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FINANCIAL RISK MANAGEMENT IN THE NEPALESE COOPERATIVES

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ABSTRACT

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This study examines minimizing financial risk in Nepalese cooperatives, with an emphasis on liquidity, credit, and market risks. It investigates how these cooperatives deal with financial uncertainty in a hard economic context.

Data was gathered through semi-structured interviews with ten major cooperative stakeholders and analyzed using NVivo software. The investigation uncovered significant risks, current risk management techniques, and implementation issues.

It seems from the report that a lack of liquidity stems from up and down cash flows, lowered credit quality due to poor loan habits and possible risks in the market caused by economic fluctuations. Barriers to successful risk management include insufficient financial literacy, a lack of digital tools, and legislative limitations.

It was determined that cooperatives do not have formal risk controls in place and should use the Basel III standards. Better financial knowledge and online tools can support their sustainability and support government officials in creating effective future risk plans.

Keyword : risk management, risk, financial market, credit, liquidity

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1 INTRODUCTION

Nepalese cooperatives financial risk management is critical for insufficient and improving the functioning of financial organizations, particularly cooperatives. It looks out for stakeholders and supports the organizations' ability to survive in the future. Cooperatives play an important role in Nepal's financial services industry; thus, effective financial risk management is critical to ensuring their continuing growth and stability.

1.1 Background and Overview

John C. Hull (2023) explained that managing financial risks refers to the setting up of systems and creation of strategies aimed to moderate various potential threat to the existence of the organization and the maintenance of stakeholder interests so that the organization might remain viable for the long term. Cooperatives in the context of Nepal encounter peculiar risks and disposal thereof to ensure a sustainable development of the community. Cooperatives in Nepal are needed since people in rural places often can't use traditional banking services. He states "Risk management is not about minimizing risk. It is about ensuring that the risks taken are manageable and that the expected returns are commensurate with the risk being taken" (John C. Hull, 2023). A very large network provided by cooperatives is also instrumental in the promotion of economic development and deficiency improvement. Hence, any financial institution, including cooperatives, must have risk management to ensure stability and long-term practicality.

While cooperatives are important in the country, their fast growth has opened the door to many financial risks such as Credit non-payments, liquidity problems, weak governance and mistakes during operations. As a significance, these institutions can face serious financial difficulties and sometimes have to close down. (Alleman and Quigley (2024) said that management of financial risks is key for ensuring institutions stay stable.

They pointed out that successfully managing risks is good for financial firms and the whole micro financial sector. Even though cooperatives are regulated in Nepal to help them manage risks, a significant number of these cooperatives have not created effective ways to manage risk, due to low education about financial matters, not following those rules and ineffective options for reducing risks. Due to this situation, many coops face financial suffering which in specific cases may lead to their total failure (Alleman and Quigley, 2024).

The objective of this study is to assess Nepal's cooperatives in handling financial risk and to find out where their present strategies are effective and which aspects should be strengthened. It reviews how well these cooperatives manage with credit matters, liquidity issues, risks within operations and how this management supports their success and long-term existence. The influence of economic problems and regulations is considered in the research on cooperatives. By looking at the current shortcomings in research on risk management and the issues faced by these organizations, the research aims to present useful suggestions for better risk governance. The purpose is to strengthen Nepalese cooperatives financially so that they can continue to help promote financial inclusion and enhance the economy.

1.2 Research Problem

Organizations such as cooperatives must effectively deal with financial risk to ensure they keep stable and sustainable operations. Because traditional banks are not present in many rural and disadvantaged places, cooperatives in Nepal help with financial services. Many forms of these cooperatives continue to have insufficient methods for managing any financial risks. Cooperatives have become threatened to major financial hazards because their risk awareness and plans are weak.

Because many cooperative organizations make risk evaluations, govern themselves and follow laws ineffectively, they often experience financial

difficulties. Outstanding to loan defaults, misuse of funds, and poor daily tasks, both members and investors have experienced serious financial problems. Besides, since many countries do not have standard risk management systems and apply Basel III guidelines less usually, the problem is now more serious.

Because of the difficulties described above, this research looks into the financial risk management practices applied by cooperatives in Nepal. The purpose is to find weak spots in current systems and put forward ideas to control financial risks. In doing so, the research is designed to improve the durability of cooperatives, maintain their stable financial situation and support their ongoing growth.

1.3 Research Objectives

This study sets out to explore how cooperatives in Nepal deal with financial dangers and what practices aid their continued financial well-being. Now that cooperatives are taking on a bigger role in Nepal's finances, careful examination of their risk management and looking for ways to deal with risks is very important.

The significant objective of this research is to study the main financial hazards affecting Nepalese cooperatives, including liquidity hazard, credit risk, and operational hazard and governance risks. It analyses the current way of handling financial risk in Nepal's cooperatives, including the related policies, following regulations and managing risks from inside the organization. Further, the study aims at analysing challenges and gaps that prevent sound financial risk management such as insufficient risk analysis tools, poor financial literacy among cooperative members and staff, and regulatory constraints. By identifying such issues, the study attempts to point towards best practices and strategies that could develop a strong risk management culture within Nepalese cooperatives aligned with global

practices and yet incorporating local solutions. It also assesses the impact of financial risk management on cooperative societies and looks at how effective risk management helps keep cooperatives financially stable, encourages members' trust and ensures their growth.

This study proposes to offer important viewpoints into the financial hazard management in Nepalese cooperatives and add to building strong and sustainable cooperative financial structures by addressing these objectives.

1.4 Research Questions

The assumptions of this study focus on directing research to find answers about financial risk management in cooperatives from Nepal.

- Which financial problems do Nepal's cooperatives face most regularly?

The purpose of asking is to pick out the various risks Nepalese cooperatives encounter which are additionally split up into credit, liquidity, operational and market risks. Accurate risk identification plays essential part in evaluating the efficiency of the prevailing risk managing measures.

- Are the financial risk management techniques now used by Nepalese cooperatives effective?

You will be assessing if effective risk management ideas are being carried out by the cooperatives in Nepal. Use of their strengths and weaknesses can help decide on whether they effectively control their financial risks.

- What are the primary financial risks that make it difficult for Nepalese cooperatives to function?

The aim of this question is to see what challenges are holding back good financial risk management at Nepalese cooperatives. Among these challenges are poor governance, not having the needed training, having too

few resources and encountering the challenges of regulations. Knowing what these barriers are helps groups create better ways to manage risks.

- How can Nepalese cooperatives strengthen their financial risk control and stay durable for many years?

The goal here is to suggest actions based on what was already established in earlier results. It suggests strategies for dealing with financial risks by cooperatives in Nepal. Relevant national and international practices will be reviewed, focusing particularly on strategies that are appropriate for Nepal. The intention is to help cooperatives handle risks better and ensure their ongoing stability and prosperity.

1.5 Scope and Limitations

1.5.1 Scope

Paudel (2021) makes clear that strong financial risk management is necessary for the ongoing success and efficiency of cooperative societies in Nepal. This study is only concerned with looking at and understanding how Nepalese cooperatives cope with financial risks. It analyses the types of financial risks happening now to these cooperatives and evaluates the strategies their members are using to handle those risks.

This study is designed to recognize and sort the main risks that cooperatives in Nepal may face, for example credit risk, liquidity risk, operational risk, market risk and systemic risk. The report will also review how the risks are being currently handled. An in-depth look will be taken at the tools, techniques and systems used for dealing with risks, especially how they operate in the real world of cooperatives. It will show that weak integration of resources, incomplete or imperfect frameworks and regulations from a central body all create obstacles to good risk man-

agement. The study will suggest useful ways to improve the risk management systems applied by cooperatives in Nepal. The purpose of these suggestions is to improve financial stability within the cooperative sector, making it more sustainable in future.

For this study, we will mainly examine financial service cooperatives in Nepal that function in rural and semirural places. Information is being gathered by talking in detail with stakeholders such as cooperative managers, relevant authorities and experts responsible for financial risk control. Researchers will also look at studies focusing on financial risk management methods and how cooperatives in Nepal manage under the existing regulations.

1.5.2 Limitations

Damodaran (2007) said that understanding limitations and the environment plays a key role in responsible financial risk assessment in cooperatives. The study gives useful information about how Nepali cooperatives deal with financial risks, although there are a few problems that should be considered for following study.

Now this study recognizes some limitations that can affect the generalizability or applicatory nature of its findings. Because the research is just in Nepal, its findings are likely not as useful for cooperatives in other countries with various economic, policy and leadership systems. From this view, the geographical and contextual variations tend to limit the external validity of the present study. Another limitation is associated with sampling size and selection that proposes the limitation since the study may consider only a few cooperatives in consideration of limited time, financial resources, and accessibility, which might result in a sample that does not truly represent the entire cooperative sector in Nepal. It may also be tough to get useful data because cooperatives sometimes prefer to keep their important finances and risk practices private. This, therefore, could prevent a full investigation of how the company is per-

forming and the risks it takes. Then, being a qualitative study may indicate subjectivity while interpreting data, even in cases where relevant data were obtained: data derived from interviews or open-ended responses can be influenced equally by the participants' views and the researcher's subjective Preferences. In the case of economic and regulatory constraints, this included frequent changes in cooperative laws and financial risk.

Even with these issues affecting what can be achieved, the study is still likely to give useful insights into the way Nepalese cooperatives deal with financial risk. This research will offer useful advice for establishment how cooperatives safeguard themselves from a range of risks.

1.6 Thesis Framework

Alleman and Quzi (2024) commented that good research on risk management depends on a solid structure. The framework of this thesis gives a structured outline of the study, controlling the natural development of the research on financial risk management in Nepalese cooperatives. It provides the foundation for the study, ensuring unity and simplicity during the research process. The framework has three connected components. Firstly, the theoretical foundation places the study within relevant literature and concepts. Secondly, the research methodology gives an account of the qualitative approach with methods of data analysis. Thirdly, the thesis outline gives an orderly presentation of the study's findings and latter perspectives. Hence, they present a logical analytical thread on the topic into which the research objectives may be achieved.

1.6.1 Theoretical Foundation

The study is based on financial risk managing theories, cooperative finance concepts, and regulation governing Nepalese cooperatives. Financial risk management topics will be covered, specifically Basel standards,

ERM methods and analysing credit risk, paying attention to cooperative financial institutions. The fundamentals of cooperative finance will also be examined, including cooperative characteristics in respect to member viewpoints, economic viability, and risk bearing methods. Furthermore, the study examines regulatory frameworks by studying cooperative governance regulations, compliance standards, and the impact performed by the state on financial risk managing within the Nepalese financial regulating system.

1.6.2 Research Methodology

Khanal Khageshyor (2023) explains that conducting semi-structured interviews during cooperative research helps researchers get to the heart of risk management practices.

Semi-structured interviews play a key role in the qualitative approach which this study takes to analyse how Nepalese cooperatives handle financial risks. Thanks to this approach, the researcher can learn more about how people involved with risk management experience, face and capitalize on risks. Cooperative managers, financial officers and policy experts will be interviewed personally. The purpose of these interviews is to find out how today's risk management methods are implemented. The findings will be studied using content analysis that looks at the interview information and key indicators of financial and risk performance. It will help point out important findings and lessons about managing financial risks in Nepalese cooperatives.

The thesis consists of six chapters, each discussing a separate research goal. In Chapter One, the main background, the research problem, the important questions, the objectives, the scope, the main limitations and the theoretical framework are described. Chapter Two introduces the literature across fields and earlier research on managing financial risk in cooperatives, including main terms and useful guidelines. Chapter Three describes the different research strategies, including design, data collection and analysis methods. Chapter Four shares the key results which

include summaries of interviews, financial figures and regulatory details. In this chapter, the results are explained, related to previous research, main trends are pointed out and differences are analysed. A final summary, practical advice and future research suggestions end the book in Chapter Six.

This method is based on accepted academic rules and creates a sensible sequence for exploring risks in the financial community of Nepal.

2 LITERATURE REVIEW

G. P. Paudel (2021) points out that going over past research on financial risk management informs us about the stability of Nepalese cooperatives. This chapter analyses the present literature relevant in terms of financial risk management, especially as it applies to Nepalese cooperatives. It first introduces descriptive theorization for this study, followed by the subsequent section of definitions and foundational concepts of financial risk and cooperative structures from the various terms used in this chapter. Types of financial risk and techniques of handling the same are described, then supported by past research on the global and Nepal-specific perspectives. Important subjects include risk management strategies, regulations such as Basel III, and instruments including stress testing and integrated risk management systems. Gaps in past studies have also been pointed out to lay justification as to why this research is relevant and needed. The body of literature forms the theoretical and empirical foundation upon which the study is built.

2.1 The conceptual framework

To study financial risk management among Nepalese cooperatives, we rely on a conceptual framework. It identifies and clarifies the major principles guiding this research, covering financial risk management in the cooperative sector.

2.1.1 Financial Risk Management

Succeeding in managing financial risk requires finding possible sources of loss, estimating the odds of their occurring and planning how to keep them from damaging the organization's health, profit and future. The overall aim is to help businesses see, rate and control risks so they can retain the trust of stakeholders, get the funds they need, plan for their future, and succeed with their current and future targets.

Brealey et al. (2008) say that financial risk management means assessing uncertainties linked to market performance, credit responsibilities, available cash and operational activities. They believe that reducing risk and potential losses requires both assessing risks using tools like analytics and transferring parts of these risks to others.

To identify risks that could disrupt stable revenue, one must spot market swings, credit defaults, problems with delivery, liquidity issues, and operational problems. After identifying them, risks are assessed and examined using numbers and texts to find out how likely they are and what impact they might have. Research findings guide Organizations to choose strategies using investments, expansion opportunities, insurance plans or saving reserves in case of unexpected disasters. Going over security risks together and reporting those helps us develop our strategies and bring preventative steps into action fast.

Managing risk strategies greatly depends on the growth of finance. In addition, organizations make changes to their positioning in the market to help protect themselves from losses and keep enough cash when the market becomes tough.

2.1.2 Co-operatives

A cooperative is an organization founded on the principle of mutual self-help, in which members work together for their common good. However, it is important to see cooperatives as separate from other organizations, since they can be understood and managed by looking at society, the economy and culture at large, while having democratic structures in which members have equal chances to enjoy the business' benefits. It is a critical aspect of mobilizing resources for finance in rural areas, especially with respect to disadvantaged communities. The International Labour Organization (2024) defined cooperatives as "an autonomous association of persons voluntarily united to meet their common, economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise".

Individual members of cooperatives manage the business, so every member gets an equal say and equal chances in decision making. These cooperatives attempt to achieve economic goals with a social purpose, since resource growth is frequently reinvested into the community or supplied as credit to meet members' financial obligations. Furthermore, cooperatives are largely recognized at the local economic level, particularly because they provide savings and credit services to members, particularly those located in second- cities, and so contribute to inclusive financial growth.

How a company handles risk depends a lot on its financial situation. In addition, businesses modify their positions to deal better with changes in the market and have enough cash when times are tough.

2.1.3 Types of Financial Risk

Economic hazards are serious concerns that might have an unfavorable impact on cooperative institutions' efficiency and profitability. There are many major financial issues encountered in Nepalese cooperatives. Credit risk is a major issue because it looks at the possibility that borrowers cannot make their debt payments on time. This situation is harder for Nepalese cooperatives because many people they lend to depend on uncertain and restricted income, which increases the risk of not getting their loans back.

A further issue known as liquidity risk arises when there isn't sufficient money for a co-operative to meet their short-term obligations. Because of this, providing loans, refunding funds and handling member queries becomes slow. Due to limited access to crisis finances and financial reserve funds, many Nepalese cooperatives manage to maintain acceptable liquidity levels.

If external market factors, for example, exchange rates, inflation or changes in commodity prices, cause losses, those losses are called mar-

ket risk. Almost every cope in Nepal's agriculture is risky, because cooperatives in the sector must deal with constant shifts in market prices, economic crisis and international currency instabilities.

Among the internal causes of operational risk are delays in procedures, incorrect actions by staff members, and technical obstacles. Poor governance, ineffective leadership, out of date systems, and process efficiencies all contribute to operational risk. In Nepal, many cooperatives shortages proper operating infrastructure, making them at greater risk to such threats.

Also, losing stakeholder credibility and trust can strongly influence how active consumers are and the financial state of the cooperative. Examples of such risks are unethical actions, poor management, and mediocre customer service or leadership failures. Having a poor reputation may endanger both the current position and the future results brought by cooperative organizations.

Nepalese cooperatives are becoming increasingly capable of financial risks because of structural term operational and economic issues. Taking good care of financial risks with risk management is very important for the stability and achievement of Nepal's cooperative organizations in the long run.

2.1.4 Financial Risk Management of Cooperatives

Unique challenges in financial risk management are dependency on members' contributions, dependence on the market, specific rules and laws and limited access to only a few financial tools distributed by the extensions. That is why adding financial risk management to cooperatives should increase their liquidity, boost member confidence and help mitigate risks efficiently. Both Risk Management Methodology (RMP) and Basel III standards provide an orderly way to find, understand and manage financial risks. As we saw above, what applies to cooperatives generally needs to be carefully followed within Nepalese cooperatives as

well. Financial risk management and cooperatives and their link (J. C. Hull, 2023).

Cooperative organizations are in danger of financial management risks. Recognizing the structure of cooperatives and learning about their particular types of financial risks forms a key part of managing financial risk with cultural knowledge.

Cooperatives that use an exact financial risk management strategy can protect their members' stabilities and financial funds while keeping enough liquidity to run ordinary operations and meet member requirements. It also has an important impact on financial sustainability and common well-being. On a larger scale, global risk management must take into account issues such as poorly prepared markets and other operational risks that can risk the reliability and efficiency of cooperative institutions.

Therefore, managers in cooperatives and especially those in developing countries, need risk management that fits with the structure and features of their cooperatives.

2.1.5 Summary

By explaining and linking the main ideas of financial risk management, credit risk and cooperative organizations, the conceptual framework presents the main theory of the study. These fundamental concepts and how they are related will direct the analysis of financial risk management in Nepalese cooperatives. The chapters that follow will add to this by investigating previous research, the main financial risk theories, data-based findings, and pointing out weaknesses in the current body of knowledge.

2.2 Previous Research

The purpose of this section is to offer an in depth look at research undertaken on managing financial risks, especially cooperative institutions in developing countries. It discusses the main ideas, conclusions, and research methods used in earlier studies to show how financial risks were resolved in other businesses. Highlighting is put on cooperatives in developing countries, the kinds of problems they often experience in their financial systems and the strategies recommended to help deal with these challenges. By noting both strong and weak points in previous research, this section explains where the current study falls among related studies, points to remaining gaps and justifies the need for additional research in Nepal's cooperative sector.

2.2.1 Financial Risk Management Developing Countries

As developing countries face special problems, managing financial risks has grown in significance. Several of these nations regularly face economic shifts, do not have much money available, go through political turmoil, and lack strong laws. As a result, financial risks rise for organizations, particularly cooperatives which makes it harder for them to stay stable. The outcome is that more appropriate approaches are needed to recognize, study, and control financial risks according to local conditions.

Osho and Osagie (2005) examined how multinational companies address the risks associated with working in developing countries. They observed that unstable governments, bad financial systems and flimsy rules were known challenges in emerging markets. Their research shows that special risk management approaches are required in regions where usual methods do not fit the local situation. It means that financial risk management in developing countries should be flexible and match the circumstances to help organizations grow sustainably.

Egbetunde et al. (2019) said that technical expertise and available resources are frequently limiting factors in the financial risk management

practices of less developed countries. Limits such as those shown hinder organizations from using effective strategies to mitigate risks. Many developing countries find it hard to control financial risks because their people lack financial knowledge, their institutions are unreliable, and their organizations are limited. Because of these challenges, it is hard to construct effective systems to manage the rising risks in cooperative and financial institutions.

2.2.2 Financial Risk Management in the Cooperative Sector

Financial risk management has been widely covered in academic research. Traditional banks are run differently from cooperatives which depend greatly on their members, combined resources, and group decision making. The fact that cooperatives depend on limited finances, their savings and local market trends makes them face unique risks that could affect their strength and ability to grow. The unique structure and financial sources of credit unions require special approaches for managing these risks.

Ramaswami et al. (2003) said that Risk Management in Agriculture, researchers investigated the risk appraisal methodologies used by South Asian agricultural cooperatives. Their research identified critical issues such as liquidity constraints and market instability. The authors argue that risk decrease strategies should be personalized to each cooperative's unique economic, social, and operational structures. They underline the need to include members in risk choices and argue for the creation of risk assessment methods tailored to the cooperative setting.

Paudel and Khanal (2020) in their paper, "Efficient Risk Management in Cooperative Society," available in the South Asian Journal of Marketing & Management Research, researchers investigated how cooperative societies implement risk management practices. Based on the results, regulators do not pay enough attention to cooperatives and their strategies for managing risk, making these organizations more vulnerable to financial crises. The authors say that using advanced risk management helps

achieve financial stability and efficiency in an organization. They explain that strong risk management is important to maintain the reliability of cooperatives in Nepal.

Cooperatives depend on financial risk management to remain stable, but the way it is used changes widely from one location to another. Such differences are caused by differences in the strength of social institutions, the commitment of those who participate, and the particular financial situation of each cooperative. As a result, risk management solutions are designed and carried out differently according to local factors, so a general approach would not be effective.

2.2.3 Practical Evidence from Nepal and Similar Economies

This suggests that, like other developing countries, Nepalese cooperatives commonly encounter important financial problems. Examinations of cooperatives in Nepal have pointed out that the chief issues they encounter are credit risk, liquidity risk and operational risk.

D. P. Paudel and Khanal (2015) we have considered the liquidity problem in Nepalese cooperatives. They theorized that many cooperatives face shortfalls in sufficient liquidity because their income waxes and wanes with the seasons. This makes proper fund management an extraordinary task for them. The study recommends proper financial planning to address the income impacting ups and downs and keep the cooperatives stable.

Gole and Thagunna (2022) I studied the way Nepalese commercial banks oversee credit risk. According to their findings, effective credit risk management promotes financial stability within a bank, but poor management may make loans more likely to be returned and harm a bank's overall condition. Although their study was specifically about banks, the discoveries are also true for rural cooperatives when members have trouble repaying loans. Therefore, cooperatives need reliable credit risk management in place to avoid these challenges.

This research determines that Nepalese cooperatives experience financial trouble due to economic, social, and systemic factors. As a result, researchers suggest that wise and appropriate approaches are needed to control financial risks. Research from various sectors has observed similar challenges in India, Bangladesh and Pakistan such as tough access to credit, instable economies and weak tools for finance. Some of these are:

Lakshmi and Visalakshmi (2013) examined how cooperatives support financial inclusion and further development of societies. Researchers concentrated on India, where cooperatives gave a hand to active and small businesses, mainly those in areas not assisted by traditional banks. It focuses on two main issues that trouble cooperatives such as having enough funds and problems with lending to members. It points out that cooperatives need strong financial planning and management to stand firm. Nepal's cooperatives also encounter the same financial problems today, so these points are especially important for them.

Lamichane (2020) tells us about dangers faced in Nepal's microfinance institutions (MFIs) by explaining what the main risks involve and suggesting best methods for addressing them. The researchers note that Nepalese microfinance institutions, just like cooperatives, must handle issues including credit risk, liquidity concerns, and running their operations. It points out that seeking effective risk management techniques and financial stability helps these organizations achieve greater success.

A comprehensive range of developing countries frequently experience financial risks. Various aspects of the environment commonly determine how much financial risk management is required.

2.2.4 Risk Management Methods and Their Consequences

There is greater interest in different financial risk management techniques, especially looking at their performance with cooperatives in developing countries. People still disagree about how helpful these models

are. The main idea here is the Risk Management Procedure, known as the RMP.

In risk management, you start by identifying risks, then assessing them, controlling them, and monitoring them. Khadka et al. (2024) it is said that better financial management and accounting practices by Nepalese agricultural cooperatives will help them manage risks. With this approach, managing liquidity and credit risks becomes much easier for them. It would improve the way they organize risk management and start planning.

Basel III assists banks by requiring them to save capital, manage liquidity well, and control the dangers associated with financial risks. It is, however, very challenging to implement Basel III in cooperatives, mainly in countries like Nepal. Ale B (2002) Note that, because the infrastructure is weak and financial support is limited, it becomes difficult for the rules on capital and liquidity to be followed totally by the banks. Since they don't have suitable capital, cooperatives have challenges following the standards required by Basel III.

Basel III ensures that banks are stable by requiring them to have enough capital, enough liquidity, and to respond well to financial risks. The regulations are created mostly for commercial banks in advanced economies. Still, it is very difficult to apply Basel III standards to cooperatives in Nepal and similar developing nations. Such standards cannot be fully adopted, according to Ale B (2002), because companies face difficulties related to their financial infrastructure and institutional abilities. Most cooperatives in Nepal work with little money and do not have advanced financial systems. For this reason, they cannot fulfill the tough capital and liquidity requirements set in Basel III. In addition, cooperatives tend to get less instruction, support in specialized areas, and features for measuring risks. So, although Basel III provides support for managing risks, using it fully in Nepal's cooperative sector would need substantial financial and institutional improvements.

Crouhy et al. (2000) said that credit risk models make heavy use of statistical measures to make predictions on credit defaults and assess the important of losses that financial institutions might have to bear under different economic conditions. Such models usually incorporate some stress testing to see how the credit risk may shift with economic changes, thus creating a very powerful and useful tool for big financial institutions that want to enhance their risk forecasting abilities. However, at this very moment, the model is perhaps less implementable in developing countries like Nepal. By implementing their risk theories, Crouhy et al. (2000) identified that cooperatives in these areas cannot effectively utilize advanced risk models and stress tests merely because of the lack of reliable data and infrastructural constraints. Until such boundaries are lifted, modern methodologies for evaluating credit risk will continue to be inaccessible to credit unions in emerging economies in their attempt at controlling and lessening credit risk.

2.2.5 The Gaps in Past Research

Although a number of research studies have been done on financial risk management in cooperatives, many important gaps still exist, mainly due to the specific social, cultural and organizational context of Nepalese cooperatives. Most of the existing works cover popular risk management ideas or analyze practices in developed nations. Still, no one has spent enough time analyzing the issues affecting cooperatives in Nepal. The lack of proper research means it's hard to see what these cooperatives really deal with locally.

Although much research on risk management has been carried out, a huge void remains when one turns to studies that mirror the financial and organizational realities of cooperatives. Much of the literature ignores various contextual constraints unique to Nepal: local economic constraints, cultural norms, and scarcity of resources all factors critical in how cooperatives managing risk. As such, the overall risk manage-

ment approaches do not solve the problems faced by Nepalese cooperatives adequately, thus creating a poor gap in the existing research corpus.

For the most part, research intended for assessing the financial performances of cooperatives in Nepal tends to be highly speculative, and at times lacking in precision. Usually, previous research fails to go deep into relevant fields of financial risks like credit hazard, liquidity risk, or market risk, further neglecting to provide proper analytical or empirical analysis. On top of that, they tend to completely disregard how those risks interact with other aspects having implications for the general financial strength and viability of cooperatives in Nepal. Therefore, the formulation of an obvious definition of the particular financial problems facing cooperatives still missing presents an interesting research opportunity.

Theories of financial risk management such as Basel III and the Risk Management Procedures (RMP) are thoroughly discussed and evaluated in various literature. Minimal work is, however, done in understanding their actual implementations in Nepalese cooperatives. There still exists quite a high gap in understanding how these models could be adapted to complement with let alone be newly developed to meet the peculiar problems faced by cooperatives in Nepal. The deficiency of research in practical application requires urgent attention to context sensitive risk models for the kind of operation these institutions are involved in.

Furthermore, there has been little research on the relationship between organizational regulations, individual cooperation, and financial hazard management methods in Nepalese cooperatives. The impact of legislative frameworks and larger economic policies on risk management techniques is largely unknown. Furthermore, the role of people in the creation and implementation of risk management strategies has not received sufficient attention. This highlights the importance of understanding how regulatory contexts and personal involvement impact risk management

efficiency, indicating a critical subject for future research to improve co-operative sustainability.

The approaches towards financial risk management in Nepalese cooperatives will be better understood by filling in these knowledge gaps. It will also help in evolving feasible strategies personalized to their needs and operating conditions.

2.2.6 Summary

In the current study, recent research in financial risk management in developing countries is reviewed, concentrating on how cooperatives go about managing risks, with illustrations drawn from Nepal and its surroundings. The studies show that whereas financial risk is faced by numerous developing nations, Nepalese cooperatives face certain distinct financial risks that require special, flexible approaches to risk management. The revealing literature in this area calls for such a study, which seeks to generate new data, assess the issue of financial risk management with respect to Nepalese cooperatives, and propose viable solutions that fit their local setup.

2.3 Financial Risk Management Approaches of Finance

It is important to manage financial risk in institutions like banks and cooperatives; by doing so, they are able to identify potential risks, assess their effects, and take action to mitigate them, helping thus with financial stability. Thus, by furthering capital and liquidity management, global standards try to enhance the whole system. Nepal Rastra Bank, (2018) Instructed cooperatives to observe particular guidelines for risk management and regulatory compliance. Cooperatives will learn about different kinds of credit risk, liquidity risk, and operational risk-through these rules, and take measures for their management. Besides, the rules produce compliance with national regulatory standards, which further results in the strengthening of the financial system.

2.3.1 The Risk Management Procedure (RMP)

The Risk Management Procedure (RMP) outlines an organized structure for Nepalese cooperatives to successfully handle financial risks. It was designed by Nepal Rastra Bank (NRB) using worldwide best practices to improve the financial health and governance in the cooperative sector. (Nepal Rastra Bank, 2018).

To effectively manage financial risk, cooperatives in Nepal must first accurately recognize the numerous risks they face. These cooperatives face a number of significant financial issues, including credit risk, which results from late loan repayments, annual income changes, and borrowers' failure to meet their obligations. A lack of funds due to occasional late member contributions or planned borrowing is known as liquidity risk for cooperatives. Inefficiencies in government sponsored initiatives, technology breakdowns, and poor internal control systems all contribute to increased operational risk. Broader issues such as inflation and moving agricultural commodity prices, also shape market risk. Identifying those risks is critical for building effective risk management techniques specific to Nepal's cooperative sector.

Risk assessment requires assessing both the chance of risk occurrence and its probable economic effect on the cooperative. To get a good understanding of the risks, this approach depended on both quantitative and qualitative analysis using past finance data, repayment patterns of members, and current market circumstances. Delaying risk management or control strategies after learning of issues is not recommended, as a cooperative's finances might be at risk. Financial institutions use credit variation to decrease the odds of borrower default, collect and store money for emergencies, and control cash levels. In this way, cooperatives have effective responses to unexpected financial problems.

Companies should keep monitoring risks and regularly review external factors to check the success of their risk management program. Internal and external reviews are done regularly, watching finances in action is

possible, and all needed reports are delivered promptly to support openness and accountability. Such monitoring procedures assist in recognizing developing risks and assessing the usefulness of risk management strategies that have been applied. Moreover, when activities are tied to Nepal Rastra Bank's (NRB) guidelines, cooperatives can be sure they are stable and obey regulations.

2.3.2 Basel III Principles Applied for Nepalese Cooperatives

Basel III is an international regulation designed to address the issues raised during the 2007-2008 financial crisis. In Nepal, the Nepal Rastra Bank (2018) incorporated Basel III into its laws for financial organizations, including cooperatives. These guidelines help financial organizations become stronger by enhancing their risk management, maintaining capital, liquidity, and overall stability.

Nepalese cooperatives must keep appropriate capital reserves to protect against unknown financial losses and maintain overall stability. Because of it, the cooperative can carry on its activities in the face of market and operational difficulties. Cooperatives should keep a significant amount of their assets liquid in order to meet requirements such as member payments or unexpected loan repayments. Properly balancing liquid finances guarantees that, even during times of outstanding financial need, all legal obligations and responsibilities may be satisfied without affecting the cooperative's operations or member trust.

Cooperatives should use caution when using financial tools to prevent exposure themselves to unnecessary hazards. Taking up too much debt can cause instability and financial problems, especially during times of economic uncertainty. Cooperatives may preserve stronger financial welfare and run more smoothly by reducing their dependency on borrowed capital. This moderate financial strategy not only promotes long-term viability, but it also helps to create and maintain member trust in cooperative leadership and decision making procedures.

Basel III pushes for effective risk control and governance frameworks; for cooperatives, this involves actions in adopting whatever is necessary by The Nepal Rastra Bank (2018). To safeguard against potential systemic financial threats. Cooperatives must maintain accurate and genuine governance procedures through effective regulation, evaluation, and risk mitigation measures to ensure financial stability. The advantages of cooperatives would then be to increase their governance capability and maintain risk management in a sustainable manner according to stability, while also keeping to all known country based regulations and regulatory standards.

Cooperatives should make a coordinated effort to avoid finding themselves in risky situations through significant financial pressure. Having a controlled number of members is important for the cooperative's financial stability, preventing sudden instability, ensuring it stands firm over time, and helping members stay trusting in the way it is governed. Regarding risk management, there is a strong highlight in Basel III on the effectiveness of supervision systems. For Nepalese cooperatives, this entails following the directives issued by Nepal Rastra Bank (2018) which seek to prevent systemic financial risks. Cooperatives are expected to handle governance using effective monitoring, reduced risk, and compliance with national rules. Improving the central committee's abilities improves the finances of the cooperatives and ensures they obey the laws made by regulators.

The Basel III requirements, which are in force in Nepal, will require cooperatives to have sufficient resources and liquidity. Additionally, they must adhere to the proper operating frameworks and savings as allowed by regulatory regulations. Additionally, they need to implement crucial risk management strategies recommended by Nepal Rastra Bank (NRB) to enhance sustainability and financial stability.

2.3.3 Cooperative's NRB-Specific Requirements

Nepal Rastra Bank (2018) Included risk management instructions that cover most issues of governance and ways to manage financial risks related to Nepalese cooperatives in its 2018 guidelines. They do not allow these cooperatives to do anything outside of the rules. So, these guidelines help ensure that the interests of members are kept safe and stable. The areas that cooperatives need to consider under NRB rules are:

In Nepalese cooperatives, efficient risk management is known to be a dangerous factor in decreasing financial and operating losses. To reinforce this, cooperatives should form dedicated risk advisory boards and apply risk management methods that are based on global frameworks but suitable for country conditions. Using this technique, governments and cooperatives can become steadier and more likely to be successful in the coming years. Financial stability for cooperatives depends a lot on having sufficient liquidity and funds. The regulations of Nepal Rastra Bank (NRB) say that cooperatives need adequate cash to cover both member payments and any short-term expenses. Proper liquidity management provides continued operation, while sensible investment supports growth and financial stability.

Lending risk management in Nepalese cooperatives involves exacting lending restrictions that necessitate regular assessments of borrowers' repayment capacity. By constantly assessing loan quality, cooperatives can avoid extending dangerous loans, particularly in high-risk areas, reducing failures and ensuring that credit is supplied to financially competent people. Keeping operations and finances in good condition depends greatly on having internal audits.

Because NRB frequently audits these policies, cooperatives are assisted to follow risk management rules and concerns are seen early. Furthermore, cooperatives have become used to meeting regular reporting. Updates on liquidity, capital and overall financial stability are regulatory

requirements for the NRB and the Department of Cooperatives. This systematic reporting method not only assures regulatory compliance, but it also minimizes the expense of performance paperwork, supporting more responsibility and transparency within cooperatives.

The NRB has also introduced rules that make cooperatives work more transparently by requiring them to show risk management systems to all members. By using this strategy, citizens can take part, officials are held responsible, and the public is more confident.

2.3.4 Loan Differentiation: A Risk Reduction Strategy

The practice of cooperative lending reduces risk since it shares a bank's money among various economic sectors and borrowers. Because of this practice, the cooperative isn't overly dependent on only one sector or group, so losses from economic recessions or sector troubles are kept at a minimum. When cooperatives encourage diversification, their financial stability goes up and their risk of major defaults in one area decreases.

Nepalese cooperatives provide loans in a variety of industries, including agriculture, small and medium sized businesses, education, accommodation, and business improvement. This sectorial diversity is critical for addressing the different needs of members while lowering overall financial risk. Cooperatives can better protect themselves from particular sector declines and changes in income by diversifying their funding portfolios across various disciplines. This risk-mitigation strategy protects cooperatives from financial crisis during economic crises while also ensuring stable and long-term financial performance.

In addition, the Nepal Rastra Bank provides guidance to cooperatives to adopt loan diversification to reduce the chance that borrower defaults happen due to a rise in market interest rates. The strategy is built on making the entire financial sector stronger.

2.3.5 Analyzing the Stress and the Situation

According to the Nepal Rastra Bank (2018) Risk Management Guidelines, stress testing is now being highlighted as a main method for measuring risk. Stress testing permits understanding how a cooperative society might respond under different economic conditions, bringing to light certain problems in its financial arrangement. In Nepal, cooperatives carry out stress testing assuming various circumstances like.

2.3.6 Economic fluctuations

Economic events or disasters affecting farming can create quick and important challenges for agricultural cooperatives that offer loans. A fall in agricultural output might result in an increase in defaults on loans, undermining cooperatives' financial that underlie. They become less able to cover their costs due to the lack of extra money. The possibility of interest rates changing and supply chain disruptions can bring more stress to cooperatives because it makes it tough for them to manage resources over a short period, making them more unstable during hard economic times.

For reducing these risks, cooperatives use stress evaluations as a preventive risk management strategy. Stress tests analyze a cooperative's ability to deal with short-term financial shocks, identify underlying weaknesses, and identify measures that improve these shortcomings. This makes cooperatives follow the law, getting them ready to respond to coming economic challenges and keep financial stability.

2.3.7 Integrated Risk Management System (IRMS)

Through IRMS, cooperatives work, every time they make a financial transaction, to notice and control risks before they turn into problems. It is important in this system to detect problems early and respond as soon as possible. These parts are seen as fundamental to the framework.

A central hazard management system that combines different types of risks such as functionality, credit or liquidity into a single framework enables cooperatives to effectively evaluate and manage their financial liabilities. It is more effective to not separate various risk management actions, since this leads to better evaluations and organized responses. Besides such an arrangement ensures better cooperation between the main players, including the Nepal Rastra Bank (NRB) and Ministry of Agricultural Development (2018) the Ministry of Agricultural Development and the cooperatives themselves. As a result of this relationship, cooperatives can satisfy the rules, use smart solutions and practice environmentally friendly finance which supports their future stability and ability to adapt (Nepal Rastra Bank, 2018).

Risk evaluation, risk reduction effort and the application of such measures must follow the Nepal Rastra Bank's guidelines as well as global financial standards to make sure Nepalese cooperatives develop successfully in the worldwide financial market

2.3.8 Summary

Efforts to avoid financial risk vary among Nepalese cooperatives. The guidelines come from the Risk Management Process (RMP), Basel III principles and the Guidelines From Nepal Rastra Bank (2018). They also depend on useful methods like having different types of loans and testing for challenges to address risks of funding, leadership and running, and serving the cooperative and its members well.

To deal with these problems, cooperatives are advised to act according to the guidelines by NRB and Basel III. As a result, they enhance their finances, work more productively and earn more trust among their community members.

2.4 Investigations on financial risk management in Nepal as well as similar economies

Research tells us how cooperatives address financial risks and how their methods help them stay financially healthy. Studies in countries like Nepal explore challenges for cooperatives, the ways they handle risks and what comes from using different methods.

2.4.1 Risk Management for Nepalese Cooperatives

D. G. Paudel (2018) said that managing credit risk is challenging in Nepalese cooperatives due to weak evaluation, a shortage of skilled individuals and weak rule enforcement. According to the study, strong and orderly credit risk management plays a key role in maintaining a stable financial situation and preventing failure. For this reason, the research process starts by looking at the credit risk assessment process of Nepal Rastra Bank in cooperatives.

2.4.2 Financial Wellness and Risks in Advanced Financial Markets

Mahanama et al. (2024) tell us financial wellness indicators are important for tracking stability and resolving unexpected problems like loans not being repaid and problems with cash flow. Using these indicators will help design effective risk management for organizations, including all Nepalese cooperatives, to ensure better financial protection and lower risks.

2.4.3 Such cooperative risk setting

G. P. Paudel (2023) examine providing financial services for cooperatives. Nepal's state is greatly troubled due to poor political leadership on one end. Political actions caused the entire second side of the waste.

On Nepalese cooperatives, particularly in terms of technology hazards and macroeconomic concerns.

An additional crucial area with little research is member feedback. Because cooperatives are based on community participation, understanding members' opinions on financial risk & their contribution in reducing that risk is critical. However, few research has investigated these issues in depth.

Another major global trend, adoption of technology for risk management, has received insufficient attention in Nepal. In equivalent economies, digital techniques have demonstrated potential for enhancing credit risk evaluation and early alert systems. However, there has been little research on the use and possibilities for these resources in cooperative institutions in Nepal.

Furthermore, the link between governance methods and financial risk results has not been thoroughly investigated. Governance is essential for managing and mitigating risks. G. P. Paudel (2023b) said that there is a great need to investigate this link further to strengthen risk management in cooperatives.

Basel III offers good insights globally, but its usage in the Nepalese cooperative sector is not yet fully considered. Similar investigations with cooperatives in India and Bangladesh are likewise rare, although such study could provide practical ideas and models to improve Nepal's cooperative risk management strategies.

2.5 Conclusion

Fixing these issues requires careful analysis of more data. It also means testing how each regulation functions, reviewing recently developed technologies, and hearing the thoughts of other members. If Nepalese cooperatives apply a complete risk management strategy using the best worldwide practices, they will be stronger and fixed in the future.

3 METHODOLOGY

Alan Bryman (2016) Considered choosing the correct methods to be vital when studying problems in financial management of Nepalese cooperatives. The author outlines what steps were required to research these issues, including selecting how to study, obtaining data, dealing with challenges in the data, and guaranteeing the study's accuracy and reliability.

3.1 Research Design

John W. Creswell (2014) pointed out that interviews and questionnaires can help us learn about people's thoughts and emotions related to a topic. To understand the financial risk management of Nepalese cooperatives better, the study used these methods. This method gives researchers a better view of what members of these cooperatives really experience and think, helping to reveal the ways they manage financial risks.

The findings in this research come from interviews carried out with managers, loan officers, board members, accountants, and members of cooperatives. Information about credit risk, liquidity, and problems with governance can be found in these interviews. In addition, questionnaires were provided to help direct the talk and record clear, ordered details on financial risk management practices during the interviews. This way of working enhanced the results obtained from interviews with cooperative stakeholders.

3.2 Data Collection Methods

The purpose is to bring attention to the details of financial risk management found among Nepali cooperatives. Participants were interviewed

using semi-structured interviews and completed questionnaires. Interviews are widely used in studying financial risk management as they allow researchers to learn the details of what participants think and live.

Semi-structured interviews were done with loan officers, administrators, board members, and accountancy from cooperatives who were chosen based on their financial management ability and engagement in important risk areas. The interviews were meant to help participants understand the various financial risks that cooperatives confront, including credit risk, liquidity limitations, and governance issues. They additionally examined risk-management measures, such as individual cooperative evaluations and general investment approaches. V Braun (2006) also talked about other themes, including the risks linked to rules and inflation for finances and the role that technology plays in controlling them. Every interview lasted 20 to 40 minutes, and it was arranged in person or online, according to the applicant's accessibility. Nowell et al. (2017) said that recording permission was given in an informal way and every interview was transcribed so that analysis using NVivo software was possible. Two of the research assistants conducted field processing once the data was entered to ensure things were completed regularly.

3.3 Empirical Data

Sharp (2003) said that often qualitative researchers use purposive sampling to pick individuals who have real experience with the subject studied. During this research, information was gathered through semi-structured interviews with 10 people from different areas of Nepal, each part of various cooperatives. As a result, the participants understood key issues related to managing financial risks.

We conducted data collection from January through February 2024. All the interviews were set to last 20-30 minutes and could take place in person or via Zoom or Microsoft Teams. Many experts now recognize

that online interviews speed up the collection of interesting qualitative data, yet offer participants ease and comfort.

Braun (2006) explained the interviews were written down from the audio recordings using the transcription feature in Microsoft Word. The analysis involved gathering patterns and themes from what the participants said using thematic analysis. Nowell et al. (2017) discussed the process where transcribed data was classified and grouped into major subjects of financial risk management. Having cooperatives in the same group let us identify similarities, meaning the conclusions were valid for all participants.

3.4 Reliability and Validity of the Data

To ensure consistency and authority of the data in this qualitative research, strategies were applied to make findings more trustworthy. First, interview data was compared with existing literature on financial risk management in cooperatives, sinking areas on agreement and disagreement. Second, participant validation (member checking) was done by summarizing salient points during and after the interview and checking back with respondents. Third, a formalized interview protocol was followed, whereby questions had been identified and prepared beforehand to be asked during each interview to ensure consistency and also to allow for comparison. Last, with regards to validity of research and keeping wholesome for reference in the future, transparency in data collection was maintained by detailing all steps of how data designs were carried out, including interview notes and evaluations.

3.5 Data Analysis

The qualitative information collected during interviews was analyzed using thematic analysis and NVivo. The first step was to get used to the subject by thoroughly examining the transcripts several times. The data

was then carefully coded using NVivo software, which allowed for improved arrangement and classification of the participants' responses (Zamawe, 2015). Following that, topics and sub-themes related to financial risk management were discovered, including risk of liquidity, credit risk, and minimizing risk challenges. In the interpretation stage, the findings were checked against the theory, helping to see how the existing risk management strategies work and what problems cooperatives face. Finally, an assessment of corporate methods indicated in the interviews was conducted, providing additional information into how various cooperatives deal with financial risks in practice.

3.6 Ethical Considerations

Principles of ethics were used in every decision in the research process. All participants received clear information about why the study was being done and joined the interviews because they wanted to. The identities and company names of the individuals were not made public. The researcher made sure to get written permission from each participant before any interview. Everything we collected was kept safe and used only for this research, so all ethics were observed.

3.7 Summary of Methodology

This research applied a qualitative approach to explore financial risk management by Nepalese cooperatives. Participants were carefully picked and interviewed using a semi-structured method since they possessed good knowledge of the subject. The data was analyzed using the theme method with NVivo. Clear and fair processes were followed to keep the results accurate in the study. Using this approach helped illustrate what kind of risks are faced by cooperatives and the methods they employ to address them.

4 RESULT

In this chapter, the results of the study are put forth based on the thematic analysis from interviews conducted with ten participants working in Nepalese cooperatives, such as managers, board members, accountants, and finance officers. Several recurring themes arose during the interviews, which were analysed using NVivo, that answer the research questions posed in this study. These themes form a basis of understanding in terms of the main financial risks challenged by cooperatives, the effectiveness of the risk management approaches applied, the impediments faced in the implementation of risk-mitigation mechanisms, and finally, suggestions to be followed for a long-term solution.

4.1 Most Common Types of Financial Risks Faced by Nepalese Cooperatives

It emerged from the analysis that credit risk, liquidity risk, and market hazard were those few commonly cited financial risks affecting Nepalese cooperatives today. One would find these risks mentioned on several occasions during all interviews, therefore granting them the utmost importance in day-to-day financial operations as seen in Table 1:

Liquidity Risk (80%): This was the most identified risk. Many of the respondents said that receiving erratic income, the pattern of seasonal incomes and delays in loan repayments were serious difficulties. They often precipitate cash-based situations that disrupt normal operations and reduce financial flexibility.

Credit Risk (70%): Participants indicated that cooperatives sometimes grant loans without adequate collateral or proper credit assessment. Because of this, many cannot meet their payments which threatens the organization's money and discourages other members.

Market (60%) : The main reason for financial problems was said to be changes in the economy, inflation and changing customer demand. In the Small-scale impact rates of these risks were felt in times of wider national or world economic disturbances.

Operational Risk (40%): Though less frequently mentioned, some participants voiced apprehensions about weak internal processes, poor keeping of records, ill-trained staff, and the absence of strong procedural controls, and all of these conspire to cause inefficiencies as well as a greater risk of human errors.

The results are consistent with prior research, suggesting that better and more consistent ways to spot risks are needed in Nepalese cooperatives. The pie chart as seen in Figure 1 indicates the proportion of replies for each risk type, emphasizing the importance of credit risk and liquidity hazard in the cooperative environment.

Table 1. Financial Risk Perception in Nepalese Cooperatives

Risk Type	Percentage of Participants Mentioning it
Liquidity Risk	80 %
Credit Risk	70 %
Market Risk	60 %
Operational Risk	40 %

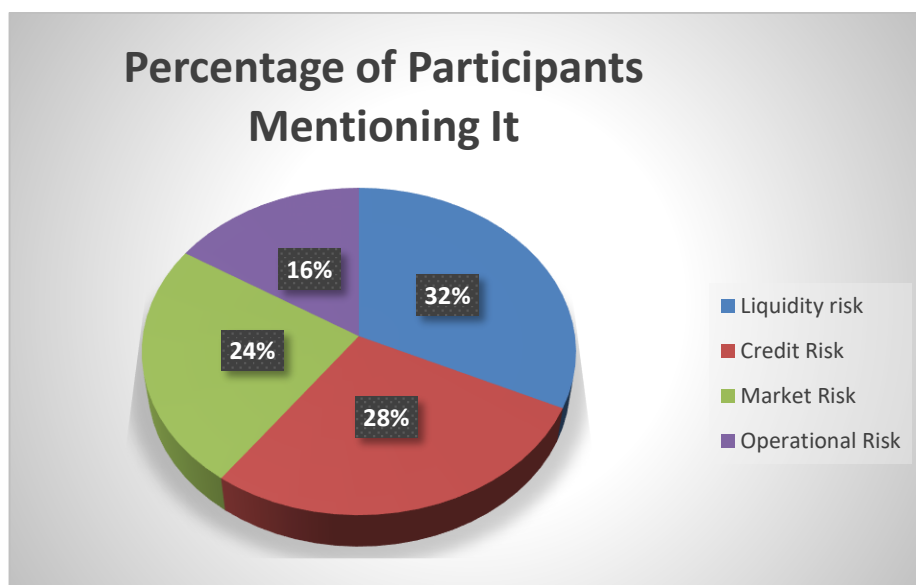


Figure 1. Distribution of Perceived Financial Risks in Nepalese Cooperatives

4.2 Effectiveness of Financial Risk Management Practices in Nepalese Cooperatives

The study discovered that present risk management techniques in Nepalese cooperatives are mostly informal, incompatible, and reactive. The insights collected from interview replies to highlighted important flaws in both the framework as well as execution of risk management techniques. The key findings are given in Table 2 below.

Table 2. Current Risk Management Practices in Nepalese Cooperatives

Practice	Usage (%)	Effectiveness Rating	Remarks
Emergency Reserves	70 %	Low to Moderate	Not consistently maintained or strategically planned

Informal Credit Checks	65 %	Low	Lacks structured evaluation criteria or scoring system
Loan Diversification	50 %	Moderate	Limited by size and sectorial concentration of co-operatives
Credit Scoring Models	10 %	Not Applicable	Rarely used or entirely absent
Early Warning Systems & Scenario Analysis	5 %	Not Applicable	Almost completely lacking
Manual Processing of Financial Records	90 %	Inefficient	Increases errors and slows decision-making



Figure 2. Usage of Risk Management Practices in Nepalese Cooperatives

According to the results of the survey seen in Figure 2, Nepalese cooperatives largely use traditional risk management approaches such as crisis reserves, informal financial checks, and basic loan investment diversity procedures. However, these techniques are not supported by organized risk management strategies or defined policies, resulting in insufficient execution and limited effectiveness. Most cooperatives continue to operate without standardized tools like credit modeling, scenario preparation, or early warning systems. In fact, about 90% of those interviewed expressed concern about this absence, indicating a responsive quite than practical methodology to financial risk management.

Furthermore, most cooperatives still rely primarily on manual methods for accounting and financial assessment. The use of manual methods in finance opens the door to errors and lowers the certainty of good decisions. Members' responses pointed out that these weaknesses usually cause trouble by making people fail to repay their loans, ending up with financial shortfalls and leading to unhappy cooperators. These findings

point to a major difference between existing risk management procedures and internationally accepted requirements such as Basel III, which highlight formal systems for monitoring, stress assessment, and internal controls. As a result, institutional reform, skill training, and the use of technology driven tools are urgently required to expand Nepalese cooperatives' risk management capacities and increase their overall financial capacity.

4.3 Challenges and Limitations in Financial Risk Management in Nepalese Cooperatives

Based on participant observations and theme analysis, many critical measures were identified to develop financial risk management and ensure the durable health of Nepalese cooperatives. A prominent proposal was the implementation of formatted risk management frameworks customized to the cooperative context. Respondents stressed the need for internal controls, risk registers as well as the adoption of formal monitoring instruments modeled after global requirements such as Basel III. Participants strongly recommended targeted training programs for staff, members of boards, and cooperative members to improve their understanding of financial risks and their ability to analyze and respond appropriately. Furthermore, enhancing financial literacy surfaced as a pressing necessity.

Next, digital transformation was fiercely discussed. Many insisted on switching away from manual systems to digital accounting systems, mobile banking solutions, and perhaps some automated risk assessment tools for accuracy, transparency, and real-time decision-making. Respondents wanted the government and cooperative regulatory authorities to change the existing legal framework and offer institutional support for cooperatives willing to enter formal risk management practices. Alongside technological advancement, stronger policy and regulatory support were sought. As a result, these proposals present strategies for

the present and for the near future that could highly influence the well-being and confidence of cooperatives in Nepal.

4.4 Guidelines for Better Managing Financial Risk and Sustainability in Nepalese Cooperatives

Drawing on participant views and thematic analysis, a combination of practical and future-oriented strategies was proposed for the betterment of financial risk management in Nepalese cooperatives. Regarding this, often stressed is the adoption of formal risk management systems based on international frameworks, such as Basel III, but customized for the cooperative sector within Nepal. Respondents felt that there was a need to implement internal controls, maintain risk registers, and employ formal monitoring tools. Such systems will enable cooperatives to administer risks proactively instead of engaging in ad hoc responses.

Another important topic found was the enhancement of financial knowledge among cooperative stakeholders. Participants recommended organized training courses for board members, administration staff, and cooperative members to improve their understanding of financial hazards and capacity to recognize, evaluate, and respond appropriately. Improving risk literacy was seen as a vital step toward equipping cooperatives to manage uncertainty more effectively.

Throughout the investigation, digital transformation emerged as a dominant subject. Many participants suggested changing from manual financial procedures to digital platforms like accounting software, mobile banking, and controlled risk assessment tools. These technologies are supposed to improve accuracy, eliminate delays, and enable more informed financial decisions. Participants also advocated for enhanced policy and regulatory encouragement from the government and collaborative regulatory agencies. They focused on the need to fix existing regulations and offer back-up to cooperatives intending to improve their risk management policies. A combination of quick strategies and ongoing

changes is used in these initiatives to strengthen and secure Nepalese cooperatives financially.

4.5 A summary of the results chapter

The studies exclude financial cooperatives but show that primary factors affecting Nepalese cooperatives include liquidity, credit, and risk, with liquidity being the most significant. At present, it is common for risk management to happen without official systems, to be done by hand and respond fast, but not consistently. Cooperatives tend not to use credit score models, alert systems or analyze different scenarios which reduces how effectively they can manage risks.

Many countries have basic financial education, poor internet infrastructure and weak regulations as their main challenges. Many participants believed formal systems for managing risk, digital developments and learning new financial skills should be set up. Proposals were made to use worldwide standards like Basel III and adjust them to fit cooperatives. All things considered, Nepalese cooperatives are better positioned for repayment when they modify their understanding of risks, tools, and leadership. These findings serve as the foundation for the chapters that follow, which discuss and provide recommendations.

5 SUMMARY AND DISCUSSION

This examines what methods of managing risk are used by Nepalese cooperatives which are important for supporting communities that are financially poor. Their key role although, these cooperatives are at high risk of liquidity, credit and market problems. It was discovered that companies most often deal with these risks using informal and unreliable practices that lack both regulation and technology.

Interview data were organized and studied using thematic analysis with NVivo software. According to the results, only a small percentage accepted formal risk management structures, there was little use of digital technologies and a big gap was seen in financial literacy within the cooperative network. They lead to worries about the financial strength of the industry. Strict ethical guidelines were in place during the whole research, guaranteeing that participants' details stayed confidential and the studies were done well.

Especially, the study delivers information that may shape both educational and political practices. It demonstrates that collectives in Nepal should have clear risk guidelines, more financial education, use of IT and stronger rules to better sustain how they operate.

5.1 Assessment of the Thesis Topic, Implementation, and Ethics

Looking at financial risk management in Nepalese cooperatives is especially important and timely. Many economically poor people rely on cooperative banks, since normal banking is absent where they live. Yet, because banks are kept away from profits by loan risks, cash problems and unstable markets, they should use stronger risk management techniques, but often do not.

Purposive sampling was carried out by contacting board members, financial officers and managers, all of whom have experience managing

finances in cooperatives. NVivo helped ensure that all data analysis was consistent which strengthened the study's reliability.

The guidelines of ethical behavior were followed at all times. Informed permission was obtained from everyone involved to ensure privacy for personal information. The method followed academic standards, assuring the results were reliable and free from preference.

5.2 Comparison of Initial Research Queries

The results of the study give straight answers to the first questions about each type of financial risk and how to manage them. A changeable flow of income and ineffective cash flow planning caused liquidity risk to top the list of concerns, reported by 80% of participants. Not properly checking the wealth of borrowers led to loan defaults which increased credit risk. As for market risk, it was caused by sudden changes in the economy and inflation.

While cooperatives recognized the risks, most solutions were simple and they had limited resources for training or standard tools for handling risks. Not having digital tools allowed them to struggle when monitoring, assessing and managing risks. Such evidence hints that avoiding risk is not just about procedures but also depends on wider weaknesses in infrastructure, rules and training.

A side benefit was that more cooperative leaders started to appreciate the benefits of digital financial services. Even so, adoption was prevented by not having enough money, old infrastructure and lacking technical skills. Since these conditions have emerged, more studies are needed to see if Basel III and other frameworks can be applied to cooperatives and what digital transformation means for better financial oversight.

5.3 Recommendations

The research acknowledges that there is a big difference between hypothetical management models and the real practice in Nepalese cooperatives. Although many recognize liquidity, credit and market risks, many cooperatives rely on old and unclear processes which can make them more at risk for disruptions.

It is important to tackle the major problem of not enough financial literacy among those who lead and participate in cooperatives. Practical training and workshops should be arranged to enhance employees' abilities in finding, assessing and responding to risks. These steps require government and institutional backing to make them available to many schools and districts.

It is also important to focus on digital transformation. Several cooperatives continue to rely on traditional, slow and error horizontal methods. Modern and easy to use software, developed for small cooperatives, could make risk monitoring, recording and control much better. Rolling out relatively simple digital risk solutions could help you make the first steps toward being more modern.

Using NVivo for thematic analysis in the research process helped to strengthen how well the study was carried out. It made it possible to find patterns and offer recommendations supported by evidence. Thus, when carefully done, qualitative research can help reform the financial risk management processes in cooperatives.

6 CONCLUSION AND RECOMMENDATIONS

This report suggests that Nepalese cooperatives face significant financial risks, mainly those regarding credit, liquidity, and the market. Although board members recognize the importance of addressing such risks, most cooperatives lack complete financial risk management (FRM) procedures in place. Instead, they frequently rely on informal, based on expertise in decision-making procedures. Furthermore, while being aware of the benefits, there is a lack of knowledge regarding finance and a low use of digital technologies. Governance and compliance concerns are present mirroring issues encountered by financial cooperatives in other economies that are developing. These results indicate the critical requirement for systematic methods of financial risk management with the goal of maintaining Nepalese cooperatives' long-term success and expansion.

6.1 Summary of Key Findings

Based on qualitative data and theme analysis with NVivo software, the study highlights liquidity risk as the most important issue for Nepalese cooperatives. This problem results from sudden changes in money transactions, seasonality of members' income and unapproved withdrawals by cooperative members. Many cooperatives lack defined financial structures and rely on informal practices. Although leaders realize the value of understanding finances and digital resources, their implementation is limited. Compliance gaps and ineffective governance structures worsen the issue. These findings satisfy global research, which indicates that cooperatives in emerging markets face similar challenges. As a result, well-defined applications, tools, and training activities are crucial for increasing Nepalese cooperatives' financial management capacity.

6.2 Implications

In terms of policy, this research underlines the importance of changing Nepal's cooperative financial regulations. Current policies are out of date and insufficient to manage the growing number of financial issues. Regulators should consider applying new laws that meet international requirements like Basel III to make cooperative finance stronger and able to change. In addition, providing easy to understand financial training for leaders and members of cooperatives improves their abilities to make good financial choices and manage their group effectively. With investment in mobile banking, financial management apps and real-time reporting, cooperatives can work more effectively with their members.

6.3 Practical Recommendations

On an economic level, Nepalese cooperatives need to concentrate on building internal risk management procedures that are appropriate for their size and capacity. Improving financial stability can be done by continuously spotting risks, using a range of income resources, and building up crisis funds. Training programs should be set up by cooperatives to help both staff and board members better manage their finances. Stronger networks with banks and micro finance organizations can help cooperatives get financial resources and useful tools for managing risk. Through partners, knowledge might be shared more easily and lead to better management of finances.

6.4 Strategies for Financial Flexibility

To increase their financial durability, cooperatives must prepare contingency plans to deal with unexpected losses such as failures to repay, economic recessions, or sudden withdrawals. It is important for these plans to include ways to save money, quick access to finance if needed, and easily adjustable operations. Government incentives, such as tax

breaks, electronic tools payments, and training money, can help cooperatives implement risk-management techniques. Capacity building programs run by both governmental and nongovernmental organizations will be critical in enabling leaders in cooperation to make intelligent and financially responsible choices. These initiatives will boost the sector's contribution to national growth while also improving members' economic and social conditions.

6.5 Future Research Directions

Future research should look at the role technology provides in financial risk management among Nepalese cooperatives. Mobile banking, electronic fiscal systems, as well as online payment methods can all be studied for their usefulness in lowering financial risks and boosting operational efficiency. Studies should also identify problems that make it hard for some people to accept digital services, including cost, the skills required, and disliking change. By understanding these problems, it becomes possible to develop answers that are better suited for digital changes in cooperatives.

It is important for future research to examine how technology is used in risk management by Nepalese cooperatives. Researching mobile banking, digital fiscal systems and different payment methods can show if they help limit financial risks and increase how smoothly operations go. The study should also explore what is preventing their digital shift due to strong costs, deficiencies in specialist abilities, and resistance in wanting to alter. Understanding these challenges can help build specific solutions to encourage technological advancement in the cooperative sector.

Cooperative governance forms should also be investigated more closely. Future studies can investigate the interactions between leadership, how often members are involved and methods used to decide, and their influence on a company's profitability and safety. A comparison of broad,

organizational cooperatives and small, community based ones may reveal significant disparities in how governance impacts financial success.

Behavioral economics is another probable field of study. Researchers should investigate how psychological characteristics such as lack of trust, uncertainty, and groupthink influence cooperative leaders' and members' financial decisions. This line of research can provide insights into how to build improved programs for training and communication tactics. Reviewing how government actions such as training programs, grants for digitalization and rule changes affect business in general can inform policymakers about improving cooperative results.

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APPENDICES

APPENDIX 1: Interview Questions

Section 1: General Information

1. Your title in the cooperative? (Manager, Accountant, Board Member, Loan Officer, Other)
2. What is your practice in the cooperative area? (1–3 years, 4–6 years, 7+ years)
3. What is the size of your cooperatives? (Number of members, yearly financial turnover)

Section 2: Hazard of Finances

4. What are the main financial risks faced by the cooperatives in Nepal?
5. Can you mention any specific kind of financial risk that pertains to your cooperative's financial risk management?
6. In what ways have financial risks affected the profitability, liquidity, or sustainability of your cooperatives?

Section 3: Current Risk Management Approaches

7. What are the strategies of cooperatives in the management of financial risks?
8. In your experience, how effective are these strategies in modifying financial risks?

Section 4: Challenges in Risk Management

9. What are the essential difficulties in managing financial risk for cooperatives?

10. Are there any internal or external factors that make financial risk management more challenging?

11. What effect does inflation, changing interest rates or currency variation have on your cooperative's capacity to manage its risk?

In Section 5, we study how managers make decisions and what they can learn from what happens.

12. How does your cooperative make sure to assess and handle financial risks?

13. Explain a case where your cooperatives were at serious financial risk and describe any lessons you found from this experience.

Section 6: Improvements for Recommendations

14. What sequence of involvements do you recommend improving the financial risk management of your cooperatives?

15. Are there tools and procedures you believe would enhance financial risk management?

16. Has your cooperative ever applied any kind of digital tool, software, or fintech for risk management? If not, do you think this could help?

Section 7: Regulatory Encouragements on Risk Management

17. Does the presence of financial regulations in Nepal affect risk management practices of your cooperative?

18. What changes to the existing regulatory framework would improve financial risk management for cooperatives?

Section 8: Closing Remarks & Additional Comments

19. Would you like to make any further comments regarding financial risk management in cooperatives?

Closing Statement

I'm grateful that you shared your ideas with me. Responses to this survey will help us understand and clarify financial risk management in Nepali cooperatives.