

# ASIAN CREDIT UNION FORUM

## 2022

**Greener, Inclusive, Resilient Path to COVID-19 Recovery**

August 29 - September 1, 2022 - Thailand

**Nepal Experience: Regulatory Governance  
for Development and Growth**

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## Agendas:

- 20 Quick overview of Coop movement of Nepal
- 20 Regulatory Governance
- 20 Regulatory environment of cooperative in Nepal
- 20 Regulatory Governance in Nepal : A spotlight
- 20 Regulatory Governance for Development and Growth: Nepal Experience





# Quick overview of Nepal's Cooperative Sector

- Nepal has a long tradition of informal community-based groups engaged in savings and credit, grain savings and labour exchanges. Since the formalization in the mid 1950s, cooperatives have grown significantly, are found in diverse sectors and play an important part in the development of the Nepalese economy by integrating people from different ethnic, social and marginalized backgrounds.

- In the current times, the cooperative movement is focused on poverty alleviation while promoting women's participation in cooperatives in membership and leadership roles.

*Mapping: Key Figures  
National Report: Nepal  
#coops4dev*



# Quick overview of Nepal's Cooperative Sector...



<b>Total Cooperatives</b>	<b>29886</b>
Total Memberships	<b>7.3 million</b> Women - 4.1 million Men - 3.2 million
Total Share Capital	94 billion Rupees (73 million USD)
Savings	4.8 trillion Rupees (3.3 billion USD)
Loan	4.2 trillion Rupees (3.1 billion USD)
Direct employment	88 thousand+

*Department of Cooperative, 2020*



## Regulatory Environment of Cooperative in Nepal...

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**Federal  
Government**

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**Provincial  
Government**

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**Local Level  
Government**



# Regulatory Environment of Cooperative in Nepal



Federal  
Government

Provincial  
Government

Local Level  
Government

Cooperative Act

Cooperative Regulation

Cooperative Operational Standard

Directives

Circulars

The Cooperative Act is the only law that regulates cooperative in Nepal. There are no special laws for different types of cooperatives in Nepal.





## Regulatory Environment of Cooperative in Nepal...

Federal Government  
- 1

Provincial Government - 7

Local Level Government - 753

Cooperative Act - 761

Cooperative Regulation - 761

Cooperative Operational Standard - 1+7

Directives - by all level

Circulars - by all level

### Federal Government's other regulatory provisions:

1. Member Centric Framework
2. Procedures for the Unification and Division of Co-operative Societies and Unions 2013
3. AML directives
4. COPOMIS System
5. AGM operation Procedure
6. Monitoring guidelines for Savings and Credit Cooperative
7. Audit guidelines
8. 35 points directives (recently issued)



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# Regulatory Governance in Nepal: A Spotlight

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## Constitution of Nepal 2015

*has recognized cooperatives as an important base of national economy.*

*Article 50(3) of the Constitution stipulates that "the economic objective of the state shall be to achieve sustainable economic development, while achieving rapid economic growth, by way of maximum mobilization of the available means and resources through participation and development of public, private and cooperatives, and to develop a socialism-oriented independent and prosperous economy while making the national economy independent, self-reliant and progressive in order to build an exploitation free society by abolishing economic inequality through equitable distribution of the gains".*





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## Regulatory Governance in Nepal: A Spotlight...

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The Nepal's cooperative legislation can be considered as “cooperative friendly”. The key reason for the same is that the Act was made in consultation with the cooperative movement. Further, Chapter 13 of the Cooperative Act has provisioned certain concessions and benefits provided to the cooperatives.

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## Cooperative Act and Rule major provision

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- Emphasis on member participation
- Emphasis on merger
- Establishment of specialized co-operatives for business
- Provision of Savings and Credit Protection
- Establishment of Stabilization Fund

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## Cooperative Act and Rule major provision

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- Provision of joint monitoring
- Managing problematic cooperatives
- Various ways to repay loans (CICL/loan recovery commission etc)
- Reference interest rate to control high rate on loan

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## Cooperative Act and Rule major provision

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- Effective provisions of penalties and fines
- Transactions on the basis of dividend distribution (Patronage refund)
- An office-bearer a cooperative
- Not allowed to be a dual member

# Regulatory Governance in Nepal: A Spotlight...

No cooperative may be established or operated without obtaining permission from the authority. Under the Federal level, Cooperative Registrar office is established to register and monitor. Provincial or Local authority has been delegated separate office under its prerogative to register the cooperative. Every cooperative should register as per the cooperative Act.

Minimum 15 to 100 Nepali citizens required to establish a cooperative as mentioned above. The Act is silent in case of number of the members fall below the required number.

## Regulatory Governance in Nepal: A Spotlight...



FY 2022/023 government budget and Monetary Policy 2022 have provisioned to establish a Second Tier Institution (STI) to regulate cooperative.

# Regulatory Governance in Nepal: A Spotlight...



**Major provisions of recently issued 35 points unified directives**

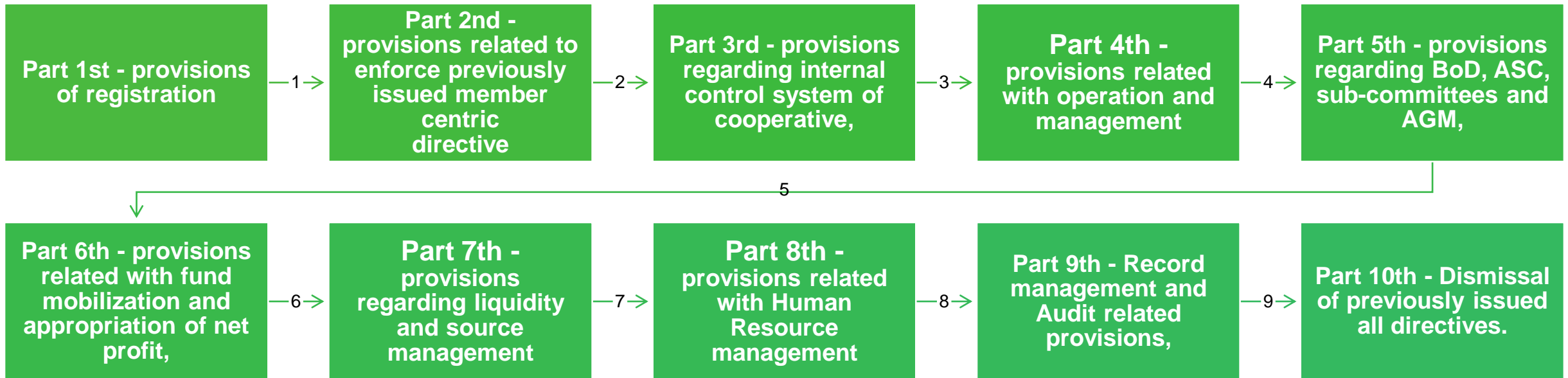


**Main objective of unified directive is to uphold the good governance in the cooperatives,**

**Registrar (Chief of department of Cooperative) issued this directive to enforce to implement the major provisions of the cooperative act 2017 and regulation 2018.**



# Major provisions of recently issued 35 points unified directives...





A yellow sticky note with a red pushpin at the top center, containing the text 'Part 1st - provisions of registration' in black font.

Part 1st -  
provisions of  
registration

## Enforcement by registration office,

- 🕒 For Metropolitan/Sub - metropolitan city :
  - 🕒 5000 population = 1 Savings and Credit Cooperative
- 🕒 For Municipality
  - 🕒 2000 population = 1 Savings and Credit Cooperative
- 🕒 For rural municipality
  - 🕒 500 population = 1 Savings and Credit Cooperative

Part 2nd -  
provisions related  
to enforce  
previously issued  
member centric  
directive

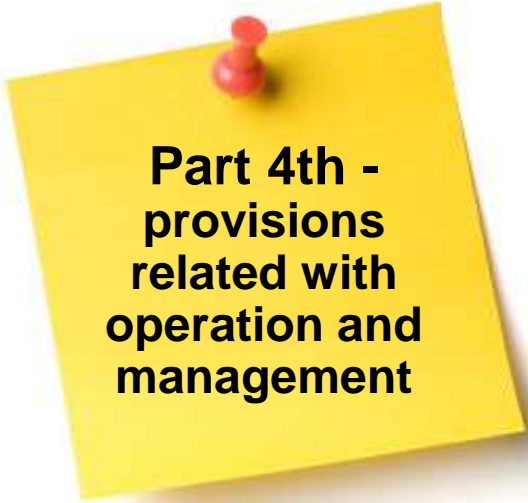
## Major Enforcement,

- 20 Open and voluntary membership,
- 20 Office Lay out for all ages of members,
- 20 Accessible infrastructure,
- 20 Provision of financial literacy for members
- 20 Calculation of member centric position

**Part 3rd -  
provisions  
regarding internal  
control system of  
cooperative,**

## **Major Enforcement,**

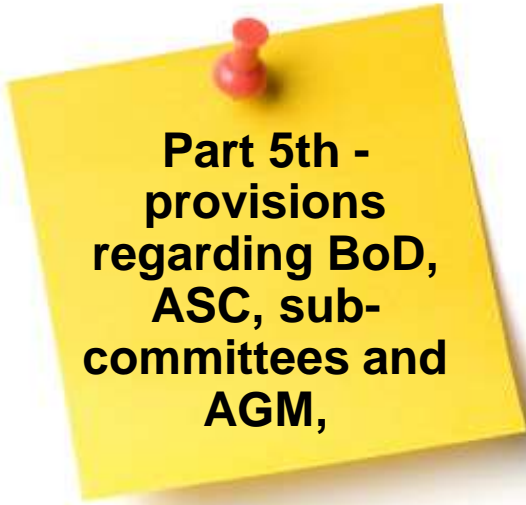
- 20 Functions, duties and rights of the Board of directors, Account Supervisory Committee and other sub-committees,
- 20 Specifically provisioned duties for Account Supervisory Committee.



**Part 4th -  
provisions  
related with  
operation and  
management**

## **Major Enforcement,**


- 20 Management of Cash vault, insurance of such vaults,
- 20 Prohibition of unethical use of social media like Facebook, Youtube, TikTok etc to unnecessarily attract members and other community people,
- 20 Equal policy of pricing financial products to members and BoD,
- 20 Permission to open new branches,
- 20 Permission to design technology- based products such as QR Code banking, ATM card, Mobile banking and so on,



Part 5th -  
provisions  
regarding BoD,  
ASC, sub-  
committees and  
AGM,

## Major Enforcement,

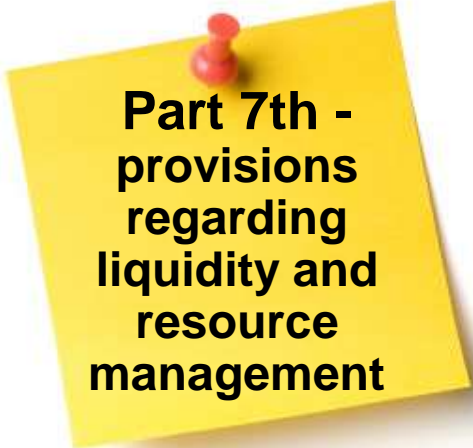
- 20 Provisions of analyzing credit files by credit sub committee before granting loans,
- 20 Cooperative to procure fixed assets analyzing their institutional capital (not more than 50% of IC to invest in fixed assets),
- 20 Approval from AGM is mandatory to write-off loans, to determine BoD's facilities, to determine CEO's remuneration, dividend declaration, Merge/demerge and so on,
- 20 Provision of mandatorily 30 days' prior notice for holding AGM,
- 20 Prohibition of composing BoD and ASC comprising members from single household.



**Part 6th -  
provisions  
related with fund  
mobilization and  
appropriation of  
net profit,**

## Major Enforcement,

- 20 Provision of authorized capital, coops are not allowed to collect more than that authorized capital,
- 20 Single loanee threshold is 10% of total capital fund (1st and 2nd tier),
- 20 Totally prohibited third party collateral while granting loans (excluding federation and Cooperative Bank)
- 20 NPL level must be kept below 5% and LLP should be as per the classification of loan i.e. 1%, 35% and 100% for Current loan, Sub-Standard Loan and Bad Loan,
- 20 Cooperative are not allowed to distribute dividend until and unless they have fully provisioned for overdue loans,
- 20 Cooperatives are not allowed to procure fixed assets more than 5% of total assets,
- 20 While granting loans, cooperatives must analyze paying capacity of the members,
- 20 Usage of appropriated funds must be as per its objectives,



**Part 7th -  
provisions  
regarding  
liquidity and  
resource  
management**

## Major Enforcement,

- 🔔 Mandatory liquidity ratio is 10-15% of total savings deposits,
- 🔔 BoD is directly responsible if above level of liquidity is declined and if there is any financial loss occur due to shortfall of liquidity,
- 🔔 Dividend can't be distributed until and unless the prudent liquidity ratio is met,
- 🔔 Savings and Credit Cooperative can't directly invest in non-financial sectors such as hospital, school, departmental store etc,
- 🔔 Mandatory provision of mortgage or group guarantee for credit above one lakh rupees (USD 1000),
- 🔔 At least 51% of total loan portfolio should be invested in productive sector,
- 🔔 Loan restructure or rescheduling is prohibited except any circumstances such as natural hazards, pandemic etc,



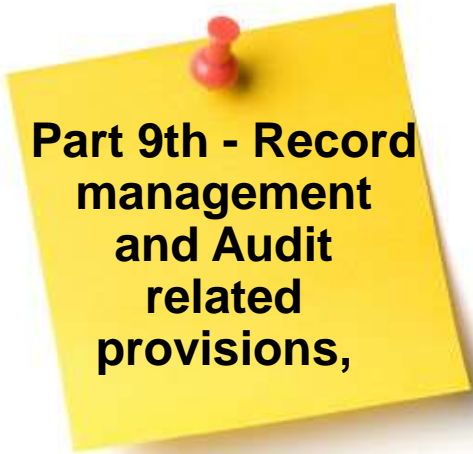
**Part 8th -  
provisions  
related with  
Human  
Resource  
management**

**Major Enforcement,**

- 🕒 Cooperatives to analyze work-load of all employees,
- 🕒 Cooperative should approve HR plan for each fiscal year and recruit employees as per approved HR plan,
- 🕒 If employees are hired without approved planned human resources, BoD is responsible for paying extra remuneration of the employees,
- 🕒 Cooperative should guarantee minimum wages provisioned by Labour Act 2017.





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**Part 9th - Record  
management  
and Audit  
related  
provisions,**

## Major Enforcement,

- 🕒 All cooperatives should compulsorily submit data in COPOMIS system,
- 🕒 Monthly report, AGM report, AML related report, Audit report should be submitted through COPOMIS system
- 🕒 Cooperatives must follow accounting standard prescribed by the government,
- 🕒 Cooperative Department is to approve cooperative software in future, until then cooperative are suggested to use the best software available in the market,
- 🕒 Auditors are obliged to mention the findings related to AML, Accounting Standard, compliance related other matter etc



# Conclusion

- A new scope of regulation in cooperative sector has been experienced,
- Expansion of regulatory governance has posed a new tendency in cooperative sector in Nepal,
- Though there are debates within the given regulatory frame, it perseveres towards the development and growth of the cooperative movement,
- Regulatory challenges are still in verge as there are too many cooperatives (29 thousand +) have been registered and being operated,
- Government is planning to establish **Second Tier Institution (STI)** to regulate the cooperative,





THANK YOU