



A review on increasing frauds and scams of cooperatives in Nepal

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ABSTRACT

This study reveals some popular scams committed by cooperatives in Nepal. These scams had caused significant economic losses creating several kinds of difficulties for depositors whose money is stolen. Majority of these cooperatives were found investing in luxuries and real estate without any prior consent of depositors that ultimately gives birth to frauds and scams when their illegal investments does not give any return. Therefore, in order to promote sustainable growth and reduce the frauds of cooperatives government should regularly monitor and evaluate their activities by formulating and effectively implementing strict regulatory policies. In addition to it, cooperatives are suggested to diversify their base by endorsing small cottage industries and income generating activities.

Keywords: Cooperatives, Nepal, scams, policy.

1 INTRODUCTION

The idea of self-development through community-based methods has given rise to the cooperative model. The contemporary cooperative movement originated in England in the middle of the 19th century, and its tenets and concepts quickly expanded across the globe. Due to its nature, the cooperative sector is still a contentious topic. The idea that the capitalism and socialist economies are their ideological tools for advancing social and economic progress is something that they both assert and deny. But in 1953, the Department of Cooperatives was established under the then-Ministry of Agriculture for Development and Planning, which marked the beginning of the modern cooperative movement in Nepal. After the Cooperative Act of 1992 was passed, the nation's cooperative movement gained traction, and after 2007, it intensified. The cooperative sector was acknowledged as the third pillar of the country's socioeconomic development in the 2007 Nepal Interim Constitution. The 2015 federal constitution also acknowledged the role cooperatives play in socioeconomic development. The cooperative sector has unquestionably become a vital component of a country's social and economic advancement. (Ojha, 2023).

Cooperatives are locally owned, member-based organizations. The public is meant to be served by cooperatives, but instead they have a history of defrauding small savers. In a recent instance, Civil Savings and Credit Cooperative Society Limited has been accused of defrauding its depositors of Rs 5.67 billion, harming the general public in the process. The government authorities have submitted the case against Ichchha Raj Tamang, the cooperative's

founder, on the charge of embezzling the aforementioned amount, based on complaints filed by up to 1,502 depositors (Republica, 2021).

The major objectives of this study are as follows.

- a. To get insight with some of the popular frauds by cooperatives in Nepal.
- b. To assess the ways to overcome the fraud by cooperatives.

2 LITERATURE REVIEW

According to Kimberly and Robert (2004) cooperatives are democratically owned and run businesses that are committed to the principles of self-help, self-responsibility, democracy, equality, equity, and solidarity. Cooperatives provide plenty of opportunities to their members to involve in different income generating activities such as junior-grade trade, the establishment of irrigation schemes, agricultural production and process (Young, 1992).

Nepal has a rich cultural heritage of unofficial community-based cooperatives, such as the Dhikuti savings and credit societies, the Parma and Dharma Bhakari labor-exchanging systems, and the Grain Savings and Credit societies. In a similar vein, Guthi offered a platform for collaboration to ensure the seamless operation of many sociocultural traditions. In Nepal's rural areas, many of these age-old cooperative systems are still in operation. The government passed the first Co-operative Act in 1960, and then the Agricultural Co-operative Act (Sajha Sahakari). The capital of cooperative organizations for savings and credit was transformed into a cooperative bank in 1963, and it was again transformed into the Agricultural Development Bank of Nepal (ADBN) in 1968. Five years later, the ADBN gave the government back control over management, and the Cooperative Act was changed once more in 1975 (NEFSCUN, 2022).

In addition to providing chances for employment for individuals with talents but little to no capital, cooperatives also strengthen communities by facilitating mutual aid among members. This way, they empower people by allowing even the most impoverished elements of society to participate in economic advancement (Somavia, 2001). Numerous households in the Kathmandu valley, Terai, and Hills get a range of microfinance services from savings and credit cooperatives (Paudel, 2014).

In Nepal, a new wave of community-based savings and credit groups started to form in the 1980s. The third amendment to the Cooperative Act increased the authority of the Government. By now, the savings and credit movement had taken root across the nation, and it was clear that a central organizing organization was required. The Nepal Federation of Savings and Credit Cooperative Unions (NEFSCUN) was established on August 16, 1988. Following the popular movement, the newly elected democratic government passed the Co-operative Act and the Co-operative Regulations in 1992 and 1993, allowing for the creation of a three-tiered co-operative system and providing a legal framework for the formation of cooperative societies, unions, and federations as well as the practical implementation of cooperative norms, values and principles (NEFSCUN, 2022).

Despite cooperatives being one of the important pillar for the economic progress in Nepal the frauds and scams by cooperatives are also increasing every year (New Business Age, 2021; Online Khabar, 2023; Ojha, 2023; Republica, 2021; Sahakari Khabar, 2018). Hence, a strong regulation and monitoring mechanism is needed to achieve the actual motives of cooperatives in Nepal.

3 METHODOLOGY

This study is done based on the secondary sources of data. Different published reports, websites, articles, statistics from government and private sources were reviewed to assess the fraud and scam situation of cooperatives in Nepal.

4 DISCUSSIONS

Biggest swindle has been found involving a few of Nepal's cooperatives. Some of the most popular scam of cooperatives in Nepal are discussed below.

4.1.1 Prosperous Saving and Crediy- cooperative Ltd (PSCCL) , Kathmandu

Prosperous Saving and Crediy- cooperative Ltd, Kathmandu have defrauded ten thousands individuals out of their money (Online Khabar, 2023).

4.1.2 Shiva Shikhar Multipurpose Cooperative and Tulasi Multipurpose Cooperative Ltd.

The Kedarnath Sharma Neupane is accused of embezzling around Rs. 15.5 billion in depositor money through Shiva Shikhar Multipurpose Cooperative and Tulasi Multipurpose Cooperative Ltd. Furthermore, Neupane procured Rs 5.5 billion from multiple banks pretending to be an investor in distinct firms. According to Central Investigation Bureau (CIB) money from the Shiva Shikhar Multipurpose Cooperative was found to have been invested in 43 private businesses held by Neupane and his family that were connected to the Shikhar Organization. The money of the depositors has been verified to have been embezzled during this procedure (Online Khabar, 2023).

4.1.3 Oriental Cooperative Limited, Maitidevi, Kathmandu

Oriental Cooperative filed for bankruptcy in 2013 as a result of its careless loan disbursements and permitting its principal promoter, Sudhir Basnet, to unlawfully invest depositor money in the real estate market, which plummeted shortly after. A high-level investigative commission that the government established verified the statements of 7,545 applicants, including depositors and institutions that had given loans to Oriental. However, the victims of Oriental have been trying to get their money returned for almost ten years (Republica, 2021; New Business Age, 2021). The Office of the Problematic Cooperative Management Committee claims that Oriental Cooperative Ltd stole the deposits from its nine branches nationwide and saved approximately Rs 10 billion (Nepal News, 2022; CIJ Nepal, 2023; Sahakari Khabar, 2018).

4.1.4 Civil Savings and Credit Cooperative, Kathmadu

After the Civil Savings and Credit Cooperative refused to restore the depositors' money, the government deemed the cooperative problematic more than two years later. The Civil Cooperative was deemed problematic at a ministerial level meeting of the Bagmati Province. The cooperative has been urged by the province government to call off its general meeting in light of the ruling. After giving unwarranted loans to Civil Homes, a real estate development firm headed by the cooperative's chairman, Ichchha Raj Tamang, the cooperative entered a financial crisis. Allegations have been made against the cooperative for embezzling more than Rs 7 billion from its depositors (Republica, 2023; Khabarhub, 2022).

4.1.5 Image Savings and Credit Cooperatives, Baglung

The mayor of Dhorpatan Municipality of Baglung district, Mr. Dev Kumar Nepali had underground for the past three months and is suspected of fraud. He is charged with embezzling an astounding \$2 billion from the Image Savings and Credit Cooperatives. His role in the embezzlement of cash has been reported by the authorities (Wikipatra, 2023).

4.2 Ways to overcome the fraud by cooperatives

Spread rates should have to be limited to 3%. High spread rates go against the fundamental tenets of cooperatives, which are member-based organizations dedicated to members' economic progress. The investment should be capped. Only banks and other financial organizations should operate cooperatives. Their investment priorities should therefore be unique. For instance, it must be illegal for cooperatives to invest in luxury automobiles and real estate (Ojha, 2023).

Small-scale ventures and enterprises should receive priority funding from cooperatives; in certain situations, these ventures should be founded on member projects. Fourth, cooperatives for credit and savings must be able to

oversee and verify. Nowadays, a single person, a family, or proxy members oversee a large number of cooperatives that have financial difficulties. In order to transfer cooperative ownership to the community, it is necessary to identify all cooperatives that are managed by single families, family members, or proxy members and to take prompt action to do so. Mandatory mergers with other cooperatives should be the method of managing them.

Rural cooperatives are thought to be a potent social development model and an efficient means of achieving economic advancement for rural development, and they play distinct roles in various activities. Compared to urban cooperatives, these are doing better. They appear to have good roles in small business, agriculture and related fields. But the commercialization of agricultural is what these rural cooperatives must concentrate on. They need to grow into a center for the marketing of agricultural products and the supply of agricultural inputs. Rural cooperatives need to focus more on supporting small and cottage companies and diversifying their agricultural base.

5 CONCLUSIONS

Cooperative is one of important pillar of economic progress of any country including Nepal. In recent years, the frauds and scams in the name of cooperatives is in increasing trend in Nepal. The main reason behind this is weak regulatory and monitoring mechanism in the country. As cooperative sector in Nepal have been proven as the effective instrument for lifting people engaged in small business and agriculture. Hence, they should be discouraged to invest on in luxury items and real estate to control frauds and scams.

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Appendices

Appendix 1: Some of news covered by popular Medias of Nepal





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