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Cooperatives, Economic Democracy and Human Security: Perspectives from Nepal

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State Polity, Democracy and Evolution of Cooperative Movement

- Nepal for long a centralized state with service delivery being ineffective and insufficient.
- Post 1990 multiparty political system accompanied by liberal economic system - growth positive but marred by exclusion, deprivation, inequality, skewed distribution of productive resources.
- A decade long armed conflict leading to 12-point peace and development agreement between the state and the rebels; need for reorienting economic policies to make them people centric and inclusive.
- Redefining the roles of the state and the private sector and fostering the third actor of development - namely the cooperatives.
- Message from post 1990 system – any political system not delivering development or delivering in most unequal way is prone to collapse.

State Polity, Democracy and Evolution of Cooperative Movement...



- Post conflict strategy for inclusive development - evolution of 3-pillar economy; cooperatives entrusted for inclusive & equitable develop.
- Interim Constitution of Nepal - key responsibility of the state to ensure democracy, peace, and prosperity through forward-looking economic-social changes.
- The State - to pursue a policy of such economic development through collective efforts of the government, Co-ops & private sectors.
- Enhanced role of the Co-ops in socio-economic transformation, sustaining political democracy, achieving economic democracy, and ensuring human security to Nepalese people.
- Co-ops already growing - more than 30 thousand in different sectors, mobilized Rs 40 billion as share and reserve capital, collected Rs 160 billion as savings, provided loan worth Rs 135 billion and created jobs for hundreds of thousand of Nepali people.



Cooperatives and Economic Democracy

Economic democracy:

- Proposes to shift of decision-making power from proprietary & corporate ownership to larger group of public stakeholders.
- Stands against modern property relation which externalizes costs, subordinates general well-being to private profit, and denies polity a democratic voice in economic policy decisions.
- Compensates for capitalism's inherent contradiction and fills in democratic deficit in economic decision-making.
- As an integral component of an inclusive democracy - aims to meet basic political, social, cultural as well as economic rights of all citizens and secure freedom of choice.
- Cooperative organizations, by their very nature and principle, are suited to uphold economic democracy.

Cooperatives as pillars of economic democracy



Cooperatives:

- Are emerging globally as pillar of economic democracy by their distinct organizational advantages.
- As self-governed organizations, provide protection against bureaucratic control by the state or distant parent corporations, are more attuned to needs & interests of their members & communities.
- Embody ideals of economic democracy by harmonizing diverse interests of owners, managers, investors, consumers, workers, and their communities.
- Give priority to the interests of their member-owners, prompting a more equal distribution of economic resources, thereby giving all citizens a more nearly equal stake.
- Co-ops democratize business decision-making, create new incentives for owner-member responsibility and participation, disperse more broadly rewards of development within their communities.

Cooperatives as pillars of economic democracy...



Incompatibility of politico-economic decision-making & role of cooperatives:

- In political democracy, citizens supposed to be sovereign, if citizenry is economically vulnerable, election candidates can easily sabotage their sovereign power.
- Co-ops, by empowering people through organizing in economic activities make people capable to exercise their political rights in free & fair manner.
- 'One member - one vote' ensures cooperative as democratically controlled & owned by people against 'one share of stock - one vote' as the basis for making decisions in business enterprises producing unsocial consequences.
- Sincerely putting responsiveness to human needs before profit as a fundamental principle of cooperatives, democratically controlled businesses like cooperatives a solution to development challenges.
- Making our economy more democratic through cooperative an important next step in the transition of Nepal to a truly socially democratic society.



Cooperatives and Human Security

- Human security implies creating political, social, environmental, economic, & cultural systems that give people building blocks for survival, livelihoods, and dignity.
- 'Freedom from fear' and 'freedom from want' -two pillars of human security; Co-ops create an environment for economic justice and empowerment along with poverty reduction & human development.
- High absolute poverty, exclusion, inequality, high unemployment, and often conflict for same reason a result of overly dependence in either state or market to deliver basic development including those related to human security.
- Co-ops address issues of human security defined as freedom from want (by meeting economic and social needs and rights) & freedom from fear (by meeting opportunities for meaningful participation within a community to include civil and political needs and rights).

Cooperatives and Human Security...



Several studies highlight critical role of cooperatives in crisis:

- **IMF (2007):** credit unions or co-op banks more stable than banks and their large presence supports country's financial sector stability; co-op provide lifeline economic services at economic crisis & safeguard democratic political system while also protecting human livelihood.
- **IMF (2009):** cooperatives have proven more resilient in times of crisis than traditional business enterprises; better suited to respond to the challenges of increasing rates of unemployment in crisis.
- **UN World Summit for Social Development (1996):** cooperatives as major factor of economic and social development which promote the fullest possible participation in development process of women, youth, older persons, & people with disabilities.
- **ILO (2009):** cooperatives are more resilient in times of crisis than traditional enterprises and in general more cooperatives survive and last longer than small businesses in the private sector.

How can cooperatives promote human security in Nepal?



Cooperatives and Food Security

- **Agro co-ops can strengthen all aspects of food security; strong evidence that family farm and coops can provide a decentralized system of food security and employment.**
- **In Nepal, 7230 coops in core agriculture production; many more coops engaged in dairy, vegetable, fruit, horticulture and herbal production; so agro related coops at 9758 are 33 % of total coops.**
- **Agro co-ops responsible for introducing exchange economy in remote rural area, facilitating food trade and ensuring better food security; been instrumental for developing modern markets in rural areas for farmers' crops; been able to reduce transaction costs.**
- **Agro co-ops, beside ensuring food security help to maintain higher levels of income, enabling poor farmers to construct decent houses, send their children to school & provide health insurance to sustain rural livelihoods.**



How can cooperatives promote human security in Nepal?...

Cooperatives and Health Security

- Freedom from disease and infection and ability to access better survival enhances livelihood & dignity; health direct component of human well-being and a form of human capital & thus capabilities to contribute to economic development.
- Growing interest in health care co-ops because of continuing state and market failure in provision of health services; co-op model of enterprise - member ownership with democratic governance - lends itself well to the provision of people friendly health care.
- Nepal lagging behind in universal health care facilities; sorry state that health coop are yet to evolve as universal facilities.
- Of the nearly 30 thousand coops at present, only 90 (0.3 %) are health coops; services are very basic; & health insurance schemes are very ad hoc.



How can cooperatives promote human security in Nepal?...

Cooperatives and Housing Security

- **Housing a basic human right & indicator of human security; many Nepalese have poor dwelling condition - more than 1/3rd have no toilet in houses; growing slums make housing a humanitarian issue.**
- **Housing not been a serious government agenda for universal access; neither private sector housing business is accessible to the needy poor; a few initiatives from the non-government sector.**
- **A small initiative of low cost housing scheme designed for the absolute poor and excluded class in a few districts of the country.**
- **Co-ops yet to grab this opportunity - a few are directly dedicated to housing; Co-operatives can take up this responsibility in a larger scale in coordination with state, private sector & community.**
- **Indirect contribution through income generation, employment creation and in loan facility to construct houses.**



How can cooperatives promote human security in Nepal?...

Cooperatives and Energy Security

- **Modern energy basic necessity to decent living; state not able to cater energy need; co-ops in ensuring energy security very imp.**
- **Co-ops possess a number of competitive advantages in generating, transmitting, distributing, and connecting energy to households.**
- **Co-ops strive to serve members not solely in economic terms, but also in terms of the wider social, cultural & environmental benefits.**
- **Co-ops key players in electricity distribution in several advanced countries; co-op model of enterprise experiencing a revival.**
- **In Nepal, 413 electricity cooperatives in operation - just 1.4 % of existing co-ops; most of such cooperatives being consumer co-ops, a need to develop producer cooperatives in the area of renewable energy.**



How can cooperatives promote human security in Nepal?...

Cooperatives and Environmental Security

- People's well-being strongly related to environment in terms of health, earning capacity, security, energy services, decent housing; state capacity to deliver this constrained due to resource & governance failure; no delivery by private sector unless profitable.
- Coops being socially and environmentally responsible can promote environment security through:
 - (i) organizing people and community members to conserve, promote and utilize natural and environmental resources while also doing business,
 - (ii) by engaging in green business like agriculture, plantation crops, forest based fruits and herbal products, and
 - (iii) by setting code of conduct, self regulation, and public accountability in lending practices of saving and credit cooperatives.
- Being innovative in using green technology, they may be instrumental for green growth and addressing climate change.
- Cooperatives need to heavily engage in this area and benefit community.



How can cooperatives promote human security in Nepal?...

Cooperatives, Employment Security and Poverty Reduction

- **Concept of decent work, inclusive economic growth resonate well with cooperative model of economic & social development.**
- **Increasing number of co-ops worldwide provide employment to millions in agriculture, small businesses, health & social services, energy, education, transport, & tourism.**
- **Co-ops providing job opportunities for youth, women, indigenous peoples, persons with disabilities & other marginalized groups.**
- **Coops instrumental in reducing poverty - 25 % of Nepalese households are in absolute poverty, but only 17 % of households having access to cooperatives are absolutely poor.**
- **Agricultural coops also work as agriculture centre (Krishi Kendra) in areas where public service is absent or far-off the community.**



Role of Saving - Credit Co-ops in Financial Inclusion, Empowerment, & Inclusive Growth

- Coops instrumental in financial inclusion -15 % of agricultural households having access to financial services are served by coops (banks 9%); much room for coops to expand service in agriculture.
- Issues: suitable legislation for regulating such coops, effective supervision & monitoring, adhering to member based business activities, setting good governance practice, putting internal control in place, following ethical practices in business, and bridling temptation to make and distribute undue profit.
- Need that co-ops look for innovations; be smart to design products as per the needs of the people; be ready to work with difficult geography, subsistence agriculture, & socially excluded community.
- Concerns on the sustainability of saving and credit operatives when operating with high interest regime, providing risky business loans, dealing with clients who are either out of membership or are secondary members made solely for saving and credit purposes.

Key Issues in Cooperative Movement in Nepal



Philosophical issue:

- **Advocates of free market enterprises: an unwarranted player between state and market; advocates of state controlled economy: a bourgeoisie model of business.**
- **Private sector apathetic to this movement; does not understand that cooperatives complement than compete with the private sector business.**

Institutional limitation:

- **Amending Co-ops Act, legislation to better govern saving and credit co-ops, strengthening regulatory offices, and prudent monitoring; making role of Ministry of Co-ops & Poverty Reduction clear.**
- **Anecdotal cases of fraud, irregularities, misappropriation, and resorting to easy business - wrong message about coop movement.**
- **Capacity constraint in regulators, supervisors and oversight agencies.**



Key Issues in Cooperative Movement in Nepal...

Elite captures:

- Co-op movement facing aberration because of well-to-do entering business and running economic activities for making undue profit through a largely unregulated business environment.
- Challenge then is to ensure that more people who suffer from social or geographical exclusion, deprivation, and dis-empowerment are mobilized through this movement.

Capacity Constraints:

- Cooperative members require literacy, orientation to business activities or enterprises, skill enhancement to undertake business enterprise, financial literacy to keep accounts, knowledge of information technology to use it in business, and physical infrastructure to run the enterprises.
- Capacity currently being enhanced through cooperative spirit has a limitation; state's role in this capacity development a must if we really want cooperative to be one strong pillar of the country's development.

Key Issues in Cooperative Movement in Nepal...



Donor indifference:

- Potential of co-ops not properly recognized and mainstreamed by key external development partners into their inclusive growth, poverty reduction, trade and development, and social protection strategies.
- Most donor agencies supporting Nepal's development are either ignorant or indifferent to co-op movement. Some would see this as a political agenda while others see this against market led development strategy.
- Development partners who campaign inclusive growth, equality, and empowerment mostly miss this grass root organization as working partner.

Ethical questions:

- Returns for co-op shareholders' capital not to be achieved at expense of social, environmental and moral considerations; unethical business practices a loss of trust & respect to co-ops from society.
- Our co-ops must have the following ethical values: (i) openness, (ii) honesty, (iii) social responsibility, and (iv) caring for others.



Concluding Observations

- Poverty, inequality, exclusion key challenges to sustain democracy, maintain peace, and social harmony; coops can deliver development, meet democratic deficit and also fill in economic democratic deficit.
- Geographical, spatial, regional, social, ethnic disparity in development; difficult for weak institutions of state & profit seeking private sector to address it; co-ops better positioned to address this.
- Inclusion a necessary condition for egalitarian development but it must be followed by equity; co-ops better suited for the job.
- National dev. strategy of govt. & dev. cooperation strategies of dev. partners to recognize role of co-ops in achieving inclusive growth & empowering people in political, social & economic fronts.
- To develop institutions towards a socialistic economy, cooperative institutions are so crucial.
- Coops as social businesses can definitely strengthen the republican democracy evolving in the political spectrum.

Thanks for your attention