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AGRICULTURAL COOPERATIVES IN THE UNITED STATES AND NEPAL:  
A COMPARATIVE STUDY

by

ABIN OJHA

A master's thesis submitted to the Graduate Faculty in Liberal Studies in partial fulfillment of  
the requirements for the degree of Master of Arts, The City University of New York

2019

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ABIN OJHA

This manuscript has been read and accepted for the Graduate Faculty in Liberal Studies in satisfaction of the thesis requirement for the degree of Master of Arts.

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Date

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## ABSTRACT

### Agricultural Cooperatives in the United States and Nepal: A Comparative Study

by

ABIN OJHA

Advisor: Prof. Tomohisa Hattori, Ph. D.

This thesis, “Agricultural Cooperatives in the United States and Nepal: A Comparative Study,” assesses the historical development of agricultural cooperatives, comparing and contrasting the agricultural cooperatives of two distinct economies. It aims to answer a very general question: How have the agricultural cooperatives in the United States and Nepal been formed and operated? More specifically, Chapter 2 will examine how agricultural cooperatives in the United States and Nepal have emerged and evolved. Chapter 3 will discuss how the cooperatives developed such functions as new crop introduction, encouragement of cash crops and seeds or farming techniques, extension services, credit provisions, joint marketing, and quality control of production. This thesis is a library research, covering well over 150 years of agricultural cooperatives in the United States and over 60 years in Nepal on agricultural cooperatives among the most developed and the least developed country of the world. Its main finding is that agricultural cooperatives in Nepal have primarily focused on the diversification and commercialization of subsistence agriculture, whereas in the United States agricultural cooperatives have been more concerned about the supply of farm inputs and the marketing of farm products.

## ACKNOWLEDGMENTS

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I express heart full gratitude to all the professors and staff of the Master of Liberal Arts Program at The Graduate Center, CUNY. I am indebted to all family members and to all who assisted me in various ways in the course of my study. Due acknowledgment has been made wherever any things have been borrowed or cited from other sources.

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# Chapter One

## Introduction

### 1.1. Background of the Study

In the agrarian society, farmers cooperated to meet their social and economic needs. The needs and the means of the cooperation were different in the past and are changing. A modern and organized form of collaboration to unite and work together to meet social and economic interests initiated the establishment of the Rochdale Society of Equitable Pioneers in Rochdale, England in 1844. “This first co-op created an economical alternative to industrial capitalism” (Knupfer, 2013: 14).

Cooperatives are a unique approach to reach a common goal where members work together to achieve the goals they would not be able to perform individually (USDA, 2011: 13). The cooperative movement found in both capitalist and socialist economies. Cooperatives are a people's activity that empowers their social and economic endeavors. “Agricultural cooperatives greatly contribute to poverty reduction by offering an inclusive and democratic avenue for economic growth. Cooperatives are key economic players for improving food security. The challenge is to build independent organizations that operate efficiently within a market economy and contribute to improving incomes, creating employment opportunities and integrating small producer” (Ruete, 2014: 5). “Cooperatives are a user-driven business that has significantly contributed to the development of one of the world's most productive and scientific-based agricultural systems. They have played an essential role in strengthening market access and competitive returns for independent farm operators during the 20th century. They adapted their operations to agricultural technological innovations, such as the use of fertilizers, plant and

livestock breeding, agricultural mechanization, electricity, and other new sources of energy and new information system” (USDA, 2002: V).

Cook (1995) argued that most of U.S. agricultural cooperatives originated in the early twentieth century, but because of public policy factors they did not become the dominant form of agricultural organization in the agri-food chain. In Nepal, the cooperative form of agricultural production started after the fall of Rana Regime in the 1950s. The comparative historical study of agricultural cooperatives in these economies could shed light on the relative significance of this subsector in Nepal in comparison with the dominance of private farms in the United States.

## 1.2. Cooperatives

The International Cooperative Alliance (ICA) defines “Cooperatives are people-centered enterprises owned, controlled and run by and for their members to realize their common economic, social, and cultural needs and aspirations.”<sup>1</sup> This definition of ICA covers all the spheres of cooperatives. The United States Department of Agriculture (USDA) defines cooperatives as part of a corporation. “Cooperatives are a type of corporation; a state-chartered business organized and operating under its laws. Cooperatives resemble other businesses in that they have physical facilities, perform similar functions, and strive to follow sound business practices. They operate under bylaws and other necessary legal papers. The cooperative corporation is a business owned and controlled by the people who use its services. Cooperatives are controlled by a board of directors (elected by member-owners), derive equity from member-owners, operate for the benefit of member-owners, and allocate earnings to members based on use. Cooperative earnings from business conducted with members are taxed once, either as

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<sup>1</sup> ICA. (n.d.). *What is Cooperative?* Retrieved July 05, 2018, from <https://www.ica.coop/en/cooperatives/what-is-a-cooperative>

income of the corporation when earned or as income of the members when allocated to them” (USDA, 2014: 2). From the above definitions, this thesis uses the definition of a cooperative as a member-based democratically managed legal entity aiming at the social and economic development of its members.

Cooperatives and non-profit organizations are two distinct types of organizations aiming at socio-economic development, but what distinguishes them is its governance: cooperatives emphasize democratic participation of their members. The Cooperative Development Institute (CDI) has discussed the differences between these two entities. According to the CDI, “the terms cooperative and nonprofit often refer to specific types of corporations recognized under state law, and the rules and requirements for incorporating under either vary by state. To simplify this discussion, let’s focus on the legal distinction between a cooperative corporation incorporated under state law and a nonprofit organization tax exempt under Section 501(c)(3) of the Internal Revenue Code. Both entity types primarily exist to benefit their communities rather than shareholders. Both cooperative and nonprofit corporations can be governed democratically and generate a profit.”<sup>2</sup>

Non-profits cannot distribute profits to member or donors, but cooperatives generally distribute profits to members. Another prominent difference between these two entities is found in accountability. Non-profits are usually accountable to the board of director and the general public. Due to this public orientation, the non-profit organizations under 501(C)(3) are tax deductible or tax-exempt, whereas cooperatives are primarily accountable to their members and are not tax deductible. The CDI also mentioned that cooperatives operate with a specific set of

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<sup>2</sup> CDI. (n.d.). *How are nonprofits and co-ops different?* Retrieved August 10, 2018, from <http://cdi.coop/how-are-nonprofits-and-co-ops-different/>

principles (proposed either by the International Cooperative Alliance<sup>3</sup> or by the government agency USDA principle)<sup>4</sup> that ensure democratic control by members.

### **1.3. Agricultural Cooperatives**

Cooperatives are member-based democratically managed legal entities aiming at the social and economic development of its members. Two types of agricultural cooperatives are service cooperatives and production cooperatives (Lerman, 2013). Production cooperatives involve the members of cooperatives for joint agricultural farming (Chambo, 2009). Service cooperatives are those cooperatives which provide farm inputs (such as supplies of fertilizers, machinery, and seeds), the processing of farm products, storage, and marketing services (Lerman, 2013).

Agricultural cooperatives today have become essential for agricultural development and food security in many countries. The joint report of the Food and Agriculture Organization (FAO) and the International Fund for Agricultural Development (IFAD) (2012), “Agricultural Cooperatives: Paving the Path for Food Security and Rural Development” treated cooperatives as a pillar for agricultural development and food security. “Agriculture—farming, forestry, fishery, and livestock—is the main source of employment and income in rural areas, where most of the world's poor and hungry people live.”<sup>5</sup> This report also identified the role of agricultural cooperatives in supporting small agricultural producers and marginalized groups.

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<sup>3</sup> ICA. (n.d.). *Cooperative Identity, Values & Principles*. Retrieved August 12, 2018, from <https://www.ica.coop/en/cooperatives/cooperative-identity>

<sup>4</sup> USDA. (2014, June). *Comparing Cooperative Principles of the U.S. Department of Agriculture and the International Cooperative Alliance*. Retrieved August 12, 2018, from [https://www.rd.usda.gov/files/BCP\\_RR231.pdf](https://www.rd.usda.gov/files/BCP_RR231.pdf)

<sup>5</sup> FAO & IFAD. (2012). *Agricultural Cooperatives: Paving the Path for Food Security and Rural Development*. Retrieved December 12, 2018, from <http://www.fao.org/docrep/016/ap431e/ap431e.pdf>

## **1.4. Review of Literatures**

This section examines scholarly works on agriculture cooperatives in the United States and Nepal.

### **1.4.1. Agricultural Cooperatives in the United States**

Agricultural cooperatives in the United States have become an essential component for some farmers for their farm development. Cook (1995) examined two divergent opinions: Helmberger predicted that industrialization of agriculture would lead to the demise of farmer cooperatives, whereas Abrahamsen suggested that “as the industrialization of agriculture evolved, cooperatives would increasingly become farmer’s integrating agency” (Abrahamsen, 1966: 1442). Cook argued that most of the U.S. agricultural cooperatives originated in the early 1900s because of the combination of reasons, including two economic reasons for forming agrarian cooperatives. First, individual producers needed an institutional mechanism to bring economic costs to under their control by bulk purchases of supplies and, second, to countervail opportunism and holdup situation encountered by market failure. He further observed that cooperatives made considerable advances in the market shares at the farmgate and minor progress in food manufacturing and processing in the agri-food chain.

Perregaux (1947) examined the future of farm cooperatives in the U.S. Perregaux focused on the development of cooperative organizations. He raised two critical issues on cooperatives; size and efficiency. Perregaux observed the farm cooperatives in the United States had grown volume-wise. Perregaux argued that farm “cooperatives were organized to provide the many small farm units with the means of pooling capital and other resources to combat monopolistic tendencies in the industry” (p. 116). Perraguax asserted further “cooperatives have

promoted farmers with an instrument to help correct defects in the market concerned with assembly, storage, standardization, grading, processing, risk-taking, transportation, and a slate of farm product” (p. 127). He was more optimistic about the role of cooperatives in the coming days and promoted a specific place of farm cooperatives in the economy.

Koller (1947) tried to distinguish between the private enterprises and the cooperatives. He viewed cooperatives as “a form of business organization-an economy entity, owned and controlled by its users' patrons for the rendering of services for their mutual benefits as patrons” (p. 1134). Koller argued that cooperatives and ordinary business firms are two principal forms of organization and operation. Primarily, cooperatives seek economic gains for their members. Cooperatives differ from ordinary business in their method of controls. Decisions are made on a one-man-one-vote basis regardless of the number of shares the individual members may possess. This feature makes cooperatives different from ordinary business firms with the objectives of the return to capital. For instance, “a farmer advances capital to his cooperative not for improving his return on his cooperative securities, but rather to obtain better returns on his farm products and thereby improving returns to capital invested in his farm” (p. 1135). The cooperative plan of operation are the services for the members that are performed at cost or on the non-profit basis. He opined that cooperatives have achieved significant economies and improved the economic position of small-scale producers by vertical integration. “The need for integration in agriculture both forward; towards consumers and backward; towards supply” (p. 1140). Koller is loud that cooperatives at the local level are desirable and especially farm cooperatives are instrumental in production and distribution of farm products. Further, he argued, “cooperatives provide a means of complementing and strengthening the capitalist economy” (p. 1144) and the ameliorating influence of cooperatives in the economy is particularly vital.

Danker (1968) tried to assess the primary reasons for considering the use of cooperatives in agriculture, especially in underdeveloped countries. He argued two significant reasons for believing the use of cooperatives in agriculture. First, the extensive use of cooperatives was found in many of the economically advanced countries. In the United States, for instance, about 30 percent of all farm produce was marketed through cooperatives, and cooperative in many European countries play a significant role. Second, he identified the need for agricultural development in most of the underdeveloped countries of the world. These countries needed to improve production practices and marketing services, and cooperatives could be the best alternative. The most common services that cooperatives provided were the purchase of farm supplies and the marketing of farm products. His study found that cooperatives in the United States expanded from the 1880s to 1920s. Farm cooperatives were somewhat more substantial in the states with the comparatively large population of Scandinavian heritage. Their experiences with cooperatives in Scandinavia induced them to form cooperatives in the United States.

King (1995) commented particularly on two challenges of agricultural cooperatives in North America: first, how the technological and institutional changes associated with the industrialization of agriculture impact the efficiency of cooperative forms of business organization; and second, how concepts from the new institutional economics can help us understand the forces that will shape the future for the many cooperative businesses. His study concluded that cooperatives' performance from the management standpoint was efficient. King further believed that cooperative would continue to play an essential role in commercializing the agricultural sector.

USDA (2002) report on the 'Agricultural Cooperative in the 21st Century' examined the challenges of producer-owned cooperatives face at the beginning of the 21st century. This report argued cooperatives as user-driven businesses contributed to the development of one of the world's most productive and scientific-based agricultural systems. Cooperatives played an essential role in strengthening market access and competitive returns for independent farm operators during the 20th century. The role of cooperatives in rural development was also noteworthy. This report suggests a critical dimension of the market in agriculture needs to be assessed to determine the future viability of the cooperative form of business.

Valentinov and Iliopoulos (2013) assessed the motives for funding agricultural cooperatives and the economic justification for cooperatives. They posited the six categories of motives for founding agricultural cooperatives: market power avoidance, provision of missing services, achievements of gain from small-scale economies, risk reduction, achievements of additional marketing margins, and most efficient organizational structure. Gray (2014) talked about the history of the development of agricultural cooperatives in the United States and discussed the organizational design, the roles of cooperatives and the socio-economic tensions of agricultural cooperatives. Sharzer (2017) in his article 'Cooperatives as Transitional Economics' reviewed the early theorists of cooperation from Owen to Marx. Owen and Webb believed that cooperatives would fail without state-led economic planning. Marx emphasized that cooperative represented a model for a worker-run society, where industrial capital had yet to destroy peasant-based economies. For Marx, cooperatives could provide a template for a post-capitalist economy.

Exploring the role of farmer cooperatives in China, Yang, Vernooij, and Leeuwis (2017) linked farmers with high-quality food markets. They investigated the everyday practices of three

farmer cooperatives and concluded that farmer cooperatives could establish or join quality food networks, but the benefits were limited because of their weak position or instability of the network.

#### **1.4.2. Agricultural Cooperatives in Nepal**

Khatiwada, a finance minister of Nepal, illuminated the importance of cooperatives in the Nepalese economy and clarified how cooperatives in Nepal were seen with much expectation and with some skepticism. “The expectation is for an inclusive and democratic society where people are empowered economically along with a political one. The skepticism is because of its loose organizational structure, weak monitoring mechanism, and political orientation.”<sup>6</sup>

Cooperatives in Nepal were viewed as a tool for economic development and a technique for social transformation. An agricultural cooperative was found vital in the commercialization of agriculture, increasing production and improving the livelihood of the majority.

Kaini (2016) discussed how cooperative farming in Nepal was different from collective farming. According to Kaini, “collective farming refers to the cooperative association of farmers who worked in the land owned by the state, such system was in practice in the former the Soviet Union, but this system is not possible in Nepal because of land ownership pattern.” Land ownership in Nepal is under the citizens' ownership as their properties. In such case, instead of collective farming, cooperative farming may be an appropriate response for diversification and commercialization of agriculture, especially for small and marginalized farmers who lack more lands and resources and have many difficulties in attempting to commercialize their farm

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<sup>6</sup> Khatiwada, Yuba R. (n.d.). *Economic Democracy, and Human Security: Perspective from Nepal*. Retrieved September 2, 2018, from [https://nrb.org.np/ofg/events\\_ofg/Governor's\\_SpeechesGovernor's\\_Presentation\\_Paper\\_at\\_1st\\_National\\_Cooperative\\_Congress\\_a.pdf](https://nrb.org.np/ofg/events_ofg/Governor's_SpeechesGovernor's_Presentation_Paper_at_1st_National_Cooperative_Congress_a.pdf)

operations by themselves. In such a situation, agricultural cooperatives could become a vehicle of agricultural transformation and economic development of small and marginal farmers in Nepal.<sup>7</sup>

Acharaya (2009) has conducted a study to evaluate the situation of members participating in rural agricultural cooperative societies. The researcher has made a comprehensive analysis on the performance of 26 agricultural cooperative societies from Jhapa, Morang, Saptari, Bara, Chitwan, Nawalparasi, Kaski, Dang, Banke, Bardiya and Daduldhura districts of Nepal. Altogether 286 members and non-members, as well as committee members, were selected as the individual sampling unit. The study found that especially poor and marginal farmers needed credit from the cooperatives for agricultural inputs. The most notable thing that Acharaya's research found is that the small and marginal farmers, who benefit most from the cooperatives, are often bypassed.

### **1.4.3. Agricultural Cooperatives as a Social Movement**

Koller (1947: 1136-39) argued how cooperatives were not the instrument of socialism. He argued that cooperatives are in full accord with the doctrines of private enterprise and oppose the encroachment of government in the business. Cooperatives were not the instrument of socialism because they disliked the ownership and control of the means of production by the states. "Cooperative distribution according to patronage rests on the principle of productive contribution which is in accord with the principle of distribution commonly accepted in a capitalistic society. It is in contrast with the socialist goal of equal distribution or based on need" (p. 1137). He further opined, "cooperatives are an integral part of the capitalistic economy just as

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<sup>7</sup> Kaini, Bhairab. (2016, May 23). *Collective or Cooperatives*. Retrieved September 5, 2018, from <http://admin.myrepublica.com/opinion/story/42882/collective-or-cooperative.html>

are ordinary corporations, partnerships, and individual proprietorships. Cooperation is a phase of the capitalistic free enterprise system and not foreign or antagonistic to it” (p. 1139).

Mann (1990: 6) talked about the new sociology of agriculture and distinguished macro-oriented theories from micro-oriented theories in understanding the capitalist mode of production. Mann argued the new sociology of agriculture has two distinct interpretation of uneven capitalist development. Macro-oriented theorists view capitalism as the hegemonic mode of production shaping modern rural class relations. This school of thoughts contended that non-wage forms of production were destined to disappear as capitalism extended and deepened its control over the countryside, or they focused on factors that delay or avert this process. In contrast, micro-oriented theorists focused on factors internal to non-wage forms of production that provide the means of resisting capitalist penetration.

Taylor (2018) analyzed how black farmers faced historical and contemporary constraints. He also discussed ways in which black farmers try to empower themselves as they enhance food sovereignty and food security in black communities. In this paper, the author employed two conceptual frameworks – environmental justice and food sovereignty – to analyze black participation in farming. Taylor used the concept of environmental justice to assert “the black and the people of colors are subject to racist and discriminatory acts, policies, practices, and decision-making that result in racial inequities” (p. 50). In the words of Taylor, food sovereignty advocates “the control of the means of food production, distribution, and consumption is critical elements to the empowerment and survival of blacks and other disadvantaged groups” (p. 50). Taylor assessed the various aspects and incidents of cooperatives formed by the black farmers. He claimed farmer's cooperatives as a survival strategy of the black farmers. “Blacks developed cooperatives and used this collective action

strategy to help them survive in the agricultural sector” (p. 55). “Through the cooperatives, blacks pooled their resources to purchase farm supplies in bulk, share equipment, identify supply chains, expand their value-added operations, and consolidate their transactions to limit exposure to hostile merchants” (p. 57).

Nembhard (2013) assessed how Community Development Credit Unions (CDCUs) in the United States served as non-predatory lenders. They provided a variety of reasonable financial services including home mortgages and helped their members to preserve assets. She studied on the impact of CDCUs on African American members to save and build assets. Nembhard considered the credit union cooperatives particularly in low-income communities and communities of color. As she felt that bank and other financial institutions failed and abandoned certain neighborhoods, an increasing number of people of color, women and low-income people became or remained unable to use banking services. According to data highlighted in this article, 28.3 percent of U.S. households were unbanked or underbanked in 2011, and over 29 percent of U.S. households lack a saving account. Nembhard found low-income families and people of color were to be more likely at risk than the rest. She studied 5 CDCUs in 2010 and found that African Americans were the predominant members of CDCUs in New Jersey. Likewise, 97 percent of the members were African American in Pennsylvania, 61 percent in Louisiana, and 46 percent in North Carolina. She concluded that CDCUs provide many paths to assets building and wealth accumulation for the members.

### **1.5. Research Questions**

Based on the literature reviewed above, this study intends to answer a very general question that has not been studied comparatively: How have the agricultural cooperatives in the

United States and Nepal been formed and operated? More specifically, Chapter 2 will examine how agricultural cooperatives in the United States and Nepal have emerged and evolved. Chapter 3 will discuss how the cooperatives developed such functions as new crop introduction, encouragement of cash crops and seeds or farming techniques, extension services, credit provisions, joint marketing, and quality control of production in these two countries.

## **1.6. The Relevance of the Study**

Cooperatives are emerging as the fourth sector of the economy along with the public, non-profit, and private sectors. Cooperatives existed and exist in either capitalist or socialist economy. “Agricultural co-operatives exist in almost every country around the world. They are very well represented in both developed and emerging economies and making a significant contribution to food security and poverty reduction all over the world. They help farmers increase their returns and income by pooling their resources to support joint arrangements and economic empowerment”<sup>8</sup>.

## **1.7. Method**

This research is a library research. Various kinds of literature (published and unpublished books, journals, articles, and so forth) on agricultural cooperatives are examined. Some empirical pieces of evidence, including qualitative and quantitative data, are used to support the arguments made in the thesis.

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<sup>8</sup>Euricse. (2017). *Exploring the Co-operative Economy*. Retrieved September 18, 2018, from [http://www.euricse.eu/wp-content/uploads/2017/11/WCM\\_2017-web-EN.pdf](http://www.euricse.eu/wp-content/uploads/2017/11/WCM_2017-web-EN.pdf)

## **1.8. Limitations**

The agricultural cooperatives have slightly different legal definitions in different nations though they operate with the same universal principles. Since this study only makes a comparative study on some specific issues of agricultural cooperatives in two countries, the results and conclusions made by this study may not apply to all agricultural cooperatives elsewhere.

## **Chapter Two**

### **Historical Development of Agricultural Cooperatives**

In this chapter, the historical development of agricultural cooperatives in the two countries are examined. In the first section, it deals with how agrarian cooperatives in the United States and Nepal evolved and how their functions grew. The second half of this chapter makes a comparative assessment of the services (i.e., new crop introduction, encouragement of cash crops, seeds or farming techniques, inputs supplies, credit provisions, and marketing) of agricultural cooperatives.

#### **2.1. Historical Development of Agricultural Cooperatives in the United States**

The historical development of agricultural cooperatives in the United States has been discussed briefly in this section. The growth and development of cooperatives have been divided and studied over time.

##### **2.1.1. Until the 1930s**

Many articles and writings suggest that the organized form of cooperatives in the United States started in Philadelphia. A mutual fire insurance company for the insurance of houses from the loss by fire established in 1752 was the first organized cooperative business in the United States. “This association's reputation is likely based on two factors. First, Benjamin Franklin was the organizer. Second, the business has been conducted so efficiently over the years that it is still operating today” (USDA, 2012: 3). “The first recorded dairy and cheese cooperatives were organized in 1810, and cooperatives for other agricultural commodities followed. These early

cooperative efforts on the part of agricultural producers were local, independent of any larger organization, and relatively short-lived.”<sup>9</sup> This cooperative operated without any formal policies and principles.

The 'Rochdale Equitable Pioneer's Society,' an urban, consumer's cooperatives established in England in 1844 was the first organized cooperative business. It was created and run under the written list of practices, policies, and principles, which made a cooperative business a distinct business activity. After the Rochdale initiation, the cooperative movement accelerated.

United States Department of Agriculture (USDA) was founded on May 15, 1862, by the then President Abraham Lincoln. “At that time, about half of all Americans lived on farms, compared with about 2 percent today.”<sup>10</sup> Since the establishment, USDA has been the leading advocate of cooperatives in rural America. “The goal of the Cooperative Programs of USDA Rural Development is to promote understanding and use of the cooperative form of business. This is accomplished through education (including a large library of co-op publications), research and statistics, and technical assistance.”<sup>11</sup> USDA also administers programs that provide financial support to cooperatives. Agriculture cooperatives in the United States fall into three major categories: marketing, supply, and service. The cooperative program of USDA has formally recognized the cooperative sector as an essential tool for the social and economic development of small business through cooperative approaches.

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<sup>9</sup> University of Wisconsin- Madison. (n.d.). *The Evolution of Co-operative*. Retrieved September 25, 2018, from <http://www.uwcc.wisc.edu/whatisacoop/History/>

<sup>10</sup>USDA. (n.d.). *USDA Celebrates 150 Years*. Retrieved September 27, 2018, from <https://www.usda.gov/our-agency/about-usda/history>

<sup>11</sup> USDA. (n.d.). *Co-ops: A Key Part of Rural America*. Retrieved September 27, 2018, from <https://www.usda.gov/topics/rural/co-ops-key-part-fabric-rural-america>

Chambers (1962) argued that the Rochdale model of cooperatives in the United States was introduced during the 19<sup>th</sup> century mainly in the Granger movement but the cooperative movement at that time was undirected, uncoordinated and haphazard. “The Grange, founded in 1867, quickly became the major thrust behind agricultural and rural cooperatives in America. In 1874, a Grange representative went to Europe to gather information about cooperatives. In 1875, the Grange published a set of rules for the organization of cooperative stores, based on the Rochdale principles. Local granges organized stores to serve their rural members. They sold groceries and clothing as well as general farm supplies, hardware, and agricultural implements — granges in the South marketed cotton. Those in Iowa operated grain elevators. In Kentucky, they sponsored warehouses for receiving and handling tobacco. California Granges exported wheat and marketed wool” (USDA, 2012: 4-5). Sunkist Growers Inc., California established a formal fruit and vegetable cooperative in 1983. The growers from west coast used to bring their farm product to sell local distributor and wholesalers. This cooperative is still doing best in growing citrus and the longest standing agricultural cooperatives in the country.<sup>12</sup>

Cooperatives in the agriculture sector flourished from 1890 to 1920. Cooperatives operated more than 14,000 farmers during this period (USDA, 2012: 5). “Cooperative growth was fueled by the wave of other farmer movements and farm organizations sweeping the country, such as the American Society of Equity, National Farmers Union, and the American Farm Bureau Federation. They were engaged in marketing every farm crop and furnishing supplies and services to their producer-members. Many of today's major farmer cooperatives were formed during this period” (USDA, 2012: 5). During these decades farmers not only worked for the farm product and their marketing. They also developed their financial institution

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<sup>12</sup>Sunkist. (n.d.). *Our Story*. Retrieved October 2, 2018, from <https://www.sunkist.com/our-story/>

through the 'Farm Credit System' to support them financially to buy farm supplies.

The Cooperative League of the United States of America (CLCUSA) was formed in 1916 with an ultimate objective to the established cooperative commonwealth. On the eve of the American entrance to great wars. “Their movement could draw great support from several areas in which cooperatives are already active. One of the most important was a small but lively group of Eastern European Jewish immigrant-led by Hyman Cohn. This small group had a Cooperative Education League in 1909 and soon after that a Cooperative Hat Store” (Chambers, 1962: 61).

The federal government appreciated the importance of cooperatives, especially in the agriculture sector and various act and programs to support cooperative development enacted. The Smith-Lever Act of 1914 and The Cooperative Marketing Act of 1926 are the necessary steps taken by the federal government to support the cooperative development. The Smith-Lever Act created the Cooperative Extension System, and Marketing Act broadened the USDA's support of the farmer cooperatives. “The Capper-Volstead Act-1902” was the landmark in the field of development agricultural cooperatives in the United States because it has offered two key provisions. First, it permitted farmers to market their products collectively. Second, regulation of the act protected the public from the extreme price changes caused by the monopoly action by the group of producers.

“During the 1920s, two schools of thought developed in the United States regarding the 'Justification for' and 'Function of,' farmer cooperatives” (USDA, 1994: 1). One school viewed that farmers cooperatives formed a monopolistic orientation. Aaron Sapiro and his follower argued farmer cooperatives unified farmers so that they could exert market power and raise their return on investment. The other school viewed cooperatives formed a competitive orientation. Edwin Nourse and his follower argued farmer cooperatives should promote wider market

competition and add enough competition to the market to enhance efficiency and to enlarge choice of the farmers.

### **2.1.2. After the Great Depression until the Civil Rights Movement (1930-1960)**

The Great Depression of the 1930s shook up the economy all over the world, but it triggered a great wave of cooperative development in the United States. The economic challenges of the Great Depression brought further federal support to the cooperatives. Franklin Roosevelt's New Deal supported the cooperatives. Parker (2009) argued in the 1930s, public interest in cooperatives increased, resulting in part from the role that cooperative played in many of the New Deal government programs. During the Depression, agricultural and consumer's cooperatives were formed in large numbers. “Cooperative farm supply purchasing grew from US\$76 million in 1924 to US\$250 million in 1934 and spread to all parts of the USA” (Birchall & Ketilson, 2009: 5).

In the 1930s, a cooperative bank was set up with government support under the New Deal to provide vital farm credits. “At this time, the Federal Credit Union Act was passed to ensure credit unions made credit available to people of small means. It is interesting to note that The Act was meant to stabilize an imbalanced global financial system. By 1935, there were 500 farmer cooperatives with memberships 3.66 million” (Birchall and Ketilson, 2009: 5).

### **2.1.3. After the Civil Rights Movement Until Today (the 1950s to Until today)**

“The civil rights movement embraced cooperatives to support independent black farmers in the south. Organizations such the Federation of Southern Cooperatives recognized the wide range of services needed to promote operating independence and land retention among black

farmers, given the legacy of segregation and discrimination, and took a broad approach to cooperative development."<sup>13</sup> During this period, people of color, especially the black farmers, availed themselves in cooperatives. Nembhard (2014) argued that North Carolina had had the highest credit union activity among the black, particularly between 1944 and 1946. In 1936 there were three black credit unions in North Carolina, and by 1948 there were 98, along with 48 additional cooperative enterprises.

“U.S. farmer cooperatives operate under two long-standing federal statutes--the Capper Volstead Act (1922) and the Cooperative Marketing Act (1926)—which protect these entities from anti-trust rules as long as they abide by certain requirements.”<sup>14</sup>.

“Today, cooperatives remain a major component of the food and agriculture industry, but now they are available to help people provide services for themselves in virtually all segments of the economy” (USDA, 2012: 7). Cooperatives in the United States have extended their field of operations in the various sectors. For an instant, farmers develop their financial institutions through the Farm Credit System, and non-agricultural cooperatives like National Cooperative Bank, Rural Electricity Cooperatives and so forth are extending their operations each year.

## **2.2. Historical Development of Agricultural Cooperatives in Nepal**

The cooperative activities are not a new concept in Nepal. Traditionally, farmers in rural areas used to take help from others for tilling the land, seeding and reaping the crops. These forms of cooperation were known as Parma, Monka, Guthi, Dharma, and Bhakari, organized by

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<sup>13</sup> University of Wisconsin-Madison. (n.d.). *The Evolution of Co-operative*. Retrieved October 2, 2018, from <http://www.uwcc.wisc.edu/whatisacoop/History/>

<sup>14</sup>Agweb. (n.d.). *Agricultural Cooperatives around the World*. Retrieved October 3, 2018, from <https://www.agweb.com/blog/straight-from-dc-agricultural-perspectives/agricultural-cooperatives-around-the-world/>

people at the local level in the forms of informal groups for economic and social endeavors. However, this cooperation is not an incorporated form of cooperatives. The cooperatives emerged in Nepal with the establishment of Department of Cooperatives (DOCN) under the Ministry of Agriculture for Planning and Development in 1953.

### **2.2.1. The Phase of Monarchy (1950-1990)**

The year 1950, in the political history of Nepal, will always be remembered because 103-year-long oligarchy of Ranas was seized by the people's mass movement, which established a multi-party representative political system. After the collapse of the Rana regime, the establishment of the Department of Cooperatives marked the beginning of a new view of socio-economic development.

The government of Nepal viewed cooperatives as a regulatory mechanism to reduce rural poverty through the transformation of subsistence agriculture to commercial agriculture. “Initially co-operatives were looked upon as a means of delivering official assistance, especially farm credit, to the people. Soon after the first elected government of the country took office in 1958, co-operatives were envisaged operating as democratic organizations and serving their membership in various ways. Promulgated in 1959, the country's first Co-operative Act was designed to foster co-operatives in line with the principles of Co-operation.”<sup>15</sup> Unfortunately, in 1960, the representative government was overthrown by the King. Then, the King imposed party-less *Panchayat Rule*. Munkner and Shrestha (1998) noted that during the panchayat rule, cooperatives had acquired the image of a semi-official structure implementing government's development policies and being supported by and accountable to the government. Government

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<sup>15</sup>DOCN. (n.d.). *Subsequent Developments*. Retrieved September 12, 2018, from <http://www.deoc.gov.np/content.php?id=290>

staff was seconded to act as the manager of cooperatives. Land Reform Act-1964 brought a compulsory saving scheme, according to which farmers had to save a portion of their production. A Cooperative Bank was established to accept compulsory saving and to advance loan to the farmers. Unfortunately, this program was soon defunct, and Cooperative Bank converted into Agricultural Development Bank in 1968. Munkner and Shrestha (1998) further commented that cooperatives movement in Nepal has a history of being supported by government through various programs and projects. Much of this support focused on the development of agricultural infrastructures like value chain and processing industries, storehouse. The other areas of support were to channel the credits and inputs to individual farmer and group of farmers. Lack of awareness among the public, compulsory saving program, and the government's direct control over the cooperatives were the problems in the development of cooperatives during this phase.

### **2.2.2. The Phase of the Representative Political System (1990-2007)**

The year 1990 was undeniably the happiest year in Nepal's history because this year witnessed the actual ending of the monarchy. *Jana Andolan* of 1990 restored the constitutional monarchy and the multi-party parliamentary political system. After the establishment of representative government in 1990, the government revived cooperative activities.

The Cooperative Act of 1992 established the National Cooperative Development Board. The Ninth Five Year Plan (1997-2002) developed as part of the structural adjustment program in which Nepalese government's 'poverty reduction strategy paper'<sup>16</sup> had given more priority to the cooperative sector (NPC, 1997). Thus, for example, the Ninth Five Year Plan promoted

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<sup>16</sup> IMF. (2007, May). *Nepal: Poverty Reduction Strategy Paper Progress Report*. Retrieved December 27, 2018, from <https://www.imf.org/external/pubs/ft/scr/2007/cr07176.pdf>

cooperatives' involvement in commercial milk and vegetable production and marketing of farm products. This plan recognized the role of cooperatives for poverty reduction and agriculturally based capitalist economic growth. Using the loans provided by the World Bank, technical services and agricultural inputs were channeled to the farmers through cooperatives so that they can produce cash crops for exports.

### **2.2.3. The Phase of the New Representative Political System (2007 Onwards)**

In April 2006, Nepal again witnessed a popular uprising often called as *Jana Andolan-II* against the royal-coup staged by King Gyanendra in February 2005. The 19-day mass uprising was successful in restoring the representative political system with elected officials in the Parliament, ending the king's direct rule in the country. Then, the seven political parties including the Maoist Party of Nepal established the interim government and drafted Interim Constitution of Nepal (2007), replacing the existing constitution.

Nepal's Interim Constitution of 2007 recognized cooperatives as one of the three pillars of economic development along with public and private sectors. Part 4, articles 35(2) of the Interim Constitution of 2007 has mentioned that the state shall pursue a policy of economic development through government, cooperative and private sector. The constitutional recognition of the cooperatives led to the massive growth of cooperatives in the nation (UNDP, 2009).

The government budget for every fiscal year since then has identified the critical role of cooperatives in the development of Nepal. For example, the government budget for the fiscal year 2008/09 introduced a new program 'Cooperatives in every village, food storage in every house' to increase the agricultural productivity through cooperatives (MOF, 2009). This program aimed at motivating small farmers to commercialize their agriculture through cooperative

models. The government allotted Rs. 85 million (\$ 761,000) for providing incentives to cooperative farming. The Government of the budget for Fiscal Year 2011/12 has given more importance to the cooperatives; it has brought various cooperatives programs and policies for the promotion and expansion of cooperatives as one of the central pillars of the economy. This budget launches a national program of “Cooperatives in Villages and Cites, Employment at Every Household” to encourage cooperative farming to increase agricultural productivity. The government proposed Rs. 10 million (about \$90,000) for this program to enhance the capacity of cooperatives and to operate cooperatives as camping in order to increase agricultural productivity (MOF, 2012). The budget provided credit facility at a concessional interest rate through small farmer cooperatives for the people involved in livestock, poultry, and fish farming. It also aimed to provide 50 percent subsidy on the capital expenditure to the small farmer cooperatives in the purchase of machinery and equipment (MOF, 2012).

The government budget for Fiscal Year 2016/17 of Nepal has given interest subsidies in the loan for five years to the farmer's cooperatives if they bring a project of constructing cold stores and warehouses through cooperatives to preserve and store their agricultural produces.

Likewise, the budget for Fiscal Year 2016/17 has emphasized the role of cooperatives in the activities of agricultural production, processing, and marketing (MOF, 2016). The budget said, “Activities of agricultural production, process and marketing will be conducted in such areas with the involvement of agricultural entrepreneurs, cooperatives, the private sector, and the Government.”<sup>17</sup>

“The Commercial Agriculture Development Project (CADP) funded by a grant from ADB [Asian Development Bank] to the Government of Nepal. The aim is to improve the

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<sup>17</sup> MOF. (n.d.). *Budget Speech of Fiscal Year 2016-17*. Retrieved September 30, 2018, from [http://www.mof.gov.np/uploads/document/file/Budget\\_Speech\\_final\\_2016\\_20160602105902.pdf](http://www.mof.gov.np/uploads/document/file/Budget_Speech_final_2016_20160602105902.pdf)

agricultural sector by providing modern tools, techniques, and technology to farmers through community-based cooperatives. 'The project has brought together key stakeholders - farmers, traders, and processors - to work together toward improving the efficiency of production, marketing, and processing of high-value crops', said Kenichi Yokoyama, ADB country director for Nepal. In doing so, the project has established value chains and accelerated the process of agricultural commercialization in the region."<sup>18</sup>

Today, the new Constitution of 2015 has again identified the cooperative sector as an essential pillar for the national development along public and private sector. A new cooperative act enacted in 2017 and all the seven provinces of a country and the local governments are in the process of passing their Cooperative Acts.<sup>19</sup> These legal provisions and the activities indicate the importance of cooperative sectors in the social and economic development of the whole nation.

### **2.3. Comparison of Historical Development of Cooperatives in Two Countries**

This thesis has shown that the cooperative movement in the United States is older than in Nepal. The commencement of the cooperatives in the Nepalese economy emerged upon the government's initiatives for the cooperative-based agricultural development in 1950. About two-thirds of the population still rely on agriculture for their livelihood, and Nepalese agriculture is still in the process of moving away from subsistence toward its commercialization. Therefore, agricultural cooperatives are recognized as an instrument for this transformation. The Department of Cooperatives under the Ministry of Agriculture operates and regulates the

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<sup>18</sup> ADB. (2013, May 9). *Nepal Farming and Agriculture*. Retrieved 31 December 31, 2018, from <https://www.adb.org/results/nepal-farming-and-agriculture>

<sup>19</sup> DOCN. (n.d.). *Cooperative Act 2074*. Retrieved November 29, 2018, from <http://www.deoc.gov.np/index.php>

cooperatives. This government initiative to establish cooperatives in Nepal means that they were primarily established to uplift the livelihood of rural masses through the cash crop production and distribution. On the other hand, the cooperative sector in the United States has been regulated by the Cooperative Programs under the United States Department of Agriculture. Agricultural cooperatives in the United States are found providing input services and marketing services, whereas in Nepal cooperatives are still working for the transformation of subsistent agriculture into market-oriented cash crop production. Agricultural cooperatives primarily focus on the diversification and commercialization of agriculture in this transition. Thus, the primary functions of farming cooperatives in Nepal have been to provide credit facilities, inputs, and skills to the farmers. Moreover, some of the agricultural cooperatives are found working on the value chain and marketing of the agricultural produces.

Cooperatives in both countries are found instrumental during the time of economic crisis. In the United States during the time of the Great Depression of 1930, all the sectors were shaken up, but it triggered a great wave of cooperative development. Knupfer (2013) argued that “during the Great Depression, the number of cooperatives increased because of available federal funding, the need for alternative economies in a time of high unemployment and the advocacies of many individuals and organizations” (p. 31). Knupfer further opined during this period, the member of agricultural cooperatives grew rapidly and became more successful. Knupfer also cited that a cooperative that has started during the recession in 1930 with only \$25 had assets of \$25,000 by 1945 (p. 33). In the context of Nepal, the first registered cooperative 'Agriculture Credit Cooperative' was established by the farmers of Rapti Valley to provide the relief to farmers who were seriously affected by the devastating flood of 1954 which left estimated 1,000 people dead

and over 132,000 homeless.<sup>20</sup>

The cooperative movement in Nepal has faced various ups and downs along with the changes in the political system of a country. After the establishment of the Department of Cooperatives in 1953, cooperatives in Nepal were directly affected by the changes in the political regimes. The growth of the cooperative's numbers, members, and business volume were minimal and low during the restoration of the monarchy. However, the cooperative movement got momentum after the political changes in the 1990s, and it geared up after another political turn in 2006. The Interim Constitution of 2007 gave the constitutional recognition to the cooperative sector and adopted cooperatives as the third pillar of a nation for economic development. Since then, Nepalese cooperatives have been growing in their numbers and memberships. In the case of the United States, cooperatives had a steady role in the economy since its emergence in the 18th century except for the decade of the Great Depression when its role was enhanced.

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<sup>20</sup> DOCN. (n.d.). *Regulation for Cooperativeness*. Retrieved September 15, 2018, from [www.deoc.gov.np/content.php?id=289](http://www.deoc.gov.np/content.php?id=289)

## **Chapter Three**

### **Agriculture Cooperatives in the U.S. and Nepal: A Comparison**

This chapter makes a comparative study on some aspects of cooperatives. After comparing the basic principles of cooperatives in the United States and Nepal, this chapter examines the role of United States Department of Agriculture (USDA), and Department of Cooperatives, Nepal (DOCN) in the development and promotion of cooperatives. The assessment on the role of USDA and DOCN in the development of farm cooperatives provides how the government agencies in both countries have contributed to the regulation and development of the agricultural cooperatives. The statistics of agricultural cooperatives regarding size, memberships, and turnover is presented at the end of this chapter.

#### **3.1 Comparing Cooperative Principles: USDA and DOCN**

The cooperative principles defined by the United States Department of Agriculture are based on the Rochdale principles set in 1890. Department of Cooperative, Nepal has adopted the same principles as those are defined by International Cooperative Alliances (ICA) in 1995, but the USDA has described in a slightly different direction.

USDA views cooperatives are different from other business firms in term of ownership, control and benefits sharing. Cooperatives are the community-based organizations, owned, controlled, and benefitted only by members. Therefore, the cooperatives in the United States are established and operated with these three primary principles of ownership, control, and benefit.

However, the International Cooperative Alliance (ICA)<sup>21</sup> set seven principles of cooperatives in 1995. Nepalese cooperatives follow all seven principles: (1) voluntary and open membership, (2) democratic member control, (3) member economic participation, (4) autonomy/independence, (5) education/training/information, (6) cooperation among cooperatives, and (7) concern for the community. The table following presents the comparative study on the principles of cooperative.

Table (3.1): Principles of Cooperatives in the United States and Nepal

United States Department of Cooperatives (USDA)	Department of Cooperative, Nepal (DOCN)
<b>User-Owner Principle:</b> Those who own and finance the cooperative are those who use the cooperative.	<b>Voluntary and Open Membership:</b> Cooperatives are voluntary organizations, open to all people able to use its services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.
<b>User-Control Principle:</b> Those who control the cooperative are those who use the cooperative.	<b>Democratic Member Control:</b> Cooperatives are democratic organizations controlled by their members—those who buy the goods or use the services of the cooperative—who actively participate in setting policies and making decisions
<b>User-Benefits Principle:</b> The cooperative’s sole purpose is to provide and distribute benefits to its users based on their use.  (Source: <a href="https://www.rd.usda.gov/files/BCP_RR231.pdf">https://www.rd.usda.gov/files/BCP_RR231.pdf</a> )	<b>Members’ Economic Participation:</b> Members contribute equally to, and democratically control, the capital of the cooperative. This benefits member in proportion to the business they conduct with the cooperative rather than on the money invested.
	<b>Autonomy and Independence:</b> Cooperatives are autonomous, self-help organizations controlled by their members. If the co-op enters into agreements with other organizations or raises capital from external sources, it is done so based on terms that ensure democratic control by the members and maintains the cooperative’s autonomy
	<b>Education, Training, and Information:</b> Cooperatives provide education and training for members, elected representatives, managers, and employees so they can contribute effectively to the development of their cooperative. Members also inform the general public about the nature and benefits of cooperatives.
	<b>Cooperation among Cooperatives:</b> Cooperatives serve their members most effectively and strengthen the cooperative movement by working together through local, national, regional and international structures.
	<b>Concern for Community:</b> While focusing on member needs, cooperatives work for the sustainable development of communities through policies and programs accepted by the members.  (Source: <a href="http://www.ncdb.org.np/page.php?id=53">http://www.ncdb.org.np/page.php?id=53</a> )

<sup>21</sup>ICA. (n.d.). *By-Laws*. Retrieved October 15, 2018, <https://www.ica.coop/sites/default/files/basic-page-attachments/ica-bylaws17112017english-1532978942.pdf>

### 3.2. Role of USDA and DOCN

The United States Department of Agriculture (USDA) and the Department of Cooperatives, Nepal (DOCN) promoted and regulated the cooperatives as the official government agencies. Also, since the establishment of the DOCN and first cooperatives under its guidance in the 1950s, cooperatives in Nepal has been a government's tool for the implementation of economic and social development programs at the local level. "In Nepal, new co-operatives were introduced by the government and worked under government control and direction. Cooperatives were utilized as instruments for the implementation of government's development schemes, applying incentives but also administrative pressure."<sup>22</sup> DOCN plays not only a role of a facilitator of farming cooperatives but also a monitoring agency in controlling and regulating the cooperative's activities. More recently, the Constitutional recognition of the role of cooperatives in social and economic development provides the budgetary basis for the support of cooperatives in Nepal, distinguishing the enhanced role of cooperatives in Nepal. As such, they facilitate and monitor the cooperatives throughout the country. The role of the USDA and DOCN are summarized in the table below:

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<sup>22</sup> Munkner & Shrestha (1998). *Development of "modern" Cooperatives in Nepal*. Retrieved December 12, 201, from <http://www.uwcc.wisc.edu/icic/orgs/ica/struc/Regional-Offices1/Regional-Office-for-Asia-and-Pacific1/Asia--Co-op-Dialogue--Vol--8--No--2--19981/5.html>

Table (3.2): Role of USDA and DOCN

USDA	DOCN
<p><b>Government Body to Register Cooperatives:</b> USDA is an official government body to that promotes and helps in the formation and registration of cooperatives in the US through various programs.</p>	<p><b>Government Body to Register Cooperatives:</b> DOCN is an official government agency that helps in the formation and registration of cooperatives in Nepal through various divisional offices.</p>
<p><b>Regulation:</b> USDA regulatory services are intended to ensure that co-operatives operate in with the line principles of cooperatives. USDA provides cooperative grants to the cooperatives through cooperative grant programs. "The Rural Cooperative Development Grant program helps improve the economic condition of rural areas by helping individuals and businesses start, expand or improve rural cooperatives and other mutually-owned businesses through Cooperative Development Centers. Grants are awarded through a national competition. Each fiscal year, applications are requested through a notice published in the Federal Register and through an announcement posted on grants.gov. This program funding is \$5.8 million, and the maximum grant amount is \$200,000.00."<sup>23</sup></p>	<p><b>Regulation:</b> The departmental regulatory services are intended to ensure that co-operatives operate in line with the principles of Co-operation, that they fully comply with the prevailing legislation; and that they are governed well as well as being protected from malfeasance. DOCN also maintain the records of cooperatives operating throughout the nation. Here are some of the regulatory activities of the Department:</p> <ul style="list-style-type: none"> <li>• Registration of co-operatives</li> <li>• Inspection of co-operatives</li> <li>• Approval of amendments to the Byelaws of co-operatives</li> <li>• Regular monitoring and, in cases of non-compliance, intensive monitoring, and follow-up</li> <li>• Handling of grievances</li> <li>• Approval of the auditor's appointment</li> <li>• Approval of proposals for amalgamation or division of co-operatives</li> <li>• Dissolution of co-operatives and appointment of the liquidator</li> <li>• Enforcement of provisions of other applicable laws, such as those of the Many Laundering Prevention Act 2008.</li> </ul>
<p><b>Promotion:</b> Cooperative programs of USDA offer various services and programs to support business development and job training for rural resident through cooperative activities.</p>	<p><b>Promotion:</b> Department of Cooperatives undertakes a promotional activity for the further development and promotion of cooperative activities. The usual promotional activities of the department include the following:</p> <ul style="list-style-type: none"> <li>• public awareness campaigns;</li> <li>• organization of specific groups, e.g., unemployed workers or landless farmers, into co-operatives;</li> <li>• restructuring of large co-operative organizations;</li> <li>• seed-money, fixed capital, and Programme grants for co-operative business projects or reform initiatives; a</li> <li>• recommendation for specific fiscal incentives, such as exemption of customs duties or registration fees.</li> </ul>
<p><b>Survey and Record Keeping:</b> USDA conducts annually a national wide survey on cooperatives. The first national wide survey on cooperatives was conducted by USDA in 1913, though the" limited data on cooperatives have been collected since 1863. The annual survey on cooperatives was started since 1930."<sup>24</sup></p>	<p><b>Training:</b> The educational activities of the Department are targeted on co-operative members and members-to-be and are carried out through its field offices. The Co-operative Training Centre offers specialized management and leadership courses in Kathmandu. The five Co-operative Training and Division Offices based in regions run bridging courses for those in the middle. The Kathmandu training center is also a resource center and is extensively involved in research, material development and train-the-trainer activities. (Source: <a href="http://www.deoc.gov.np/content.php?id=291">http://www.deoc.gov.np/content.php?id=291</a>)</p>

<sup>23</sup>USDA. (n.d.). *Rural Cooperative Development Grant Program*. Retrieved September 12, 2018, from <https://www.rd.usda.gov/programs-services/rural-cooperative-development-grant-program>

<sup>24</sup> USDA. (2011, June). *Understanding Cooperatives: Farmer Cooperative Statistics*. Retrieved September 6, 2018, from <https://www.rd.usda.gov/files/CIR45-13.pdf>

### **3.3. Status of Agricultural Cooperatives in the United States and Nepal**

Agricultural cooperatives in the United States comprises farmer, rancher, and fishery cooperatives, and these cooperatives provide farm supplies, marketing services, and other support services. There are more than 1,900 agricultural cooperatives in the United States, serving more than 1.9 million members. These cooperatives have about \$92.1 billion in total assets and member equity is about \$40.9 billion. The total gross business volume of cooperatives is \$191.1 billion, and they employ 187 thousand cooperative employees (USDA, 2017). The number of agricultural cooperatives in the United States has been declining every year after the 1960s. “This decreasing was largely due to merger activity and some dissolutions” (USDA, 2018: 5). The following table shows that since the 1960s the numbers, members and the net business volume of agricultural cooperatives in the United States have been decreasing:

Table (3.3.1.): U.S. Agricultural Cooperative Numbers, Membership, and Net Business Volume

<b>Year</b>	<b>Number of Cooperatives</b>	<b>Membership</b>	<b>Net Business Volume (\$ million)</b>
1915	5,424	651,186	1
1929-30	12,000	3,100,000	2,500
1940-41	10,600	3,400,000	2,280
1950-51	10,064	7,091,120	8,147
1960-61	9,163	7,202,895	12,409
1970-71	7,995	6,157,740	20,556
1980	6,282	5,378,888	66,254
1985	5,625	4,781,216	65,601
1996	3,884	3,642,000	106,069
2000	3,346	3,085,100	99,700
2002	3,140	2,794,000	96,750
2009	2,390	2,200,000	169,300
2010	2,310	2,200,000	170,100
2013	2,186	1,976,700	246,100
2014	2,106	1,995,700	246,700
2015	2,047	1,921,023	212, 590
2016	1,953	1,901,418	191,070

Source: Zeuli & Cropp. (2004: 20), USDA. (2011a: iv), USDA. (2016: 8), & USDA. (2018: 6)

The following table shows that since the 2006/07 the numbers, members and the net business volume of cooperatives in Nepal have been increasing:

Table (3.3.2.) Nepalese Cooperative Numbers, Membership, and Share Capital

<b>Year</b>	<b>Number of Cooperatives</b>	<b>Membership</b>	<b>Share Capital (\$)</b>
2006/07	9,720	1,259,747	10,455,630
2007/08	12,646	1,843,759	8,959,172
2008/09	19,724	2,383,384	21,383,348
2009/10	22,646	2,963,114	29,631,140
2010/11	23,301	3,141,581	31,415,810
2011/12	26,501	3,842,657	38,426,570
2012/13	27,914	4,104,025	41,040,250
2013/14	31,117	4,555,286	45,552,860
2014/15	32,663	5,100,370	51,003,700
2015/16	33,599	6,030,857	60,308,570
2016/17	34,303	6,102,665	61,026,650

Source: MOF, Economic Survey (2016/17: 137).

Since official data for agricultural cooperatives in Nepal is not available so far or during this research work, the best available data for agricultural cooperatives is inferred from the table above. As mentioned in the earlier section, the cooperative movement accelerated in Nepal after the Constitutional recognition as the third pillar of economic development. Data above shows that. The Ministry of Finance's annual report, Economic Survey-2016/17 reveals that there are more than 34,000 cooperatives in Nepal, more than 40 percent of which is agricultural (MOF, 2016). A data of the Department of Cooperatives reveals that in 2018 around 22 percent of the

members of cooperatives are the members of agricultural cooperatives.<sup>25</sup> Agricultural cooperatives in Nepal comprise farmers, livestock, cash crops, and fishery cooperatives and these cooperatives perform farm supply, marketing of farm commodities and supportive services. There are more than 14,000 agricultural cooperatives in Nepal that serve more than 1.1 million members. These cooperatives have member equity about \$555,000. The total gross deposit is about \$175,000 is about employ about 70,000 people (DOC: 2017).<sup>26</sup>

### **3.4. The Role of Agricultural Cooperatives in the United States and Nepal**

Agricultural cooperatives in both countries aim at lowering the production costs and promoting to maximize the benefits of the farmers through various activities. These activities include farm input suppliers, diversification, and commercialization of crops, and storing and marketing the products.

Cooperatives are the assured sources of farm supplies. Farmers in the United States found that agricultural cooperatives as a dependable source of farm supplies at a reasonable price, especially during shortages and emergencies. In the United States, “in 1975 during a period of fertilizer shortages and skyrocketing prices, cooperatives held the line by charging an average of \$31 per ton less than noncooperative suppliers, resulting in a cost saving to farmers of nearly \$200 million.”<sup>27</sup> In Nepal, the government has given tax holiday or specific percent tax off for the agricultural cooperatives to bulk-buying inputs (tractors, fertilizers, insecticides, and so forth) of agriculture. Cooperatives are supplying farm inputs to the members at reasonable prices

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<sup>25</sup> DOCN. (n.d.). *Cooperative Statistics of Nepal*. Retrieved December 31, 2018, from [http://www.deoc.gov.np/downloadfile/Coop\\_data\\_2074\\_1544686478.pdf](http://www.deoc.gov.np/downloadfile/Coop_data_2074_1544686478.pdf)

<sup>26</sup> DOCN. (n.d.). *Statistics of Cooperative in Nepal*. Retrieved September 12, 2018, from [http://www.deoc.gov.np/downloadfile/Coop\\_data\\_2074\\_1514963868.pdf](http://www.deoc.gov.np/downloadfile/Coop_data_2074_1514963868.pdf)

<sup>27</sup> USDA. (n.d.). *Farmers Cooperatives in the United States*. Retrieved September 21, 2018 from <https://www.rd.usda.gov/files/cir1sec3.pdf>

(MOF, 2009).

Two-thirds of the population of Nepal primarily depend on agriculture for their livelihood, but the country still faces the problem of food insecurity. “The IPC [ Integrated Food Security Classification]-Chronic analysis showed that about half (54%) of the population in Nepal faces chronic food insecurity” (MOAD, 2014: 4). “Only 17 percent of Nepal’s land is arable, and productivity is low due to structural impediments, including poor road infrastructure and small-scale farming. As a result, Nepal imports a significant amount of food products.”<sup>28</sup> “According to Trade and Export Promotion Center, Nepal imported farm products worth Rs 127.51 billion (about \$1.1 billion) in the last fiscal year. Agro imports have swelled three-fold during the last five years.”<sup>29</sup> Thus, it is a rational decision for the government of Nepal to prioritize cooperatives as an effective instrument to diversify and commercialize the Nepalese agriculture. In Nepal, however, most farms are owned by individuals or families, and small-scale farmers are still not interested in joining cooperatives. Kemkhadze's (2017) article on 'Cooperatives and Agriculture' published in *The Kathmandu Post* (4 July 2017) national daily states that in Nepal small farmers are excluded from joining cooperatives either because cooperatives do not want them to be a member, or because small farmers seem not interested. She viewed “in Nepal, not all agricultural cooperatives want the smallest farmers as members, and some of the smaller farmers seem not to want to join.”<sup>30</sup> Kemkhadze opined that due to the fear of membership fees and difficult administrative process, poor farmers are not interested in joining cooperatives, whereas some administrators of cooperatives are also not interested in bringing poor farmers in their

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<sup>28</sup> Export.gov. (2018, February 2). *Nepal—Food and Dairy Products*. Retrieved September 21, 2018, from <https://www.export.gov/article?id=Nepal-Food-and-Dairy-Products>

<sup>29</sup> Spotlight. (2015, January 8). *Nepal Imported over Rs. 100 billion Agro Products*. Retrieved December 31, 2018, from <https://www.spotlightnepal.com/2015/01/08/nepal-imported-over-rs100-billion-agro-products/>

<sup>30</sup> Kemkhadze, Sophie. (2017, July 4). *Cooperatives and Agriculture*. Retrieved September 25, 2018, from <http://kathmandupost.ekantipur.com/news/2017-07-04/cooperatives-and-agriculture.html>

cooperatives. Kemkahdze concluded that cooperative farming is a relatively new concept to them, but the growing wave of cooperatives is powerful in Nepal.

In contrast to the predominantly agrarian population in Nepal, only 2 percent of the total population in the United States are farmers or directly employed in agriculture. The U.S. Environment Protection Agency's report states that “less than 1 percent population claim farming as an occupation (and about 2 percent live on farms). Most farms in this country (83 percent) are owned and operated by individuals, 8 percent by partnerships, and only 4 percent by cooperatives, estates or trust.”<sup>31</sup> U.S. agrarian cooperatives play a role in providing farm input supplies and marketing of farm products, but their role in agricultural policy has not been as significant as Nepal’s agricultural cooperatives.

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<sup>31</sup> EPA. (2015, July 9). *Ag 101*. Retrieved October 1, 2018, from [https://www.epa.gov/sites/production/files/2015-07/documents/ag\\_101\\_agriculture\\_us\\_epa\\_0.pdf](https://www.epa.gov/sites/production/files/2015-07/documents/ag_101_agriculture_us_epa_0.pdf)

## Chapter Four

### Findings and Conclusions

#### 4.1. Findings

This thesis has examined how the agricultural cooperatives in the United States and Nepal were formed and operated. The thesis examined the historical development of cooperatives in both countries at first. The study found that cooperatives in agriculture in both countries have a very long history. The history of modern and formal cooperative development in the United States is older than Nepal. The first recorded agricultural cooperatives were organized in 1810 (Dairy and Cheese cooperative) though “these early cooperative effort on the part of agricultural producers were local, small-scale, and independent of any larger organization. As a result, they were short-lived. These small, localized cooperatives during this time were organized to purchase the product in bulk for the member and sell them at cost. Most of the cooperative ventures developed independently throughout the 19<sup>th</sup> century.”<sup>32</sup> In contrast, the cooperative movement in Nepal started after the establishment of the Department of Cooperatives under the Ministry of Agriculture and Development in 1953.

Second, this thesis examined and compared the functions (new crop introduction, encouragement of cash crops and seeds or farming techniques, extension services, credit provisions, joint marketing, and quality control of production) of the United States Department of Agriculture (USDA) and Department of Cooperatives, Nepal (DOCN). The thesis found the similar roles of USDA and DOCN. These two governmental agencies act as the government body to register cooperatives, both provides regulatory services to ensure the cooperatives operate in line with the principle of cooperatives, such as open and voluntary memberships,

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<sup>32</sup> University of Wisconsin-Madison. (n.d.). *The Evolution of Co-operative*. Retrieved October 2, 2018, from <http://www.uwcc.wisc.edu/whatisacoop/history/>

democratic control and concern for community. In Nepal, cooperatives follow the seven principles proposed by International Cooperative Alliance in 1995: voluntary and open memberships, democratic member control, member economic participation, autonomy independence, education, training and Information, cooperation among cooperatives, and concern for community. In contrast, in the United States, USDA has proposed three principles of cooperatives: user-owner principle, user-control principle, and user-benefits principle. The agricultural cooperatives in both countries are member-based entities controlled and managed by the members. The specific roles/functions of agricultural cooperatives in both countries are the new crop introduction, encouraging cash crops or farming techniques, extension services, credit provisions, quality control of production, value chain, and marketing. In the context of Nepal, the small farmers who had relied on subsistence-oriented family-farming formed agricultural cooperatives and diversified their farming practices for commercial purposes. Cooperatives provide farm supplies and market their products, transforming small subsistent independent farmers into farmers who cooperate with other members of the cooperatives in some ways. The farm input support has increased the productivity and income of small farmers. Today, the success story of these small farmers shows how active agricultural cooperatives in the transformation of petty-commodity producers (family-farming) into capitalist farmers. According to one survey, member farmer's income has increased by 15-20 percent over a year, after joining SFACF-Dhading<sup>33</sup>.

To summarize, agriculture cooperatives in the United States have primarily focused on the farm input, and the marketing of agricultural produces in the last half-century, whereas Nepalese agricultural cooperatives have played a significant role in much broader functions, such

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<sup>33</sup>SFACF- Dhading. (n.d.). *Success Story*. Retrieved December 2, 2018, from <https://www.youtube.com/watch?v=KNciPtD6ho8>

as the diversification and commercialization of agriculture. Since Nepalese agriculture was still largely subsistence-oriented in the 1950s, the livelihood of farmers was vulnerable to not only environmental fluctuations, such as severe drought and climate change but also economic fluctuations, such as the fluctuating prices of cash crops. Therefore, a government of Nepal attempted to transform subsistent agriculture into capitalist agriculture through cooperatives spearheaded by DOCN.

Historically, the initial development of capitalist agriculture in the United States relied on the transformation of subsistence-oriented independent farmers in the northeast. James O'Connor views that the “theoretical distinction between capitalism and independent commodity-production as the means of production is the central question concerning the concrete dynamics of farming” (Post, 2011: 17). The independent mode of production is the main obstacle to the development of capitalism because the independent mode provides the conditions of reproduction that direct producers outside the capitalist labor market. “Indeed, independent commodity-production blocked the formation of a class of propertyless wage-earners and forced them to sell their labor-power to the capitalist to join daily hand to mouth” (Post, 2011: 17-18). This situation of agriculture in the process of capitalist development existed before the Civil Rights Movement, very much like the situation of agriculture in Nepal before the 1950s. The family farms were defined as subsistence by O'Connor. The family farms were not dependent on market-based circulation for the reproduction but largely subsistent with occasional surplus products to be sold on the market. Both of this subsistence orientation and the seasonal, but not constant, use of market were the obstacles for capitalism. The autonomy of the independent mode from the market had two consequences to the development of capitalism. First, market forces alone were incapable of dislodging these independent farmers from the

ownership of the means of production. It means family farming was a real historical alternative to capitalist agricultural. Second, family farm's logic of subsistence led to a stagnation of production forces, again very similar to Nepalese stagnation of production forces before the 1950s. Thus, the independent mode of production was an obstacle to the deepening of the social division of labor as well as for the home market for industrial capital. O'Connor concludes his discussion of the independent mode with a historical description of the relation of this form of social labor to capitalist production. Northern subsistence mode of production retarded the development of capitalism by robbing industrial capital of its needed supply of wage labor. Politically, the emergent industrialists required the support of the Western subsistence farmers in their struggle against the planters in the South. With the end of the Civil War and the defeat of the planters, the industrialists betrayed their farmers-allies and began to implement a series of local state policies designed to smash the independent mode of production. Through the railroad and mining land-grants, massive immigration and other local state politics, the industrial bourgeoisie destroyed the independent mode, opening the possibility of large-scale capitalist production in the late 19<sup>th</sup> century (Post, 2011: 17-18).

More recently, O'Connor's analysis modified by Charles Post (2011). According to Post the transformation of petite commodity producers (i.e., independent farmers in O'Connor's language) into a capitalist agricultural producer was not a natural or automatic process but a historically specific process. Post's analysis conceived the possibilities of two forms of self-organized commodity production. One form governed by a logic of subsistence farming, which resulted from the independence from commodity production. The market-oriented 'law of value' governs the other form. The petty-commodity production does not pose any big obstacles to capitalist development nor does it transform naturally into capitalist production. Post (2011: 192)

stated that the transformation of social-property relation of the early 19<sup>th</sup> century in Northern agriculture led to the development of capitalist in the United States. He viewed that farmers became dependent on the market for their survival as they became indebted due to the US Independence War, and Northern agriculture became a home market for industrially produced capital and consumers good. These led to capitalist farming. In the past, Nepal's agriculture was petite commodity producing independent family farming and guided by the logic subsistence farming. The family farming did not naturally turn into the development of capitalist agricultural production. After the 1950s the government of Nepal guided these family farmers toward the 'law of value' and commodity production for the market. The establishment of the Department of Cooperatives in Nepal can be viewed as institutionalizing the capitalist development of agriculture. Since then, some small farmers who used to depend upon subsistence farming have been joining agricultural cooperatives, diversifying and commercializing agriculture.

## **4.2. Conclusions**

The comparative study of farm cooperatives of these two economies may seem entirely contrastive regarding economic levels and the nature of agriculture and cooperatives. The United States is one of the advanced countries in the world; whereas Nepal is among the least developed countries. What emerged in this thesis is the relative role of the United States Department of Agriculture (USDA) and the Department of Cooperative, Nepal (DOCN) in the development of agriculture in both countries. This thesis highlighted the role of DOCN in the capitalist development of agriculture. While the thesis did not study the role of industrial cooperatives in Nepal, this thesis implies that it will be fascinating to examine the relative position of cooperatives and private corporations in the development of industrial capitalism.

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