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Socio-Economic Impact of Agricultural Cooperatives in Nepal: A Case Study of Ilam Municipality

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ABSTRACT

Agricultural cooperatives play a pivotal role in improving the livelihoods of smallholder farmers by addressing market failures and enhancing access to critical resources such as credit, inputs, and markets. This research paper explores the socio-economic impact of agricultural cooperatives in Ilam Municipality, Nepal. Using a mixed-methods approach, including surveys and focus group discussions, the study compares the socio-economic conditions of cooperative members and non-members while evaluating the effectiveness of services provided by these cooperatives. The findings indicate that cooperative membership significantly improves household income, particularly from agricultural activities, although overall family income effects remain modest. The study also reveals that cooperatives primarily focus on financial services rather than marketing or production support. Recommendations include strengthening institutional frameworks, diversifying service offerings, and fostering inclusive governance structures to maximize the potential of agricultural cooperatives in poverty alleviation and rural development.

Socio-Economic Impact of Agricultural Cooperatives in Nepal: A Case Study of Ilam Municipality

Nepal, a landlocked country in South Asia, has long grappled with challenges related to poverty, economic inequality, and underdevelopment. Despite contributing only 27% to the national GDP, agriculture remains the primary source of livelihood for over half of Nepal's population (World Bank, 2019). In response to these challenges, the Nepalese government has increasingly prioritized agricultural cooperatives as a key pillar of its strategy for poverty reduction and sustainable development. Agricultural cooperatives are producer-owned and controlled organizations designed to improve farmers' livelihoods by correcting market failures through collective action (Khatiwada, 2016).

However, despite their potential, there is limited empirical evidence on the effectiveness of these cooperatives in improving socio-economic outcomes for smallholder farmers. This study aims to fill this gap by examining the impact of agricultural cooperatives in Ilam Municipality, located in Province No. 1 of eastern Nepal. Specifically, the research seeks to answer three core questions:

1. What is the socio-economic status of farmers who are members of agricultural cooperatives?
2. How does participation in agricultural cooperatives differ from non-participation in terms of socio-economic outcomes?
3. How effective are the services delivered by agricultural cooperatives?

The significance of this study lies in its contribution to the understanding of how cooperatives can be leveraged to enhance income-generating activities, improve livelihoods, and promote better education for children in rural communities. The findings will provide valuable insights for policymakers, planners, local bodies, and researchers working towards inclusive and sustainable rural development.

Literature Review

Agricultural Cooperatives in Nepal

Agricultural cooperatives in Nepal have evolved as both economic development tools and mechanisms for social transformation. Khatiwada (2016), former Finance Minister of Nepal, emphasized the dual expectations and skepticism surrounding cooperatives. On one hand, they are seen as instruments for empowering citizens economically and politically in an inclusive and democratic society. On the other hand, concerns persist regarding their loose organizational structure, weak monitoring mechanisms, and political orientation.

In Nepal, land ownership is predominantly private, distinguishing it from the collective farming systems practiced in countries like the former Soviet Union. As a result, cooperative farming—where farmers voluntarily associate to pool resources and share benefits—has emerged as a viable alternative for small and marginalized farmers seeking to commercialize their operations (Kaini, 2016). Cooperative farming allows smallholders to overcome individual limitations by leveraging collective strength, thereby improving productivity and market access.

Acharya (2009) conducted a comprehensive analysis of 26 agricultural cooperative societies across various districts in Nepal. His study revealed that poor and marginal farmers often rely on cooperatives for credit to purchase agricultural inputs. However, the research also highlighted a paradox: while small and marginal farmers stand to benefit the most from cooperative services, they are frequently bypassed due to systemic inefficiencies and exclusionary practices.

Global Perspectives on Agricultural Cooperatives

Cooperatives originated in England during the late 18th and early 19th centuries and have since spread globally, with varying degrees of success. In developed countries, successful cooperatives have enabled producers to secure lower input prices and higher output prices through collective bargaining (O'Brien & Cook, 2016; Birchall, 2004). These

cooperatives operate across multiple levels of the food value chain, including input supply, production, processing, and marketing.

In developing countries, agricultural cooperatives serve as institutional devices that help smallholders overcome barriers to market access by breaking local monopolies held by traders and intermediaries (Bernard & Spielman, 2009; Poole & de France, 2010). By reducing transaction costs, cooperatives enable farmers to negotiate better prices, access timely information, and reduce the risks associated with individual market participation (Valentinov, 2007).

Transaction costs—the expenses incurred during economic exchanges—play a crucial role in determining the efficiency of agricultural markets. These costs include search and information costs, bargaining costs, and enforcement costs. Agricultural cooperatives mitigate these costs by pooling resources and sharing information among members, thereby increasing bargaining power and reducing dependency on external actors (North, 1992).

Despite their theoretical advantages, the performance of agricultural cooperatives in practice varies widely. Factors such as governance structures, member participation, leadership quality, and external support significantly influence their effectiveness. Moreover, many cooperatives face challenges related to sustainability, accountability, and scalability.

Research Methodology

Site Selection

Ilam Municipality, located in Province No. 1 of eastern Nepal, was selected as the study area. Situated within the Mahabharata hilly range, Ilam serves as the administrative headquarters of Ilam District. The municipality was chosen based on recommendations from the Agriculture Knowledge Center (AKC), Ilam District, due to its diverse agricultural landscape and the presence of active farmer cooperatives.

Research Design

This study adopts the sequential explanatory research design. It combines qualitative and quantitative methods to provide a comprehensive understanding of the socio-economic impact of agricultural cooperatives. The research emphasizes both the subjective experiences of cooperative members and the objective measurement of socio-economic indicators.

Sampling Procedure

The study was conducted across 12 wards of Ilam Municipality. From each ward, four cooperatives were selected—two farmer cooperatives and two non-farmer cooperatives—resulting in a total sample size of 48 cooperatives. Within each cooperative, a representative sample of members and non-members was surveyed to compare socio-economic outcomes.

Nature and Sources of Data

Both primary and secondary data were collected and analyzed. Primary data were obtained through structured questionnaires and focus group discussions with cooperative members, committee members. Secondary data were sourced from published materials such as journals, research articles, NGO/INGO reports, government publications, and official statistics from institutions like the District Agriculture Development Office (DADO), Central Bureau of Statistics (CBS), and National Agricultural Research Council (NARC).

Data Collection Tools and Techniques

Questionnaire

A structured questionnaire was administered to 286 respondents, including cooperative members, non-members, and committee members. The survey covered topics such as demographic characteristics, farm size, income sources, access to credit, satisfaction with cooperative services, and perceived changes in socio-economic status post-membership.

Focus Group Discussions

Five focus group discussions were conducted with different stakeholder groups, including women's groups, youth groups, and cooperative management committees. These

discussions explored themes such as decision-making processes, conflict resolution, transparency, and community perceptions of cooperatives.

Data Analysis and Interpretation

Quantitative data were processed and analyzed using statistical tools in Excel. Descriptive statistics, correlation analysis, and comparative analysis were employed to examine differences between cooperative members and non-members. Qualitative data from focus group discussions were thematically analyzed to identify recurring patterns, challenges, and opportunities.

Results and Findings

Socio-Economic Status of Cooperative Members

The survey results revealed significant differences in the socio-economic profiles of cooperative members and non-members. Cooperative members generally had larger landholdings, higher literacy rates, and greater access to formal credit compared to non-members. Additionally, cooperative members reported higher levels of satisfaction with agricultural extension services, market linkages, and training programs.

Income generation was a key outcome variable analyzed in this study. The findings indicated that cooperative membership led to a notable increase in net crop income, primarily due to improved access to inputs, better pricing, and reduced transaction costs. However, when considering total family income—including off-farm sources—the overall effect of cooperative membership was more modest. This suggests that while cooperatives positively influence agricultural income, their impact on broader household welfare may be limited without complementary interventions.

Comparative Analysis of Cooperative and Non-Cooperative Farmers

A comparative analysis between cooperative members and non-members revealed several disparities. Cooperative members were more likely to adopt modern farming

techniques, participate in training programs, and engage in collective marketing initiatives. They also reported stronger social networks and higher levels of trust within the community.

Non-cooperative farmers, on the other hand, faced greater challenges in accessing credit, negotiating fair prices for their produce, and managing risks associated with price volatility and climate change. Many expressed dissatisfactions with existing market structures and a desire to join cooperatives but cited entry barriers such as high membership fees, lack of awareness, and distrust in cooperative governance.

Effectiveness of Services Delivered by Cooperatives

The evaluation of cooperative services focused on three main areas: financial services, production support, and marketing assistance. Financial services, particularly savings and credit provision, were the most commonly offered and highly rated by members. Over 80% of respondents indicated that access to affordable credit was a major incentive for joining cooperatives.

However, production support services—such as technical advice, seed distribution, and pest control—were less frequently utilized and received mixed reviews. Some members praised the availability of subsidized inputs, while others noted delays in delivery and inconsistent quality. Marketing assistance was the least developed service, with few cooperatives engaging in collective marketing or value addition activities.

Focus group discussions highlighted the need for capacity building in cooperative management, improved transparency in financial reporting, and enhanced member participation in decision-making processes. Women members, in particular, emphasized the importance of gender-inclusive policies and targeted support for female-led households.

Discussion

The findings of this study align with previous research highlighting the potential of agricultural cooperatives to improve livelihoods in rural Nepal. However, they also underscore the limitations and challenges that hinder the full realization of this potential.

One of the most significant contributions of cooperatives is their role in reducing transaction costs and enhancing market access for smallholder farmers. By providing a platform for collective bargaining and shared resource utilization, cooperatives enable members to negotiate better prices, reduce dependency on intermediaries, and increase overall profitability. However, the study found that these benefits are unevenly distributed, with wealthier and more educated farmers reaping the greatest rewards.

The dominance of financial services over production and marketing support reflects a broader trend observed in cooperative development in Nepal. While credit provision is essential for enabling investment in agriculture, an overreliance on financial services can limit the scope of cooperatives as holistic development institutions. To address this imbalance, cooperatives must diversify their service offerings and invest in capacity-building initiatives that strengthen their role in the entire agricultural value chain.

Governance and institutional capacity emerged as critical factors influencing the effectiveness of cooperatives. Transparent decision-making processes, active member participation, and professional management were identified as key enablers of cooperative success. Conversely, weak governance structures, political interference, and lack of accountability were cited as major obstacles to sustainable development.

The study also highlights the importance of inclusivity in cooperative membership. Although cooperatives are intended to empower marginalized groups, the findings suggest that certain segments of the population—particularly poorer and less literate farmers—are often excluded. Addressing these disparities requires targeted outreach efforts, simplified

membership procedures, and tailored support services that cater to the needs of vulnerable groups.

Conclusion

Agricultural cooperatives in Ilam Municipality demonstrate both promise and limitations in their ability to drive socio-economic transformation. While they contribute positively to agricultural income and financial inclusion, their broader impact on household welfare and rural development remains constrained by structural weaknesses and service gaps.

The study confirms that cooperative membership enhances access to credit, reduces transaction costs, and improves market positioning for smallholder farmers. However, the lack of diversified services, weak governance, and exclusionary tendencies pose significant challenges to their long-term viability and effectiveness.

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