has not been able to step up in alleviating poverty until now the objective of each Five Year Plan is poverty alleviation. Yet, the objective of poverty alleviation has not been fulfilled because of poor implementation of plan, expenditure without priority, haphazardly selection of projects and inability to implement target group oriented poverty alleviation program.

Rising poverty has encouraged the growth of the microfinance and cooperative sector which has a huge market potential and presents enormous opportunities. In this regard, the researcher believes that to overcome from poverty and to make microfinance and cooperatives effective, Nepal needs lot of corrections and improvements in microfinance and cooperatives sector.

We can see many examples of Cooperatives and microfinance that have become the major vehicle to reduce poverty by providing small loans to the low income and unemployed people. Nepal's target for nationally defined poverty in 2030 is less than five percent. The multidimensional poverty Index (MDI) is targeted to decline to less than 6 percent in 2030. Nepal proposes to raise per capita income to US\$ 2,500 in 2030 (SDGs Report, 2016-19).

The constitution of Nepal 2015 has incorporated the cooperative as one of the three pillars of economy. The current fifteenth plan has put forth a dream of "Prosperous Nepal and Happy Nepali". To fulfill this dream, the government has set three basic milestones. First is the country will graduate from the least developed country (LDC) to a developing country by 2022, second is the country will elevate its level of higher middle income country with achieving Sustainable Development Goal (SDGs) and third is a status of prosperous country will be attained by 2043 (MoLM, 2019). In this context, cooperatives are obliged to implement internationally agreed values and principles and

some of the global agenda. So, cooperatives are not only stakeholders of the SDGs but also one of the means to achieve them at different tiers of government structure. (MoLM, 2019).

Cooperatives could be the vehicles for poverty alleviation by improving access to finance in rural areas and in the informal sector, supporting farmers to get access to agricultural inputs, helping farmers to process and market their products, supporting members to get access to household supplies, helping poor and marginalized people come into mainstream (SDGs, 2016-19).

According to the Department of Cooperative, cooperatives and microfinance has contributed about 5 percent of the total GDP, provided employment opportunity to more than 60 thousand people as a regular staff. It has contributed in education, health, renewable energy, agriculture, livestock, youth employment programme, corona relief program and social program such as providing drinking water and housing facilities to deprived families. The major types of co-operative societies operating in Nepal are saving and Credit, Multipurpose, Dairy, Agriculture, Fruits and Vegetables, Bee Keeping, Tea, Coffee, Consumers, Science and Technology, and Energy. It is believed that around 6 million people are the members of 34,512 cooperatives and more than 60,517 people are employed directly in Cooperative business.

In this perspective, in Nepal, MFIs has adopted individual lending and classical model of microfinance which is group based program. It is known as Grameen model microfinance as stated in NRB report (2019/20).

The growth of cooperatives can be presented by the following table:

Table 1: Growth of Cooperative Movement in Nepal

Year	Number of Cooperatives
2021/22	30879
2019/20	29886
2016/17	34512
2015/16	33599
2014/15	32663
2013/14	31177
2012/13	29526
2011/12	26501
2010/11	23301
2009/10	19724
2008/09	15813
2007/08	11302
2006/07	9720

Source: Statistical Report 2007-2022, Department of Cooperatives

Above table reflects that the number of cooperatives is increasing continuously since 2006/07. In 2019/20, it has declined due to merger in cooperatives and COVID 19 pandemic. Then after, it starts to increase with the recovery of pandemic in the economy.

Table 2: Provincewise Branch of Microfinance

Name of Province	Number of Microfinance
Koshi	857
Madhesh	1041
Bagmati	747
Gandaki	591
Lumbini	1163
Karnali	230
Sudur Paschim	447

Source: Nepal Rastra Bank, 2022

The table represents that the number of branches of microfinance in Lumbini province is more whereas its number of branches is less in Karnali province.

In Nepal, microfinance has not been as successful as it has been in some parts of the world. In Nepal, 43.68 percent people are involved in informal economic activities according to the research conducted by the Central Department of Economics with collaboration of NRB. The extreme poverty, gender gap and unfavorable small business climate are some of the major reasons behind limited success of microcredit program in Nepal. It has not been successful as it has been in some part of the world (Basnet, 2007).

The research conducted by NRB online survey to examine the impact of COVID – 19 on economic activities during 8 to 24 June 2020 found that comparatively less affected sector was agriculture, forestry and fishing having 31.6 percent of establishment were in full operation. About two third of manufacturing units were in partial operation. As a result of not being in operation, firms on average cut their employment by 22 percent of which about 70 percent of them were temporary and contract staff. Because of COVID – 19, 77.1 percent of the firms faced the problem of meeting operating expenses, followed by problem in sells.

Nepal microfinance Bankers Association conducted the survey with Chief Executive Officers of 54 MFIs during 8 may to 28 May, 2020. The report states that all sectors of MFIs' loan portfolio are affected due to lockdown and the portfolio quality has decreased, expecting non- performing loans to go up with fall in operating self-sufficiency and profitability. Likewise, the study of International Finance Corporation (IFC) found that micro, small and medium enterprises suffered mostly during the pandemic. The global event like Ukraine war is also responsible for the current problem in microfinance sector.

Actually, MFIs were established with the objective of promoting rural people's access to finance but gradually, MFIs moved to boost their business and earn more profits. This is also the responsible factor to emerge problems in microfinance sector.

Cooperative and microfinance in most cases are methods of working together with others who have the similar needs or problems such that the need of individual member of the group is met at one point or the other provided such an individual complies with the rule of the cooperative or microfinance program.

The study found that microfinance has shown positive results in many countries and even in Nepal but there are still number of people in Nepal who are deprived of financial services because of slow and low development of financial sectors in remote and village area of a country. The data presented above also shows that the Karnali Province which is deprived from various facilities of government of Nepal has lowest number of microfinance in comparison to other province.

There are various factors that may lead to the success and failure of cooperatives and microfinance. It can be summarized by the following table:

Table 3: Success and Failure Factors of Cooperatives and Microfinance

Success Factors	Failure Factors
<ol style="list-style-type: none"> 1. Community based microcredit scheme 2. Group based Grameen Model 3. Women Based Micro credit Model 4. Rural Development 5. Different Sectors Development Model 6. Market – oriented Approach 7. Self-help Group Model 8. Deprived people Targeted Model 9. Regularity and Policy initiatives Method 10. Leadership strength 11. Business relationship amongst members 12. Business diversification and expansion 	<ol style="list-style-type: none"> 1. Land seizures from defaulting borrowers 2. Commercialization of microfinance 3. Higher proportion of deposits over loans 4. More loan per employee 5. Extreme poverty 6. Unfavorable small business climate 7. Debility of Management 8. Unproductive use of cooperatives and microfinance loan 9. COVID -19 Pandemic 10. Ukraine War 11. Multiple credit to the same borrower 12. Administration cost 13. Capital cost

The given table implies that on the one hand there are multiple factors that are responsible to generate the fruitful outcome by the application of microfinance and cooperatives in the economy. On the other hand, various institutional factors as well as external factors are responsible to make failure to these financial institutions.

5. Conclusion

The success and failure of microfinance and cooperatives depend on the usage of them. Government should intervene in these sector where necessary.

Now a days, cooperatives and microfinance have facing several challenges such as unhealthy competition among the cooperatives and microfinance, lack of financial discipline, scanty knowledge of financial sectors and so on. The threats of COVID -19 pandemic, Ukraine war and ongoing economic slowdown badly hit the business of those people who had taken loan from microfinance and cooperatives. As a result, the problems arises in the financial sector of Nepal especially in microfinance sector.

To get rid from such problems, NRB should provide the sufficient time to pay the loan to those people who are really unable to pay the loan of cooperatives and microfinance. A packaged program

of training and education to women and men should be provided. Such training will educate and train the poor and uneducated borrowers, allowing them to make safer and more profitable investments. The unproductive expenses and consumption expenses by taking loan should be discouraged. Multiple MFIs offer credit to the same borrower which is the major responsible factor to create the problems in microfinance sector in Nepal. It must be discouraged. For this, the effective policy should be introduced and strictly implemented.

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