



Agricultural Cooperatives and Members' Access to Financial Services in Makawanpur, Nepal

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Abstract

This research aims to investigate the role of agricultural cooperatives in promoting the accessibility of financial services to their members. To achieve the objective, we adopted a survey research design with a total of 123 agricultural cooperative members who were asked to fill out the questionnaire which included 13 items measured on a five-point Likert scale, ranging from 1 (strongly disagree) to 5 (strongly agree). Descriptive analysis (Median=4) showed a positive perception of cooperative members on the services of agricultural cooperatives. Independent samples Mann-Whitney U test (Sig. .445) showed that there was no significant difference in the median scores of male and female members regarding their perceptions of the role of agricultural cooperatives in improving access to financial services. The research findings showed the both male and female agricultural cooperative members' positive perceptions on the financial services provided by the cooperatives. The financial services include the accessibility of credit services, the ease of loan repayment, the fairness of interest rates, the affordability of the cost of membership, the support for vulnerable groups, and the overall perception of agricultural cooperatives. The agricultural cooperatives were seen to be fair and equitable for all members regardless of gender. The study is significant as it explores how agricultural cooperatives enhance members' access to financial services, thereby supporting rural livelihoods, economic empowerment, and sustainable development.

Keywords: agricultural cooperatives, financial services, cooperative members, access

1. Introduction

Access to financial services continues to play an important role in enhancing agricultural productivity and rural economic development. In developing countries, access to financial services such as credit, savings, and payment systems by agricultural households has been a major challenge. These challenges have been attributed to the lack of adequate collateral, high costs, and geographical location, which have been far from the reach of financial



institutions. Most agricultural households have been forced to seek financial services from unscrupulous moneylenders, who charge very high interest rates (Abolade et al., 2024). Therefore, the need for financial services is paramount for the farmers to purchase inputs, technologies, and manage production risk.

The agricultural cooperatives are now playing a greater role in assisting the farmers to access financial services. These are groups of people who own the business and are based on the principles of collective efforts, mutual help, and collective decision-making, which enables the farmers to access financial markets and increase their bargaining power by pooling their resources together. The cooperatives provide the farmers with savings, credit services, and loan guarantees, which helps to eliminate the gaps and costs of doing business that prevent banks from lending to the farmers. The statistics show that the chances of a farmer accessing a loan are significantly higher if they are a member of a cooperative (Yu et al., 2023).

Beyond direct financial provision, agricultural cooperatives also play an intermediary role between rural communities and formal financial systems. By organizing farmers into groups, cooperatives enhance trust and transparency, which encourages financial institutions to provide credit through group-based lending mechanisms. Research shows that cooperative members are more likely to secure larger loan amounts, access multiple financial sources, and report higher satisfaction with loan conditions compared to non-members. These institutional advantages make cooperatives a key driver of financial inclusion in rural areas.

Apart from facilitating access to credit, agricultural cooperatives serve as a support system for their members. This is because they provide a range of complementary services. These services include financial literacy, access to inputs, information on markets, as well as technical assistance. This enables the members to make optimal use of the finances at their disposal. This, in turn, enhances the productivity of the farms as well as the lives of the individuals. By providing access to affordable financial services in a secure environment, agricultural cooperatives help reduce the dependency of the farming population on external sources of credit. This is important in promoting the development of rural areas (Tirthani, 2025).

In regions with large rural populations, like Nepal, agricultural cooperatives play a crucial role in connecting marginalized farmers with financial services. These agricultural cooperatives provide microloans, crop insurance, and savings opportunities, thus allowing rural populations to access formal financial channels. By connecting farmers with financial institutions, agricultural cooperatives are one of the main conduits for inclusive growth in agricultural sectors (Mehak, 2025).

While there is a general consensus on the importance of cooperative membership, empirical evidence of the effects of cooperative membership on access to financial services among farmers is still lacking in many developing countries. It is, therefore, essential to investigate the impacts of agricultural cooperatives on financial inclusion in the countryside. This study seeks to investigate the role of cooperative membership in accessing financial services for members while also measuring the level of expansion of financial services for rural farmers through cooperative membership.

The aim of this study is to analyze the role of agricultural cooperatives in members' access to financial services in Makawanpur District, Nepal. The hypothesis that is being tested is that H₁: Membership in agricultural cooperatives improves members' access to financial services.

1.1 Objectives of the study

This study aims to enhance understanding of rural financial inclusion by examining how agricultural cooperatives improve farmers' access to credit, savings, and insurance services. Moreover, it aims to contribute to the knowledge of rural financial inclusion by

generating additional knowledge regarding the contribution of agricultural cooperatives to the improvement of access to financial services such as credit, savings, and insurance for rural farmers.

1.2 Significance of the Study

It provides valuable insights into how agricultural cooperatives facilitate rural financial inclusion. By examining the role of these cooperatives in enhancing farmers' access to credit, savings, and insurance, the study can inform policymakers, development practitioners, and cooperative leaders about effective strategies to strengthen financial service delivery in rural areas. Moreover, the findings can guide the design of programs that empower farmers economically, promote sustainable agricultural development, and contribute to overall community well-being, thereby filling gaps in existing research on rural financial access in Nepal.

2. Literature Review

Financial inclusion is the core of the discourse in development economics and rural finance (Kumar & Ahuja, 2025). It is the central idea in the broader discourse of poverty reduction, inclusive growth, and sustainable growth. Simply put, financial inclusion is the process of ensuring that people and businesses, especially those who are poor or marginalized, have access to useful, affordable, and appropriate financial services through formal financial institutions. These services include saving, credit, payments, and insurance (Bruno & Jaideep, 2015).

Girón et al. (2022) argue that financial inclusion is at the center of financial development theory, which emphasizes the significance of robust financial systems in promoting economic development. Financial development theory argues that when people have access to banking, credit, and insurance markets, they can save better, invest more, and support productive activities. Financial inclusion is beneficial for promoting entrepreneurship, farming investments, and income stabilization for people. In other words, increasing financial inclusion is key for promoting economic development, reducing poverty, and improving the quality of life for people in developing nations who have not been included in the formal financial sector.

According to Fernández-Olit and González (2020) financial inclusion is the ability for everyone, particularly those who have been excluded from the economy, to have a fair shot at financial services such as saving, borrowing, and paying. Financial inclusion allows the participation of the poor and the economy as a whole, thereby reducing poverty and ensuring economic growth for all.

Generally, access to financial services is considered vital for the growth of the rural economy and the adoption of modern farming methods. However, smallholder farmers in developing countries are confronted with structural challenges that prevent them from accessing formal financial institutions. For example, the difficulty of meeting collateral requirements, the high risk of defaulting on agricultural loans, and the physical gap between the village and the bank are all factors. As a result, many farmers are forced to seek alternative and often expensive and insecure sources of finance from the informal sector. Financial inclusion has, therefore, emerged as an important area for development, which is vital for increasing agricultural productivity and sustaining livelihoods (Demirgüç-Kunt et al., 2022).

Agricultural cooperatives have emerged as critical institutions for overcoming financial challenges and increasing farmers' access to financial services. Farmers can coordinate their economic activities, increasing their leverage over creditors, by forming cooperatives. By acting collectively, farmers can reduce the costs of transactions and information asymmetries that often make it difficult for banks to lend to individual farmers. Research indicates that being part of a cooperative has been instrumental in increasing the probability of accessing formal

credit as well as improving farmers' bargaining power for favorable loan rates (Gashaw Tadesse ABATE, 2014).

Cooperatives are known to enhance access to financial services based on the social capital that exists among the members. The social capital within a cooperative allows the members to share information and also makes the borrowers more credible to the lenders. According to research, farmers who are members of a cooperative are more likely to obtain loans because the group provides a guarantee for the members. The institutional setup within the cooperative reduces the risk of default for the members and encourages the banks to lend money to the farmers who are considered high-risk borrowers (Tejeda, 2016).

Besides providing a link between the farmer and the bank, agricultural cooperatives sometimes provide their own financial services to their members. Many agricultural cooperatives have their own savings and inside credit programs, which allow their members to save and access credit for seeds, feed, cattle, and other agricultural investments. These services are important for the rural poor, as there are very few banks in the rural areas. Research and data from developing countries have confirmed the positive impact of agricultural cooperatives' financial services in improving the lives of the rural poor (Barnard & Gaber-Madhin, 2010).

Agricultural cooperatives, in a sense, provide windows of access to financial services for their members through the improvement of their economic performance and market participation. This is because these cooperatives help in the efficient supply of agricultural inputs, marketing, and extension services, which in turn increases the productivity and income levels of farmers. With increased levels of earnings, farmers become better at paying loans and hence become eligible to access formal financial services such as loans from banks. Studies also suggest that when farmers are part of a cooperative, they tend to use better technologies in their farms, which increases their ability to access rural financial markets (Ma & Abdulai, 2022).

Despite the positives that agricultural cooperatives contribute to rural financial inclusion, research also indicates the institutional and governance challenges that hinder the development of agricultural cooperatives. For instance, if the management of the cooperatives is poor, the resources are inadequate, and the regulations are weak, the cooperatives will not be able to provide the needed financial services. Therefore, from the above discussion, the importance of the development of institutional frameworks and the role of governance in the development of agricultural cooperatives to enhance financial inclusion for rural farmers is evident (Bijman & Cechin, 2012).

On the whole, the evidence currently suggests that agricultural cooperatives assist their members in accessing financial services by pooling their resources, developing social capital, and providing direct financial services. However, the effectiveness of these cooperatives also depends on the country and the settings, implying that there is a need for more studies on the issue.

3. Materials and Methods

This article employed the primary data taken from members of 5 agriculture cooperatives of Makawanpur District in Nepal. For minimization of error, 123 cooperative members were taken for the sample. It analyzed the role of agricultural cooperatives in members' access to financial services, using 13 five-point Likert scale questions. Cross-sectional survey research design was used for carrying out the study. The study was carried out in 2024. Descriptive statistics median and mode were used to examine the perceptions of the cooperative members. Mann-Whitney U test was employed to test the null hypothesis. We took a written consent before collecting the data.

3.1 Theoretical framework

Achieving an understanding of the role of agricultural cooperatives in facilitating access to financial services among members requires a theoretical underpinning that brings together the concepts of collective action, the flow of funds, and the importance of institutions in the rural economy. Various theoretical perspectives, such as cooperative theory, social capital theory, financial intermediation theory, and institutional theory, provide an understanding of the role of agricultural cooperatives in facilitating financial inclusion among smallholder farmers.

The cooperative-based access to finance is underpinned by the principles of cooperative theory, where people who have similar economic interests come together, own the business, and address the gaps in the market in the rural areas. This is beneficial to the people since, when they voluntarily come together in a group, they have the benefits of the cooperative. To the farmers, the cooperative reduces the costs of doing business with the market and banks. This is because the cooperative is able to meet the demand for the services of the members and access the savings of the members to meet the internal needs of the cooperative (Birchall, 2013). Given their characteristics, agricultural cooperatives are of particular importance as institutions that improve farmers' access to various financial services, including credit, savings, and others.

Another useful framework for analysis is social capital theory, which emphasizes the importance of trust, networks, and shared values in facilitating economic cooperation and access to resources. Social capital is particularly important in rural financial markets, where many smallholder farmers are unable to access formal financial services due to information constraints and collateral issues. By joining a cooperative, farmers are able to develop their social capital, both internally within the group and externally vis-à-vis other actors such as formal financial institutions. Empirical research has shown that high social capital within cooperatives has several positive effects, including increased group accountability, reduced default risk, and improved creditworthiness of farmers, making it more likely for formal financial institutions such as banks to lend to members of the cooperative (Putnam, 2000; Wossen et al., 2017). Thus, the social capital within the cooperative acts as an informal form of guarantee, facilitating access to formal financial markets.

This financial intermediation role sheds light on the importance of agricultural cooperatives in facilitating the expansion of the number of people who have access to financial services. Financial intermediation is the role played by institutions that transfer money from savers to borrowers, reducing the information problem, transaction costs, and risk. In the rural areas, there are very few banks and lending institutions; therefore, the cooperatives act as intermediaries. They receive deposits from members and then lend money to the members. The cooperatives monitor the members who borrow money from the cooperatives, thus reducing the risk for the lenders. This role played by the cooperatives connects the rural farmers to the financial sector (Levin et al., 2005).

This theory provides a means of understanding the role that the rules and norms within a given community have to do with the allocation of financial services in the rural areas. The theory indicates that the success of a given economy is dependent on the quality of the institutions within the economy. These are the aspects of governance, the presence of rules, and the way in which the institutions are run. The agricultural cooperatives are the local institutions that are responsible for aligning the economic activities of the farmers and establishing a means of cooperation financially. The success of the cooperatives in terms of governance, as well as the openness and transparency of the leadership, enables the development of trust with the banks. This, therefore, allows the members of the cooperatives to have easier access to loans, savings, as well as insurance (North, 1990).

By integrating these theoretical perspectives, a comprehensive approach to understanding the role of agricultural cooperatives in facilitating access to financial services for members is obtained. The cooperative perspective suggests the importance of collective action for members, while the social capital perspective suggests the importance of trust networks for accessing financial services. The financial intermediation perspective suggests the importance of the cooperative as a link between the farmer and the formal financial sector, while the institutional perspective suggests the importance of the organizational structure of the cooperative. These perspectives collectively imply the potential of agricultural cooperatives to reduce transaction costs, enhance social networks, mobilize financial resources, and ease access to the formal financial sector. This set of perspectives informs the study of the effects of membership of a cooperative on access to financial services for rural farmers.

3.2 Research Gap

In many studies, cooperatives have been lauded for their positive contributions to rural development and financial inclusion, but there is an information gap when it comes to understanding how exactly agricultural cooperatives can enhance members' access to financial services in their respective areas of operation. In many studies, cooperatives have been found to have positive impacts on agricultural crop productivity, market development, and rural livelihoods. However, few studies have sought to identify exactly how agricultural cooperatives can enhance members' access to financial services in their respective areas of operation. Moreover, although many studies have been conducted in Africa and Asia, Nepal has had little attention given to its cooperatives. In Nepal, much emphasis has been given to microfinance institutions and rural credit programs, with little focus on agricultural cooperatives as agents for improving members' access to financial services in their respective areas of operation.

Despite the fact that cooperatives have been recognized as key players in enhancing members' access to financial services in their respective areas of operation, little empirical evidence has been conducted on exactly how agricultural cooperatives can enhance members' access to financial services in their respective areas of operation. Moreover, little analysis has been conducted on exactly how effective agricultural cooperatives can be in enhancing members' access to financial services in their respective areas of operation, especially for smallholder farmers in specific districts such as Makawanpur.

In many studies, cooperatives have been found to have positive impacts on agricultural crop productivity, market development, and rural livelihoods, but little has been known about exactly how agricultural cooperatives can enhance members' access to different types of financial services in their respective areas of operation. This study was conducted with the aim of filling this information gap by empirically examining exactly how agricultural cooperatives can enhance members' access to financial services in their respective areas of operation in Makawanpur District, Nepal.

4. Data presentation and analysis

Perception about the role of agriculture cooperative in members' access to financial services in Makawanpur District, Nepal among the beneficiaries was examined by using independent Samples Mann–Whitney U test was applied, producing a significance value (p-value) across categories of gender of the respondents.

4.1 Demographic Information

Table 1: *Gender of the Respondents*

Respondent (%)	Frequency	Percentage
Male	13	10.6
Female	110	89.4
Total	123	100

This table shows the total number of cooperative members involved in the study. The gender distribution of the respondents shows a significant imbalance between male and female participants. Out of the total 123 respondents, 110 (89.4%) were female, while only 13 (10.6%) were male. This indicates that the majority of the participants in the study were female.

Table 2: *Access to Financial Services*

Thematic Aspect	N (Valid)	Missing	Median	Mode
Improving Members' Access to Financial Services	123	0	4.00	4.00

Table 2 presents the responses related to *Improving Members' Access to Financial Services*. The table shows that all 123 respondents provided valid responses, and no data were missing. The median value is 4.00, and the mode value is 4.00. Since both the median and mode fall on the same point of the scale, the responses are concentrated around the value **4**, indicating a consistent pattern in respondents' opinions. The closeness of these central tendency measures suggests that most respondents selected the same response category regarding access to financial services.

The median value of 4.00 indicates that the central or middle response of the respondents lies at level **4**, which generally represents agreement or a positive perception on a Likert scale. Similarly, the mode value of 4 shows that the most frequently selected response by the respondents is also **4**. These values collectively indicate that the majority of cooperative members perceive that their access to financial services has improved through their involvement, reflecting a favorable assessment of the cooperative's role in enhancing financial accessibility among its members.

Table 3: *Hypothesis Test Summary*

H ₀₁	Test	Sig.	Decision
There is no significant difference in the median scores of male and female members regarding their perceptions of the role of agricultural cooperatives in improving access to financial services.	Independent-Samples Mann-Whitney U Test	.445	Retain the null hypothesis.

Table 9 presents the result of the hypothesis test examining whether there is a significant difference between male and female members regarding their perceptions of the role of agricultural cooperatives in improving access to financial services. The Independent-Samples Mann-Whitney U Test was applied to compare the median scores of the two groups. The significance value (Sig.) was 0.445, which is greater than the commonly accepted significance level of **0.05**. Since the p-value exceeds the threshold, the null hypothesis was retained, indicating that there is no statistically significant difference between male and female members in their perceptions.

The Sig. value of 0.445 indicates that the difference in median scores between male and female respondents was not statistically meaningful and may have occurred by chance. This implies that both male and female cooperative members held similar perceptions regarding the role of agricultural cooperatives in improving access to financial services. In other words, gender did not appear to influence members' views on how cooperatives contribute to financial service accessibility.

5. Conclusion

The present study aims at analyzing the role of agriculture cooperative in members assess to financial services in Makawanpur District, Nepal. In order to fulfil the objectives of the study, primary data were collected. The primary data were collected from 123 members of agriculture cooperatives operating in Makawanpur district, Nepal. To analyzing the role of agriculture cooperative in members assess to financial services descriptive statistics (Median and Mode), and independent sample Man-Whitney U test were applied.

From the analysis of the data related to gender differences in the perception of cooperative financial services, it is clear that in most aspects, males and females perceive these services in a similar manner. For example, in terms of access to credit facilities, ease of repayment, fairness in terms of interest rates, ease of repayments, affordability of membership fees, focus on vulnerable groups, positive impact on women and vulnerable groups, and overall perception of the role of cooperatives, there were no differences in the perception of males and females, as evidenced by a high p-value above 0.05. It is, therefore, clear that agricultural cooperatives in Makawanpur District, Nepal, are seen in a positive light in terms of their equity in providing financial services.

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