

Political Update - 22

Cooperatives Crisis in Nepal

Analyzing Fraud, Political Nexus and Protests

September 2022

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1. Introduction

The Government of Nepal (GoN) has recognized cooperatives as the third pillar of the economy and introduced legal frameworks to facilitate the establishment and operation of these cooperatives. However, despite the regulatory frameworks, there have been ongoing challenges that have impacted their functioning. The recent protests by the victims of these fraudulent cooperatives highlight the need for a comprehensive understanding of the issues surrounding cooperatives, its operational practices, impact of political interference in their functioning, and the implications of the recent seven-point agreement between the cooperative's victims and the government.

In this context, this update aims to explore the cooperatives crisis in Nepal, focusing on the recent protests organized by the cooperative victims and the implications of the agreement signed between the GoN and cooperative victims after months of protests. This brief explores the reasons behind the failure of some cooperatives to meet their financial obligations and will explore the potential consequences of the agreement on the cooperative landscape.

For in-depth understanding of the issue, literature review and media monitoring on the cooperatives is carried out. Additionally, Key Informant Interviews (KIIs) were conducted with various stakeholders including representatives from Department of Cooperatives, Cooperative Department of political parties, National Cooperative Federation of Nepal, National Cooperative Development Board, Federation of Cooperative Victims, and other relevant experts in the field. This update covers developments until 15th September 2023.

2. Examining Cooperatives Fraud and Protests

On June 18, 2023, the *Sahakari Bachat Karta Pidit Mahasangh* (Federation of Cooperatives Victims) held a press conference in Kathmandu and announced peaceful protests. From June 20, 2023, cooperative victims from all over the country began to protest at Maitighar Mandala. Their demands included the immediate return of their savings and interest from the cooperatives that had cheated them, the regulation and monitoring of cooperatives by the Nepal Rastra Bank, and strict action against the fraudulent practices. The victims have collectively said that they were forced to come to the streets to protest as the concerned authorities had not taken required actions against the problematic cooperatives. The cooperative victims continued their protest at Maitighar Mandala for more than two months.

Harish Chandra Shrestha, the coordinator of the Federation of Cooperatives Victims, explained that the federation was constituted to bring together all the victims and amplify their collective voice. Mr. Shrestha said, "I still have not received my deposits from Oriental Cooperative Limited, even after the court found Sudheer Basnet, the Chief of the cooperative, guilty. After struggling for years, I felt that there was a tendency to entangle the victims in legalities and that it would be better if we moved forward collectively instead of individually". According to Shrestha, victims of more than 250 cooperatives from all over the country have joined the federation. Media coverage and social media sites including Facebook and YouTube have been instrumental in disseminating the plight of the victims. Similarly, social media has also been a medium for the victims to connect with each other- many victims joined the Matighar protest after connecting through social media.

3. Political Nexus

Several victims have mentioned political nexus and interference as major factors contributing to the delay in justice delivery. They pointed out that the involvement of cooperatives operators with political parties, or close links with political leaders or some political leaders themselves having a stake in the cooperatives. One victim said that the government could fix this problem quickly if it wanted to, but political nexus with the cooperative operators had been interfering with the legal process. He further pointed out the way cooperative victims were treated by the police as another example of the political establishment being against the victims.

Another victim revealed that their trust in Oshin Saving and Credit Cooperative was influenced by the political influence of the founder of the cooperative. Similarly, other politicians including Ichchha Raj Tamang¹ (Founder of Civil Savings and Credit Cooperative) and Dev Kumar Nepali² (Chairperson of Image Savings and Credit Cooperative) who are facing allegations of operating cooperatives and engaging in fraudulent activities through them. Concerns about political interference have also been raised, with victims pointing instances in the past, particularly during the drafting of the Cooperatives Act.

A comprehensive reform had been instituted when Cooperatives Act 2017 was introduced. This legislation consolidated all prevailing laws regarding cooperatives in Nepal, taking into consideration the implementation

of federalism in the country. This act delineated responsibilities at the federal, provincial, and local levels.

A major reason for the comprehensive overhaul of the legal provisions regarding the cooperatives sector was due to consumer fraud cases of large cooperatives including the Oriental Cooperative. To understand the financial and legal ramifications of such cooperatives failing to return depositors their money, the government formed a probe commission under the chairmanship of former Special Court judge Gauri Bahadur Karki. The commission investigated multitudes of cooperatives that were under risk and provided an in-depth report and a draft of the cooperative bill to the government. However, when the bill was proposed in the parliament it underwent around 600 amendments and removed many of the stringent measures proposed by the commission. Karki has pointed to the conflict of interest of parliamentarians as a reason for this- members of parliament who were in the board of cooperatives themselves or who were close to cooperatives operation committee were the ones pushing for loosening of the stringent laws.³

Similarly, many political leaders across the political spectrum have also shown their support to the issues raised by the protestors. Bishwo Prakash Sharma, Member of the Parliament from Nepali Congress, raised the issue in a meeting of the House of Representatives and stressed that the government should work towards addressing the demands of the protestors.⁴ Gyanendra Shahi, Member of the Parliament from the Rastriya Prajatantra Party, also lent support to the issue and

¹ Myrepublica. 2022 (October 15). Special Court issues order to send former Civil Cooperative Chairman Tamang to Jail to carry forward investigation. Available at: <https://myrepublica.nagariknetwork.com/news/special-court-issues-order-to-send-former-civil-cooperative-chairman-tamang-to-jail-to-carry-forward-investigation/>; accessed September 15, 2023.

² Onlinekhabar. 2023 (May 21). Dhorpatan Mayor on the run after embezzlement accusation. Available at: <https://english.onlinekhabar.com/dhorpatan-mayor-flee-embezzle.html>; accessed September 14, 2023.

³ Shrestha, Prithvi Man. 2023 (July 18). 'The Central Bank Should Regulate Cooperatives'. Available at: <https://kathmandupost.com/interviews/2023/06/18/the-central-bank-should-regulate-cooperatives>; accessed September 15, 2023.

⁴ Radiokantipur. 2023 (July 16). सहकारीपिडितमाथि राज्यले दमन गरेको भन्दै सांसदहरूको आपत्ति. <https://radiokantipur.com/main-news/2023/07/16/1689516132>; accessed September 15, 2023.

said that the government should work on finding the solution of the issues raised by the protestors. Political leaders including Khagaraj Adhikari of CPN (UML) and Lilamani Pokharel of CPN (Maoist Centre) have pointed out lax laws and the lack of monitoring as reasons for the irregularities in the cooperatives sector.⁵ Other political party leaders including the Deputy Prime Minister and Minister of Home Affairs Narayan Kaji Shrestha⁶, and Member of the Parliament and Chairman of Rashtriya Swatantra Party Rabi Lamichhane went to the Maitighar Mandala to meet with the protestors and listen to their grievances.

4. Seven-Points Agreement between the Government and Cooperative Victims

Two months after the protests started at Maitighar, the government and the victims reached a seven-point agreement on August 18, 2023. An agreement was signed between the representatives of the government and the cooperative's victims. The agreement included the points such as Ministry, the Department of Cooperatives and the Problematic Cooperatives Management Committee immediately carrying out necessary processes to reform the existing laws related to the operation of cooperatives and any other problems plaguing the cooperative sectors. Furthermore, the Ministry would immediately start the process of setting up a Savings and Credit Protection Fund to secure the savings of the cooperative victims. The Ministry would also move ahead with the process of establishing the Credit Information Center and the Debt Recovery Tribunal to make the loan recovery process from the cooperatives faster and more effective, to have three

⁵ Karobardaily. 2023 (August 17). सहकारी संस्थाहरूको अनुगमन नगरेको भन्दै सरकारको आलोचना। Available at: <https://www.karobardaily.com/news/230346>; accessed September 15, 2023.

⁶ Ratopati. 2023 (June 7). Home Minister Meets Protesting Group. Available at: <https://english.ratopati.com/story/28081>; accessed September 15, 2023.

members from the affected party in the Sahakari Chetra Sudhar Sujhav Karyadal (Cooperative Sector Reform Task Force), and to end the protests at Maitighar Mandala with immediate effect.

After the agreement, government officials have said that the government has started working on the terms of the agreement. The *Sahakari Chetra Sudhar Sujhav Karyadal* has already prepared both the initial and final report and submitted it to the Prime Minister.⁷ The initial report has made various suggestions including the Government of Nepal making necessary revision of the Cooperative Rules 2075 to operate the fund for the establishment of cooperative savings and credit protection fund as per the provisions of Section 101 of the Cooperative Act 2017, and the appointment of an auditor to conduct the annual audit of the co-operative society with a turnover of more than one billion rupees, necessary arrangements to be made to take permission from the Federal Cooperative Department, necessary legal arrangements to be made so that the co-operative society is registered for savings and loan transactions in the metropolitan city sub-metropolis and municipality for one year. The process of establishing savings protection fund has been initiated to provide security to the savings return of the customers of the cooperatives. Deputy Registrar and Information Officer of the Department of Cooperatives, Tolraj Upadhyay, said that the necessary policy has been prepared and sent to the Ministry of Finance for this purpose.

5. Concerns and Expectations of Cooperative Victims

The biggest expectations for the cooperative victims from the seven-point agreement is that they will be able

⁷ Government of Nepal. Taskforce to Recommend Reforms in Cooperatives, Report. Available at: http://deoc.gov.np/noticefile/कार्यदलको_प्रतिवेदन_हस्ताक्षर_सहित_1698752468.pdf

to recover their money- principal amount along with the accrued interest. Currently, the recovery fund for the victims will be created with 60 percent of the funding from the side of the cooperatives and the remaining 40 percent from the side of the government. The inclusion of representatives from the side of cooperative victims in the Task Force has given hope to some of the victims that their perspectives will be heard by the concerned authorities. The Task Force has suggested measures including paying back the depositors by transforming the fixed assets and other investments of the cooperative operators, clearance of financial transactions within parallel organizations within a year, and that cooperatives should avoid conflict of interest and remove Board of Directors, audit committee and management from the same household.⁸

In terms of review of the existing laws, the General Manager of the National Cooperative Federation of Nepal Ltd., Chitra Kumari Thamsuhang Subba, said that the federation hoped for several key reforms. These include the establishment of a Credit Information System, introduction of reference interest rates for cooperatives, and the provision of debt recovery mechanisms for cooperatives facing challenges in recovering the loans they have provided. Furthermore, she also mentioned that the problems in the cooperative sector would be resolved if strict action was taken against the operators of the cooperatives who failed to return the money of the depositors. According to her, there is lack of monitoring at present, and if strict action is taken against one or two cooperatives, others will start complying to rules themselves.

Some individuals involved with the protests still feel that the government was more concerned with

ending the protest rather than delivering justice to the victims. These individuals shared their experiences of dealing with the government officials who often blamed the victims themselves for being involved with cooperatives. In addition, they also feel that the government has not yet taken concrete steps in terms of providing relief to the victims and instead they feel that some of the measures suggested by the government is inherently divisive and might cause rifts in the united front presented by the victims. They also say that there is no formal information dissemination channel regarding the case from the government's side. As a result, the victims are not aware about the updates regarding the progress of the actions being taken by the government after the protests have ended.

6. The Way Forward

While the protestors have cleared the streets for now, they say that if the government does not address their concerns, they will restart their protest. They feel that the government by now should have some concrete plans for dealing with the perpetrators and return the investors deposits, however their patience has been frayed by previous lack of urgency shown by the government. This situation of the cooperatives being unable to pay back their depositors has been happening for a long time. However, the failure of the government to adequately address the issues in the past has caused the situation to exacerbate and has worsened the situation now. While the tarnished image and shaken confidence in the cooperative sector can still be saved, the government has to take stringent measures immediately in order to improve the situation. In order to achieve this, the government should work to address the demands raised by the cooperative's victims and introduce amendments in the existing laws regarding cooperatives.



⁸ Myrepublica. 2023 (September 15). Taskforce Submits Report on Reforms of Cooperatives. Available at: <https://myrepublica.nagariknetwork.com/news/taskforce-submits-report-on-reforms-of-cooperatives/>; accessed September 16, 2023.

The Asia Foundation has provided financial and technical assistance for this update. Analysis contained in this update is based on the study carried out by Democracy Resource Center Nepal (DRCN), and they may not necessarily reflect the views of the partner organization.