

COOPERATIVE LAW OF MONGOLIA

CHAPTER I. GENERAL PROVISIONS

Section 1. Purpose of the law. 1. This law shall determine the legal basis for the structure and activities of cooperatives, and regulate the relations arising from the establishment, registration of the cooperative, termination of its activities, membership, and supervision over the cooperatives and enforcement of the legislation on cooperatives

Section 2. Legislation on cooperatives. 1. Legislation on cooperatives shall consist of the Civil Law, the present law and other laws and regulations which are consistent with them.

Section 3. Cooperative and its types. 1. A Cooperative is a legal person established by individuals on a voluntary basis for the purpose of satisfaction of their social and cultural needs, governed and supervised in a democratic manner and conducting its business based on common ownership of its members.

2. Cooperatives may establish a joint cooperative in order to undertake joint activities

3. Legal requirements for a joint cooperative shall be the same as for the cooperative stated in section 3.1 of the present law.

4. A cooperative shall be of the following types according to its activity:

(a) Rough materials proceeding;

(b) Industrial;

(c) Credit union;

(d) Selling, supplying;

(e) Service;

(f) Construction of apartments;

(g) Consumers;

(h) Others.

Section 4. Economic foreign relationship of a cooperative. 1. A cooperative may participate independently in foreign business transactions.

Section 5. Liabilities of a cooperative. 1. A cooperative shall be liable for its obligations arisen from its business activities with its own capital only.

2. If a cooperative is unable to pay its obligation, members of a cooperation shall take responsibility for an outstanding amount. Threshold amount to be paid by the members of a cooperative shall be defined by its charter.

CHAPTER II. ESTABLISHMENT AND REGISTRATION OF COOPERATIVES

Section 6. Membership threshold. 1. A cooperative shall be established by no less than 9 individuals, and a joint cooperative shall be established by no less than 2 cooperatives.

Section 7. Name of a cooperative. 1. A cooperative shall be named upon the content of its activities.

2. A cooperative shall not be named after any of its members.

3. Name of cooperative shall not be used by other cooperatives or doubled.

Section 8. *Assets of a cooperative.* 1. The assets of a cooperative shall consist of the following:

- (a) The contribution of the members;
- (b) The fees for admission to the membership, if they are provided for in the charter;
- (c) Assets distributed from its profit into its reserves and funds;
- (d) Donations and grants.

2. The assets of a cooperative shall be accounted for in compliance with the Accounting law and in addition the following details shall be recorded in relation to each member:

- (a) That member's contribution of assets contributed in-kind and cash;
- (b) That members' share of assets remaining in a cooperative valued according to the procedure on distribution of profits to members expressed in cash value.

Section 9. *Charter of Cooperative, its content.* 1. The founding document of a cooperative shall be its charter.

2. The charter of a cooperative shall be approved by the meeting of members.

3. The following shall be stated in charter:

- (a) The name and address of the cooperative;
- (b) The names, addresses and passport and registry numbers of the promoters;
- (c) The objectives of the cooperative, type of activities;
- (d) Period of business continuation;
- (e) The mandatory amount of the contribution, date and method of accumulation of contributions;
- (f) The allowed threshold of additional contributions by the members except the mandatory contributions;
- (g) The method of appraisal of contributions;
- (h) Procedures of accounting income and expenditure of the cooperative, their registration and distribution;
- (i) A fiscal year;
- (j) The conditions and procedures of involvement of non-members into the business activities of the cooperative;
- (k) The procedures for admission to and withdrawal and exclusion from membership and the rights, duties and liabilities of members;
- (l) The nature of services to be provided to members;
- (m) The management of the cooperative, its powers, the procedure of issuing decisions, liabilities;
- (n) The methods and forms of accumulating the safety funds against possible losses, percentage of the annual income to be transferred into safety funds, minimal amount of the fund;
- (o) The grounds, procedures of establishment of branches and representative offices of the cooperative, the rights, duties and liabilities of branches and representative offices;
- (p) The internal and external auditing of activities of the cooperative;
- (q) The grounds for reorganization and liquidation of the cooperative;
- (r) The grounds and procedures for entering into and withdrawal from the cooperatives associations;
- (s) Other provisions.

Section 10. *Amendments and alterations to the charter.* 1 Amendments and alterations to the charter of the cooperative shall be discussed only by the Meeting of the members and shall be made with the consent of the absolute majority of members present at the meeting.

2. The following amendments and alterations shall be made with the consent of three

fourths of members' meeting:

- (a) The alterations of the type of business activities of cooperative;
- (b) The alterations to the mandatory contribution amount;
- (c) The alterations to the threshold amount to be paid by the members for the outstanding liabilities of the cooperative;
- (d) Liquidation and reorganisation of the cooperative;
- (e) Mandatory purchase of certain part of cooperatives' goods, works and services by the members;

3. Decision of the Meeting of members on the amendments and alterations to the charter shall be announced to the registry within 10 days upon its approval.

Section 11. *Registration of a cooperative.* 1. The management board of a cooperative shall apply to the due local registry for registration of a cooperative within 30 days upon the charter of a cooperative is adopted.

2. The following shall be attached to the application:

- (a) Two copies of the charter signed by the promoters of a cooperative;
- (b) Name list of promoters, passport and registry numbers of promoters;
- (c) The Minutes of meeting stating the election of the management board and auditing board.

3. If the registry consider that the present law is observed, it shall register a cooperative into the state registry and hand-in the certificate within 14 days.

4. While registration the registry shall make notices to the charter to certify it and return one copy (to a cooperative).

5. If it is decided that the charter does not comply with the legislation, the registry shall issue a resolution to refuse the registration of a cooperative, stating the grounds for it and officially inform promoters with return of documents to the latter.

6. If promoters object to the resolution, they may appeal to the Court.

Section 12. *Announcement of registry of a cooperative.* 1. The registry shall make a public announcement on a subject of registration of a cooperative.

2. The announcement shall reflect the following:

- (a) Date of the registration;
- (b) Name and address of a cooperative;
- (c) The type of business activities;
- (d) Content of the management board;
- (e) Threshold amount of payments to be made by the members in case of an outstanding liability of a cooperative.

CHAPTER III. MEMBERS OF A COOPERATIVE

Section 13. *Admission to the membership of a cooperative.* 1. An individual or a cooperative capable of benefiting from a cooperatives' services and taking responsibility for it, and which accepts the charter of a cooperative may voluntarily admit a cooperative.

2 An applicant for the membership in a cooperative shall apply to the management board of a cooperative and unless it is not stipulated otherwise in a charter the membership shall be granted by the members' meeting.

3 The management board shall provide the registry with the application for a membership and decision of the members' meeting on admittance to a membership for registration.

4 The management board and the auditing board of a cooperative shall be comprised of

the members of a cooperative.

Section 14. *The rights of a member.* 1. A member of a cooperative shall have the following rights:

- (a) To have an appropriate service of a cooperative in accordance to the present law and the charter of a cooperative;
- (b) To be voluntarily withdrawn from and re-admitted to a cooperative;
- (c) To participate in activities of a cooperative, to be eligible for election to and elect the management board and auditing board;
- (d) To attend the members' meeting with the rights to ask, suggest and vote;
- (e) To suggest to convene an extra-ordinary meeting of the members;
- (f) To share in the distribution of the cooperatives' annual income in accordance to the procedures;
- (g) To demand the statement of the auditing board of the cooperative before the approval of the annual report by the members' meeting;
- (h) To study the minutes of the members' meeting;
- (i) To study the registration of the members of the cooperative;
- (j) To exercise any other rights provided in legislation.

Section 15. *The duties of a member.* 1. A member of a cooperative shall have the following duties:

- (a) To participate personally in the management of a cooperative;
- (b) To obey the present law, the charter of a cooperative and decisions of the members' meeting; to transfer the due amount of the contribution in a timely manner;
- (c) To execute his, her or its obligations for the other members and a cooperative;
- (d) In case of change of a residence to inform a cooperative accordingly;
- (e) To exercise any other duties as specified in legislation and the charter of a cooperation.

Section 16. *Contribution of a member, shares in distribution.* 1. Upon admittance to a cooperative a member becomes an owner of an appropriate share of cooperatives' assets and the rights and duties of a member set up.

2. A grand total of a members' contribution determines his shares in a cooperatives distribution.

3. Shares in distribution of a member are equal to the amount of difference between the grand total of his contribution (mandatory contribution, additional contribution and collaboration) annual income and losses of a cooperative.

4. A contribution and collaboration of a member may have a form of assets, cash payments and evaluated works, services and intellectual property.

5. A cooperative may distribute its income basing on the grand totals of contributions of members.

6. The majority of the members' meeting, basing on a joint proposal of the management and auditing boards shall determine a distribution of income.

Section 17. *Withdrawal from the membership.* 1. Withdrawal from the membership may be on the following grounds:

- (a) By the members' own request;
- (b) The members' residence has moved from the location of a cooperative and therefore his personal participation in management of a cooperative has become impossible;

- (c) The member has transferred all his contributions (shares) to others.
- 2. Death of the member shall be considered as his withdrawal from the membership
- 3. The member must notice in written about his intention to withdraw at least three months prior to the end of a fiscal year of a cooperative.

Section 18. *Exclusion from the membership.* 1. Exclusion from the membership may be on the following grounds:

- (a) The member has not fulfilled his obligations specified in the law and the charter;
 - (b) The member has repeated the misconduct after reminder of the management board on the exclusion from the membership on the grounds stated in section 18.1.1;
 - (c) The member has created a competing cooperative, contributed to a such or withdrawn shares from a such and has contributed to a cooperative;
 - (d) Other grounds stated in the charter of a cooperative and in compliance with the present law.
2. Unless otherwise provided in the charter, exclusion from the membership shall be decided by the members' meeting.
3. Before decision on the exclusion from the membership is made, the member shall be noticed about the grounds and reasons for his exclusion and the member may make a clarifications.
4. A decision on the exclusion from the membership shall clearly state the grounds and reasons for it.
5. Upon adoption of the decision on the exclusion from membership, the rights of the member are terminated.
6. If the member does not agree with the decision on exclusion from membership, he may apply to the auditing board within 14 days.
7. If the member does not agree with the decision of the auditing board, he may apply to the Court in a duly course.

Section 19. *Counting with the member withdrawn or excluded.* 1. Counting with the withdrawn or excluded member shall be in accordance to the related laws, regulations, other legislation and the charter of a cooperative.

- 2. If a member transferred his contribution (shares) to others, counting is not required.
- 3. A withdrawn, excluded member is obliged to make his part of payments to the cooperatives' counterpart business entities, organizations and individuals as the other members of a cooperative in accordance to the procedure set up in the present law.
- 4. Unless otherwise is stated in the charter, a withdrawn or excluded member shall be counted in end of a fiscal year.

Section 20. *Transfer of shares to others.* 1. The member of a cooperative is entitled to transfer his contributions (shares) to others whenever he wants, by written contract.

- 2. A grand total of a member's own contribution and shares received by him as specified in section 20.1 shall not exceed the limit of allowed sealing for one members' contribution.

Section 21. *Transfer of the rights of the member to his legatee.* 1. In case of death of the member his rights shall be transferred to his legatee.

- 2. If the number of legatees is two or more they shall have one vote until the membership matters are not resolved.
- 3. Admittance of a legatee to the membership shall be considered by the members' meeting.

CHAPTER IV. THE MANAGEMENT OF A COOPERATIVE

Section 22. *The management of a cooperative.* 1. A cooperative shall have a members' meeting, the management board and the auditing board. The charter of a cooperative may state other institutions of a cooperative (i.e. counsel of members) or other forms of organization within a cooperative.

Section 23. *The members meeting.* 1. The members' meeting shall be a cooperatives' supreme authority.

2. The members of a cooperative shall exercise their rights to manage the activities of a cooperative through the members' meeting.

3. The members' meeting shall convene at least once a year.

4. The following matters shall be decided by the members' meeting:

(a) The alteration of or amendment to the charter of the cooperative;

(b) The appointment, discharge of the management board and auditing board, approval of the report on their activities;

(c) Withdrawal of the membership of the members of the management board, auditing board;

(d) Recovery of losses arisen from malpractice of the members of the management board, auditing board by the malpracticioners;

(e) The determination on the reasons of disposal of assets;

(f) The return of a members' contribution, set up of limits for extension and receipt of credits;

(g) Set up of admittance fee amount;

(h) The approval of the cooperatives' balance sheet, and the distribution of its profit; development of a recovery plan for losses, if the latter took place; discussion of the report of the Cooperatives' association, auditing board; approval of the expenditure budget;

(i) The establishment of, admittance to a joint cooperative, enter a cooperatives' association;

(j) The reorganization, liquidation of the cooperative;

(k) Any other matters stated in the legislation.

5. The members' meeting shall be valid at the presence of the absolute majority of the members.

6. Unless otherwise stipulated in the law decision shall be made by the consent of majority of the members meeting' present at the meeting.

7. Every member of the cooperative shall have one vote at the members' meeting regardless of the contribution amount.

8. Questions not included in the agenda of the meeting shall be considered at the presence of all members except those who have a reasonable excuse for absence and shall be accepted only by the absolute majority of votes.

9. Every member of the cooperative shall vote personally

10. If the member of the cooperative or a joint cooperative is unable to attend the meeting, he or it may exercise his or its rights specified in section 23.9 by his representative duly authorized with a trust documentation.

11. Election, discharge of the management board, auditing board and the cooperatives' Director, the chart of their duties, termination of the cooperative shall be decided by the consent of the absolute majority of the members' meeting.

Section 24. Procedure for convention of the members' meeting. 1. The management board shall announce the members' meeting.

2. If the management board is not in session the auditing board shall announce the members' meeting.

3. By the demand of not less than one third of the members the extra-ordinary members' meeting shall convene.

4. The request for the members' meeting shall be in written, signed by the members and state the grounds and reasons for meeting.

5. In case specified in section 24.3 the management board shall notice the members about the grounds, reasons and agenda of the meeting.

6. When the management board, auditing board did not perform their obligation as specified in sections 24.2 and 24.5 an urgent meeting of the members shall convene to decide the replacement of the members of the aforesaid boards.

Section 25. Date and location of the members meeting. 1. The ordinary meeting of the members shall convene within 6 months after the end of a fiscal year.

2. If necessary an extra-ordinary meeting may convene whenever.

3. Unless other location is appointed the members' meeting shall convene at the head-quarter of the cooperative.

Section 26. Form of announcement, terms. 1. The date and the agenda of the ordinary meeting shall be announced not less than 30 days prior the meeting.

2. The preparatory works of the members' meeting shall be arranged by the management board.

3. It is allowed to amend the problems not requiring any decision or having informatory character into the agenda not less than for 3 days prior the meeting.

4. Section 26.3 shall not apply to the matters of chairing the meeting or in case of an extra-ordinary meeting.

Section 27. The management board. 1. The management board shall preside the cooperatives' activities between the members' meetings.

2. The management board shall comprise of the Chair and not less than two members of the board. The Chair of the board shall be Director of a cooperative.

3. The management board shall represent a cooperative.

4. Representation of a cooperative by the management board shall be upon the approval of the majority of members.

5. The management board shall convene not less than once in two months.

6. The management board shall be responsible for keeping records in compliance with the legislation, to inform the auditing board immediately upon the receipt of the annual report and present the report for the members' meetings' consideration.

7. The management board is obliged to announce immediately the members' meeting if the annual or interim report states or by the approximate calculation the losses are exceeding 50 percent of a cooperatives' assets and these losses can not be recovered by the safety funds, and present the issue for the meetings consideration.

Section 28. Liabilities of the management board. 1 The management board shall keep safe the information considered as the cooperatives' secret.

2. If the member of the management board has broken the legislation, the charter of a cooperative, he shall be responsible for the following:

- (a) If used the shares or incomes of the other members for personal purposes;
- (b) If paid from the assets of the cooperative;
- (c) If caused the insolvency or brought the cooperative to the bankruptcy;
- (d) If extended credits from the assets of the cooperative.

3. The management board is not liable for losses caused by the activities approved by the members meeting.

Section 29. Registration of members. 1. The management board shall register the members of the cooperative.

2. The Registration shall reflect the following:

- (a) The names, residence addresses, the names of the member cooperatives, address of their headquarters;
- (b) The type, amount of the contribution made;
- (c) The income and assets distributed to the member;
- (d) The withdrawal and exclusion from membership.

Section 30. Availability of the registration. 1. The member of a cooperative has a right to be introduced to his registry data.

2. The member of a cooperative has a right to be introduced to the registry data of other members in compliance with the legislation and the charter.

3. The person introduced to the registry data shall keep this information safe.

4. The person obtained the registry information may use it only for the purposes to which he initially applied.

Section 31. Director of a cooperative. 1. The director of a cooperative shall preside the members meeting and sign the decision made by the members' meeting and the management board.

2. The director of a cooperative shall sign the trust documentation to represent a cooperative; and

3. Appoint the executive director by the recommendation of the members meeting and conclude a contract with the Executive director.

Section 32. The auditing board. 1. The auditing board shall be established by the members' meeting for the purpose of supervising the activities of the management board and ensuring the fulfilment of the independent auditors' decisions.

2. The auditing board shall be comprised of no less than three members.

3. The head and his deputy shall be appointed from the members of the board.

Section 33. Member of the auditing board. 1. The members of the auditing board shall participate in the meeting of the management board with a right to advice.

2. The withdrawal of the member from the board, his exclusion from the membership of the cooperative shall be decided by the three fourth of voting members present at the meeting.

3. A member of the auditing board may not be elected to the management board.

4. All expenses of a member of the auditing board arisen from performance of his duty shall be reimbursed from a cooperative. A member of the auditing board may be financially encouraged by the decision of the members meeting.

Section 34. Meeting of the auditing board. 1. The meeting of the board shall be announced by the Head of the board or by his deputy during his absence.

2. With the presence of the majority of the board the meeting shall be considered valid.

3. Only the Head or his deputy shall preside the meeting.
4. The meeting shall convene no less than once per quarter.
5. The auditing board shall convene an extra-ordinary meeting by the demand of the management board, or by demand of more than 50 percent of the auditing boards' members' or if the Head of the auditing board considered its necessity.

- Section 35. *Power of the auditing board.*** 1. The auditing board shall exercise the power of:
- (a) The supervision over the management boards' activities, take for this purpose any documents deemed relevant, obtain information and reports, introduce to and inspect the balance sheets and other documents;
 - (b) To issue recommendations, conclusions about the annual report and interim information, on distribution of income and on how to recover losses, and present its recommendations and conclusions for the members' meetings' consideration;
 - (c) To convene the members meeting, if necessary;
 - (d) To approve the management board to extend the credit in compliance with the legislation and the charter of a cooperative;
 - (e) Other powers stipulated in the legislation and the charter of a cooperative.
2. If necessary the auditing board may hire an independent expert.

CHAPTER V. THE ASSOCIATION OF COOPERATIVES

- Section 36. *The Association of Cooperatives.*** 1. The Association of Cooperatives shall supervise whether the cooperatives are conducting their activities in compliance with the legislation and their charters, inspect the activities, structure, finance, business of the cooperatives and provide them with the general guidance.
2. The Association of Cooperatives shall be an NGO with the membership.
 3. Other issues related to the Association of Cooperatives which are not covered by this law shall be regulated by the Law on non-governmental organizations.

- Section 37. *Functions of the Association of Cooperatives.*** 1. The Association of Cooperatives shall exercise the following powers:
- (a) To inspect the structure and activities of a cooperative, issue a resume;
 - (b) The number of members of a cooperative is less than required by the legislation and a cooperative did not dissolve voluntarily;
 - (c) A cooperative conducted business not specified in the legislation and the charter;
 - (d) A multiple or a serious breach of the law by a cooperative;
 - (e) Other grounds stated in the legislation.

CHAPTER VI. DISSOLUTION OF COOPERATIVE

- Section 38. *Dissolution of a cooperative by decision of the members meeting.*** 1. A cooperative may be dissolved by the decision of the members' meeting.
2. A decision to dissolve a cooperative shall be approved by the three fourths of the members.
 3. A decision to dissolve a cooperative shall be provided to the registry within 7 days.

- Section 39. *Liquidation of a cooperative by the Court judgement.*** 1. The Court may liquidate a cooperative on the following grounds:

- (a) Bankruptcy;
- (b) The number of members of a cooperative is less than required by the legislation and a cooperative did not dissolve voluntarily;
- (c) A cooperative conducted business not specified in the legislation and the charter;
- (d) A multiple or a serious breach of the law by a cooperative;
- (e) Other grounds stated in the legislation.

Section 40. *Notice of dissolution.* 1. A person issued decision on the dissolution of a cooperative shall notice the state registry within 3 days.

2. A dissolution committee shall make a public announcement that the notice of decision on the dissolution of a cooperative is forwarded to the state registry.

3. Creditors of a cooperative shall be noticed separately.

Section 41. *Nomination of a dissolution committee.* 1. A dissolution of a cooperative shall be performed by a dissolution committee nominated by a person issued decision on dissolution.

2. If a dissolution committee is not nominated by the members meeting of a cooperative, it may be nominated by the auditing board of a cooperative, or by the management board of the Association of Cooperatives.

3. If necessary, a dissolution committee may be dissolved by decision of a person nominated the committee prior a due time.

Section 42. *Notice of a dissolution committee to the registry.* 1. The members of a dissolution committee shall be noticed to the registry, and the related documents forwarded to the registry.

Section 43. *Signature of a dissolution committee representing a cooperative.* 1. The members of a dissolution committee shall sign the documents representing a cooperative making a notice in front of the name of a cooperative: “being dissolved”.

Section 44. *Increase of contributions during a dissolution.* 1. If during a dissolution assets of a cooperative will be found less than its liability, the outstanding liabilities shall be covered by the additional contributions of a members which did not contribute the allowed maximal amount.

Section 45. *No increase of liabilities after termination of cooperative activities.* 1. Neither an amount of a mandatory contribution, nor threshold amount for gaining the outstanding liabilities of a cooperative shall be increased after termination of cooperative activities.

Section 46. *Terms of prohibiting a distribution of assets.* 1. Claims against the cooperative assets shall be satisfied in accordance to section 31.1 of the Civil Law of Mongolia.

2. If a person entitled to claim against the cooperative assets is in a conditions not allowing to do so he shall be satisfied as well.

3. An amount of payment subject to dispute shall be put aside and the remains of cooperative assets shall be distributed amongst the members.

Section 47. *Distribution of cooperative assets amongst the members.* 1. After satisfaction of all claims of a counterparts against the cooperative assets the remains of cooperative assets shall be distributed amongst the members as specified in sections 14 and 16 of the present law.

2. Shares to be distributed amongst the members shall be determined basing on the initial report of dissolution.

3. If a member contributed an additional amount in accordance to section 44 of the present law he is entitled to receive that amount first of all.

4. The remains of cooperative assets shall be distributed as an equal shares after all distributions of shares to the members are made.

5. A charter may prohibit a distribution of shares or set up order of distribution other than specified in the present law.

Section 48. *Remains of cooperative assets not subject to distribution.* 1. If there are remains of cooperative assets not subject to distribution and there is no provision governing for its allocation, these must be transferred for public use into the property of the Capitol, aimak, sum or district in which a head quarter of a cooperative used to be situated.

CHAPTER VII.

Section 49. *Liability for breaches of the legislation.* 1. If a breach of the Cooperative Law does not constitute a criminal offence, administrative penalties shall be imposed on any offending person as follows:

(a) For a breach of procedure for registration of amendments or alterations to the charter, the relevant official of the registry shall fine an officer of cooperative amount of between 2'000 and 20'000 togrogs

(b) For undertaking activities not stipulated in the charter, the judge shall confiscate the income and the cooperative shall be subject to a fine of between 100'000 and 250'000 togrogs.

CHAPTER VIII

Section 50. *Law implementing rules.* 1. All cooperatives registered before an enactment of the present law shall be re-registered within period of one year after this law come into force.

Chairman of the State
Ih Hural R. Gonchigdorj

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