

# Examining Accountability Mechanisms in Nepalese Savings and Credit Cooperatives: An Evidence from the Deposit Repayment Crisis

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## ABSTRACT

Savings and Credit Cooperatives (SCCs) are an important medium for promoting financial inclusion in rural areas of Nepal, where reaching formal financial services is nearly impossible for the poor. Nevertheless, recent collapses of deposit repayment in several SCCs have indicated a considerably weak governance that puts member confidence and longer-term sustainability of these institutions at risk. Only in 2023/24 financial year, the cooperative fraud cases caused loss of Rs. 11.68 billion. Hundreds of suspects participate, but few are apprehended. From 2014, over 22,000 complaints with claims of NPR 10 billion have been registered revealing deep systemic weaknesses within the sector. Using case study data triangulated from national-level government reports, investigative media articles and academic research, this research is undertaken within a qualitative framework to analyses the failures of governance systems and accountability structures which culminated in the crisis. The analysis finds multiple key weaknesses, such as inadequate internal control systems and lack of accountability and transparency in operations; minimal member participation for governance; and the widespread fragmented regulatory oversight. It is therefore suggested that the current accountability measures may be ineffective, putting members' funds at risk, which in turn could lead to financial mismanagement and loss of trust amongst cooperative members. The report calls for immediate reform, including improved democratic member participation; better financial reporting with greater transparency and quality; stronger external audit functions; expedited judicial processes to bring fraudsters to book and recapture stolen assets. More coordination among the regulator, cooperatives bodies and law enforcement agencies are needed to regain trust in order for SCCs to carry on with helping Nepal achieve its goal of inclusive economic growth and sustainable development.

**KEYWORDS:** Savings and Credit Cooperatives, Governance Failures, Accountability Mechanisms, Deposit Repayment Crisis, Nepal

## INTRODUCTION

The Cooperative movement has played a critical role in scaling up the outreach for inclusive finance and has also made a sustained effort to create a grassroots economy. SSCs are small financial institutions organized voluntarily by members sharing the same living or working institution to offer short-term credit services (Simkhada et al, 2013). By far the biggest attraction of cooperatives is their ability to provide finance for underserved rural communities in developing

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countries. Cooperatives are viewed as savings, credit and insurance services which shareholders, rather than customers, operate outside the formal banking institutions. Cooperatives are characterized by member ownership and democratic control over their business, thus ensuring confidence and motivation among participants (Gwiriri & Bennett, 2020). Anecdotal, there are reports on the lack of transparency and accountability in community organizations of Nepal, which is supported by a recent publication. Coke in & Makawanpur District has the major characteristic based on the financial transparency, accountability and members participation (Shilpakar, 2024) 67. The widespread refund issue that exists in virtually all current cooperatives has now unmasked the colossal inefficiencies ingrained in these institutions. But it continues to go even further beyond the ripples of what such problems imply for lost or delayed repayments, to members suggesting the ultimate question of whether such institutions are sustainable and by extension, in the safe interest of any member. The reasons of governance lapses and accountability failures in the cooperatives are several. E.g., low transparency, no member participation, financial management. (Shilpakar, 2024)

This paper reviews and examines the cooperative scams among Nepalese SACCOs through the empirical evidence of the deposit repayment crisis. It looks at the surging cases of cooperative scams to which mismanagement and inadequate accountability have played a part in financial malpractices as well as operational mismanagement. Paudel (2023) further suggests that governance structures are significantly linked to financial risks, especially credit default risk and leverage risk. In these studies, governance problems in the cooperatives have repeatedly been mentioned this pointing to accountability, member participation and financial mismanagement issues. After all, organizational incomprehension, uncertainty and misunderstandings are the three core problems affecting cooperative stability and trust in group members. (Shilpakar, 2024)

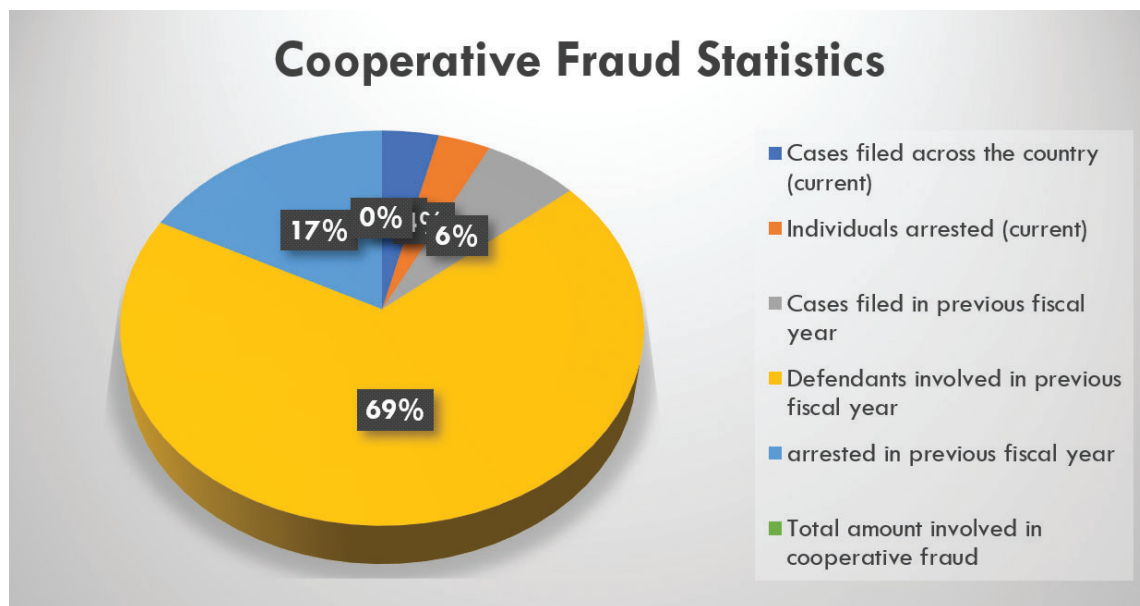
**METHODOLOGY**

Using a qualitative design of a secondary literature review, this study analyzes the nature and causes of accountability mechanisms and governance lapses in Nepalese savings and credit cooperatives (SCCs), particularly focusing on the deposit repayment crisis. The research is based on an extensive desk review and therefore secondary sources such as newspaper articles, official reports published by Nepal Cooperative Development Board and the Ministry of Finance as well as relevant academic articles with no primary data collection. They are the actual treasure troves of understanding as they contain intricate and current details of the crisis, governance inefficiencies picked by them and regulatory responses which led to situation analysis. The method helped uncover repetitive patterns and themes, such as inadequate governance and loopholes in accountability mechanisms, as well as regulatory failures. This secondary data also informed a qualitative synthesis, enabled by the quantitative base of fraud cases and total deposits at risk and the number of cooperative irregularities in these sources. This triangulation of information from multiple credible sources strengthens the rigor and breadth of findings in our study. The content of this study as a groundwork may help in proposing policy changes for the provision of better governance and accountability across Nepalese SCCs.

**FINDINGS/ RESULTS**

News related to Cooperative scams can be seen almost everywhere in the media these days. Some of the charts and bar graphs have been compiled here based on reliable sources documenting fraud in Nepal's largest financial sector, the Cooperative Sector. The main overview is provided by the Nepal Police Headquarters through its standard and periodic reports, where cases, embezzlement amounts, arrests, absconding suspects everything in quantitative precision mark the scope of fraud in time and span (Republica, 2025). Reports of government commissions and parliamentary investigations reveal disturbing systemic vulnerabilities, liabilities, and at-risk deposits that taken together, underscore the magnitude of the crisis (Nepal News, 2025). Journalists at Nepal News, Rising Nepal Daily and My Republica continue to delve deeper with investigative stories with victim narration included while following up government authority and regulatory interventions (Rising Nepal, 1892). Presented together, those sources provide a comprehensive look at the cooperative fraud mess the money lost, the faces behind cooperatives in crisis, what it means for society and a sense of how far we've come in sorting it out.

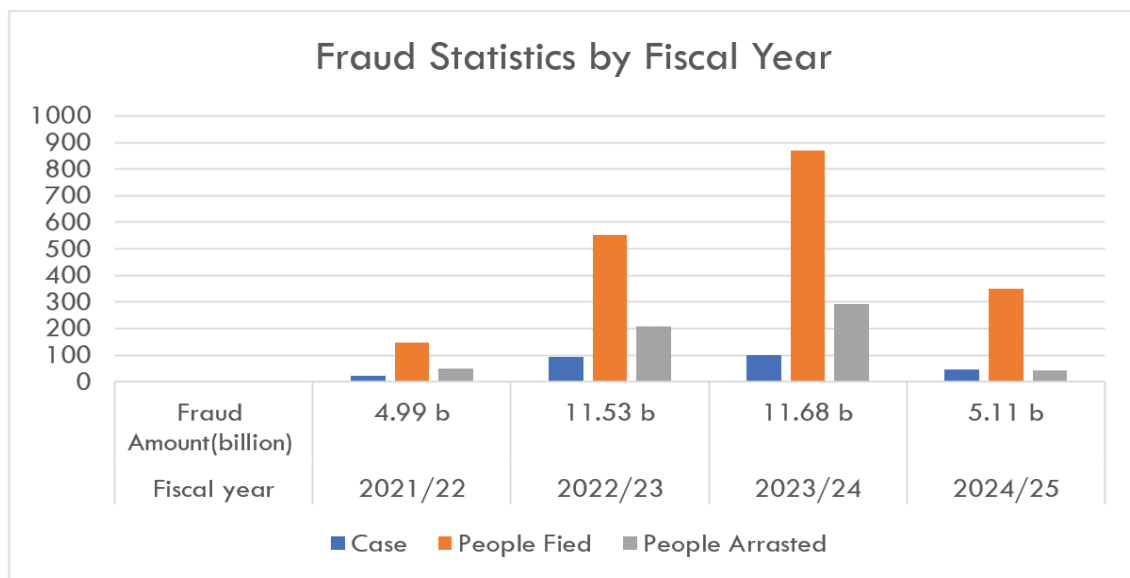
Figure 1: Cooperative fraud statistics



Source: Republica, May 1, 2025

Figure 1 illustrates that 69% out of 1164 cooperative fraud data from the last fiscal year, represented a total of actual defendants but only 17% (actually) were selectively arrested. So far nationwide, just 6 % of cases (65) has been docketed, with only 3 % of arrests (60) made. Despite arrests, the data shows a wide disparity between offenders and arrested individuals hinting continued difficulties in fighting cooperative fraud worth Rs 11.68 billion (Republica, 2025).

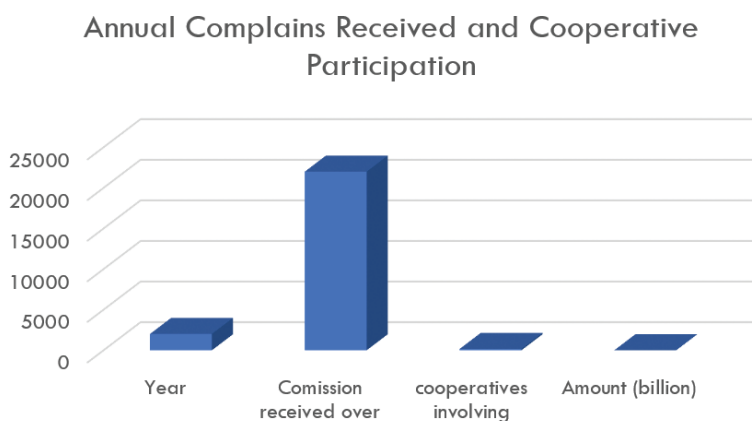
Figure 2: Fraud statics by fiscal year



Source: Rising Nepal, August 4, 2025

Figure 2 the highest cooperative fraud was committed during the fiscal year 2023/24, amounting to Rs. 11.68 billion in 101 cases. It also had the largest number of arrests (294), but 870 suspects are still out there, which is a clear sign that enforcement is one tough cookie. In 2022/23, Rs. 11.53 billion was involved in 93 cases, but fewer arrests (208) and more than half as many suspects had escaped (553). In 2021/22, fraud dipped to Rs. 4.99 billion in 24 cases: only two applicants were arrested and cases against the remaining 149 who absconded are pending. Forty-eight cases of fraud resulted in Rs. 5.11 billion swindled over the first seven months of 2024/25, 43 arrests and around 350 fugitives from justice, offering evidence that enduring large-scale fraud had plagued one country (Rising Nepal, 2025).

Figure 3: Annual complains received and cooperative participation



Source: Nepal News, August 4, 2025

Figure 3 explains the commission investigating cooperatives had reported over 22,000 complaints against 162 cooperatives amounting to NPR 10 billion in 2014. Figure illustrates the number of units in millions and billions in total dollars under management per year as well as the sheer scale of Cooperative participation. The data represent both the large scale spread and economic activity of cooperatives in Nepal. Yet, the public complaints and money flow between providers reveal the risks of a largely unregulated sector risks that eventually led to large-scale fraud and losses (Nepal News, 2025). Such patterns further call for a deeper exploration of socio-political factors enabling fraud (e.g., corruption, regulatory capture), which underpin the regulatory weaknesses and sustained inefficiencies in enforcement.

## **DISCUSSION**

The current crisis of cooperative fraud in Nepal is symptomatic of severe governance and accountability failure in Savings and Credit Cooperatives (SCCs) the backbone of financial inclusion for grass-roots development. The enormous single-year loss of Rs 11.68 billion in 2023/24, hundreds of fraud cases and many suspects being at large together show the widespread nature of the problem (Republica, 2025). It was only in the fiscal year 2023/24, a loss of Rs. 11.68 billion besides hundreds of fraud cases and many got away free who is still at large demonstrating how systemic the issue was (Rising Nepal, 2025). They emerged because of weak internal controls, lack of transparency, low member engagement and fragmented regulatory oversight (Nepal News, 2025). This is an important point to bear in mind when critiquing the disaster loan failures. Early warnings as those 22,000 complaints corresponding to NPR 10 billion reported from as early as 2014 were inadequately followed through, leaving gaps for weaknesses to mature and fraud to rise (Republica, 2025). These institutional shortcomings were further compounded by socio-political enablers such as corruption and regulatory capture, which allowed fraudulent practices to flourish under weak enforcement regimes. In particular, for marginalized communities, mismanagement and erosion of trust in financial institutions (like cooperatives) could have serious ramifications according to the research. Research shows that people are less likely to participate financially after trust in political representation or public safety is broken, and the communities that have been marginalized experience more significant repercussions during financial crises (Traweek & Wardlaw, 2020). Arrests far outpace the number of suspects still on the loose, an indication of significant enforcement and judicial red tape that serves to cripple any legitimate attempt to address and recover from the disaster (Dhakal, 2024).

This crisis can only be tackled in a meaningful way with changes that are far more urgent and systemic than those designed to fortify current governance and accountability frameworks (Khanal, 2023). Greater democratic participation and member oversight could add to transparency, as would better financial reporting with external audits putting pressure on the monitoring of irregularities. Transnational regulations are hard to monitor and enforce because of legal gaps and enforcement deficiencies present within regulatory bodies (Stewart, 2011). The judiciary, furthermore, should actively fast-track cases of prosecution and asset recovery to

boost deterrence as well as public trust. For bringing the cooperative sector in Nepal back to life, coordinated policy interventions as well as capacity building initiatives among other stakeholders like cooperative members, regulators and law enforcement are needed (Thapa, 2023). In the final analysis, it is about managing these governance challenges well to protect membership interests, restore trust and enable cooperatives' continued contribution as a force for expanding economic space and propelling sustainable development.

Confronting these governance challenges is crucial to protect member interests for both the immediate and long-term, maintain trust, and enable cooperative enterprises to fulfil their key function of promoting inclusive economic growth towards sustainable development. Finally, Nepal News (2025) concludes that these governance challenges need to be seriously addressed if cooperative principal interest is to be protected; trust restored in their ability to act in the long-term good of its members; and cooperatives enabled to continue making a significant contribution towards enhancing inclusive economic growth and sustainable development.

## **CONCLUSION**

The crisis of fraud in the cooperatives sector exposed a frightening specter with regards to governance and accountability, threatening to shake down the very foundation of Savings and Credit Cooperatives (SCCs) that provides key affordability bridging for financial inclusion and community development in Nepal. In the 2023/24 fiscal year, losses have touched Rs. 11.68 billion and hence the crisis appears systemic. This is one reason why, despite increased arrests, the law enforcers all across remain helpless & many suspects are scot-free. A record of more than 22,000 complaints and claims totaling about NPR 10 billion have gone unheard since 2014, leading to the mushrooming of these phenomena. These fundamental issues of weak internal controls, lack of transparency and member involvement, and piecemeal regulation have resulted in mismanagement, depositor flight and distress, which are imposed on the poor communities who rely most heavily on cooperatives. The country is grappling with a severe crisis for which it needs timely organizational reforms that will reinforce governance through enhanced democratic functioning, stringent financial disclosure, and rigorous audit mechanisms in addition to stronger regulatory surveillance. Prosecutions have to be fast-tracked and looted funds have to be recovered by the judiciary as well. Well-coordinated policy actions and collaboration among stakeholders are required to inspire confidence, protect members, and enable cooperatives to play their part in delivering inclusive economic programs as well as the sustainable UN goals in Nepal.

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