

---

## Challenges and Opportunities in Cooperatives Development in Nepal

**Janak Raj Joshi**

Assistant Professor, Durgalaxmi Multiple Campus, FWU, Nepal

Mail: [janakjoshi2031@gmail.com](mailto:janakjoshi2031@gmail.com)

DOI: <https://doi.org/10.3126/jdl.v3i1.73854>

### Abstract

This research investigates the challenges and opportunities in the evolution of cooperatives in Nepal. Using a mixed-method approach grounded in secondary material and thematic analysis, the study explores the historical background, present situation, and future directions of the cooperative movement in Nepal. Key findings highlight significant problems such as insufficient legal frameworks, poor access to capital, governance concerns, and a lack of professional management. Simultaneously, the study identifies opportunities in areas like financial inclusion, women's empowerment, rural development potential, and support for sustainable economic growth. Recommendations for legislators, cooperative leaders, and stakeholders include enhancing governance and management practices, improving financial sustainability, strengthening the regulatory framework, promoting technology adoption, fostering innovation and diversification, and aligning cooperative strategies with national sustainable development goals. These measures aim to bolster cooperatives' contributions to Nepal's socioeconomic growth.

**Keywords:** cooperatives, Nepal, rural development, financial inclusion, sustainable economic growth, financial sustainability

### Introduction

#### Background and Context

Landlocked in the Himalayas, Nepal boasts a long legacy of cooperative movements going back to the middle of the 20th century. In Nepal, the idea of cooperatives is well ingrained in age-old customs of community collaboration like "Parma," (labor exchange) and "Dhikiri," (rotating credit associations) (Acharya, 2009;

---

Sharma, 2016). These ancient customs set the stage for the contemporary cooperative movement, which has been rather important for the socioeconomic growth of the nation.

Beginning in 1956 with the Department of Cooperatives within the Ministry of Agriculture, Nepal's official cooperative movement got underway. Formed in 1957 in the Chitwan district (Nepal & Thapa, 2009), Bakhan Savings and Credit Cooperative was the first cooperative society. Since then, the cooperative sector has expanded significantly and now permeates Nepal's society and economy.

In Nepal, cooperatives run in a variety of fields: agriculture, credit and savings, consumer goods, and energy. In rural areas, where they typically provide the main means of access to banking services, agricultural inputs, and market links for small farmers and underprivileged populations, they have especially proven quite helpful (Paudel, 2018).

### **Statement of Problem**

Although cooperatives in Nepal have great potential and growth, the industry suffers many obstacles that limit its efficient expansion and influence. These difficulties span restricted access to resources and technology to governance concerns and regulatory obstacles. Concurrently, Nepal's cooperative sector offers special chances to solve urgent socioeconomic problems including financial inclusion, rural development, and poverty reduction.

To leverage these opportunities and mitigate challenges, a deeper understanding of the current dynamics of cooperatives in Nepal is essential.

### **Objective and Scope of the Study**

The study aims

1. To analyze the historical development and current status of cooperatives in Nepal.
2. To examine the key challenges limiting the growth and efficiency of cooperatives in Nepal.
3. To identify the opportunities cooperatives offer for socio-economic development, including financial inclusion, rural growth, women's empowerment, and sustainable development.
4. To propose strategic interventions and policy recommendations to enhance the performance and impact of cooperatives in Nepal.

### **Research Questions**

To address the above issues, the following research questions have been identified:

1. What is the historical development and current status of cooperatives in Nepal?
2. What are the key challenges faced by cooperatives in Nepal in terms of governance, financial management, and regulatory compliance?
3. What opportunities do cooperatives offer for socio-economic development, including financial inclusion, rural development, and women's empowerment?
4. How can the effectiveness and impact of cooperatives in Nepal be enhanced through strategic interventions and policy measures?

The cooperative sector in Nepal—including credit, agricultural, multifarious, consumer, and savings cooperatives—is the primary focus of this paper. Based on secondary data and literature, the study offers a comprehensive overview of the progress, challenges, and opportunities in the sector. While the study addresses historical aspects, its main emphasis is on the current situation and future possibilities of cooperatives in Nepal. The findings and recommendations aim to guide strategic initiatives and policy decisions to enhance the role of cooperatives in Nepal's socio-economic growth.

### **Contribution of the Study**

This study provides a comprehensive analysis of the cooperative sector in Nepal, examining its historical development, current state, and future directions. It identifies key challenges such as governance issues, financial sustainability, and regulatory hurdles, while also highlighting opportunities for financial inclusion, women's empowerment, and sustainable development. The study offers actionable recommendations for policymakers, cooperative leaders, and stakeholders to enhance governance, improve financial sustainability, and promote technology adoption. By integrating multiple theoretical perspectives, this research enriches the academic discourse on cooperatives and provides practical insights for cooperative leaders. Additionally, it identifies areas for future research, encouraging further exploration of cooperatives' impact on socio-economic development in Nepal.

## **Literature Review**

### **Theoretical Framework**

The study of cooperatives in Nepal can be understood through several theoretical lenses:

---

***Social Capital Theory:*** This theory, as proposed by Putnam (1993), emphasizes the importance of social networks and relationships in facilitating collective action.

Cooperatives in Nepal often build on existing social networks, particularly in rural areas, enhancing social capital and community cohesion (Upreti, 2019).

***Institutional Theory:*** This perspective, as discussed by North (1990), helps in understanding how formal and informal institutions shape the development of cooperatives. In Nepal, the interplay between traditional institutions and modern cooperative structures significantly influences their functioning and effectiveness (Acharya, 2009).

***Economic Theory of Cooperatives:*** Drawing from the work of Hansmann (1996), this theory explains the economic rationale for cooperatives, particularly in addressing market failures. In Nepal, cooperatives often emerge as a response to the lack of formal financial services and market access in rural areas (Paudel, 2018).

***Empowerment Theory:*** This theory, as elaborated by Kabeer (1999), is particularly relevant in understanding the role of cooperatives in promoting women's empowerment and social inclusion in Nepal. Many cooperatives in Nepal have a significant focus on women's participation and leadership (Bhatta, 2018).

### **Historical Development of Cooperatives in Nepal**

The cooperative movement in Nepal has evolved through several distinct phases:

***Pre-1956:*** Informal cooperative practices existed in the form of traditional systems like 'Parma' and 'Dhikuri' (Acharya, 2009).

***1956-1990:*** The formal cooperative movement began with the establishment of the Department of Cooperatives. This period saw the growth of government-promoted cooperatives, particularly in the agricultural sector (Nepal & Thapa, 2009).

***1990-2006:*** The restoration of democracy in 1990 led to a more liberal policy environment for cooperatives. This period saw rapid growth in the number of cooperatives, especially savings and credit cooperatives (Sharma, 2016).

***2006-present:*** The post-conflict period has seen further expansion of the cooperative sector, with an increased focus on inclusivity and sustainable development (Paudel, 2018).

### **Legal and Policy Framework**

The cooperative sector in Nepal is governed by the Cooperative Act 2017, which replaced the previous Cooperative Act of 1992. The new act aims to address some of the

---

challenges faced by the sector, including issues of governance and financial management (Government of Nepal, 2017).

Key features of the current legal and policy framework include:

1. Recognition of cooperatives in the Constitution of Nepal 2015 as one of the three pillars of the national economy alongside public and private sectors.
2. Provision for the formation of a National Cooperative Development Board to facilitate policy coordination.
3. Guidelines for financial governance and auditing to enhance transparency and accountability.
4. Promotion of inclusivity through provisions for women's participation and representation of marginalized communities.

### **Challenges Faced by Cooperatives in Nepal**

Several studies have highlighted the challenges faced by cooperatives in Nepal:

**Governance Issues:** Many cooperatives struggle with weak governance structures, lack of transparency, and limited member participation (Sharma, 2016).

**Financial Management:** Inadequate financial management skills and systems have led to issues of mismanagement and fraud in some cooperatives (Paudel, 2018).

**Limited Access to Resources:** Many cooperatives, especially in rural areas, face challenges in accessing capital, technology, and skilled human resources (Bhatta, 2018).

**Regulatory Compliance:** Adhering to regulatory requirements and standards poses challenges for many small and medium-sized cooperatives (Uprety, 2019).

**Political Interference:** The cooperative sector in Nepal has been subject to political influence, which sometimes hampers its autonomous functioning (Acharya, 2009).

### **Opportunities for Cooperative Development**

Despite these challenges, cooperatives in Nepal present significant opportunities:

**Financial Inclusion:** Cooperatives have the potential to extend financial services to underserved populations, particularly in rural areas (Nepal & Thapa, 2009).

**Agricultural Development:** Cooperatives can play a crucial role in improving agricultural productivity and market access for small farmers (Paudel, 2018).

**Women's Empowerment:** Many cooperatives in Nepal have a strong focus on women's participation and leadership, contributing to gender equality and women's economic empowerment (Bhatta, 2018).

---

***Social Enterprises:*** Cooperatives can serve as effective models for social enterprises, balancing economic objectives with social goals (Uprety, 2019).

***Sustainable Development:*** Cooperatives align well with sustainable development goals and can contribute to inclusive economic growth (Sharma, 2016).

This literature review provides a foundation for understanding the context, challenges, and opportunities related to cooperative development in Nepal. The subsequent sections will build on this framework to analyze the current situation and propose recommendations for enhancing the role of cooperatives in Nepal's socio-economic development.

## **Research Methodology**

### **Research Design**

This study adopts a descriptive research design, utilizing a combination of qualitative and quantitative approaches to explore the development of cooperatives in Nepal. Secondary data forms the foundation of the analysis, ensuring a comprehensive understanding of the challenges, opportunities, and current status of cooperatives.

The research draws on credible sources, including academic journals, government reports, cooperative federation publications, and international organization documents, to collect relevant data. The thematic analysis method is employed to interpret qualitative data, while quantitative data is analyzed using descriptive statistical techniques to identify trends and patterns in cooperative development.

By integrating qualitative insights and quantitative data, this mixed-methods approach enables a holistic exploration of the cooperative sector's dynamics, facilitating evidence-based recommendations for future strategies and interventions.

### ***Data Collection***

The data for this study was collected from various secondary sources, including:

- Academic journals and research papers
- Government reports and publications
- Reports from international organizations (e.g., World Bank, Asian Development Bank)
- Publications from cooperative federations and associations
- Newspaper articles and online resources

---

The data collection process focused on gathering information relevant to the research questions, covering the period from 2000 to 2021 to ensure the currency and relevance of the information.

### ***Data Analysis***

The collected data was analyzed using thematic analysis, a method for identifying, analyzing, and reporting patterns (themes) within data (Braun & Clarke, 2006). The analysis process involved the following steps:

1. Familiarization with the data through repeated reading
2. Generation of initial codes
3. Searching for themes
4. Reviewing themes
5. Defining and naming themes
6. Producing the report

The themes were developed in alignment with the research questions and objectives of the study.

### ***Ethical Considerations***

Although this study relies on secondary data and does not involve human subjects directly, ethical considerations were still taken into account. These included:

1. Ensuring proper citation and acknowledgment of all sources used
2. Avoiding misrepresentation or selective use of data
3. Maintaining objectivity in the analysis and interpretation of findings

### ***Limitations of the Study***

The limitations of this study include:

1. Reliance on secondary data, which may have inherent biases or inaccuracies
2. Potential gaps in available data, particularly for recent years
3. Limited ability to verify the accuracy of all data sources
4. Potential for subjectivity in the thematic analysis process

Despite these limitations, the diverse range of sources used, and the rigorous analysis process contribute to the validity and reliability of the findings.

---

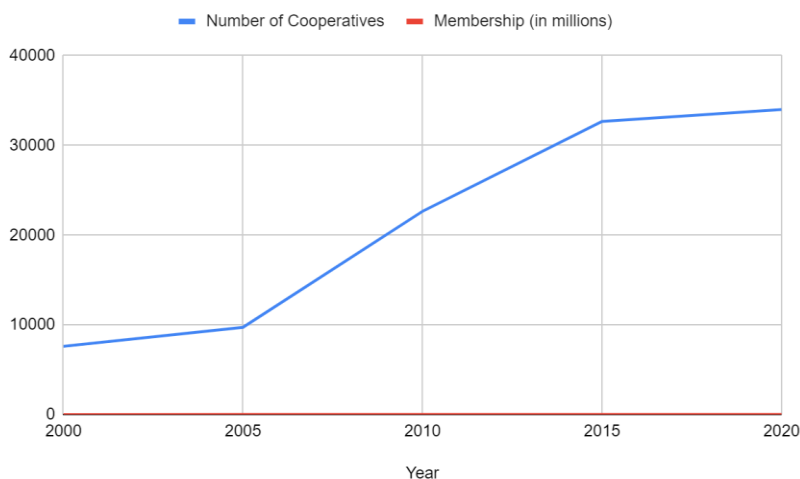
**Findings**
**Current State of Cooperatives in Nepal**

The analysis of secondary data reveals that the cooperative sector in Nepal has experienced significant growth over the past two decades. As of 2020, there were 34,000 registered cooperatives in Nepal, with a membership base exceeding 6 million people (Department of Cooperatives, 2020).

**Table 1***Growth of Cooperatives in Nepal (2000-2020)*

Year	Number of Cooperatives	Membership (in millions)
2000	7,598	1.5
2005	9,720	2.1
2010	22,646	3.5
2015	32,663	5.4
2020	34,000	6.3

*Source: Department of Cooperatives, Nepal, 2000-2020*

**Figure 1***Growth of Cooperatives in Nepal (2000-2020)*



The data shows a rapid increase in both the number of cooperatives and membership, particularly between 2005 and 2015. This growth can be attributed to several factors:

1. Liberalization of the economy and supportive government policies
2. Increased awareness about the benefits of cooperatives
3. Limited access to formal financial services in rural areas
4. Post-conflict reconstruction efforts

However, the growth rate has slowed in recent years, possibly due to market saturation and increased regulatory scrutiny.

### **Types and Distribution of Cooperatives**

The cooperative sector in Nepal is diverse, with cooperatives operating in various sectors. The analysis reveals that savings and credit cooperatives dominate the sector, followed by agricultural and multipurpose cooperatives.

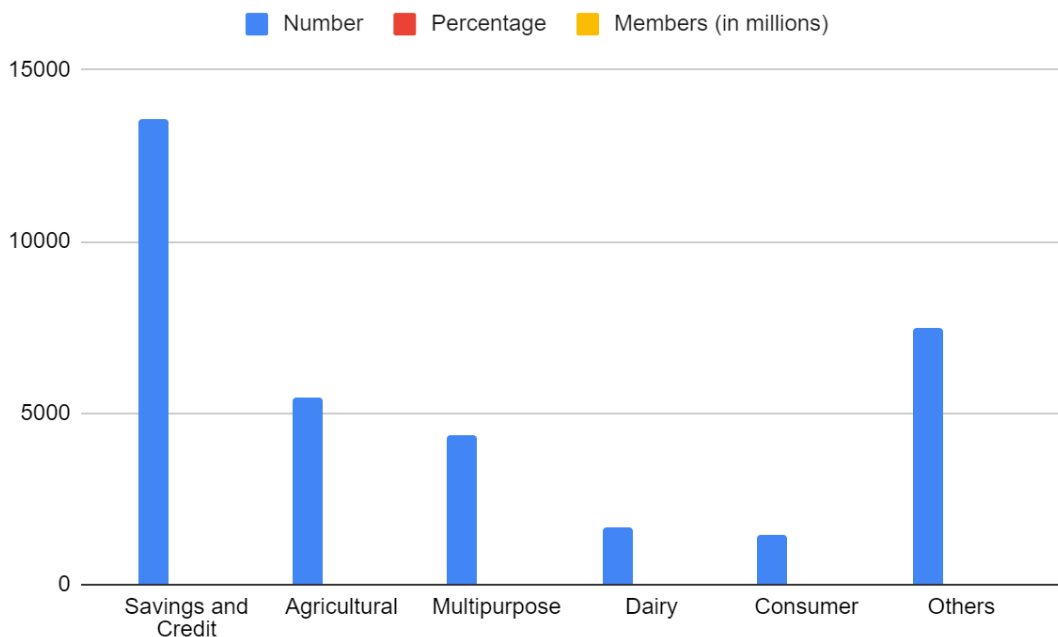
**Table 2**

*Distribution of Cooperatives by Type (2020)*

<b>Type of Cooperative</b>	<b>Number</b>	<b>Percentage</b>	<b>Members (in millions)</b>
Savings and Credit	13,578	39.8%	3.2
Agricultural	5,451	16.0%	1.1
Multipurpose	4,371	12.8%	0.9
Dairy	1,658	4.9%	0.3
Consumer	1,434	4.2%	0.2
Others	7,508	22.3%	0.6
<b>Total</b>	<b>34,000</b>	<b>100%</b>	<b>6.3</b>

*Source:* Department of Cooperatives, Nepal (2020)

The prevalence of savings and credit cooperatives reflects the significant role these institutions play in providing financial services, particularly in areas underserved by formal banking institutions. Agricultural cooperatives also play a crucial role, given Nepal's predominantly agrarian economy.

**Figure 2***Distribution of Cooperatives by Type (2020)*

The findings of this study highlight the significant growth and diverse landscape of the cooperative sector in Nepal. Over the past two decades, the number of cooperatives has increased substantially, with a corresponding rise in membership. This growth is driven by factors such as economic liberalization, supportive government policies, increased awareness about cooperatives, limited access to formal financial services in rural areas, and post-conflict reconstruction efforts.

Despite the rapid expansion, the growth rate of cooperatives has slowed in recent years, suggesting potential market saturation and heightened regulatory scrutiny. The cooperative sector is predominantly composed of savings and credit cooperatives, which play a vital role in providing financial services to communities lacking formal banking infrastructure. Agricultural cooperatives are also prominent, reflecting Nepal's agrarian economy and the critical support these cooperatives provide to farmers.

The diverse types of cooperatives, including multipurpose, dairy, and consumer cooperatives, illustrate the wide-ranging applications and benefits of the cooperative model in addressing various socio-economic needs. However, the dominance of savings

---

and credit cooperatives indicates a significant reliance on financial services within the cooperative movement.

To sustain and enhance the growth of cooperatives in Nepal, it is essential to address challenges such as governance issues, financial sustainability, and regulatory compliance. Policymakers, cooperative leaders, and stakeholders must work collaboratively to implement strategies that support the development of cooperatives, ensuring their continued contribution to Nepal's socio-economic progress.

In conclusion, while the cooperative sector in Nepal has made remarkable strides, ongoing efforts are necessary to overcome existing challenges and fully realize the potential of cooperatives in fostering inclusive and sustainable development.

## **Discussion**

The findings of this study reveal a dual narrative: the remarkable growth and potential of cooperatives in Nepal, and the persistent challenges that constrain their efficiency and impact. This discussion explores these aspects in relation to the key findings and objectives.

### **Challenges Facing Cooperatives in Nepal**

The thematic analysis of the literature revealed several key challenges facing the cooperative sector in Nepal:

#### ***Governance and Management Issues***

Weak governance structures and inadequate management practices remain critical barriers. Limited member participation, lack of professional management, and political interference undermine decision-making and trust. These findings echo Sharma's (2016) observation that governance deficiencies erode member trust and financial stability. Addressing these issues through improved leadership training and transparent governance frameworks is imperative.

#### ***Financial Sustainability***

The study identifies financial challenges, including limited access to external capital and high operational costs, particularly for small cooperatives. Savings and credit cooperatives are particularly vulnerable to non-performing loans and inadequate financial management. Paudel (2018) highlights similar challenges, suggesting that enhancing

---

financial literacy and linking cooperatives with formal financial institutions could improve financial sustainability.

### ***Regulatory and Legal Framework***

Despite the introduction of the Cooperative Act 2017, regulatory challenges persist. Inadequate implementation of regulations, inconsistencies between federal and provincial laws, and limited regulatory oversight hinder effective functioning. Uprety's (2019) findings corroborate these challenges, emphasizing the need for capacity building within regulatory bodies to ensure compliance and accountability.

### ***Limited Access to Technology and Innovation***

Technological barriers, particularly in rural cooperatives, limit efficiency and competitiveness. Lack of digital infrastructure and skills hinders the adoption of modern banking technologies and management information systems. Bhatta (2018) emphasizes that bridging this technological gap is essential for cooperatives to remain relevant in an increasingly digitized economy.

### ***Competition from Formal Financial Institutions***

The expansion of formal banking services into rural areas poses a significant threat to cooperatives, particularly savings and credit societies. The inability to offer competitive interest rates or retain members as they access formal banking services further exacerbates this challenge. Paudel (2018) notes that this competition underscores the need for cooperatives to innovate and diversify their offerings.

### **Opportunities for Cooperative Development in Nepal**

Despite these challenges, the analysis reveals several significant opportunities for cooperative development in Nepal:

#### ***Financial Inclusion***

The findings underscore the role of cooperatives in promoting financial inclusion, particularly in underserved rural areas. Savings and credit cooperatives have extended access to financial services and promoted financial literacy, as highlighted by Nepal & Thapa (2009). These cooperatives serve as a bridge between informal and formal financial systems, fostering economic participation among marginalized groups.

#### ***Agricultural Development and Food Security***

Agricultural cooperatives play a vital role in supporting small-scale farmers by improving market access, enhancing bargaining power, and promoting the adoption of modern agricultural technologies. Paudel's (2018) findings align with this, emphasizing

---

the transformative potential of agricultural cooperatives in improving rural livelihoods and ensuring food security.

### ***Women's Empowerment and Social Inclusion***

The findings reveal a strong emphasis on women's participation in cooperative leadership, fostering gender equality and social equity. Cooperatives provide economic opportunities for marginalized groups and serve as platforms for community development and empowerment. Bhatta (2018) highlights the significant contributions of women-led cooperatives to economic and social transformation.

### ***Sustainable Development and Green Economy***

Cooperatives align with national sustainable development goals, promoting eco-friendly practices and community resilience. Sharma (2016) explores how cooperatives can engage in renewable energy projects and sustainable agriculture, contributing to long-term economic and environmental sustainability.

### **Strategic Interventions and Policy Recommendations**

To address the challenges and maximize the opportunities identified, strategic interventions are essential. Strengthening governance through professional management, enhancing financial sustainability via formal linkages and mergers, and promoting technology adoption are key steps. Regulatory reforms and capacity-building initiatives for oversight bodies are also crucial. Aligning cooperative strategies with national sustainable development goals and fostering innovation within cooperatives can further enhance their contributions to Nepal's socio-economic growth.

This discussion highlights the interconnectedness of the findings and the study's objectives. While the cooperative sector in Nepal faces significant challenges, it also presents transformative opportunities for advancing financial inclusion, rural development, women's empowerment, and sustainability. By addressing the challenges and leveraging the opportunities, cooperatives can continue to serve as a cornerstone of Nepal's inclusive and sustainable development.

## **Conclusion**

This study highlights the significant role of cooperatives in Nepal's socio-economic development while addressing critical challenges and opportunities. The cooperative movement has evolved from traditional practices to a formalized sector with

---

over 34,000 cooperatives and 6 million members, though recent growth has slowed due to market saturation and regulatory challenges. Key barriers include governance issues, financial sustainability, regulatory hurdles, and limited technological adoption. Despite these challenges, cooperatives offer transformative opportunities to promote financial inclusion, support agricultural development, empower women, and advance sustainable development goals. Strategic interventions, such as strengthening governance, enhancing financial sustainability, adopting technology, and aligning strategies with national goals, are essential to their continued success. By addressing these challenges and leveraging their strengths, cooperatives can sustain their pivotal role in fostering inclusive and sustainable growth in Nepal.

### References

- Acharya, B. (2009). Democracy, development, and the cooperative movement: A perspective on Nepal. *Himalayan Journal of Development and Democracy*, 4(1), 42-53.
- Bhatta, K. P. (2018). Women in cooperatives: A case study from Nepal. *Journal of Cooperative Studies*, 51(2), 37-44.
- Braun, V., & Clarke, V. (2006). Using thematic analysis in psychology. *Qualitative Research in Psychology*, 3(2), 77-101.  
DOI: <https://doi.org/10.1191/1478088706qp063oa>
- Department of Cooperatives. (2020). *Annual progress report 2019/2020*. Government of Nepal.
- Government of Nepal. (2017). *Cooperative Act 2017*. Nepal Law Commission.
- Hansmann, H. (1996). *The ownership of enterprise*. Harvard University Press.
- Kabeer, N. (1999). Resources, agency, achievements: Reflections on the measurement of women's empowerment. *Development and Change*, 30(3), 435-464.  
DOI: <https://doi.org/10.1111/1467-7660.00125>
- National Planning Commission. (2019). *Fifteenth Plan (Fiscal Year 2019/20-2023/24)*. Government of Nepal.
- Nepal, R., & Thapa, G. B. (2009). Determinants of agricultural commercialization and mechanization in the hinterland of a city in Nepal. *Applied Geography*, 29(3), 377-389.

---

DOI: <https://doi.org/10.1016/j.apgeog.2008.12.002>

North, D. C. (1990). *Institutions, institutional change and economic performance*.

Cambridge University Press.

Paudel, G. (2018). Cooperative movement in Nepal: Issues and challenges. *Journal of Politics & Governance*, 7(1), 5-14.

Putnam, R. D. (1993). *Making democracy work: Civic traditions in modern Italy*.

Princeton University Press.

Sharma, N. (2016). Cooperative movement in Nepal: Historical development and future prospects. *Economic Journal of Development Issues*, 21(1-2), 124-138.

Uprety, R. (2019). Cooperative governance in Nepal: A study of savings and credit cooperative societies. *Journal of Cooperative Organization and Management*, 7(2), 100094.

**To Cite this Article [APA Style, 7<sup>th</sup> Edition]:**

Joshi, J. R. (2024). Challenges and opportunities in cooperatives development in Nepal. *Journal of Durgalaxmi*, 3(1), 140–154.

<https://doi.org/10.3126/jdl.v3i1.73854>