

# A Case Study: Contribution of Cooperative to Sustain Water Services Schemes

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## Background

Rural Village Water Resources Management Project (RVWRMP) is a multi-dimensional water resources development project in Nepal funded jointly by the governments of Finland and Nepal and working in Mid/Far-West of Nepal since October 2006. The project has taken upon a holistic approach to improve the lives of disadvantaged people in remote villages. These include the establishment of drinking water supply, irrigation, micro-hydro power, and the promotion of sanitation and hygiene practices, home-gardens, micro-finance, and cooperative development. Since Phase-I, RVWRMP has been continuously providing technical and other support to 15 cooperatives across various VDCs not only to enhance financial access and services to members of cooperatives but also to improve livelihood opportunities, value formation and general welfare. The cooperatives are also encouraged to serve the community by supporting water users committees (UCs) in operating and maintaining their drinking water systems and other water-related schemes by encouraging them to deposit and save money and be affiliated with the cooperative.

Sustainability of any water schemes depends heavily on proper management of scheme as per the designed period that requires hiring village maintenance worker (VMW) and the collection of water tariff to raise funds for the operation & maintenance of the water schemes. Communities have been given new financial responsibilities to sustain Operation and Maintenance and shoulder management cost. Fees paid by the consumers create added values for better service and the **upkeep of adequate supplies and maintenance materials and tools**.

All water services scheme have established O&M fund & formulated operational guideline of scheme. It has been observed that most of the UCs have opened bank account at District headquarter in the commercial banks. As the bank interest is too low in the end it results into actual devaluation of fund. Furthermore, the amount deposited by villagers is mobilized by the bank for lending to the entrepreneurs living at district or nearby. Currently, existing legal framework does not support the mobilization of fund among users; hence, no protection exists for which to recover funds in case of loss or unexpected financial mishap. RVWRMP has been initiating the establishment/promotion of Cooperatives as a legal entity with juridical personality to operate and sustain the O&M funds, and provide livelihood services for the community people in the community.

Entrusting the management of O&M fund account through cooperatives provides various benefits to UCs. Firstly, the high interest rate compared to commercial bank is paid in every six months by cooperatives and is added in the principal amount of the UC contribution; thus the amount is ever accumulating or compounding as the years go on. Secondly, the cooperatives have been mandated to segregate the annual net profit after 25% deduction in reserve fund and the remaining 75% of fund is allocated in different headings such as Share dividend, patronage, staff bonus, institutional development, training & information and the like. Based on the cooperative international principal-7 "**concern for community**" the cooperative is encouraged to allocate the fund from net profit to assist the water supply system. Cooperatives are

mandated to allocate and regulate funds for O&M as per the decision made by their respective Annual General Assembly. Thirdly, mobilizing their own resources among the members will increase the livelihood opportunities and create less chance to misuse of the fund; eventually resulting in the improvement of living conditions.

***The allocation of fund in WS Scheme O&M is 5-10% from annual net profit in all cooperatives.***

## **Affiliation of UCs in cooperative: RV & Non RV supported**

As of the period from 2013 to July 2015, 122 UCs of water supply systems benefiting 10226 households, have been affiliated and maintaining savings accounts in 14 cooperatives. Of these, 95% are RV-supported schemes. ***The total amount is NRs 3,339,847.76*** (Table:1). The provision of interest to User's savings differs from cooperative to cooperative. The interest ranges from 8 to 10%. The benefits that the UCs derive from putting their O&M fund in cooperatives are attractive. First, a UC can generate revenue in the form of accumulated interest on its account. For example, as of July 16, 2015, total interest earnings of NRs 198,140.76 have been accumulated in the accounts of 33 UCs in two cooperatives (Lalikanda and Sirsha) alone, which are in operation since 2010. (Source: closing reports of cooperatives).

Secondly, cooperatives segregate certain percentage of their annual net profit on the O&M fund of different schemes.

In addition to the direct benefits, the UCs save their time and money from reaching the

commercial banks in each transaction, which are mostly situated in district headquarters. Moreover, commercial banks usually charge operating cost in UCs' accounts. The UCs save this expenses by operating their accounts in cooperatives.

If the UCs, are able to generate revenue through regular water tariff collection and save the remaining in the O&M fund, then the fund becomes progressive in nature. The books of accounts of 47 UCs in four piloted cooperatives (Kuwakot, Sirsha, Lalikanda and Bishalpur) were checked and it was found that 9% UCs collect the water tariff themselves and deposit the fund to cooperatives on a monthly basis. It was said that remaining UCs collect their water tariff to pay the services of VMWs and/or lend money among users but this has not been verified. It is assumed that most of the UCs collect water tariff either in cash or in kind to

***Bahadure DWs operated its O&M fund account in 2066/9/15 through the newly established Sirsha cooperative. The deposited fund was NPR 115000/-The cooperative spreads the interest of 8% annually. As of July 16, 2015, total accumulated interest was NPR 70410.12. The scheme is authorized to draw the fund worth NPR 185410.12 from the cooperative***



***Receiving the fund of Bahadure DWS by Manger of Sirsha Cooperative***

pay the VMWs. The cooperative books of accounts do not suggest the regularity of fund deposit by all UCs. Table-1 shows the affiliation of UCs and their total accumulated resources in cooperatives. The total accumulated fund of 122 water services schemes in 14 cooperatives is **NPR 3,339,847.76**

**Table-1: Financial Status of affiliated UCs in Cooperatives**

S.N	Cooperative VDC	District	# of affiliated UCs	Balance of UCs savings (principal+interest) in NPR	Remarks
1	Chhatara	Bajura	4	32,872.00	
2	Bishalpur	Baitadi	5	693,841.00	1-Non RV
3	Bhatakatiya	Achham	13	130,547.00	
4	Belapur	Dadeldhura	4	23,314.00	
5	Kuwakot	Baitadi	9	130,134.00	2 Non-RV
6	Kusapani	Dailekh	12	431,544.00	
7	Sipti	Darchula	11	192,238.00	
8	Pauwagadhi	Bajhang	2	4,264.00	
9	Mastmandu	Dadeldhura	3	30,401.00	
10	Lalikanda	Dailekh	14	299,070.00	
11	Mahakali	Baitadi	8	331,815.00	
12	Masta	Bajhang	5	59,913.00	
13	Sirsha	Dadeldhura	19	422,138.76	3 Non-RV
14	Simchaur	Doti	13	557,756.00	
<b>Total</b>			<b>122</b>	<b>3,339,847.76</b>	
<i>As of Fiscal Year 2071/72 (July 16, 2015)</i>					
<i>Note: Water Services Schemes only included.</i>					

## Withdrawal of Amount of Funds

As per the record of cooperative, very few UCs have withdrawn the amount for the purpose of repairing their water system and organizing Annual General Assembly. The UCs are required to present minutes to the cooperative for any withdrawal of amount; which is not essential in case of commercial banks, hence there is more transparency when funds are deposited in cooperatives. As of the period, 8 UCs in 4 cooperatives (Sirsha, Bhatakatiya, Bishalpur Kuwakot) have withdrawn NPR 21,06,792/- from respective cooperative to procure required materials for construction of water service schemes or smooth running of a MHP (Bhatakatiya). The remaining liability of these 4 cooperatives to pay to 46 UCs amounted **NPR 13,76,660.76**. (Table 1)

## Provision of O&M fund from annual profit

All cooperates have provision of segregating certain percentage of its net profit for O&M fund of their water supply system. Although the amount of money at present is small, the system developed will benefit all the UCs in long run. The segregation of annual net profit, after 25% allocation in reserve fund, differs from cooperative to cooperative. It ranges from 5 to 10%. As of the study period, the total accumulated O&M basket fund from annual net profit is **NPR 239,756.74** to assist/subsidize UCs as per rules and regulations of individual cooperatives. The cooperative- wise segregated fund for UCs is given in Table-2.

**Table-2: Segregated Amount of Annual Net Profit in O&M fund**

S.N	Cooperative VDC	District	Provision & allocation of yearly net income to O&M fund	
			Allocation of net profit (%), after deduction 25% from annual net profit	Accumulated fund in NPR
1	Chhatara	Bajura	10%	Not regulated
2	Bishalpur	Baitadi	Not provisioned yet	
3	Bhatakatiya	Achham	10%	30,262.00
4	Belapur	Dadeldhura	10%	2,949.00
5	Kuwakot	Baitadi	10%	13,680.00
6	Kusapani	Dailekh	10%	28,324.05
7	Sipti	Darchula	10%	7,943.00
8	Pauwagadhi	Bajhang	10%	26,628.00
9	Mastmandu	Dadeldhura	5%	2,712.00
10	Lalikanda	Dailekh	10%	49,106.00
11	Mahakali	Baitadi	10%	11,647.00
12	Masta	Bajhang	10%	9,127.00
13	Sirsha	Dadeldhura	5%	49,325.69
14	Simchaur	Doti	10%	8,053.00
<b>Total</b>				<b>239,756.74</b>

**Note: As of Fiscal Year 2071/72 (July 16, 2015)**

The total segregated O&M fund was NRs 239,756.74 of which Sirsha & Lalikanda contributed 21% and 20%, respectively whereas Bhatakatiya (replicated in second phase) shares 13%.

## Major Issues

Various factors contribute to smooth operation and maintenance of Water service Schemes such as DWSs, Irrigation, MHP and Hydraulic Rampump. However, there are major issues to address that affect the sustainability of the water schemes such as:

- The collection of water tariff is not adequate for re-investment after the design period. The UCs are unaware about the tariff rate computation and are not interested for reinvestment from their own savings due to dependency for external resources.
- Most of the UCs collect water tariff either in cash or in kind that is paid solely to VMW salary. UCs do not collect as per water tariff rate to manage the operation cost and save the surplus to build capital for other community based infrastructure development.
- Cooperatives are not able to actively conduct annual review workshops of UCs or pay regular visit to sensitize users on the collection of tariff and savings.
- Some inactive UCs needs regular monitoring to re-activate and sustain the services but cooperatives have not been able to do so.

## Conclusion & Recommendations

It is evident that all cooperatives supported by RV are ever-growing and proliferating their business; a few of them have attained maturity, while others are on their way to maturity. Some cooperatives have also triumphed faster than others. As cooperatives have been gaining merit for their successful operation, strong mutual trust has developed among members, staff, officers (Board of Directors, BOD), and supporting agencies, a virtue that should be inherent in every cooperative to maintain its cohesiveness and active participation of members. This trust is, the one utmost factor that has carried the cooperatives forward on their journey towards stable, mature microfinance institutions.

Though, both UCs & Cooperatives are legally recognized institutions and have separate mandate that are not overlapping each other, the users are also the shareholders of the cooperatives and have the ownership of both institution. The shareholders if they are users of a water supply system; have the authority to receive all the services provisioned by cooperatives and UCs for their socio-economic development. Thus, UCs deposits are an innovation that should be introduced or replicated in all Cooperatives, and RVWRMP should be committed to carry on the success in the next generation of VDCs.

The entire group of cooperatives seems to be promising on providing the financial services to the community members. As such the following recommendations are made to maintain good service level of all developed water schemes as per their designed life period:-

- Cooperatives need to focus more on non-financial services to sustain the water schemes specially drinking water and micro-hydro schemes
- Regular monitoring and periodic review workshops of all UCs in VDCs shall be organized by the Cooperatives.
- Cooperatives shall play active role for outsourcing and establishing linkage with other development partners to sustain the water supply system.
- UCs should be made aware of the benefits of cooperatives' O&M basket fund segregated from annual net profit and the eligibility of UCs to access those resources.

***(The case study is based on data & records of UCs in Cooperatives supported by RVWRMP)***