

POLICY ANALYSIS IN THE (PARLIAMENTARY) FINANCE COMMITTEE

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**DAAYITWA
NEPAL PUBLIC SERVICE FELLOWSHIP
WINTER 2015**

Table of Contents

	<u>Title</u>	<u>Page Number</u>
	Acknowledgement.....	3
	Abstract.....	4
1.	Definition and Principles... ..	5
2.	Background.....	5
3.	Research Methodology.....	6
	3.1 Desk Research.....	6
	3.2 Field Research.....	6
4.	Analysis.....	6
4.1	Section I: Analysis of Four Major Areas of Cooperatives Sector.....	6
	4.1.1 Cooperatives Bank.....	7
	4.1.2 Membership in Cooperatives.....	9
	4.1.3 Debt Recovery Tribunal of Cooperatives.....	10
	4.1.4 Jurisdiction/Domain of Cooperatives.....	11
4.2	Section II: Post-earthquake Changes in Cooperatives Sector.....	12
	4.2.1 Impact of Earthquake on Cooperatives.....	12
	4.2.2 Assistance Provided by Cooperatives to its Members.....	12
	4.2.3 Assistance Provided from External Agency.....	13
5.	Further Recommendation.....	13
6.	Conclusion.....	14
7.	Annex 1: Questionnaire for Interview.....	15
8.	Annex 2: List of Cooperatives Visited and Interviewees.....	16
9.	Annex 3: Policy Brief of Nepal Rastra Bank 2071.....	17

Acknowledgement

I would like to express my sincere gratitude to Daayitwa for providing me the opportunity to gain practical experience of working with a Member of Parliament and equipping me with knowledge, skills and tools required to carry out effective research and create an impact at the national level through the Daayitwa Fellowship program. I would specifically like to thank Ms. Subecha Dahal, Mr. Chhitij Bashyal, and Mr. Busan P.K.D. Prasain for their immense support, guidance and cooperation. My gratitude is further extended to Honorable Udaya Shumsher Rana for selecting me to work with him, introducing me to the Cooperatives Act 2048, encouraging me to keep working hard, and helping meet stakeholders and collecting documents for my research.

Furthermore, I would like to praise the support and trust, and thank all the interviewees without whom the research would not have been successful. I am especially thankful to Mr. Ram Sharan Ghimire, who shared the issues of cooperatives and recommended solutions, provided important documents, and patiently supported my work. Having proper understanding about cooperatives would not have been possible if I had not received training on Cooperatives Management. Thus, I want to thank the Community Development Section of Lalitpur Sub-Metropolitan City, for giving me a chance to attend the training. In addition, I am thankful to all the Daayitwa Winter Fellows 2015 who have shared their knowledge, experience and provided consistent encouragement and motivation.

Finally, I would like to extend my gratitude to my family and friends who have supported me during the fellowship program.

Abstract

There are more than 31000 cooperatives in Nepal which have employed more than 50,000 people. With the increase in employment opportunities and its number, the need for modifications in the Cooperatives Act 2048 has been recognized to further enhance the potential of cooperatives towards economic development of Nepal. Thus, to address the issues that have emerged until now and strengthen the cooperatives sector, the Cooperatives Act 2048 is in process of Amendment. This policy analysis paper aims to assist in the amendment process. The analysis is focused on four issues: Cooperative Bank, Membership in Primary Cooperatives, Debt. Recovery Tribunal, and Jurisdiction of Cooperatives. Desk and field research were carried out to gather information about finance and goods based cooperatives of Lalitpur Sub-Metropolitan City and Chapagaun Village Development Committee. The paper proposes recommendations to maintain decentralization, transparency of membership mechanism, compliance with comprehensive directives, and options for expansion of jurisdiction. Moreover, the paper has highlighted the need for proper representation of goods based cooperatives, which was alienated in the Cooperatives Act 2048 and the new Ordinance of Cooperatives Act 2071.

1. Definition and Principles

According to International Co-operative Alliance, “a co-operative is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise”.¹ There are seven principles guiding cooperatives. They are voluntary and membership, democratic member control, member economic participation, autonomy and independence, education, training and information, co-operation among cooperatives, and concern for community.²

2. Background

The earliest cooperatives existed since the late 18th century to fulfill the needs and maintain the power of certain portion of members of society such as “workers, consumers, farmers and producers” which was diminishing due to Industrial Revolution.³ However, these types of cooperatives could not sustain. The first modern cooperative society which could sustain and succeed was established in England in 1844 A.D. by the Rochdale Pioneers.⁴ Cooperatives principles played significant role in the sustainability of cooperatives.⁵ With the growing replication of such associations, at present, there are approximately 1 billion members of cooperatives throughout the world.⁶

In Nepal, the Department of Cooperatives was established under the Ministry of Planning, Development and Agriculture in 2010 B.S., which is 1953 A.D.⁷ The first cooperative society was formed in Sharadanagar, Chitwan in 1956 A.D.⁸ The Cooperatives Society Act was replaced by the Sajha Societies Act in 1984 A.D.⁹ However, the Sajha Societies Act was again replaced by the Cooperatives Act in 1992 A.D.¹⁰ This act is the one which is being implemented until now and is formally known as the Cooperatives Act 2048. The Department of Cooperatives is being currently handled by the Ministry of Cooperatives and Poverty Alleviation. There are

¹ ICA (n.d.). “Co-operative identity, values & principles.” Web.

² Ibid ICA.

³ CDI (n.d.). “History of Cooperatives.” Web.

⁴ ICA (n.d.). “History of the Cooperative Movement.” Web.

⁵ Ibid. CDI.

⁶ Ibid. ICA.

⁷ Dahal, K. (n.d.). “Saving and cooperative.” *academia.edu*. Web.

⁸ Ojha, A. (2014). “Growth and Development of Cooperatives in Nepal: A Review.” *Vaicharika Journal*, Vol. IV, Issue 1. Web.

⁹ NCFNepal (n.d.). “Important Events of Cooperatives Movement in Nepal.” Web.

¹⁰ Ibid NCFNepal.

more than 31,000 cooperatives in Nepal.¹¹ Some of the various types of cooperatives are Savings and Credit, Multipurpose, Dairy, Agriculture, Fruits and Vegetables, Beekeeping, Tea, Coffee, Consumers, Science and Technology, Communication, Health, Orange, Sugarcane, Energy, Fishery, Medicinal Herbs, Women Entrepreneurs, and Electricity.

3. Research Methodology

3.1 Desk Research: Information was gathered from various sources such as different online news articles, scholarly journals, blogs and official reports or documents. Cooperatives Act 2048, recommended Cooperatives Act and Cooperatives Act of India, Japan, Italy and Germany were also referred to expand knowledge about cooperatives.

3.2 Field Research: Both primary and district-level cooperatives were visited. Primary cooperatives such as Manasalu Multipurpose Cooperatives, Scope Saving and Credit Co-operative Society Ltd., and Woman Entrepreneurs Association of Nepal, and district level cooperatives such as Lalitpur District Federation of Saving and Credit Co-operative Society Limited, Lalitpur District Co-operative Union Ltd., and Lalitpur Milk Procedures Union Limited were visited. The visits involved observations of the cooperatives and interviews with members and staff. The questionnaire of the interview and list of interviewee is in Annex 1 and 2 respectively. I concentrated my research within Lalitpur Sub-Metropolitan City and Chapagaun Village Development Committee.

I have chosen Lalitpur district to represent cooperatives because the district constitutes 75% of subject-wise cooperatives registered in Nepal.¹² In addition, the district has 4th highest number of cooperatives after Kathmandu, Kavrepalanchowk and Morang.¹³

4. Analysis

There are two sections of analysis.

4.1 Section I: Analysis of Four Major Areas of Cooperatives Sector

The first section has focused on four issues of Cooperatives Act 2048: cooperative bank, membership in cooperatives, debt recovery tribunal, and jurisdiction/domain of cooperatives. These four issues are analyzed from the point of view of different subject-wise cooperatives.

¹¹ "Review of the cooperative sector in Nepal". Web.

¹² "Statistics of Cooperatives Enterprises 2014." Ministry of Cooperatives and Poverty Alleviation. Web.

¹³ Ibid "Statistics of Cooperatives Enterprises 2014."

4.1.1 Cooperatives Bank

2048 Act	Proposed 2071 Act	Ordinance 2071
(Chapter 6 no. 26(4)) Associations or societies may jointly form a cooperative bank.	(Chapter 2 no. 9(1)) To provide banking facility such as loan service to societies and associations, societies and associates may jointly form one national cooperative bank at a national level.	(Chapter 6 no. 26(4)) Associations or societies may jointly form a cooperative bank.

a) **Background of Cooperatives Bank:** National Cooperatives Bank Limited was established in 2003 A.D. in Nepal (NCBL, n.d.).¹⁴ Some of its functions are to prepare policies to carry out financial activities, “balance the cooperative banking at loan investment areas”, ensure compliance of policies and direction of the Nepal Rastra Bank, and explore “financial sources and obtain it from unions and societies at the national and international levels”.¹⁵ Currently, NCBL has extended its branch in 73 districts (NCBL, n.d.).¹⁶

b) **Problem Statement:** The centralized structure of Cooperatives Bank goes against the principles of cooperatives such as democratic member control, and autonomy and independence. This is because the centralized structure and the provision of establishing only one cooperatives bank according to the Cooperatives Act 2048 constraints the ability of primary cooperatives, cooperatives unions and associations to establish cooperatives bank based on their needs.

Although NCBL has been able to cover the membership from 73 districts, it has its branches in only 25 districts excluding majority of districts in Mountain region. Lack of branch offices creates difficulty in utilizing the services and carry out transactions in the cooperatives bank. For instance, it is inconvenient for the members of Darchula District Cooperative Union Ltd. and District Savings and Credit Cooperative Union Ltd. to reach Dailekh or Surkhet, the nearest district with the branch office of NCBL, regularly for transaction. In addition to the inability to serve each member efficiently, there arises a question of whether the cooperatives bank has been able to adapt its policies based on the need of each member cooperatives. For instance, the need of

¹⁴ NCBL (n.d.). “National Cooperatives Bank Ltd.” Web.

¹⁵ Ibid NCBL.

¹⁶ Ibid NCBL.

members from underdeveloped districts will be different than those from the developed ones or the policies which can facilitate District Savings and Credit might not be benefitting District Coffee Union Ltd.

- c) **Recommendation:** Cooperatives bank should be allowed to establish based on the need of each district with their own set of policies, following the rules of Nepal Rastra Bank at the same time. This will help deal with the problems discussed above. However, enabling cooperatives and associations to establish as many cooperative banks as they want can also be detrimental, leading to the mushrooming of cooperatives bank, inefficiency and corruption.

Therefore, in order to ensure efficiency, cooperatives bank should be allowed to establish in each district which can meet the need of its members, instead of operating in the form of branch of NCBL. In addition, those banks should be monitored, evaluated and assisted by Central Cooperatives Bank. The effectiveness of this structure of cooperatives bank is evident in case of India (Jadhav, 2011).¹⁷

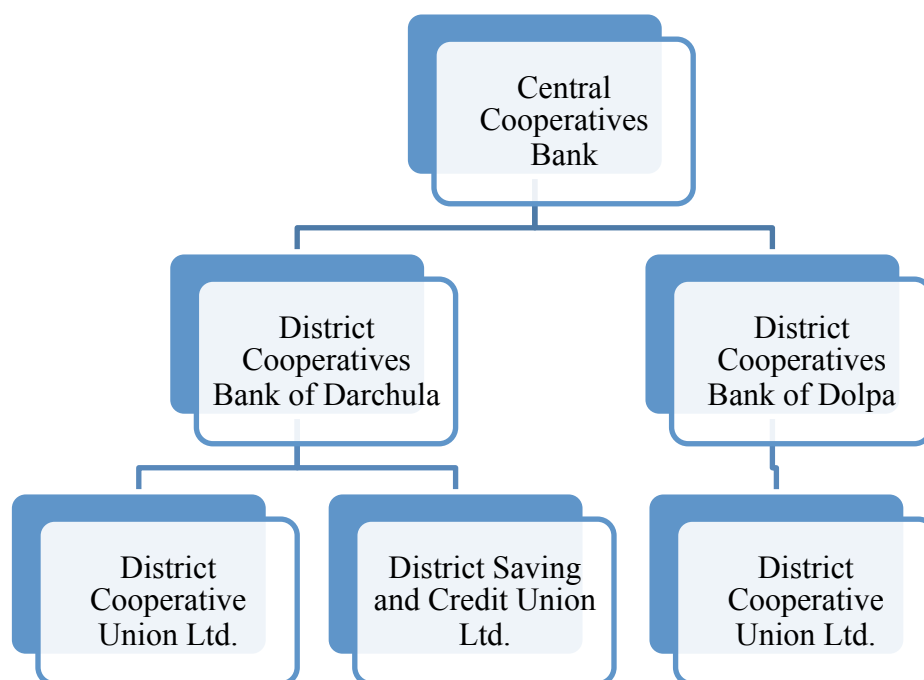


Fig: The organizational chart of recommended structure of cooperatives bank.

¹⁷Jadave, RA. (2011). "Cooperative Banking in India." Web.

Each district cooperatives bank is an autonomous body having its own set of policies with respect to the need of its members and abided by the Nepal Rastra Bank Act. The district cooperatives bank will have a membership in Central Cooperatives Bank which assists in handling liquidity issues and ensures regular monitoring and evaluation of district cooperatives bank.

4.1.2 Membership in Cooperatives

2048 Act	Proposed 2071 Act	Ordinance 2071
(Chapter 3 no.9) The act clarifies who can only be a member of cooperatives. For ex: Nepali citizen who registered cooperatives, and who are shareholders.	(Chapter 4 no.21) The act clarifies about who can only be a member of cooperatives. For ex: a Nepali citizen above 18 years.	(Chapter 3 no.9) The act clarifies about who can only be a member of cooperatives. For ex: Nepali citizen who registered cooperatives, and who are shareholders.

- a) **Current Status:** According to Department of Cooperatives in Nepal, about 3 million people are somehow linked to cooperatives and above 50,000 people are directly benefitted through employment opportunities.¹⁸ Furthermore, a large number of people have membership in more than one subject-wise cooperative.
- b) **Problem Statement:** As the act only mentions who can be a member of cooperatives, it has not been able to address current detrimental issues aroused through the misuse of freedom of membership in cooperatives. According to the interviewees and colleagues from cooperatives training, there has been a growing trend to be a member of many cooperatives, seek loan from each of them and disappear. This has deteriorated the capacity and ability of cooperatives to operate for community development.
- c) **Recommendation:** In order to address this problem, two types of regulations should be carried out. Firstly, strict policies to create comprehensive directives with detailed policies related to lending to the members of each cooperative should be made. For this to happen, the act should make provisions to provide training, services and ensure that the directives facilitate efficiently in sustaining particular cooperative enterprise. This helps solve the root cause of loan misuse taking place epidemically in current situation.

¹⁸ Department of Cooperatives (2010). "Cooperative in Nepal". NEFSCUN. Web.

Secondly, if people are allowed to be member of only one particular type of cooperatives, then the problem of loan misuse can be addressed at a systemic level. For instance, a member of Sankalpa Savings and Credit Ltd. should not be allowed to be a member of Kalyankari Savings and Credit Ltd. This ensures that a member is borrowing loan from only one cooperative and that cooperative is responsible for monitoring and evaluation of where and how the loan is being used. In addition, it increases the responsibility of cooperatives as well: to make sure that they have enough resources and ability to fulfill the need of each of its member. However, if cooperatives fail to do so then members should be allowed to seek support from other cooperatives. This policy encourages cooperatives to be accountable and make their policies effective if they want to avoid bad debt. To check credit information of each member of cooperatives of one district, the software developed by Credit Information Bureau (CIB), which allows updating the loan disbursement of each cooperative to each of its members, can be utilized.

4.1.3 Debt Recovery Tribunal of Cooperatives

2048 Act	Proposed 2071 Act	Ordinance 2071
There is no provision of Debt Recovery Tribunal for cooperatives.	(Chapter 14. no. 18(1)) Loan Recovery Committee will be established to collect the loan amount from its members.	(Chapter 12. no. 46(6)) Fraud and other cases that arise in the cooperatives sector will become a national case.

- a) **Current Status:** Problems such as fraud cases and failing to collect its disbursed loan are being handled solely by cooperatives.
- b) **Problem Statement:** In the Cooperatives Act 2048, there is a provision to sell the collateral property of the member who has not been able to pay the loan. However, currently there are cases, where the loan provided with or without collateral have not been able to be fully recovered. The act has not been able to address the problem.
- c) **Recommendation:** Dealing with the core of the problem, initially, the act must provide provision such as trainings, and provide experts, for cooperatives to make their directives comprehensive mentioning clearly the requirements for providing loan to its members. Despite this, if some members are unable to pay back then they should be provided assistance in terms of planning, implementation and monitoring for sustainable success. This method has been used by successful cooperatives in Lalitpur such as Scope Savings and Credit Cooperatives Ltd.

However, if a member tries to cheat on cooperatives then the policy included in the Ordinance 2071 justifies the problem as it not only helps solving the problem but also increases the legitimacy of cooperatives.

4.1.4 Jurisdiction/Domain of Cooperatives

2048 Act	Proposed 2071 Act	Ordinance 2071
(Chapter 2 no. 3(3)) “The jurisdiction/domain of an association or society shall be as specified in the Bye-law of that association or society.”	(Chapter 2 no. 15) Maximum one district as the jurisdiction/domain of primary cooperatives. However, cooperatives of agriculture, storage, manufacture and marketing, electricity generation and distribution, forest and herbs production and processing, health service can have more than one district as its jurisdiction depending on its need. If required to expand districts then the cooperatives will have to get permission from registrar. The permission will be granted based on geographical status, nature of activities, potential to economically benefit its members, market outreach, and financial status of cooperative society and the number of members.	(Chapter 2 no. 3(3)) “The jurisdiction/domain of an association or society shall be as specified in the Bye-law of that association or society.”

- a) **Current Status:** Cooperatives have various coverage of area as its jurisdiction. For instance, some focuses on small communities whereas some have their domain in the entire district or even in multiple districts.
- b) **Problem Statement:** Some of the cooperatives which I visited complained that although, their cooperatives have matured, they have not been able to expand their jurisdiction and make available the opportunity to people beyond their jurisdiction as mentioned in their bye-laws. This has hindered the development of both the cooperatives and its potential members.
- c) **Recommendation:** As the philosophy of cooperatives is to assist in the development of particular community, cooperatives should be motivated to focus on particular issues. However, after attaining economies of scale and experience, cooperatives should be

allowed to expand its jurisdiction because they also bear the right to serve as many people as possible for social benefits. Thus, at the beginning, it is pragmatic to establish cooperatives within small community or district, but cooperatives should be allowed to extend its jurisdiction after reaching the maturity phase.

4.2 Section II: Post-earthquake Changes in Cooperatives Sector

The second part of analysis is about the effects of the earthquake since the 25th April 2015 and its continuing aftershocks on cooperatives, and short term changes required in cooperatives policies.

4.2.1 Impact of Earthquake on Cooperatives

- a) **Difficulty to Keep Track of its Members:** Cooperatives, which I visited post-earthquake, expressed that they could not contact all of their members and was unsure about their survival.
- b) **Destruction of the Infrastructure of Cooperatives and its Members':** Majority of the member's houses and other infrastructure were damaged. Cooperatives presented that due to the loss or damage of its infrastructure they had to bear huge loss which drags their cooperatives a few years behind.
- c) **Difficulty in Delivering the Service or Resuming Daily Activities:** Because of human loss, and damage of house and other infrastructure, it has been difficult for cooperatives to continue providing its services, which is further intensified by the destruction or damage of public goods such as road and natural disasters such as flood and landslide. In addition, the psychological impact has further degraded the performance of its members.

4.2.2 Assistance Provided by Cooperatives to its Members

- a) **Distribute Relief Materials:** Cooperatives distributed relief materials to members who they could contact.
- b) **Support to Resume Work:** During my field visit, I found out that cooperatives were utilizing their own resources to assist their members in getting back to normal life. For instance, they were introducing various subsidy programs, compensation for destroyed goods or resources, and providing equipment required, free of cost to resume their daily work.
- c) **Create Opportunities:** Some of the cooperatives were even planning to provide training to its members to utilize new opportunities generated due

to earthquake. For instance, providing training of carpentry to assist in rebuilding process.

4.2.3 Assistance Required from External Agency

- a) **Low Interest Rate Loan for Cooperatives:** Low interest rate loan can help cooperatives increase their investment, replace destroyed infrastructure, and stabilize their morale to work hard.
- b) **Provide Training and Involving Cooperatives in Rebuilding Process:** Cooperatives can create an impact at the grassroots level. If selected cooperatives' members receive training on building temporary or permanent houses and enable them to build houses in their own respective communities, then it can actually assure uniformity and efficiency because they are more aware of the locally available resources and manpower.
- c) **Support in Creating Proper Access to Market:** Getting proper access to market is an ordeal in the post-earthquake situation. Thus, government can support cooperatives by, firstly, constructing the public goods such as roads which have hindered the transportation of goods produced by cooperatives. Secondly, civil societies can assist or provide tools to cooperatives in mapping the new market and the status of old market.

5. Further Recommendation

- a) **Increase Literacy on Cooperatives:** Despite the existence of more than 31,000 cooperatives in Nepal, there is lack of understanding of the concept, potential, and rules and regulations associated with cooperatives. This has led to collapsing of many cooperatives. If people are made aware of its concept and potential, then there is a possibility that the cooperative sector will add value to national development. For instance, Manasalu Multipurpose Cooperatives Ltd. provides training to its member for increasing their understanding about the concept of cooperatives and update on the status of their cooperatives. Thus, such type of facilities should be provided by each cooperative to increase knowledge about cooperatives before being a member of one.
- b) **Separate Chapters for Each Subject-wise Cooperatives in the Cooperatives Act:** There are many subject-wise cooperatives in Nepal which addresses different social issues and use different means such as entrepreneurship of women, communication, medicinal herbs etc. The way of operation, needs, challenges and opportunities of each subject-wise cooperative differs from one another. Thus, it is of utmost importance for the Cooperatives Act to have separate chapters for each subject-wise cooperative in the Cooperatives Act. This ensures that the representation of each type of cooperatives and assists in systematic operation.

- c) **Easy Access to Monitoring Tools and Experts on Cooperatives:** Cooperatives carries huge potential to uplift the living standard of its members. However, there is lack of ample amount of monitoring tools available. In addition, lack of expert in cooperatives has also hindered the channeling of proper advice and suggestion to improve cooperatives. Thus, monitoring tools used around the world can be compiled, and new monitoring tools should be generated with respect to cooperatives in Nepal. Such tools should be made readily accessible to each cooperative. Furthermore, creating opportunities to study and research about cooperatives, experts can be generated within Nepal for further knowledge transfer.

6. Conclusion

Cooperatives are crucial to uplift the living standard of people at the grassroots level. The outcome of flourishing cooperatives can be experienced through its rippling effect in the economic development of Nepal. However, the Cooperatives Act 2048 has been unable to address all the issues emerged with respect to time. Furthermore, the Ordinance of Cooperatives Act 2071 has made changes representing Savings and Credit Cooperatives only. 55% of the cooperatives are still underrepresented. Thus, to represent the remaining cooperatives' voice and suggest better pragmatic options for the introduced policies, the paper presents recommendation such as the need for creating subject-wise chapters in the Cooperatives Act, which is the major constraint being faced by goods based cooperatives. If this problem and recommendations are addressed in the amended Cooperatives Act then sustainable development can be experienced from all corners of Nepal.

Annex 1

Questionnaire for Interview

Cooperatives

- Can you provide a brief background of your cooperative?
- How has it made an impact in the lives of all the members?
- Can you explain some of the challenges that the cooperatives have faced in the past?
- How did you think tackled them?

Cooperatives Act 2048

- How has the cooperatives act affected your cooperative?
- Have the cooperative had trouble with its members such as not being able to get back the loan etc? If yes, then please explain in detail and how did you deal with it?
- Do you have a membership in the cooperative bank? If yes, what kind of services are you utilizing and how has it benefitted you? If not, what are the reasons behind it?
- Have you expanded or planned to expand the jurisdiction of cooperatives? If yes, how did you find the formal procedure and how has it made an impact in your cooperative?
- Do you have any suggestion to improve the cooperatives act?

Post Earthquake

- How has the recent earthquake affected the cooperative?
- What alternatives or changes you have adopted or planning to adopt to deal with it?
- Please share your thoughts.

Annex 2
List of Cooperatives Visited and Interviewees

S. No	Name	Designation	Activities
1.	Mr. Ram Sharan Ghimire	President, Lalitpur District Federation of Saving and Credit Co-operative Society Limited	He provided a brief introduction to the Cooperatives Act, presented some issues and recommendations to the issues. We discussed about the four main issues of Cooperatives act in detail. The four main issues are: Membership Criteria, Jurisdiction of Cooperatives, Operating System of Cooperatives Bank and Debt Recovery Tribunal. He explained about the structure of preparing a policy brief.
2.	Mr. Madhav Dulal	President, District Co-operative Union Ltd. Lalitpur	He provided a brief introduction to the Cooperatives Act, presented some issues and recommendations to the issues. He also provided me with the previous and recent Cooperatives Act with recommendations.
3.	Mr. Rajendra Poudyal	President, Manasalu Multipurpose Cooperatives	We discussed on each issue of Cooperatives Act thoroughly. We discussed in detail about the four issues given above. The meeting helped me a lot to come up with innovative solutions to some of the issues. He provided me some of the techniques for preparing a policy brief.
4.	Hon. Krishna Hari Khadka	Joint Secretary, Parliament	Received procurement act.
5.	Mr. Anil Bir Bajracharya	President, Scope Saving and Co-operative Society Ltd.	We discussed some of the issues associated with the Cooperatives Act. The issues we covered were regarding the need for maintaining transparency and limitation of membership, limiting cooperatives within particular VDC and the structure of cooperatives bank.
6.	Mr. Dharma Raj Rokaya	Officer, Division Cooperatives Office	The meeting was beneficial as I learnt about the problems existing in cooperatives sector. In addition, we discussed some of the issues associated with the Cooperatives Act.
7.	Uddhav Ghimire	Manager, Lalitpur District Milk Procedures Union Limited	Discussed about problems faced by the cooperatives and how the Cooperatives Act could address those issues.
8.	Govinda Bajagain	South Lalitpur Rural Electric Cooperative Ltd	Discussed about problems faced by the cooperatives and how the Cooperatives Act could address those issues.
9.	Kalawati Rai	Production Manager, WEAN Cooperative	Discussed about problems faced by the cooperatives and how the Cooperatives Act could address those issues.

Annex 3
Policy Brief of Nepal Rastra Bank Act 2071 (2nd Amendment)

Rationale for Amendment:

The number problems related to banks and financial institutions have increased with its growing number in Nepal. Thus, the necessity to strengthen the role of supervising and monitoring of banks and financial institutions has also been significant. To address these issues, the new amendment act has been proposed.

Problem Statement:

The 2nd Amendment Act 2071 has highly emphasized on dealing with weak or about to collapse bank and financial institutions, and strengthening good corporate governance. However, majority of rest of the aspects have been neglected. For instance, the issue of lack of liquidity or more liquidity faced by banks and financial institutions has not been dealt effectively by Nepal Rastra Bank.

Recommendation:

Neither the Nepal Rastra Bank Act 2058 nor the Amended Nepal Rastra Bank Act 2071 has tried to address the problem. This issue should be studied in detail, and relevant laws and mechanisms should be proposed for assisting banks and financial institutions to effectively handle their liquidity problem. This will also help in utilizing the liquidity in development of the nation.