

**FINANCIAL SUSTAINABILITY OF MACHHAPUCHRE  
CO-OPERATIVE LIMITED**

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*A Thesis Submitted to:*

Office of the Dean

Faculty of Management

Tribhuvan University

*In partial fulfilment of the requirements for the degree of*

**Master of Business Studies (M.B.S.)**

**Pokhara**

**January, 2014**

## ***RECOMMENDATION***

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# VIVA-VOCE SHEET

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and found the thesis to be the original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirements for degree of

**Master of Business Studies (M.B.S.)**

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## **ACKNOWLEDGEMENTS**

I would like to express my gratitude and appreciation to all those who gave me the possibility to complete this thesis. A special thanks to my supervisor, Prof. Pushpa Raj Sharma, PhD whose help, stimulating suggestions and encouragement, helped me to complete this research work.

I would also like to acknowledge with much appreciation the crucial role of the staff of Library, who gave the permission to use all required machinery and the necessary material to complete the research work.

A special thanks to my family members for there unending inspiration, immense love which have carried me through to the present status. I further acknowledge here my debt of gratitude to all my friends whose co-operation and encouragement strengthened me to complete this attempt.

Last but not least, many thanks to the staffs of Machapuchre co-operative who have given their full effort in providing necessary data and information which help me to finalize the research work .

Date : January, 2014

Rima Khawas

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## ABBREVIATION AND ACRONYMS

%	: Percentage
A.D	: Anno Domini( Christian Era)
Amt	: Amount
B.S	: Bikram Sambat
Co.	: Company
Diss	: Dissertation
ed.	: Edition
Etc	: Excreta
F.Y.	: Fiscal Year
i.e	: That is
Ltd	: Limited
MCL	: Machhapuchre Co-operative Limited
No.	: Number
P.Er	: Probable Error
Pvt	: Private
Rs.	: Rupees
S.D	: Standard Deviation
T.U	: Tribhuvan University
Vol	: Volume

# CHAPTER I

## INTRODUCTION

### 1.1 Background of the Study

Nepal is a landlocked country which lies in between two most populous countries India and China. It falls in the category of least developed country. Most of the people depend upon agriculture as agriculture is considered as a backbone of the economy. From the data of 2010/2011 about 25% of the population of Nepal lives below below poverty line. The poverty rate is much lower in urban areas than in rural areas. (www.cbs.gov.np.)

Economic and developmental policies and strategies have been changed quite frequently along with the changes in the political regime. Development of Co-operative organization is one of the early attempts to involve rural people to manage their need and develop their communities.

Cooperative refers to work together for common benefit. A cooperative is an autonomous association of people united voluntary to meet their common economic social and cultural needs an aspiration through jointly owned and democratically controlled enterprise.

Cooperative is probably as old as civilization. Early people had to learn to work together to meet their common needs. In 1752 Benjamin Franklin organized the initial structured cooperative business, a mutual fire Insurance Company in USA. A group of 28 workers of the cotton mills in the town of Rockdale in the north of England established the first modern cooperative business the Rockdale equitable pioneer society in 24, October 1844. In Nepal in 2013, formally organized cooperatives were established in Chitwan district by issuing executive order by the government. The first cooperative department was established in 2010 B.S under the Ministry of Plan development and Agriculture with the task to promote cooperatives followed by the first cooperatives law in 2016 B.S.A new law replaced this law in 2043 BS and again in 2048 B.S .After the Cooperative Act 2048 BS so many cooperative have been established in Nepal. As a result of the development of co-operative tion, International Co-Operative Alliance (ICA was established in England in 1895 A... ,

According to the definition of ICA, “A co-operative is an autonomous association of people united voluntarily to meet their common economic, social and cultural needs and aspiration throughout a jointly owned and democratically controlled enterprise.” Co-operative is a form of business enterprises or communities organization, incorporated in service to its member and users, in order to meet their common economic, social and cultural needs and aspirations, co-operative is jointly-owned and democratically controlled by its members and users on the basis of “One member one vote”. Co-operation is based on the value of self-help, mutual help, self-responsibility, democracy, equality and solidarity. Co-operative organizations are developed to help the weak class people as well as socio economic development of the nation. Nowadays seed production, tea and coffee production, sales and distribution, transportation, health, education, woodcarving, metal craving, furniture cottage industry, carpet industry, housing and other. Besides the co-operatives provides access to microfinance services like saving and credit co-operative organizations. Due to its nature, co-operative with limited banking service saving and credit union and recognized as Microfinance Institution (International Co-operative Alliance, 1995.)

The history of co-operative society dates back to 1956 A.D in which year the government of Nepal incorporated “Bhakan Saving and Credit Co-operative Limited”, in Rapti valley, Chitwan by issuing executive order for its legal validity. The thirty year Panchayat regime also attempted to promote co-operative by enforcing the co-operative Act 1959 A.D (2016 B.S) and Co-operative Regulations 1961 (2018 B.S). However, co-operatives became burdensome to the government due to the weak management, wants of autonomy and unscientific accounting system of saving and credit. After the restoration of democracy in 1990( 2047 B.S), the government considered co-operative Act 1991 (2048 B.S) and repeated both act and regulation of Panchayat regime. The new co-operation act of the world. However, due to the undemocratic practices and environment in democratic system in most of the cases, co-operatives have turned out as an intermediary to transfer the money from poor to rich. The democratic government speeded up the liberalization financial environment. Saving and credit co-operative grew like mushroom especially in urban and sub urban areas of the country.

Financial sustainability comprises two words. “Finance and Sustainability”, Finance can be defined as the procurement of funds for the business and its efficient utilization in the productive field. Sustainability refers to the ability of a society or any such ongoing system to

continue functioning into the indefinite future. Therefore financial sustainability is the activity concerned with the continue function of business in the indefinite future. Financial Sustainability of financial institution represents good position of the company which has long life in the market. Sustainable financial institution is the main property of the nation which aids for the development of the nation as well as for the whole economy.

Machhapuchhre co-operative limited was established in pokhara city which is situated at R.K. building, Chipledhung, Pokhara-4. It was registered on 2055 B.S under Nepal co-operative act 2048 and commenced business in kaski district. Its main objective is to collect small saving and mobilizing saving in various sector as per the need of its shareholder members as well as protecting and promoting its shareholder's rights. The co-operative was established with slogan "karn karn ma pahad budh budh ma samundra"(Annual Report, MCL2065/066).

The Cooperative is running in its 15 years, during this period the cooperative had successfully established its first branch in Lekhnath and soon co-operative is going to establish its own building in New Road, Pokhara. As per the annual report of 2069/070 the cooperative have total share capital of Rs 1,16,12,000 which is Rs 8,69,866 more than previous year and profit of Rs 27,70,400. It is an organized financial institution which can play vital role in collecting scattered savings and putting them in productive use, mobilizing financial resources properly, as well as protecting its shareholders rights and benefits.

## **1.2 Focus of the Study**

Cooperative are the grass roots organization and have proved to be quite essential for uplifting to socio-economic condition or rural mass the provisions of various inputs, especially generation of saving and providing credit by co-operative are seen as prerequisite factors for the uplift of the rural mass.

The assumption underlying financial sustainability has inherent desires to continually improve the quality of their performance and to sustain the long term. To fulfill the aspirant the institution need to adopt positive practices, to identify the development needs and to bridge the passable gab on continuous basis. To obtain the better performance and meet the expectation of the aspirations the organization should be able to involve in a sound financial position. Only a rational financial analysis is one of the vital components to enhance the

intuitional capacity in a better way. Therefore financial analysis must be viewed as dynamic process in financial institution can provide quality service and better performance to the stakeholders. Therefore financial institution should continually monitor and evaluate their financial performance to sustain their activities. Thus the study has focused on the financial sustainability of Machhapuchhree co-operative limited. The study covers the period of past five years starting from fiscal year 2065/066 to 2069/070.

### **1.3 Statement of Problem**

Financial Institution at present are playing vital role for resources mobilization and income generation in the nation. Most of the reports of the surveys and studies conducted in this field also acknowledge the important role that the co-operative are playing in providing access to financial services in the country. Nowadays a large number of financial institution are establishing day-by-day. There is hard competition in between those institutions which affect the company's Financial Sustainability. So the basic focus of the study is to investigate the challenges of the transaction and financial performances. Some of the problem is stated below:

- What are the sources of finance of Machhapuchhre Co-operative Limited?
- Funds inflow and outflow patterns of Machhapuchhre Co-operative Limited?
- What are the financial performances of Machhapuchhre Co-operative Limited?
- What are the Policy and what strategies should be followed in order to maintain sustainability of Machhapuchhre Co-operative limited?

### **1.4 Objective of the Study**

The objective of the study is to examine find out overall financial position and sustainability position of Machhapuchhre cooperative limited. It also highlights concept, historical background, current issue, challenges and weakness of cooperative in Nepal. The study has the following specific objective listed below.

- To explore the sources of finance of Machhapuchhre co-operative limited.
- To analyze on inflow and outflow of Machhapucchre co-operative limited.
- To analyze the financial performance of Machhapuchhre co-operative limited.
- To recommend the policy and strategies to be followed for improving of its services.

## **1.5 Significance of the Study**

Research itself has its own importance because it aims to gain knowledge and to add the new literature to the existing. Financial analysis has become important role to know the financial problems of the organization. Better and satisfactory programs performance of organization represents the effectiveness of the institution. Thus, this study will focus on financial sustainability of Machhapuchhre co-operative Ltd. Data of organization collected and analyzed to know the financial performance of company. So this study will provide multidimensional significant for the management of Machhapuchhre co-operative limited to evaluate the financial performance of the co-operative and to maintain its activities effectively in the future. Further this study will be visualized the current situation of the co-operatives in Nepal. So it is expected to be helpful for the board of directors, debtors, creditors, shareholders, management team, students and researchers.

## **1.6 Limitation of the Study**

This study is conducted as an academic requirement for the degree of Master of Business Studies. The study is mainly focused with a view to financial sustainability of MCL, however there are some limitations which are as follows:

- This study takes place in Machhapuchhre Co-operative limited from the large number of Cooperatives.
- It only examines the financial Sustainability of Machhapuchhre Cooperative limited.
- This study is based only on five years data from Fiscal Year 2065/066 to 2069/070.
- This study is mainly based on Primary and Secondary data.

## **1.7 Organization of the Study**

The body of the report is broadly arranged into five chapters.

The first chapter deals with the introductory framework of the study. It includes background, statement of the problems, objectives of the study, limitation of the study and organization of the study itself.

The second chapter includes literature review which is sub divided into two heads. They are theoretical and empirical review.

The third chapter includes the research methodology which includes research design, sources of data, data collecting techniques, data processing and analysis as well as data analysis tools.

The fourth chapter is the important chapter of the study that includes data presentation, analysis and interpretation with the help of various analytical tools.

Finally the fifth chapter contains summary, conclusion and recommendation which are presented at the end of the study.

# **CHAPTER II**

## **REVIEW OF LITERATURE**

This Chapter is basically concerned with the review of literature relevant on the financial sustainability position of Machhapuchre Co-operative Limited. This Chapter is the composition of the existing literature and research related to the present study for the purpose of finding out what had had been explained and how the present research adds to this dimension in this regard. Every study is very much based on past knowledge. The previous studies should not be ignored because they provide the foundation to the present study. The review of related literature is critical aspect of planning of the study. It is a way to discover what other research in the area of our problem had uncovered. It is also a way to avoid investigation problems that have already been definitely answered. The review of literature accomplishes that a point of departure for future research, avoid needless duplication of costly research effort and reveals areas of needed research. The relevant literature and articles were reviewed from national and international publication as well as unpublished reports, thesis and journals etc which were available from different libraries and institutions.

### **2.1 Theoretical Review**

This section presents the theoretical concept of financial analysis. Meaning and definition of Cooperative, Principal, historical background, organizational structure of Cooperative in Nepal, current issues and challenges of Co-operative etc have been included under the theoretical review.

#### **2.1.1 Meaning and Definition of Co-operatives**

The word "Co-operative" has been derived from the Latin word "Co-operare" which means in its ordinary sense, working together but in broad sense, it means the system of people voluntarily associated working together in terms of equality to eliminate their economic exploitation by others. The main motto of Co-operative is "Each for all and all for each". Co-operative is associated with human beings in all walks of life. Co-operation can be understood by looking how animals and birds keep the company to each other, and themselves make a community of Co-operation. Co-operation is vital at human life.

The term co-operation can be defined in various ways; this is way it's meaning vary from persons to persons. From the sociological point of view, it is a socio-economic movement and it is a social order in which human is free from class struggle. Economist view co-operative as a form of business organization in which middle man can get involved and make profit whereas lawyers take it as an organization from whose membership, one can enjoys.

According to the U.S Department of Agriculture. "Co-operative is distinguished from other business by three concept or principles: first, the user-owner principle. Person who own and finance the co-operative and who's who use it. Second, the user-control principle, control of the co-operative is by those who use the co-operative. Third, the user-benefits principle, benefit of the co-operative are distributed to its users on the basis of their use Cobia, (1989).

The terminology used to describe co-operative and other firms differs widely. Co-operatives are also commonly called non-profit corporations of patron-owned corporations. The distinction between Co-operative and other business is that Co-operative returns net income to users or to patrons, while other business firms returns net income to users or to investment.

According to the patronage proportionality, "A Co-operative is a private business organized and joined by the members to fulfill their economic needs as patron of business, with the key control, ownership and income and distribution decision based on patronage proportions: namely member voting, equity capital investment by patrons and distribution of net income to patrons are proportional to use of the Co-operative.

According to the 31<sup>st</sup> International Co-operative Alliance (ICA) Congress held at Manchester in 1995, a Co-operative has been defined as an Autonomous association of persons united voluntarily to meet their common, social, and cultural needs and aspiration through a jointly owned and democratically controlled enterprise Bandyopadhyaya, (2000).

Black's Law Dictionary defines Co-operative as A Co-operative or association organized for the purpose of rendering economic service, without gain to itself, to shareholders or members who own and control it. Compbell, (1990).

The definition given by International Labor Organizations (ILO) covered most of the principles of Co-operative so it can be considered to be the most comprehensive one. Co-operative society is an association of the economically weak who voluntarily associates on the basis of equal rights and responsibility, transfer to an undertaking one or several of their

functions, corresponding to one or economic needs which are common to them all, but which each of them is unable fully to satisfy by his/her own individual efforts and manage and use such undertakings in mutual collaboration to their common material and moral advantage. Shrestha, (1974).

It is an association of the weak who gather together for a common economic need and by to lift them self from weakness into strength through business organization. Sherlekar, (1998).

According to Henry Calvert, "A Co-operative form organization wherein persons voluntarily associate together as human beings on a basis of equality for the promotion of economic interest of themselves" District Co-operative office, Entry Book, (2064).

From all of these definitions, a common understanding about the Co-operative organization can be made. Thus, Co-operative is an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through jointly owned and democratically controlled enterprise. Hence, the above given discussions concluded that Co-operative is a form of organization specially of the weak and powerless people wherein actual users of certain goods and services, voluntarily associates together as human beings, on the basis of equality for the promotion of their economic interest by honest means. Co-operative is the superior philosophy of life, besides of a form of a business organization. Therefore, so far, Co-operative has been accepted all over the world as a vehicle for mobilizing the scattered savings and putting them in productive use for the benefit of the poorer sections of the society. Co-operative helps to distribute wealth and profit equally to all .It has distinct character in comparison to other business organization due to its own Co-operative norms, value and principles.

### **2.1.2 Principle of Co-operative**

Principle refers to the code of conduct which governs the life of every activity of human beings. Co-operative principles are the set of rules and regulation which governs Co-operative organizations. All of the Co-operative activities are guided by principles. The Co-operative principles were first set out by "Rochdale Society of Equitable Pioneers" in Rochdale, England in 1844 A.D. Robert Owen is called the "Father of Co-operative concept" .He was born in 1771.He had started Rochdale Equitable Pioneers Society in October 24,1844 and started to adopt the Co-operative Principles in England ,later all over the world.

In 1860, Rochdale Societies were proposed 10 principles of Co-operative which are modified in different period of time. The first set out Co-operative principle by Rochdale Societies were: (a) Voting is by members on democratic basis.(b) Open Membership.(c) equality is provided by patrons (d) equality ownership share of individual patrons is limited (e) net income is distributed to patrons as patronage refunds on a cost basis (f) dividend on equality capital is limited (g) exchange of goods and services at market process (h) duty to educate and cash trading only (i) no unusual risk, assumption(j) political and religious neutrality and equality of the sexes in membership.

Due to rapid changes in the economy of the world, the need for review of these principles was increasingly felt and Co-operative principles were also modified. In 1995 the International Co-operative Alliance (ICA) listed revised seven principles. The principles which have been commonly adopted all over the world are as follows" Karki, (2006).

- Open and voluntary membership
- Democratic member control
- Member's economic participation
- Autonomy and Independence
- Education, training and information
- Co-operation among co-operatives
- Concern for community

#### **1. Open and voluntary membership:**

Co-operatives are voluntary organization which is open to all who are able to use their services and willing to accept responsibilities of membership regardless of gender, social, racial, political or religious discrimination. All members are treated equally. All are welcome but there is no pressure to become a member. There is a provision of free entry and free exit of the membership which is set by Co-operatives acts.

#### **2. Democratic member control:**

Co-operatives are democratic organizations controlled by the members, who actively participate in setting their policies and making decisions. Men and women are serving as elected representatives are accountable to the membership. In primary Co-operatives members have equal voting rights (i.e. one member one vote) and Co-operative at other levels are also organized in a democratic manner.

### **3. Member's economic participation:**

Member's economic participation is one of the defining features of Co-operative societies and constitutes the third Rochdale principle in the ICA's statement of the Co-operative identity. According to the ICA, Co-operative is enterprises in which members contribute equitably to, and democratically control, the capital of their Co-operative. At least, part of that capital is usually the common property of the Co-operative. Members allocate surplus for any or all of the following purpose: developing their co-operative, possibly by setting up reserve, part of which at least would be indivisible, benefiting members in proportion to their transactions with the Co-operative, and supporting other activities approved by the membership.

### **4. Autonomy and Independence:**

Co-operatives are autonomous, self-help organizations controlled by their members. They can freely enter into agreements with other organizations, including governments or raise capital from external sources. They are independent legal entities and are controlled through democratic processes adopted by the participation members. They maintain their Co-operative autonomy.

### **5. Education, training and information:**

Co-operatives provide education and training for their members, elected representatives, managers and employees, so they can contribute effectively to the development of their Co-operative. They also inform the general public particularly young people and opinion leaders about the nature and benefits of Co-operatives.

### **6. Co-operation among co-operatives:**

The success of Co-operatives largely depends up on their co-ordination and integration. Mutual understanding and inter-dependence among Co-operatives help to promote the process of Co-operatives development. Co-operatives serve their members most effectively and strengthen Co-operative movement by working together through local, national, and international structure. Co-operation among the Co-operatives is necessary for the smooth operation and all round progress of the Co-operative movement.

## **7. Concern for community:**

Co-operatives societies must have concern for their communities. According to the ICA's statement on the Co-operative identity. Co-operatives works for the sustainable development of their communities through policies approved by their members. Without the support of communities, Co-operatives cannot stay for long term. So, the Co-operatives should be given its priority towards the communities for their long term existence.

### **2.1.3 Historical Background of Co-operatives.**

#### **2.1.3.1 Global Prospective**

Co-operation is an ancient idea and a natural human tendency. In this sense, co-operation is several hundred years old. However, the concept of modern Co-operative was developed at the beginning of the 19<sup>th</sup> century. Robert Owen, an industrialist of Great Britain, gave the idea of Co-operatives. But it was practically developed by a group of Rochdale Society of Equitable Pioneers called "The Customer Society". This idea became successful and later, it spread all over the Great Britain. In the beginning, the society used to sell goods only to its members. Later, it started to sell goods to non-members as well. Rochdale Principle of Co-operative discussed in co-operative literature throughout the world are open membership ,democratic control, distribution of surplus in proportion to purchase, limited interest on capital ,religious and political neutrality, cash trading and promotion of education. Among the existing hundreds of Co-operatives societies, Rochdale Pioneers Society achieved tremendous success and put economic and social life to Britain on the road of continuous progress.

In 1919, the first Co-operative College in the world was established in Manchester. It is administered by the committee of the Co-operative union. This college was opened for all students from all parts of world. In 1944, Britain Government decided that boys and girls must attend Country College after the learning school. The main aim was to produce good Co-operative citizens in Britain.

At the time of Rochdale Pioneers, two Germans also suggested the idea of Co-operative. In 1849, both of them started their co-operative work in German for the purpose of improving their condition of the poor. One co-operator wad Raiffeisen who succeeded to help those poor peasants through Co-operative agriculture society. The next Co-operator was Freinz Shulze

Dalitzch .He opened ' Co-operative Bank' to help German people. There was little difference between these two German Co-operators. Raiffeisen's credit societies were suitable in town but both were started their first Co-operative societies in 1849 and both ran successfully.

The above description suggests that the Co-operative movement was started and developed in Europe which later was followed by countries. Both developed and developing countries freely accept that Co-operative movement might be an instrument for uplifting the rural poor and liberating them from the exploitation of land lords. Money lenders and millionaires .Co-operative movement in some of the countries can be summarized as follows:

**Great Britain:** The Co-operative in UK was first started in urban areas where industrial revolution had brought so many problems such as low wages, labour exploitation of women and children and bad living and working condition. Robert Owen, a factory worker and economic thinker, was impressed by worker's difficulties and sufferings. He established villages of co-operation at a new link on the basis of equality. Rochdale Pioneers Group developed a "Consumer Society". This was successful Co-operative society, which was started all over the Great Britain. Due to spontaneous growth, dedicated leadership, sound policies, loyalty and self elements, the Co-operative movement in Britain evolved rapidly.

**Germany :** At the time of pioneers, two German Co-operators, Herman F.W Raiffeisen (1818-1888 AD) and Herman Franz Schulze (1808-1883 AD)had started Co-operative work purely on a humanitarian basis, quite independently by providing credit facilities on Co-operative basis in their respective area. The aims and objectives of both initiatives were identical but the ways of operating them were difficult. Schulze set up a Co-operative Bank to help poor German and Raiffeisin established a agriculture credit Co-operative society to help poor German peasants. Both of these Co-operatives were run successfully.

**Switzerland:** The Co-operative movement was started in Switzerland by Daisies. Swiss agriculture is organized by various Co-operatives. Co-operative movement contributed a lot for the development for the country since 1847. Swiss people realized Co-operative societies in line with the grass roots development process. Establishment of Co-operative stores and number of food societies were also formed in 1851. Another Contribution of co-operative is 'Holiday Home' Switzerland. This was given for job opportunities to the young people of Switzerland in 1943. By all this people of Switzerland realized that co-operatives provides

many things to them. So the Swiss people liked Co-operatives very much for their life standard as well as the development of the country.

**Denmark:** Denmark is counted as the homeland of agriculture Co-operation in the world. When the Co-operative movement developed in Britain, the Co-operative development also took place in Denmark. Nowadays, the Co-operative dairies occupy the front position among the Co-operatives in Denmark. Danish Co-operatives are taken as example of good Co-operative around the world.

**Canada:** Co-operative was started by Lancashire coal miners and steel workers in Canada. Mainly agricultural and livestock types of Co-operative societies are found in Canadian society. British Canadian society of Nova Scotia is the only and great progressed Co-operative in Canada.

**Indonesia:** In Indonesia, British India Model of Co-operatives was introduced in 1915 and a law was introduced in 1927. The Co-operative department was established in 1953. A new Co-operative law was introduced in 1958. After that, the number of Co-operative societies expanded very rapidly.

**India:** Co-operative movement was introduced in the form of credit society in India. A five year plan emphasized up on the role of agriculture Co-operative in the process of national development. The government of India appointed a Co-operative planning committee in 1945 AD for the promotion of the rural Co-operatives. National Development Council of India, in its resolution on Co-operative policy 1958, recommended that the responsibility and initiative for social and economic development at the village level should be placed fully on village Co-operatives in the field of credit and banking, marketing and processing and production of fertilizers. However, the current challenges of the agricultural Co-operatives in India are that they are yet to respond effectively to the emerging issues and take opportunities of market economy and new economic reforms.

**China:** It is assumed that agricultural Co-operatives started in China in 1917 AD. When the country was dependent on agriculture without proper utilization of its resources, flood, famine, poverty, suppression and exploitation of the landlords were common. After Dr. Sat Yat Sen had taken the authority of the government, he applied Co-operative to improve its economy which later started in modern method. After the establishment of the

republication government in china, the ownership of the land to the farmers was established as a program of land reform. Every farmer got the equal price of land and was avoided. The central committee of the Chinese Communist party managed three different types of organization for more production which were 'Mutual Aid Team', Agriculture producers Co-operative 'and 'Advance Producers Co-operative' or People's Commune'.

**Japan:** In Japan, after Second half of the 19<sup>th</sup> Century Co-operative movement was started. This movement seems to have been influenced by the European Co-operative movement. The Credit (loan) Co-operatives of Japan in like of the Germany and consumer Co-operative in modeled on the British Co-operative. The Japan Agricultural Co-operative organization takes an important position in Co-operative movement, though in low level, we find a vital role of the government. In the movement, the government invites funds and grants which directs the organizations. Few years after, in 1947 AD, a central Co-operative union was established. After the Second World War, the agricultural Co-operative society was established for developing and sustaining of farm management and livelihood of owner farmers, who got their land through banking reforms program

As the Co-operative movement took place in different countries, International Co-operative Alliance (ICA) was established in London on August 1895 by the International Co-operative Congress. ICA is an Independent worldwide International Association of Co-operative organization of all types. ICA has the affiliation in 102 countries with 256 national and 4 International level originations as member serving well over 800 million individual members worldwide.(Acharya, 2007:P.16 ).ICA collaborates with several United Nations agencies, including the International labour organization (ILO), Food and Agriculture Organization (FAO) and the United Nation Council for the Trade and Development (UNCTAD). ICA enjoys category-1 Consultative status within the United Nations Economic and Social Council. Similarly, in the early 1970s World Council of Credit Unions was established, world council of credit union has become the world's leading advocate platform for knowledge exchange, and development agency for credit unions on an international level, delivers the " Sound and Safe" credit union message to government legislators, regulators, donors, credit union organizations and credit union members as well as implements credit union projects with proven tangible results.

### **2.1.3.1 Nepalese Prospective**

Co-operative is not a new concept in Nepal. The different types of Co-operative activities like " Dharma Bhakari ", " Dhikuti" ,"Parma", "Guthi", "Bheja" ,"Manka Khala" have been using in practice from the ancient time. "Dharma Bhakari" means a religious store is a kind of grain bank with each family in the village puts a side certain quantities of grain after the end of the harvest season. At the time of scarcity, the quantities of grains are distributed advance to the farmers. Loan is advanced from the grain bank only to the villages, which have contributed to the bank and agreed to pay the loan in kind with interest.

"Parma" is still another type of traditional type of Co-operative in Nepal. It is a socio-economic organization in which farmers, neighbors, friends and relatives work with Co-operative operation to promote their economic and social interests.

Another traditional form of rural Co-operative is "Dhikuti" is the best example of Voluntary Co-operation of the Thakali. It is formed by a group of people with a specific work. Dhikuti is one of the important and popular forms of Co-operation in Nepal. This system of Co-operative is utilized in all parts of the country. The members prepare the rules and regulations. After preparing rules and regulation of such society, every member is required to contribute certain amount of capital towards the fund. The Funds is to be contributed on the basis of financial requirement of the members.

"Manke Jaya" or "Manka Gathi" is practiced as group farming in Kathmandu Valley. Each group is called Manka Khala and the head of that group is called "Thakuli" which mean chairman of the group. Informal groups of farmers are farmed for doing agricultural operations like cultivation, sowing and harvesting. Thus the concept of co-operative in Nepal is not a new one. It is familiar in those days when people had the knowledge to live together in a society or community. But we cannot ascertain the actual date when the actual date when the co-operative movement was started in Nepal. Many types of informal co-operatives were running in different parts of Nepal but those are not in the position to take formal slope of co-operative. If we turn over the history of co-operative movement of Nepal, the organized history can be traced back to about 54 years old. Formally the history of Nepal has been started after the year 1953 under the Ministry of Agriculture for the promotion, Supervision and evaluation of co-operative societies. Lamsal, (2000).

In the beginning, co-operative movement in real sense was greed up with the establishment of "Bakhan Saving and Credit Co-operative Ltd". In Rapti valley, Chitwan in 1956 as part of the resettlement program for the flood stricken people in Rapti under the active support of united state agency for international development on experimental basis. Considering the importance of necessary rules and regulations for managing and guiding co-operatives effectively and efficiently, the first co-operative act was promulgated in 1959, which provide legal entity among other things, to all co-operatives registered under the executive order.

Consequently co-operative society rules, 1961 was promulgated which promoted the co-operative movement in the country. With the introduction of the first co-operative act numerical growth of co-operative boomed up. In the mean time, the co-operative activities were tied up with the so called revolutionary many land reforms program. In the later dates, the guided co-operative program was introduced which followed a rapid merging process. In 1969, the management of co-operative was entreated to the concerned department increased gradually and by the end of F.Y 1970/071 reached to be about 1500.

During the period, a Co-operative Development Fund (CDF) was established to finance co-operative for leading to their members. In order to provide broader spectrum of supervision, guidance and leading to co-operatives, a co-operative bank suffered heavy financial losses because of misuse and fraud in the operation for its member's co-operatives. This lead to the establishment of Agriculture Development Bank and dissolution of co-operative bank in 1970 with all due assets and liabilities under the formal control. In 1976, the co-operatives societies were also subjected to various agencies regarding management and control. In the early seventies they were bought under the Agriculture Development Bank of Nepal for financial and administrative control. This did not last long; they were handed over back to the co-operative Development.

Obviously, the reason for the failure of co-operatives was the nature of organization. Government took initiatives to organize, manage and control them. Co-operatives were used as tools for the extension of the government service designed to serve the interest of the government not of members.

After the restoration of democracy in the country in 1990 (2047 BS), it paved the way for new changes in the co-operative movement, consequently new co-operative act was promulgated in 1992 (2049 BS) recognizing co-operatives as people's organization with an

autonomous body. On the basis of act long awaited National Co-operative Federation came into existence in June 20, 1993 ([http://www.ncfnepal.com.np/historical events.html](http://www.ncfnepal.com.np/historical%20events.html))

There have been several Commissions and Task forces formed for studies in the field of co-operatives. Such commissions and Task Forces include consultative committee for National co-operative federation (1990), study on Improvement on Organizational Structure of Co-operative Sector (1999). Task Force for suggestion for co-operative department (2000), High level co-operative sector improvement committee (2004), Legal Framework and Institutional development study of saving and Credit Co-operative Society and National Co-operative bank by Ministry of Finance, 2004.

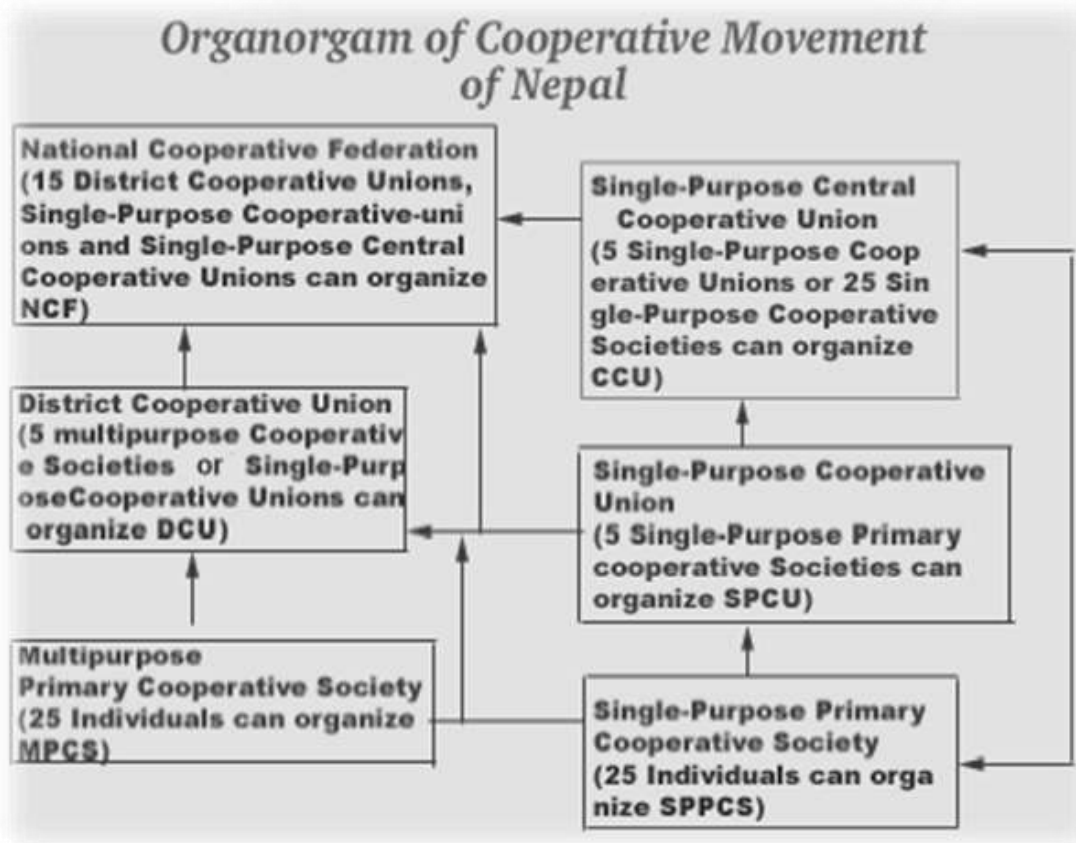
Co-operative Bank was established in 9<sup>th</sup> July, 2003 with the aim provide financial services to all the co-operatives issuing share and member to co-operatives. Within the four year period of establishment it is not capable to include most of the co-operatives of Nepal and facing problem including all the co-operatives and extension of branch office in major parts of Nepal. For the supervision of co-operatives in regional level co-operative training office in Kailali, Surkhet, Kaski and Chitwan in 2005. In 2006 begin the 50 years if formal establishment of co-operative in Nepal , co-operative golden jubilee was celebrated all over the country. The major event of co-operative movement in Nepal has been summarized as under.

#### **2.1.4 Structure of Cooperative Movement**

The Cooperative movement of Nepal has a three-tier system e.g. primary, secondary and national level on terms of multi-purpose co-operatives and a four-tier system e.g primary, secondary, tertiary and national level in terms of single –purpose co-operatives. Multi-purpose co-operatives and single-purpose co-operatives at all levels have vertically and horizontally linkage. Co-operatives at all levels ate integrated with NCF/N,CCU and DCUs. The organizational structure of the Nepalese co-operative movement is as follows :

Figure 2.1

Organizational Structure of Nepalese Co-operative Movement



Source: <http://www.ncfnepal.com.np/organogram.html>

2.1.5 Rules Regarding to Co-operative in Nepal

Most of the countries in the world had already issued proper law for smooth operation of Co-operative organization. Britain had issued industrials and provident societies Act in 1852 AD, which is the first Co-operative act in the world. In 1904 AD Co-operative has given legal framework in India. The modern Co-operative movement was beginning from since 2010 BS. Development process of Co-operative law in Nepal is given as follows.

1. Co-operative Organization Act, 1959

To develop mutual Co-operation, economic development, self-reliance and elimination of poverty, Co-operative Act 2016 BS was came into effect. It was published in Gazette on 3<sup>rd</sup> Ashard of 2016 BS and begin from 9<sup>th</sup> kartik of 2016 BS .This is the first Co-operative act of Co-operative movement in Nepal .People above 16 years having more than 25 members

could register Co-operative organization . For saving and credit Co-operative, member had been same place of same aim and profession could registers organization. After the issuance of Co-operative rules 2018, formation, operation and control of Co-operative organization became very easy.

## **2. Co-operative Bank Act, 2019**

Co-operative Bank act, 2019 has issued to provide easily loan to Co-operative organization. After issuance of Co-operative Bank Act, 2019, Co-operative bank was established in 18<sup>th</sup> Bhadra 2020 BS. After, in 2024 BS, Co-operative bank was emerged in Agriculture Development Bank.

## **3. Constitution of Nepal, 2019**

Third amendment of constitution of Nepal has given legal acceptance to Co-operative. It has emphasized Co-operative as a formation to development of industry and commerce.

## **4. Sajha Sanstha Act, 2041**

Sajha Sandtha Act had come in effect in 2041 BS .This Act has managed the following provisions:

- a) Industrial Sajha having 15 or more than 15 members.
- b) Other Sajha Organization having 25 or more members.
- c) District Sajha Union having 5 or more Sajha Organization
- d) National Sajha Union having 15 or more district Sajha union.

## **5. Co-operative Act, 2048**

After the restoration of democracy in 2046 BS, Co-operative Act 2048 has come in effect. The new legislation recognized the democratic character if Co-operative movement. Based on this Act, Co-operative rules 2049 have come in effect. This Acts has given the independence if Co-operatives organization on their members. According to this Act, Co-operative must have at least 25 members and should be followed Co-operative rules and regulation.

Apart from above mentioned these acts, National Co-operative Development Board Act, 2049 and privatization Act, 2059 also has been come in effect.

### **2.1.6 Saving and credit Co-operative in Nepal**

Nepal has not able to made separate saving and credit Co-operative act till now. After the political changes in Nepal in 1990 AD (2047 BS) Co-operative Act, 1992(2049 BS) came into effect. According to section 26 of Co-operative Act 1992, saving and credit Co-operative movement has been exercising in Nepal. There are four kinds of saving and credit Co-operative organization in Nepal. They are as follows:

#### **1. Traditional Saving and credit Co-operatives**

These kinds of saving and credit Co-operatives encouraged to the members to save and collect saving from them. It provides debt to members for production and consumption functions. The main purpose of establishing these kinds of Co-operative is to develop the socio-economic condition of members.

#### **2. Multipurpose Saving and Credit Co-operative**

These kinds of Co-operatives have different kinds of function. In addition to other function, this kind of Co-operative provide saving and credit facility in their members

#### **3. Banking Co-operative**

These kinds of Co-operative are established according to section 26 of Co-operative Act 1992. This type of Co-operative conduct limited banking activities after obtaining approval from NRB .Nepal Rastra Bank has issued following provisions for these types of Co-operatives:

- These types of Co-operative can collect saving and provide debt to both members and other general people.
- These Co-operative can provide limited banking facilities.
- Co-operatives can't accept overdraft and foreign currency.
- Co-operatives can't give current account facilities.
- Co-operatives are able to accept saving and credit to ten times of paid up capital and one person can issue debt only 10% liquidity found of total collection.
- The difference between interest in saving and credit are not more than 6 %.

#### **4. Financial Co-operatives**

These types of Co-operatives have established according to the sub section number 1 and section 26 of Co-operative Act 1992. The organization which can accept saving from general

and provide loan to agriculture, Co-operative industries or specify economic provision is called financial institution. These types of Co-operatives have limited right to provide financial activities.

### **2.1.7 Current Issues and challenges of Co-operatives**

There have been several commissions and task force formed for studies in the field of Co-operatives. Such commission and Task forces include consultative committee for National Co-operative federation, 1990: study on Improvement on organizational structure of Co-operative sector, 1999: Task forces for suggestions for Co-operative Development, 2000: and high level Co-operative sector improvement committee, 2004.

All of the above committees have identified challenges of the Co-operative sector and provided their recommendations to overcome them. The challenges identified are mostly too general (the last committee's report has however, tried to go into depth) and focused on what the government should do.

Nepalese saving and Co-operative organizations are facing so many problems. The Current issues of Co-operatives are as follows:

#### **1. Lack of clear Legal Provision**

Separate law for saving and credit Co-operative hasn't issued yet. Without clear separate law, it is very difficult to provide saving and credit facilities for Co-operative organization. It is necessary to formulate separate and clear legal framework for saving and credit organization.

#### **2. Lack of Co-operative education**

Nepalese people are unknown to Co-operative education. Without the knowledge of Co-operative education, it is very hard to manage Co-operative organization .It is necessary to provide training for members, workers and managers by proper Co-operative education.

#### **3. Lack of Co-ordination**

Inter coordination is most important for Co-operative organization. Without inter co-ordination, Co-operative organization will not be sustained. This is the main problem faced by Nepalese Co-operative organization. As a result it seems vast difference among them whether they are same in purpose.

#### **4. Lack of Federalism**

Co-operative is an agitation and it believes on federalism .To mobilized Co-operative organization, National Co-operative union has already been formed by this union is failed to provide them guardianship and communication of Co-operative information.

#### **5. Competition with Commercial bank and Financial Institution**

Saving and credit Co-operative organizations are facing problem of competition with commercial bank and financial institutions. Without knowledge of co-operation, people compare saving and credit organization with bank. Thus an effective saving and credit Co-operative Act has to be formed.

#### **6. Government organizations are not aware of their Role**

The role of government organization is very important for saving and credit Co-operative organizations. Co-operative department, national Co-operative board and district Co-operative office are not playing vital role. As result, Co-operative movement hasn't able to achieve clear direction.

On the basis of above mentioned fact, it cannot be claimed that the Co-operative movement has become successful in Nepal. It has many challenges in coming time .Such as challenge of competition, challenge of exploitation opportunities, challenges of withdrawal of governmental support and assistance and challenges of infrastructure. There are different challenges with the Nepalese saving and credit Co-operatives. To quote an example, saving and credit Co-operative societies are not registered by the department of Co-operative since last few years. There are number of challenges that the Co-operatives of Nepal are facing .Among them, some of them are as follows:

- A. Legal and Regulatory: There is no separate Co-operative act in Nepal. The current Co-operative act does not even have a separate chapter for Co-operative. In addition from last two years the registration of saving and credit Co-operatives has been suspended by the Department of Co-operative.
- B. Lack of clear Vision of Promoters of saving and credit Programs: In Nepal almost all government and non-government organizations have included savings as a component of their various developments programmes such as literacy group ,health group, forest user's group ,mother's group, irrigation user's group ,agriculture production group and

so on and so forth. After the preliminary objectives of the group formation is completed the savings and later credit component continues and as the groups grow, the technical assistance need for these groups increases, which in most cases are not provided by the promoters.

- C. Lack of adequate monitoring: There is very limited institutional capacity of Co-operatives to self regulate. At the same time the capacity of Department of Co-operative to monitor also is almost non-existent. NEFSCUN (Nepal Federation of Saving and Credit Co-operative union Limited) too has limited capacity to monitor and cannot monitor those Co-operative that are not its members. There are some cases where some officials of urban based credit Co-operatives misused the funds of Co-operatives and ran away. Though such cases are very few, that too within the non-communities based Co-operatives within the urban areas, but it had very serious impact on the credibility of the credit Co-operative societies.
- D. Diversifying Financial Services: Most of the saving and credit Co-operatives have not been able to diversify their financial services. They remain in providing saving and credit services within limited numbers of saving and loan products .Other Competitors of saving and credit Co-operatives have started providing micro insurance and even money transfer services. This may in long run starts membership drop outs in Co-operatives.
- E. Poor/No Linkage with Business Development Services: Most of the credits Co-operatives have been unable to link their member with business development services. This has resulted in to stagnancy in the credit need of their member.

In conclusion Co-operative movement was successful in increasing the width of the outreach .But increasing the depth has been a challenge. In few cases the Co-operatives were promoted within the disadvantaged classes,' davits' and women to make sure that the inclusion there ,however ,in most cases the poorest of the poor and /or the disadvantaged populations of the community have not been able to access services from the Co-operatives.

## **2.2 Empirical Review**

This section is devoted to review of important empirical studies concerning financial sustainability of Co-operatives. There are numerous studies financial soundness and sustainability of Co-operatives. So it is not possible to survey and review all empirical works extensively and given here in details. Therefore some important studies and their findings are

presented below. In Various studies have been carried out regarding the evaluation of Co-operatives societies. All studies are related on financial position and development aspects. No one has studied on the financial sustainability of Machhapuchre saving and credit Co-operative in Nepal as a case study. Some of the leading and available studies have been reviewing in this study. The present study concerns the financial sustainability analysis of the rural based saving and credit Co-operative society.

Subedi, (1999). has been studied on the topic of "Accounting Information System of Co-operative in Nepal." His aim was to analyze the working of the accounting system of the Co-operatives, their defects and difficulties. He has also aimed to suggest measuring against such problem of the economic development of the country. In his study he has concluded that huge amount of economic resources has been flown to over 881 Co-operatives. The study has also suggested to removing the various problems facing the Co-operative movement in the country and playing due attention, to developmental activities and controlling the existing irregularities and weakness by establishing sound accounting information system. Many problem of the Co-operative of Nepal are not properly identified yet by the concern and interested parties and people near in general not to mention that no productive and unity plans and programs to solve the problem and prepared so far. For this systematic accounting information system is needed. This study has been conducted specially with reference to Narayanpur Co-operative society limited, Chitwan, a terai Region.

Bishwokarma, (1994). has studied," Financial Performance Analysis of Nepalese Co-operative Societies with reference to district Co-operative Association Ltd.banepa." His aim was to analyze the strengths and weakness of the association by analyzing the financial statement. In that study, he found that liquidity position of association was satisfactory but it has invested its huge amount in current assets unnecessarily. The assets utilization position of the association is not satisfactory. The association hasn't maintained its appropriate leverage position. The share capital is not paying any significant role to meet requirement. The funds aren't appropriately managed and well. The financial position he has concluded that the main cause of weakness of the association in the previous ruling system of the country. In fact, there was no freedom to decide about the association itself the plans were imposed by the center. The study suggests that Co-operative should maintain political neutrality. If Co-operative were managed and utilized properly Co-operative can be the back bone."

Pant and Jain, (1968). Some reason of failure of Co-operative societies in our country in their book entitled "Agricultural Development in Nepal," The main reasons stated by them are inadequacy of trained staffs and defects in organization, inadequacy of fund, and lack of sound and reliable workers lack of confidence in the Co-operative movement, unsatisfactory working of the Co-operative institutions at some places, lack of co-operation from the rich and well to do people and deficit nature of agriculture and illiteracy amount cultivators.

Another study has undertaken by Katel, (1980) on the topic of "A study on the Co-operative Organization of Jhapa District," His main aim was to find the strength and weakness of Co-operative organization in Dhulabari VDC. In this study he concluded that Majority of both big and small farmers are found dissatisfied with the loan repayment duration, rate of interest charged by co-operatives, terms and conditions, policies adopted by the co-operative organizations. Only the minority of the farmers is found satisfied with the loan repayment duration policy of co-operative."

Pokhrel, (1998). "Co-operative movement in Nepal. The main objective if this study is to review the overall situation of co-operative movement in Nepal. In this study he found some problems faced by the co-operative movement which are ; lack of co-operative education and training ,lack of fund and spontaneity towards co-operation, lack of loyalty and efficient management ,absence of lonely services and political interference ,lack of specific and stable policy and central level organization ,absence of good publicity and good process of loan disbursement and payment .This study stressed the role of sajha societies resources utilization of funds mandating activities reveals that there is a great need for reutilization in order to make the movement strong and stable.

Shrestha, (1978). has conducted another study on the topic of "The role of co-operative societies in the Economic development." The main objective of this study was to find out the condition of Sajha co-operatives and utilization of fund. From this study he has conducted that the most of the farmers of the Sajha group is better regarding the use and money borrowed as they used it for agriculture because of their better knowledge and high efficiency to bear risk.

Paudel, (1979). has studied on "Sajha Society in Nepal". He has concluded that Sajha Societies in Nepal are neither financially liable nor effective in boosting up the agricultural

sector. The major beneficiaries have been the few privileged farmers who have not only misused the credit but also pushed up societies into financial burden.

A study was conducted by Co-operative Training Center in 2049 B.S. on the topic of "Why do co-operative fail". The study has found some remarkable conclusion which is as follows:

1. Programmed structure is the basic drive for the co-operative success. It includes:
  - i) Opportunity base on necessity
  - ii) Creativeness and
  - iii) Integrity
  
2. Organizational Structure visualizes the group activities of the organization. So it can not be a factor to be ignored if co-operative was to succeed. In this respect, we can classify the conclusion into three different parts.
  - i. Communication must flow to all related parties i.e. for the ordinary member, board committee, accounting committee, management and employee etc.
  - ii. Participation of members must be essential factor for the co-operative success. It is need for chalking out the program for implementation and for decision making.
  - iii. Business Vision: Long term business vision could be prominent element for co-operative success.
  
3. Internal resources mobilization contributes for the co-operative success. It includes motivation to the members for the collection of capital and to mobilize the fund, equal sacrifice of co-operative and continuous contribution of members in essential.
  
4. Services to member are the prime objective of the co-operative society because co-operative organizational is for the members and by the members. Following points can be taken as:
  - a. The organization should undertake studies for reforms at the level of member services
  - b. Co-operative members must gets special services in compression to the non-members and
  - c. Equal distribution of services is also a curricula element for the co-operative.(Co-operative Adhyan Mala,2055:Vol6)

Baral, (2006). has conducted the study on "Financial Health Check up of Pokhara Royal Co-operative Society Limited in the Frame work of PERLS in 2006.His findings were: Pokhara Royal Co-operative Society Limited has made limited sufficient loan loss provision for bad debt loan but it has not made adequate provision to cover the possible loan losses from doubtful and sub-standard loan. It has invested most of its funds in more productive assets and less in non-earning and less productive assets and managed the sources of funds effectively from saving deposits. But, it has a weak institutional capital base as a second line of defiance against non performing assets. The highly fluctuating growth rates in key financial variables imply that Pokhara Royal Co-operative Society Limited does not have sound strategy for sustainable growth in its business. But the sign of growth of key variables except to institutional capital show that in has achieved desirable growth during the study period.

Lamsal, (2000). has conducted the study of "Financial Performance of Nepalese Co-operative Societies with reference to District Co-operative Associations Ltd kaski" in 2000. His findings were: Association had invested most of its funds in current assets unnecessarily, problem of over inventory, assets utilization position is not satisfactory having unnecessary fund accumulated in the current assets which the association is unable to manage. He has also concluded that capital structure of the association is not sound there is heavy debt capital as compared to ownership capital. The main sources if external capital were bank loan and gratuity fund (free gift) of the employees of the association. He further concluded that the association is unable to mobilize its fund in profitable sectors. Therefore, the association is unable to mobilize its funds in profitable sectors. Therefore, the association has been suffering from loss all over 5 years study period.

Dahal, (2053). "Financial Performance of Co-operative Societies Ltd. Inaruwa ,Sunsari district. The main objective of the study was to find out financial position of Co-operative society. The main finding of his study was that the liquidity position is improving. The capital structure of Co-operative society is not sound. There is heavy debt capital as compared to equity for ownership capital. The society hasn't been issuing share for collecting capital and raising of loans in those periods has collected most of the funds. Paying rate of interest is very high, providing insufficient amount of dividend, ineffective management, high operating cost etc are the main variables which reflect the poor financial performance of Co-operative society. He also suggested that the society must try to remove all these variables and improve its financial performance significantly.

Giri, (1996). has conducted the study on the topic of " A Case Study of Damak Co-operative Sanstha in jhapa District" in 1996 .The main objectives of his study was to evaluate the contribution of Damak Co-operative Sanstha . The main findings of his study were that due to lack of capital in time, lack of effective management and lack of people's participation. The Co-operative Sansthan has failed to provide chemical fertilizer. In comparison with big and small farmer, small farmers have got more benefit. By the lack of adequate distribution of agricultural inputs, distribution of credit in time and lack of effective management of big farmers are not satisfied with the service of Co-operatives.

Shrestha, (2002). on the topic of "An Impact Study of Micro Credit Project for women in rural area. A case study of kaski district in 2002. The main objective of his study was to assess the economic condition of micro credit project for women in Kaski District in rural area. He has concluded that the micro credit project for women programme has improved the livelihood of the targeted women significantly. The program has addressed the gender sensitivity so that social harmony has been feeling in the society. The program with its focus on group activities has helped to enhance the women's confidence and solidarity. It has led to a significant change in their status within and outside their households. He has recommended at the end of his study that skill development training must be provided as demanded by the members .He has also concluded that there should be an effective participation, monitoring and evaluation system to sustain micro credit project for women in kaski district.

Sharma, (1999). undertook a study on the topic of "Comparative Study on the Financial Performance of Co-operative with reference to Samjhana Multipurpose Co-operative and Nabakshitij Co-operative Society Ltd Kathmandu. The objective of his study was to find out comparative financial position of SMCSL and NCSL by analyzing different types of ratios. From his study he has concluded that both Co-operative deposit utilization rates is higher in comparison to SMCSL. It implies that SMCSL is more active in creating investment opportunities and enhancing business activities than NCSL. The profitability activity and capital structure ratio of SMCSL is better than NCSL. The total debts to ratio, total debts to equity ratio, long term debts to total assets, long term debts to capital employed, net fixed to net worth ratio and adequacy ratio of the NCSL is very high than of SMCSL . The combined ratio also clearly point out the superiority of performance of SMCSL over the NCSL, Both Co-operative are running in a very slow pace .SMCSL is relatively promises a better future.

He has concluded that the Co-operatives still lack the business principles and are developing at very slow pace.

A study conducted by Impact Monitoring Unit of German Technical Co-operation on the topic of "Institutional Sustainability of Small farmer of Co-operative" In June, 2000 A.D. The main objective of this study was to assess the organizational viability of small farmer Co-operative society limited and examine the impacts of the program on the living condition of participating small farmers. The economic and social well being of farmers have improved after being a member of small farmer Co-operative society limited. The small farmer Co-operative societies limited are seemed to be rather weak in their ability to draw resources available around the environment. The present part of organizational growth and development of small farmer's Co-operative society limited is on a path of overall institutional sustainability.

Khatiwada, (2001). on the topic of "Impact of Training on Co-operative Sustainability "in June 2001. The main objective of his study was to assess the impact of training on Co-operative operation and its sustainability. In this study he has concluded that the sustainability of the Co-operative is highly depend on the qualitative and quantitative aspect of the training to the Co-operatives. The attitude Knowledge and skill situation of the Co-operative members was lower than the essential standard. The nature and specialist of the Co-operative did not able to follow the generalized program of the training as well as adoptive information.

### **2.3 Research Gap**

This review of above relevant literature has contributed to enhance the fundamental understanding and knowledge, which is required to make the study meaningful and purposive. Various studied have been conducted in the past on financial sustainability of the cooperatives. The research paper done in the context of Nepal mainly emphasized a liquidity, profitability and leverage. The researcher conducted mostly their research only on commercial bank and finance companies. The financial Sustainability of Machhapuchre Cooperative Limited has not been done yet, no one has conducted research on this topic of Machhapuchre Cooperative Limited. Thus there is necessary to conduct research on this topic of Machhapuchre Cooperative Limited. So this research is conducted to know the actual financial performance and sustainability of Machhapuchre Cooperative Limited. Therefore

the study of financial sustainability of Machhapuchre Cooperative Limited will add new dimension toward finance function and sustainability of Cooperative.

## **2.4 Introduction of Machhapuchre Co-operative Limited**

In the Co-operative history of Nepal, Kaski district reserves its important position. Many traditional Co-operative Societies had been established in the early days. Modern types of Co-operative were established in Nepal simultaneously. Co-operative societies of Kaski district contributed much in the field of economy, agriculture, diary production and other fields. Several Co-operative societies have been established with various aims. In kaski district, there are 23301 co-operative societies registered in Nepal till Ashad 2068.

Machapuchre Cooperative Limited was established in Pokhara city which is situated at Chipledhunga-4, Pokhara R.K Building . It was registered on 2055 BS under Nepal Cooperative act 2048 BS and commenced its business in Kaski district. Its main objective is to collect small saving and mobilizing saving in various sector as per the need of its shareholder members as well as protecting and promoting its shareholder's rights. The Co-operative was established with the slogan karn karn ma pahad budh budh ma samundra.(Annual Report, MCL 2065/066)

The Cooperative is running in its 15 years, during this period the cooperative had successfully established its first branch in Lekhnath and soon co-operative is going to established its own building in New Road , Pokhara. As per the annual report of F.Y 2069/070 the cooperative have total share capital of Rs 1,16,12,000 which is Rs 8,69,866 more than previous year and profit of Rs 27,70,400. It is an organized financial institution which can play vital role in collecting scattered savings and putting them in productive use, mobilizing financial resources properly, as well as protecting its shareholders rights and benefits. Only five years annual data is taken for the study of Financial Sustainability of Machhapuchre Co-operative Limited.

The operational objectives laid down by the Machhapuchre Co-operative according to its regulation are as follows:

- To manage coordination and mutual help between members and society.
- To develop self-dependency and self confidence habit of members.

- To provide loan to the members for production, income generation and skill making purpose at fair interest and easy terms and conditions.
- To accept membership of national and international organization which are truly working for development promotion of public economy.

Machhapuchre Co-operative laid down following functions:

- To collect and encourage regular saving from its members.
- To provide loan to its members.
- To develop socio-economic condition of its members.

# **CHAPTER III**

## **RESEARCH METHODOLOGY**

The main objective of this study is to evaluate, examine and analyze the financial strengths or sustainability of Machhapuchhree co-operative limited, Pokhara during fiscal year from 2065/066 to 2069/2070 B.S. Further an attempt is being made to examine whether the selected co-operative is running as per the co-operative principles or not. Its socio economic impact is satisfactory or not and how far co-operative have been successful in achieving the derive result. Research methodology is the way systematically solve about the research problem. Kothari, (1999). Research methodology is refers to the various steps to be adopted by a researcher in studying a problem. This chapter is divided into six parts. They are research design, Study unit, Nature and sources of data, data collection procedures, data processing and methods of analysis, which are discussed as below.

### **3.1 Research Design**

A research design is a plan for the collection and analysis of data. It serves instruments to be utilized and the sampling to be followed. The research design is an integrated frame the guides the research works. To achieve the objective of the study, descriptive research design is used with a combination of analytical approach. This study is frame work of case study of the co-operative limited. It is fact finding operations search adequate information to the performance of Machhapuchhree cooperative limited.

### **3.2 Justification For the Selection of Study Unit**

There are various studies has been conducted on the area of co-operative organization. There is no study conducted on the financial sustainability of Machhapuchhre co-operative limited. Therefore the Machhapuchhree co-operative limited is taken as study unit, which has completed 15 years of operation.

### **3.3 Sources of Data**

Required data and information are collected through primary and secondary sources.

**3.3.1 Primary data** - The primary data are collected through personal visit to the employees of MCL. Interview and discussion with co-operative members and shareholders of MCL. The other necessary information is carried out to obtain the required result as possible as through concerned fields.

**3.3.2 Secondary data** - All the secondary data and information are collected through different sources like annual report and other published data of MCL , National co-operative board, related journals, publication, master's dissertation etc.

### **3.4 Data Collection Procedure**

This study is based on both primary and secondary data. Most of the relevant data and information have collected through secondary sources. The annual reports, broacher, co-operative books, magazines, different publication, website are the secondary data which were collected from various research papers placed in Western Regional Library.

### **3.5 Data Processing**

The available data have been edited, classified and tabulated in appropriate form. Collection of relevant information, identification of data suited to fulfill the purpose of the study; Classification and tabulation of data use of ratios are the techniques use for data processing. Processing of data have been done by the computer using Microsoft word, Excel etc. Data are processed in such a manner that makes clear picture about the position and situation of MCL, Keeping in mind to achieve the objective of the study.

### **3.6 Data Analysis Tools**

The collected data and information has been categorized and tabulated according to objective of the study. Then it has been analyzed and interpreted through financial and statistical tools and techniques which are as follows:

#### **3.6.1 Financial Ratio Analysis Tools**

Financial ratio analysis tools basically help to analyze the financial strength and weakness of a firm. Ratio analysis is one of the important financial tools that have been used in the study. Ratio is simply one number expressed in term of another and it expresses the quantitative relationship between any two numbers. There are different ratios to analysis and interpret the

financial statement of MCL, however financial ratios related to subject matter of the research is used in the study which are as follows:

➤ **Liquidity Ratio**

1. Cash and Bank Balance to Total Deposit Ratio

$$CBTDR = \frac{\text{Cash and Bank Balance}}{\text{Total Deposit}} \times 100$$

Where,

Cash and Bank Balance = Cash + Bank Balance

Total Deposit = Short Term + Long Term Deposit

➤ **Efficiency Ratio**

1. Loan and Advance to Total Deposits Ratio

$$LTDR = \frac{\text{Loan and Advance}}{\text{Total deposits}} \times 100\%$$

Where,

Loan and Advance = All the short term and Long term loan

Total Deposits = All the short term and long term deposits

➤ **Profitability Ratio**

1. Return on Assets Ratio

$$ROA = \frac{\text{Net Income}}{\text{Total Assets}} \times 100\%$$

Where,

Net Income = Net profit after tax

Total Assets = All the items of right hand side of balance sheet

2. Return on Equity

$$ROE = \frac{\text{Net Income}}{\text{Shareholder's Equity}} \times 100\%$$

Where,

ROE = Return on equity

Net income = Net profit after tax

Equity = Reserve + Paid up capital + undistributed profit

### 3. Return on Total Deposits Ratio

$$ROTDR = \frac{\text{Net Income}}{\text{Total Deposit}} \times 100\%$$

Where,

ROTDR = Return on total deposit ratio

Net income = Net profit after tax

Total deposit = Short term and long term deposit

### 4. Interest on Total Assets Ratio

$$IETR = \frac{\text{Interest Earned}}{\text{Total Assets}} \times 100\%$$

Where,

IETA = Interest earned to total assets

Interest Earned = Interest on loan + Additional charges on loan + Additional charge on regular deposit interest on investment

Total Assets = All the items of right hand side of balance sheet

## ➤ Capital Structure Ratio

### 1. Total Debt to Assets Ratio

$$TDAR = \frac{\text{Total Debt}}{\text{Total Assets}} \times 100 \%$$

Where,

- TDAR = Total debts to total assets ratio  
 Total debt = Short-term loan + long term loan + all deposits  
 Total assets = All the items of right hand side of balance sheet

## 2. Total Debt to Equity Ratio

$$TDER = \frac{\text{Total Debt}}{\text{Shareholder's Equity}} \times 100\%$$

Where,

- TDER = Total debt to total equity ratio  
 Total debt = Current liabilities + long term loan + all deposit  
 Shareholder's equity = Paid up capital + Reserve and Surplus + Bonus and other Reserve funds

### 3.6.2 Statistical Tools

In order to analyze the study of financial sustainability of MCL, Various statistical tools can be applied. The following statistical tools are used in this study

#### 1. Arithmetic Mean

Arithmetic mean of a given set of variation is their sum divided by the number of observation. In general  $x_1, x_2, \dots, x_n$  is the given set of observation, then their arithmetic mean usually denoted by

X is given by.

$$\bar{x} = \frac{x_1 + x_2 + x_3 + \dots + x_n}{N}$$

Where,

- N = Number of observation  
 $\bar{x}$  = Arithmetic mean

### 1. Coefficient of Variation (C.V)

The coefficient of variation is the relative measures of dispersion comparable across distribution which is define as the ratio or the standard deviation to the mean expressed in percentage.

$$C.V = \frac{\text{Standard Deviation}(\sigma)}{\text{Mean}} \times 100$$

Where,

$$S.D. = \sqrt{\frac{\sum x^2}{N} - \left(\frac{\sum x}{N}\right)^2}$$

### 3. Karl Pearson's Coefficient of Correlation

Karl Pearson's coefficient of correlation is a mathematical method for measuring the intensity or the magnitude for linear relationship between two variables. A great British Biometrician and statistical Karl Person propounded this theory which is known as Karl Person's coefficient of correlation. Karl Pearson's correlation coefficient denoted by 'r' measures relationship between the two variables (Staphit, 2007). The main objective of computing coefficient of correlation is to find out whether the deposit is proper utilized or not and whether the loan has generated proper output or not which may assist the MCL to take important decision to its capital structure. The correlation coefficient is computed by applying the following formula.

$$r = \frac{N\sum XY - \sum X \sum Y}{\sqrt{N\sum X^2 - (\sum X)^2} \times \sqrt{N\sum Y^2 - (\sum Y)^2}}$$

Where,

N = Number of Years

X = Values of X-Variables

Y = Value of Y-axis

r = Karl Pearson's Coefficient of Correlation

The correlation should lies between it where correlation of "+ve 1" denotes the perfectly denotes the perfectly negative corelation between two variables. When, r=0, it indicates that there is no relation between two variables and both variables re independent.

## 1. Probable Error:

The probable error of the correlation coefficient is computed to interpret the value and to measure the reliability of the coefficient of correlation. The probable error is computed by using the following formula.

$$PE(r) = 0.6747 \frac{1-r^2}{\sqrt{N}}$$

PE(r) = Probable Error of Correlation coefficient.

Whether the value of r is less than probable error, there is no evidence of correlation then the value of 'r' is not at all significant. But, if the value of 'r' is greater than the probable error, the value of correlation coefficient is said to be significant.

## CHAPTER IV

### DATA PRESENTATION AND ANALYSIS

#### 4.1 Data Presentation and Analysis.

Any business organization has to formulate and implement its own objective for long run and to strength in competitive markets. The overall business activities should be centralized to achieve the objective. At the time there should be consider market environment, Internal and external variable, government's rules and regulation, business strategies, social responsibility and other relevant activities.

Machhapuchree Cooperative Limited has its own objective for long run and to its strength. Its main objective is accumulated the scattered saving and mobilize into various sectors of economy to support the economic prosperity of the country. It can provide its services in many ways like collection and loan, providing installment, grading loans to construct residential house, construction of office, education, tourism etc.

This chapter presents the analysis of the collected data. The analysis attempts five years income and expenditure statement, balance sheet, cash flow statement, profit and loss account etc. The whole analysis has been divided in three parts performance, financial analysis and ratio analysis or financial performance analysis. Performance analysis presents sources of finance of the MCL. Similarly, financial analysis of liquidity efficiency, profitability, capital structure and growth. It also presents the analysis of current challenges of the MCL for the sustainability as performance analysis. Finally, it presents the findings of the study.

##### 4.1.1 Performance Analysis

Performance Analysis is an examination of various financial performance indicators such as return on assets and return on equity in comparisons with the results achieved by competition firms .

##### 4.1.1.1 Sources of Finance of MCL

Cooperatives collect fund from three types of sources. i.e. short term source                   mediate term source and long term source on the basis of time period. Generally, the sources of finance of fund of the cooperatives beside equity deposit. Every cooperatives needs fund to

operate transaction which can collect from various source.MCL has following sources of finance:

## Deposits

The main function of MCL is to collect deposits from its members and provide loan to them. Such kinds of cooperatives organizations have to pay interest to their members on their deposits. They should also pay dividend and bonus to their members/shareholders and staffs. To bear these kinds of expenses cooperatives have to utilize deposit very properly. If deposits are not properly utilized, the cooperative organizations have to generate reasonable amount of surplus to fulfill their obligations. Both collection and utilization of deposits are two side of a coin. However the deposit taking limit for cooperative has been fixed by NRB.

Cooperatives can accept different types of deposit from the Shareholders and member's. The deposit collection of MCL is given below:

**Table: 4.1**  
**Deposit Pattern of MCL**

<b>(Rs in '000')</b>		
F.Y	Fixed deposit	Growth %
2065/066	58911	0
2066/067	69089	17
2067/068	66457	-4
2068/069	70305	6
2069/070	94158	34

*Sources: Annual Reports of MCL*

As shown in the Table 4.1 the total deposit has been increasing all over the study period except in the year 2067/068. The total deposit is maximum Rs 94,158 thousand in F.Y.2069/070 and minimum Rs 58,911 in F.Y 2065/066.

**Figure: 4.1**  
**Deposit Pattern of MCL**

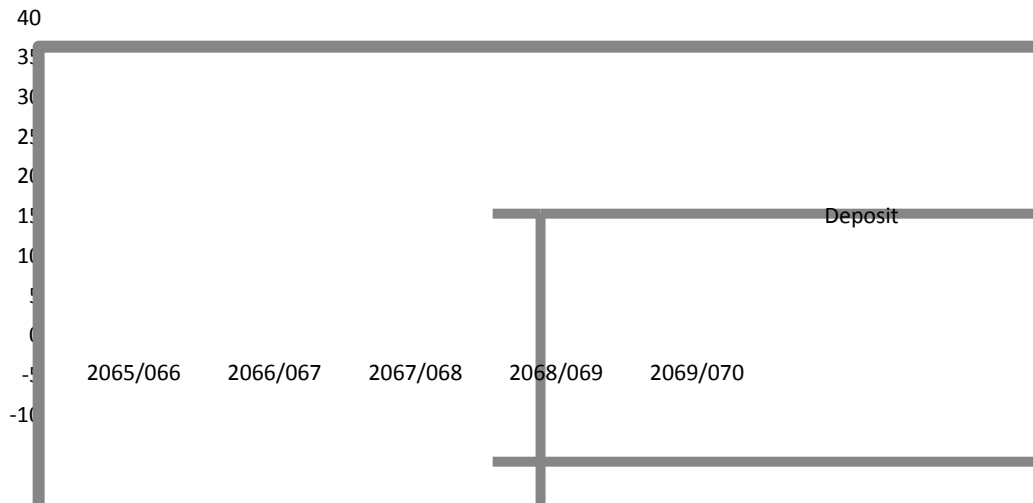


Figure 4.1 shows the deposit pattern of MCL during the 5 years period from F.Y 2065/066 to 2069/070. The Total Deposit is in fluctuating trends but start to increased from F.Y 2068/069 with 6% to 34%.

### **Financial Analysis:**

The financial sustainability is one of the major aspects of an organization. It can be evaluated on the basis of financial analysis. Financial analysis is the process of selection, relation and evaluation of strengths and weakness of financial activities of the organization. The financial analysis is the most important part of MCL. It is the indicator of financial sustainability of the MCL. The financial indicator includes income and expenditure analysis.

#### **4.1.2.1 Income Analysis**

Income reflects the productivity of the finance company in mobilizing the available resource. It measures whether the annual income of MCL is increasing or not. In other words, it measures how the MCL is financial able to generate incomes to sustain its activities. Interest incomes, Commission and discount income write off are includes in total income. The annual income calculated as follows

$$\text{Annual income ratio (\%)} = \frac{\text{Income in a year}}{\text{Total Income}} \times 100$$

**Table: 4.2**  
**Income of MCL**

**(Rs. in '000')**

F.Y	2065/066	2066/067	2067/068	2068/069	2069/070
Income	14,559	13,832	16,914	14,629	18,544
Yearly income Growth (%)	-	-5	22	-14	27

*Sources: Annual Report of MCL*

Table 4.2 shows the yearly income of the MCL. In aggregate, MCL has Rs 78478 thousand incomes. In F.Y 2066/067 MCL has Rs 13832 thousand yearly income and the growth rate is -5% in comparison to previous year, likewise in F.Y 2067/068 the growth ratio increased to 22% with income of Rs 16914 but it decrease in F.Y 2068/069 with -14% and final year the growth ratio is quite satisfactory as it reached to 27%. Table 4.2 has been shown in figure 4.2.

**Figure: 4.2**  
**Annual Income**

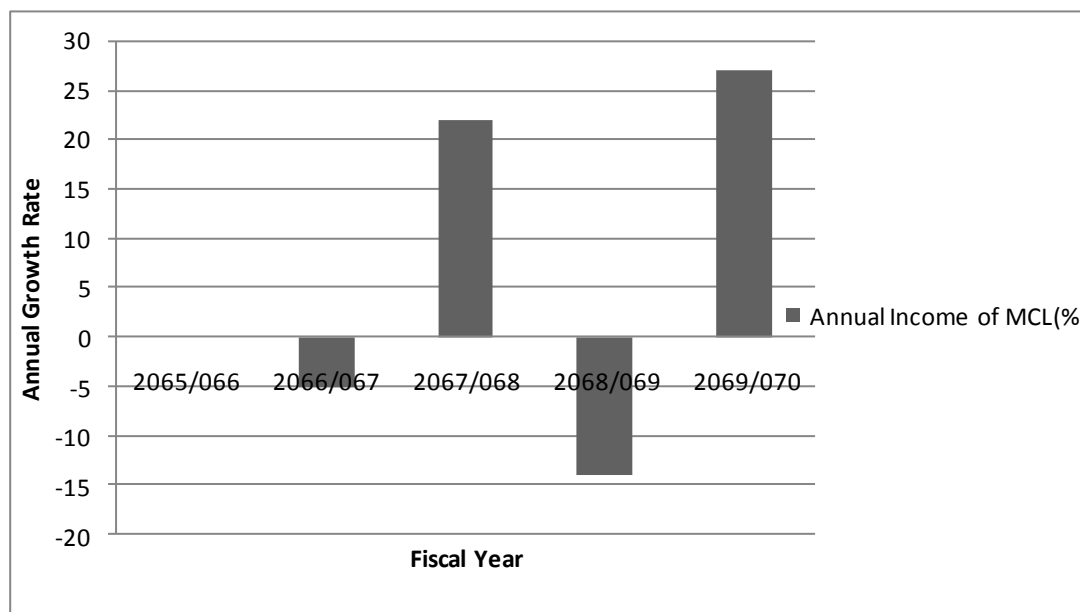


Figure 4.2 shows the annual income rate of the MCL. The annual income rate is fluctuating, in some year it is increasing and in some year it is decreasing. The figure shows that the highest annual income rate is 27% in F.Y 2069/070 and lower is -14% in 2068/069. Higher ratio indicates the high level of income and lower ratio includes the low level of income.

### 4.1.2.2 Expenditure Analysis

The expenditure which is allocated by MCL based in its funds is made to achieve the organization objective. The expenditure measure the capability of the MCL in accomplishing the target goals in a given period of time. The overall expenditure amount includes the interest expenses, employee expenses and other operating expenses. The annual expenditure ratio is calculated by given formula.

$$\text{Annual expenditure ratio} = \frac{\text{Expenditure in a year}}{\text{Total expenditure}} \times 100\%$$

The annual expenditure rate is computed by dividing expenditure in a year by total expenditure. The higher rate of the annual expenses indicates the high level of expenses and lower rate indicates the low level of expenditure. In general, decreasing cost is suitable for the cooperative. The annual expenditure ratio is shown in the following table 4.3

**Table: 4.3**  
**Expenditure of MCL**

F.Y	2065/066	2066/067	2067/068	2068/069	2069/070
Administration expenses	3,624	4,493	4,420	4,024	4,721
Interest expenses	5,887	5,780	7,660	8,171	10,862
Total Expenditure	9,511	10,273	12,080	12,195	15,583
Growth in Expenditure(%)	-	8	18	1	28

(Rs. in '000')

*Sources: Annual Reports of MCL*

Table 4.3 shows the summary of yearly expenditure amount of MCL during the study period. In F.Y 2066/067 the expenditure amount is Rs 10273 with the growth rate of 8% similarly the rate keeps on increasing and reached 18% in F.Y 2067/068 and in next year there is a slight increment in growth ratio with 1% and at last the ratio reached to 28% which is the highest in five year of time. Thus the above ratio shows that the expenses are increasing day by day so co-operative should be aware of these expenses and try to minimize it in coming year which will be better for the shareholder and co-operative itself. The 4.3 table has been shown in figure 4.3

**Figure: 4.3**  
**Expenditure of MCL**

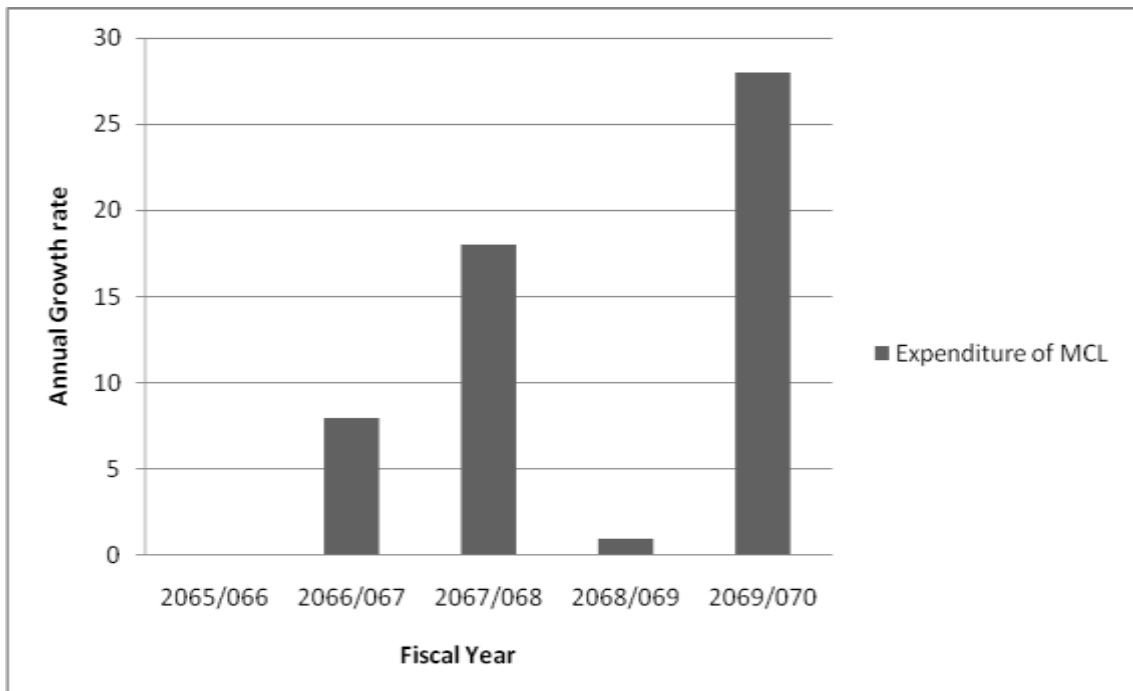


Figure 4.3 clearly shows the annual expenditure rate of MCL. In this figure the expenditure ratio is in increasing trend, in comparison to other year F.Y 2068/069 have less growth ratio i.e. 1 % and the highest in F.Y 2069/070 with the growth ratio of 28%.

#### 4.1.2 Financial Performance Analysis

Ratio analysis is one of the major tools of assessing financial performance of the organization. Financially analysis is the process of identifying that financial strengths and weaknesses of the firm or organization by properly establishing relationship between used tools of financial analysis.

A ratio is defined as the relationship between two or more variables. So it needs two items to calculate the ratio. Single items have no meaning in the sense of ratio analysis. Therefore, ratio analysis is a comparison between two items. Ratio can be expressed in the items of percentage, fraction and proportion.

In this section. it is analyzed the strengths and weaknesses of various aspects of financial profitability and operational and structure of MCL. For this purpose the analysis is based on the financial statement of the MCL. The major tools of analysis have been presented in the following manner.

### 4.1.3.1 Liquidity Ratio

Liquidity is traditionally viewed in terms of cash available in the firm or an organization but the concept of liquidity is radically changed over the time. Liquidity is defined as the capacity to pay cash in exchange of deposits. Liquidity analysis is the first concern of any financial institutions because it addresses the spit at which the assets can be converted into cash.

There should be adequate liquidity position in the firm or an organization in order to meet the demand liabilities of the general public or the creditors of the community. But inadequate liquidity does damage its credit standard as well as it leads the company or any organization to lose the trust of the public if they fail to pay deposits on demand which may probably lead the company to bankruptcy. Generally, current ratio and quick ratio are calculated to find out the liquidity position to firm. But these two ratios are considered inappropriate for measuring the liquidity position of the financial institutions and rather applicable in other types of business organizations. Any financial institutions should maintain liquidity in the form of cash and bank balance, investment in government securities and other securities which readily convertible in cash. Therefore, the following measures of liquidity analysis have been calculated.

#### Cash and Bank Balances to Total Deposit Ratio

Cash and bank balance are the form of highly liquid assets which is the life time for any firm. They are regarded as a primary reserve. This ratio basically measures the percentage of most liquid fund with the financial institutions to meet the short term obligations. The cash and bank balance to total deposits ratio of MCL has been tabulated below (Detail in Appendix-I)

**Table: 4.4**

#### Cash and Bank Balance to Total Deposit Ratio

(Rs. in '000')

F.Y	2065/066	066/067	2067/068	2068/069	2069/070	Mean (%)	S.D (%)	C.V (%)
Cash & Bank Balance	17,171	13,425	9,690	15,343	35,146			
Total Deposit	58,911	69,089	66,457	70,305	94,158			

Ratio (%)	2.91	1.94	1.45	2.18	3.75	2.44	1.1	45.08
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Sources: Annual reports of MCL

Table 4.4 reveals that cash and bank balances to total deposit of MCL during the study period of 5 years. The ratio is decreased in 2066/067 and 2067/068 but after that it increased from 2.18% to 3.75% in F.Y 2068/069. The mean ratio of the study is 2.44, standard deviation is 1.1 and coefficient of variation is 45.08%. On the basis of C.V it can be concluded that there is more variable and lack of consistency. The table 4.4 has been shown in figure 4.4

**Figure: 4.4**

**Cash and Bank Balance to Total Deposit Ratio**

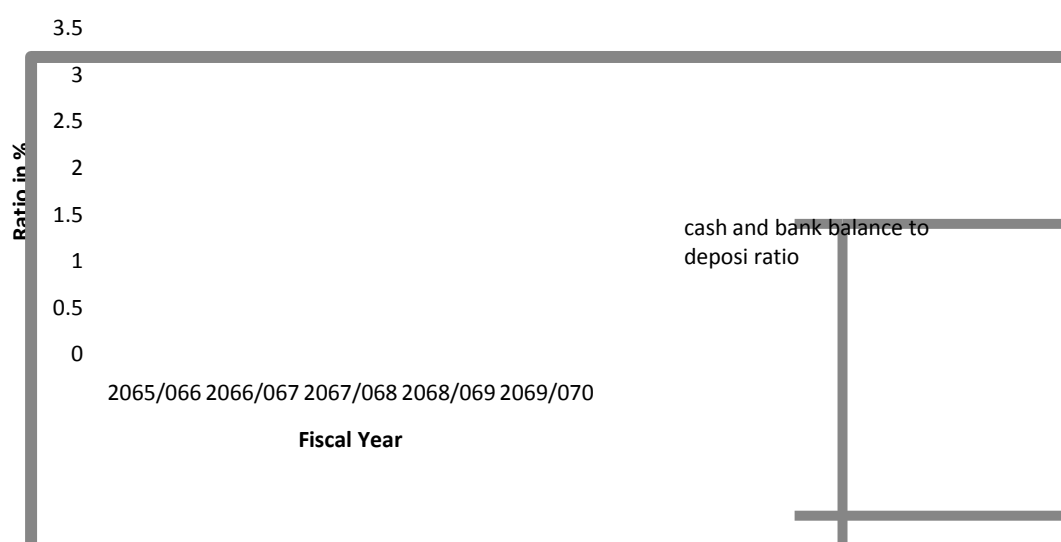


Figure 4.5 shows cash and bank balance to total deposit within the study of last 5 years. The cash and bank balance to total deposit is maximum in 2069/070 and minimum in 2067/068. The ratio is fluctuating in some year it increase while in another year it decrease which can be clearly shown in above figure.

**4.1.3.2 Efficiency Ratio**

Efficiency ratio is known as turnover ratio of activity ratio or asset management ratio. They provide the measure for how effectively the firm's assets being managed. Every financial institution must be able to manage its assets properly, to earn high profit maintaining appropriate level of liquidity. To measure the efficiency of the MCL, the following measure of efficiency ratio has been calculated and its analysis has been done below.

## 1. Loan and Advance to Total Deposit Ratio

The loans and advances to total deposits ratio measures the extent to which company are successful in utilizing outsiders fund ( i.e. total deposit) in the form of extending loans and advances. A high ratio represents the greater efficiency to utilize the funds provided by the outsiders. But, it should be noted that too high ratio might not be better from the view point of liquidity. Loans and advances to total deposit ratio of the MCL has been tabulated below. (Details in appendix II)

**Table: 4.5**  
**Loan and Advance to Total Deposit Ratio**

**(Rs. in '000')**

FY	2065/066	2066/067	2067/068	2068/069	2069/070	Mean (%)	S.D (%)	C.V (%)
Loan & advance	53,640	70,061	76,779	78,288	84,,478			
Total deposit	58,911	69,089	66,457	70,305	94158			
Ratio (%)	91.05	101.10	115.53	111.35	89.71	101.74	9.2	9.1

*Source: Annual report of MCL*

Table 4.5 clearly shows the loan and advance to total deposit ratio of the MCL during five fiscal year. The loan and advance to total deposit ratio is maximum in 2067/068 with 115.53 and minimum in 2069/070 with 89.71. The mean ratio is 101.74%, standard deviation is 9.2% and coefficient of variation is 9.1%. On the basis of Coefficient of variation it can be concluded that the ratios are consistent with less variable Table 4.5 was shown in figure 4.5 as follows

**Figure: 4.5**

**Loan and Advance to Total Deposit Ratio**

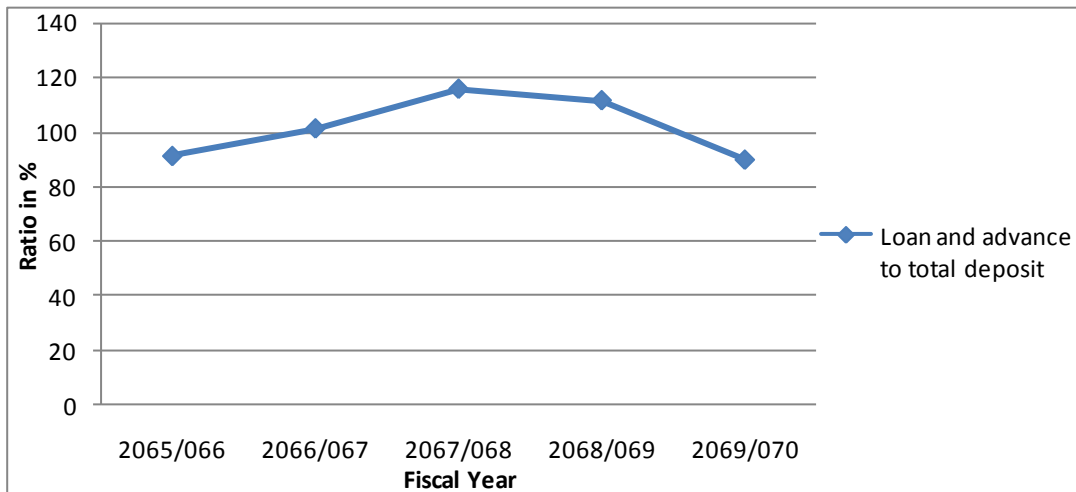


Figure 4.5 show the observed loan and advance to total deposit ratio of the MCL. The trend shows that in 2065/066 to 2067/068 ratio has been increased but after that it has been decreased. This shows that the MCL has been able to utilize the outside fund in extending credit to further profit generation.

### **4.1.3.3 Profitability Ratio**

Profitability ratios show the combined effects of liquidity, assets management and debt management on operating results. It measures the earning of the company for a certain period. Co operatives are not profit oriented organizations but they have no future without profit. Hence the profitability ratio is regarded as a control measure of the earning power and operating efficiency of a firm.

#### **1. Return on Assets Ratio**

This ratio indicates the relationship between profit and total assets of the organization it measures the net income earned on the assets of organization. The higher ratio indicates the higher utilization of assets and lower indicates the lower utilization of assets in full capacity. The return on assets ratio of MCL has been tabulated below (Details in Appendix III)

**Table: 4.6**  
**Return on Assets Ratio**

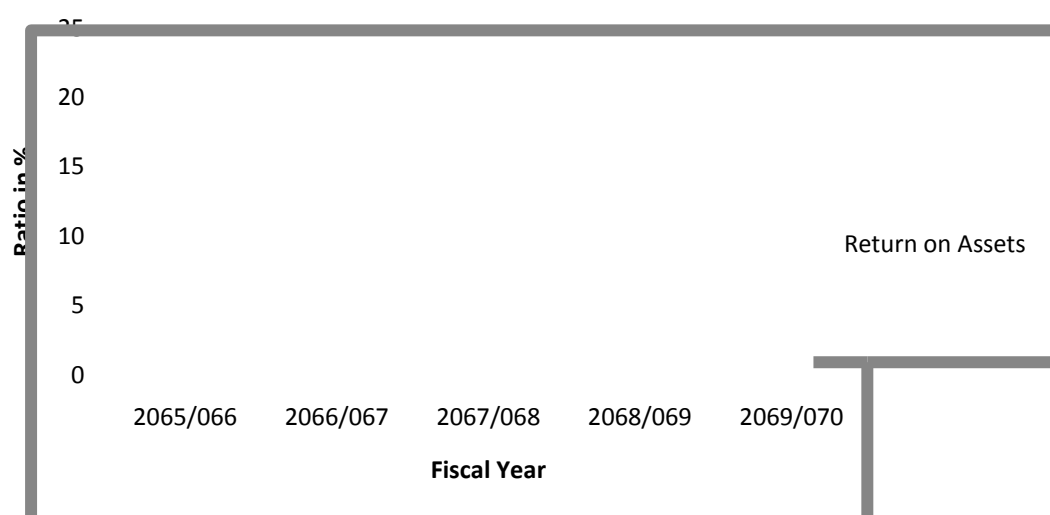
**(Rs. in '000')**

F.Y	2065/ 066	2066/ 067	2067/ 068	2068/ 069	2069/ 070	Mea n	S.D (%)	C.V (%)
Total Assets	19,65	15,762	11,30	15,94	36,21			
NPAT	3,998	2,160	2,000	1,512	2,192			
Ratio(%)	20.34	13.7	17.69	9.4	6.05	13.43	5.2	38.7

*Source : Annual report of MCL*

Table 4.6 shows that return on asset of MCL during five fiscal year. The ratio is fluctuating i.e. in first year F.Y 2065/066 the ratio is more than that of second year F.Y 2066/067 and again in next year it is increased to 17.69 in F.Y 2067/068 and after that the ratio is decreased to 9.4 in F.Y 2068/069 to 6.05 in F.Y 2069/070. The mean ratio is 13.43, standard deviation is 5.2% and coefficient of variation is 38.7 % which indicate that there is more variable and lack of consistent due to the higher coefficient of variation. The table 4.6 has been shown in figure 4.6

**Figure: 4.6**  
**Return on Assets Ratio**



The figure 4.6 shows the Return on Assets of MCL. The ratio is high in F.Y 2065/066 with 20.34% and low in F.Y 2069/070 with 6.05%. This indicate that there is high efficiency in utilizing overall resources in the fiscal year 2065/066 but in last year i.e. F.Y 2069/070 the ratio has gone down as comparison to the fourth year.

## 2. Return on Equity Ratio

The return on equity ratio helps to show the return earned on the owners investment. This ratio states how well the firm has used the resources of the owners to earn the profit. Higher the return on equity is more favorable for the shareholders, which represents the efficient management and mobilization of equity. The return on equity ratio is tabulated below. (Details in Appendix IV)

**Table: 4.7**  
**Return on Equity Ratio** (Rs. in '000')

F.Y	2065/066	2066/067	2067/068	2068/069	2069/70	Mean (%)	S.D (%)	C.V (%)
Net Profit after Tax	3,998	2,160	2,000	1,512	2,192			
Return on Equity	7,157	9,238	10,678	11,555	11,612			
Ratio (%)	55.86	23.38	18.73	13.08	18.87	25.98	5.3	58.8

Source : Annual report of MCL

Table 4.7 depicts the return on equity of MCL. The highest ratio is 55.86% in F.Y 2065/066 and lowest is 13.08% in F.Y 2068/069. In overall the return on equity ratio is fluctuating trend over the study period. Likewise the mean ratio is 25.98% with 15.3% of coefficient of variation between them. On the basis of C.V it can be concluded that there is more variable and less consistent. The table 4.7 is shown in figure 4.7 below

**Figure: 4.7**  
**Return on Equity Ratio**

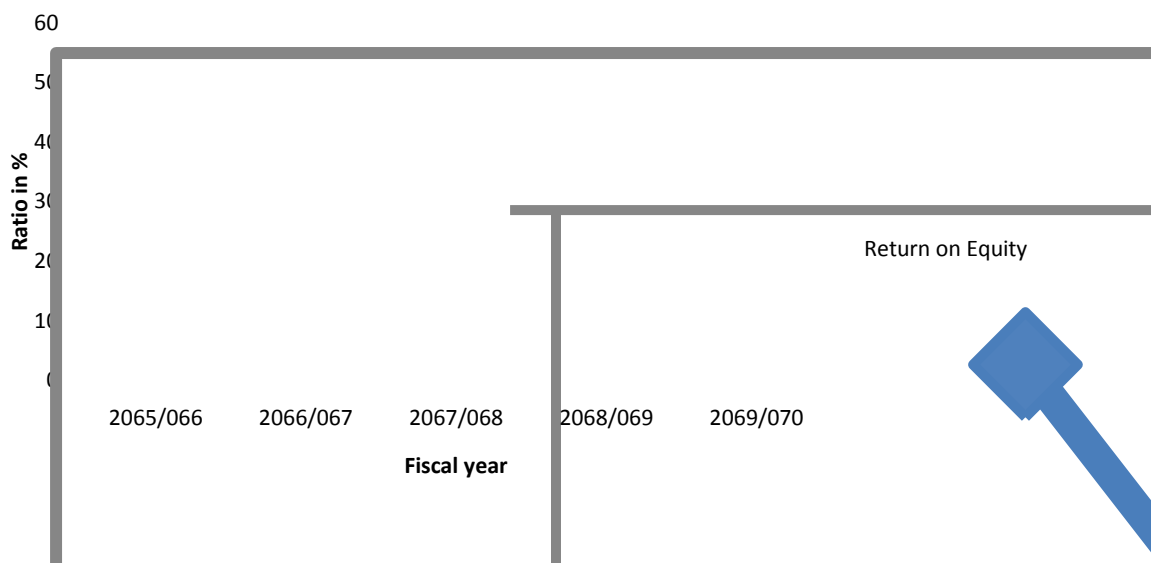


Figure 4.7 shows the return of equity of MCL. It shows the return on equity of MCL has increasing and decreasing trend in the period of five years. That mean the ratio is fluctuating

trend all over the year. The ratio is maximum in F.Y 2065/066 with 55.86% and minimum in F.Y 2068/069 with 13.08%.

### 3. Return on Total Deposit Ratio

The ratio examines the condition of mobilization and utilization of deposits. It also indicates overall performance of MCL. The ratio is most important to identify whether the organization is well efficient enough to mobilize its total deposit. The ratio is computed by dividing net profit after tax by total deposit. The higher ratio indicates better utilization of deposits. The return on total deposits ratio of MCL has been tabulated below (Details in Appendix V)

**Table: 4.8**  
**Return on Total Deposit Ratio**

(Rs. in '000')								
F.Y	2065/066	2066/067	2067/068	2068/069	2069/070	Mean (%)	S.D (%)	CV (%)
Net Profit After Tax	3,998	2,160	2,000	1,512	2,192			
Total Deposit	58,911	69,089	66,457	70,305	94,158			
Ratio%	6.78	3.12	3	2.15	2.3	3.47	1.7	49

*Source : Annual report of MCL*

Table 4.8 shows the return on total deposit ratio of MCL over the period which are ranged from 6.78% to 2.3 %. The return on total deposit is fluctuating all over the study period. The highest ratio is 6.78 of F.Y 2065/066 and lowest is 2.15 of F.Y 2068/069. The mean ratio is 3.47%, standard deviation is 1.7% and coefficient of variation is 49% which indicates that there is more variable and lack of consistency due to the higher coefficient of variation . The table 4.8 has been shown below in figure 4.8.

**Figure: 4.8**  
**Return on Total Deposit Ratio**

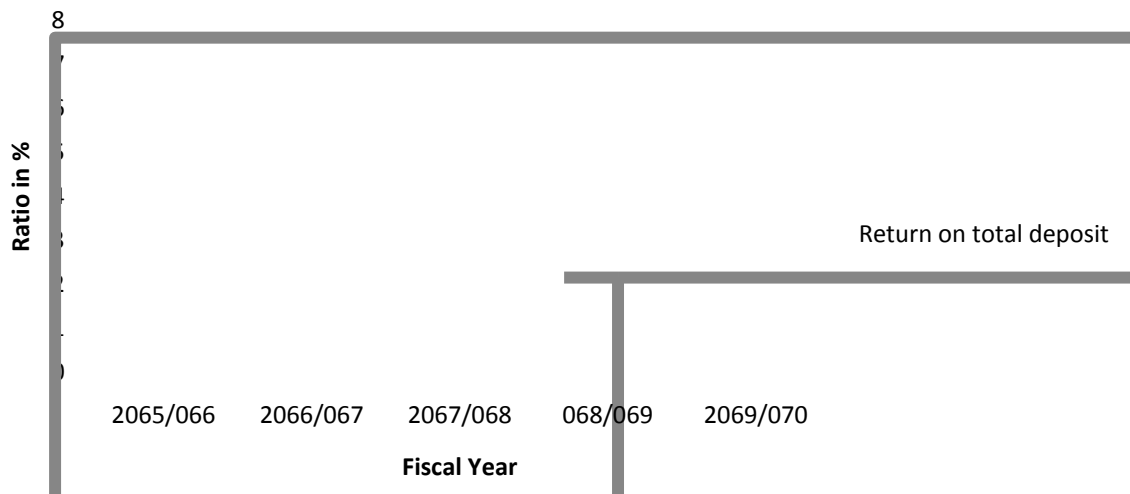


Figure 4.8 shows the return on total deposit ratio of MCL during the five fiscal years. The ratio in 2065/066 stood at 6.78% which later decreased to 3.12 in year 2066/067. After the year 2066/067 the ratio keeps on decreasing but slightly increased in 2069/070. The FY 2065/066 shows that there is better utilization of deposit of the organization.

#### 4. Interest Earned to Total Assets Ratio

The ratio measures the percentage of interest earned in relation to total assets of the cooperatives. This ratio helps to find out how total assets are mobilized to generate interest. The higher ratio of interest earned to total assets reflects the better efficiency in utilizing the resources in income generating sectors and lower ratio indicates the poor utilization of assets. The interest earned to total assets ratios of MCL has been tabulated below. (Appendix VI)

**Table: 4.9**  
**Interest Earned to Total Assets Ratio**

						<b>(Rs. in '000')</b>		
F.Y	2065/066	2066/067	2067/068	2068/069	2069/070	Mean (%)	S.D (%)	C.V (%)
Interest Earned	13,637	12,378	15,867	13,885	17,766			
Total Assets	19,653	15,762	11,302	15,942	36,213			
Ratio(%)	6.9	7.8	1.4	8.7	4.9	5.94	2.5	43.57

*Source: Annual report of MCL*

Figure 4.9 show the interest earned to total assets ratio over the period of five years. The table shows that the ratios are fluctuating i.e. in some years it rises whereas in some year it falls.

The minimum ratio is 1.4 of F.Y 2067/068 and maximum of 8.7 of F.Y 2068/069. The mean is 5.94%, standard deviation is 2.5% and coefficient of variation is 43.57%. The coefficient of variation is 43.57% which indicate less variability that means it is more consistent. Table 4.9 is shown in figure 4.9.

**Figure: 4.9**  
**Interest Earned to Total Assets Ratio**

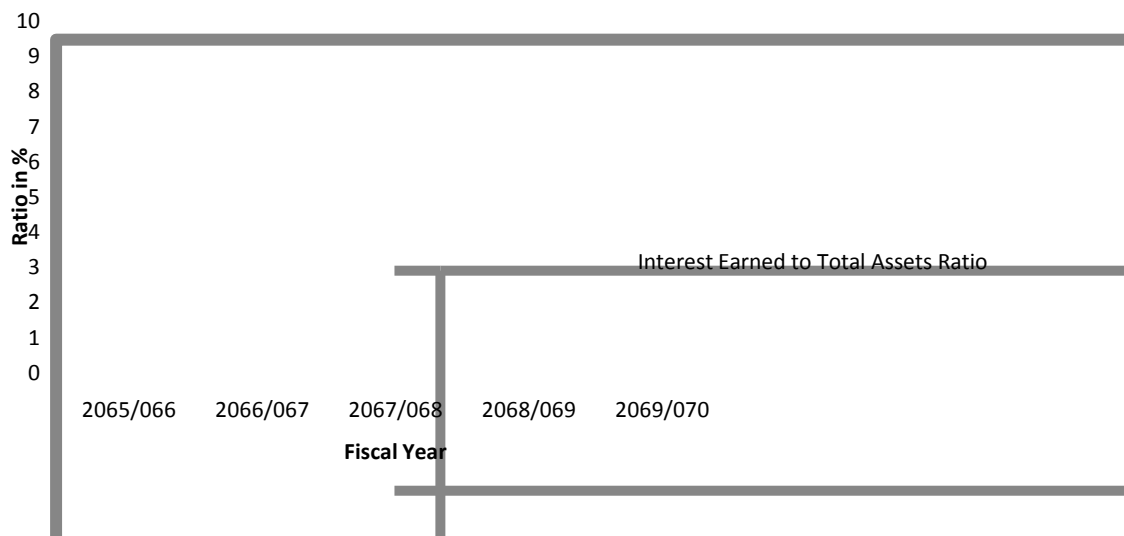


Figure 4.9 show the interest earned to total asset ratio over the period of five years. The ratio is slightly increased in second year but it goes down on third year which was the lowest among the five years, after that in fourth years the ratio increased but again in last year it decreased .The highest ratio is in F.Y 2068/069 with 8.7% and lowest ratio is 1.4% in F.Y 2067/068.The ratio are fluctuating in some year it goes upward whereas in some years it goes downwards as shown in figure.

#### **4.1.3.4 Capital Structure Ratio**

The capital structure ratio is known as debt management ratio, leverage ratio. It is measure of long term solvency of a firm. Co-operative collect debt from loan. loan is collected from deposits from members, short term bank loan, other short term borrower and creditors. It examines the current financial soundness of the co-operatives.

Debt is a risky thing and co-operative has to pay interest to creditors whether the co-operative making profit or committing losses. When co-operatives fail to pay interest to creditors then they can take legal action for co-operative for liquidation. Therefore management of co-

operative should manage debts properly. This can measure long-term financial soundness of co-operative. The following capital structure ratio has been measured during the study period.

**A) Total Debt to Total Assets Ratio**

Total debts to total assets ratio indicate extend of debt financing on the assets and measure the financial security to the outsiders. From the creditor’s point of view, they are interested in low debt ratio which provides sufficient caution against the liquidation. Owners are interested in high debt ratio because it signifies their earning on the one hand and enables them to maintain their control over the corporation on the others. The total debt to total assets ratio of MCL has been tabulated below (Details in Appendix VII)

**Table: 4.10**  
**Total Debt to Total Assets Ratio**

(Rs. in ‘000’)								
F.Y	2065/066	2066/067	2067/068	2068/069	2069/070	Mean (%)	S.D (%)	C.V (%)
Total Debt	113,152	139,150	143,236	148,594	178,637			
Total Assets	19,683	15,762	11,302	15,942	36,213			
Ratio (%)	574.87	882.81	1267.35	932.09	493.29	830.08	275.12	33.14

*Source: Annual report of MCL*

Table 4.10 shows the total debt to total asset ratio of MCL during the study period. The debt ratio is fluctuating over the study period which we can clearly seen in the above table, it goes on increasing from the beginning to first three years but after that it goes on decreasing. The ratio is minimum in F.Y 2069/070 with 493.29% and maximum in F.Y 2067/068 with 1267.35%.The mean ratio is 830.08% standard deviation is 275.12% and C.V is 33.14%. On the basis of C.V it can be concluded that there is less variable and more consistency due to low C.V. Table 4.10 has been shown in figure 4.10

**Figure: 4.10**

**Total Debt to Total Assets Ratio**

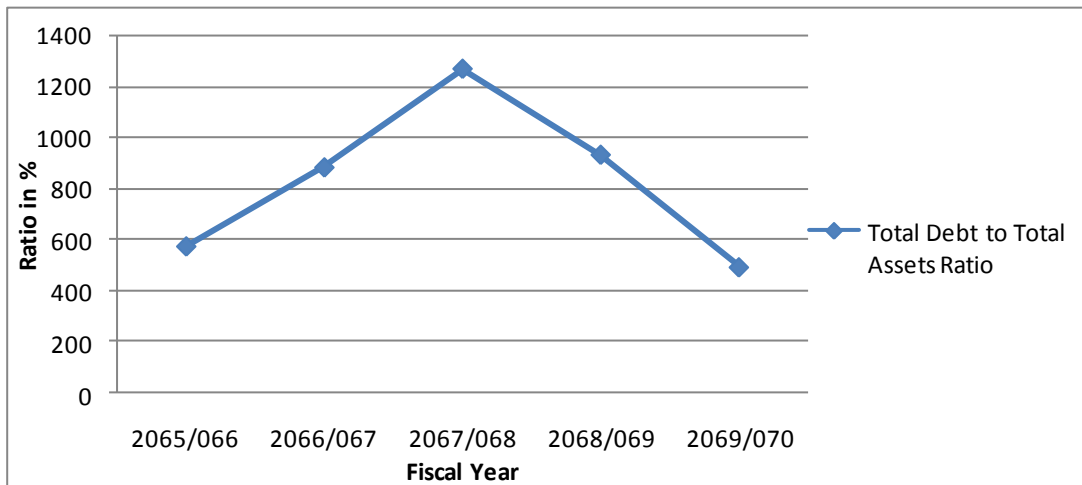


Figure 4.10 shows the debt ratio of MCL over the five year study period. In this figure the curve shows that the ratio increase in first three years and after that it goes on decreasing. The debt ratio is maximum at F.Y 2067/068 and minimum at F.Y 2069/070.

**B) Total Debt to Equity Ratio**

Debt equity ratio is the most widely used leverage ratio to be evaluated the long term solvency of the organization. The ratio expresses the relationship between debt capital and equity capital and reflects the relative claim of them on the assets of the organization. Debt equity ratio measures financial risk both by creditors as well as by organization.. A higher debt equity ratio indicates greater contribution at a firm's financing by creditors than those of shareholders. From the creditor point of view, they are interested in low debt equity ratio because it provides a protection against losses at the time of liquidation, from the owner's point of view; they are also interested in low debt equity ratio because it reduces creditor's unnecessary pressure and intervention in to the firm's management. But it is noted that, a very low debt equity ratio is unfavorable from the company's point of view. If the ratio is lower than it is difficult to take leverage advantage, similarly a very high debt equity ratio is also unfavorable from the company point of view. High ratio is risky; in this condition company cannot earn enough surpluses even to pay interest to creditors. Thus appropriate debt equity ratio should be maintained by the organization. The debt to equity ratio has been tabulated below (Detail in Appendix VIII)

**Table: 4.11**  
**Total Debt to Equity Ratio**

**(Rs. in '000')**

FY	2065/066	2066/067	2067/068	2068/069	2069/070	Mean (%)	S.D (%)	C.V (%)
Total Debt	113152	139150	143236	148594	178637			
Equity	14862	18143	20993	22744	24598			
Ratio	761.35	766.96	682.30	653.33	726.22	718	44.78	6.23

*Source: Annual report of MCL*

Table 4.11 clearly shows the total debt to equity ratio of the MCL during the first five years. The ratio is ranged from 30.54 % to 51.32% during the study periods. The ratio of debt equity ratio is in decreasing trend during the study period. The decreasing trend indicates that MCL has low leverage ratio. The mean ratio is 37.37, standard deviation is 10.66% and C.V is 28.52%. It indicates that the ratios are less variable and more consistent. Table 4.11 is shown in figure 4.11

**Figure: 4.11**  
**Total Debt to Equity Ratio**

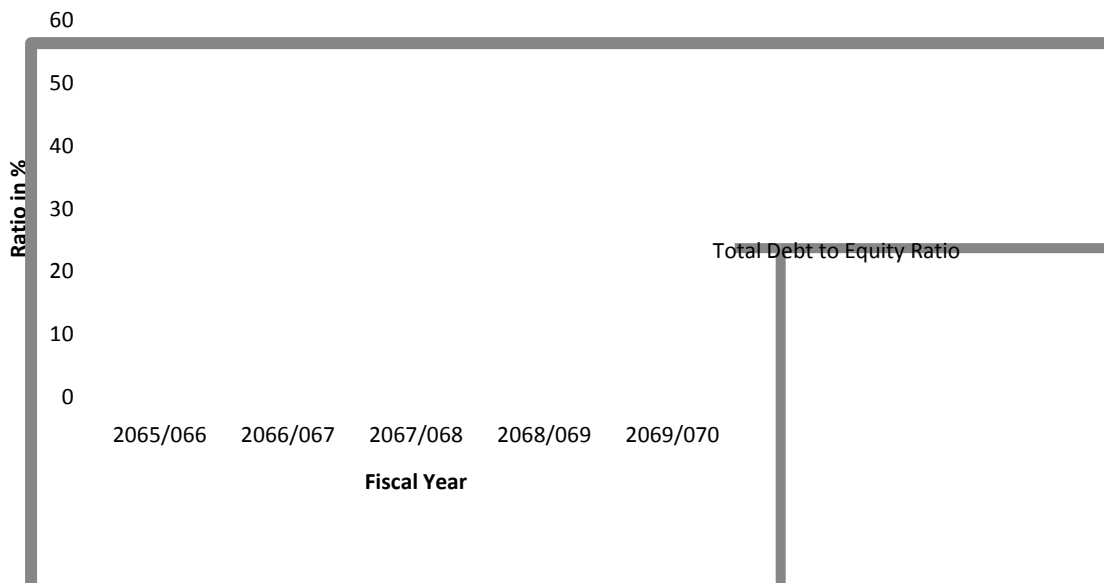


Figure 4.11 clearly shows the ratio of total debts to equity during the five fiscal year. In the figure the debt to total equity curve is decreasing over the study period. Debt equity ratio has important implication from the view point of creditors, owner and the firm itself. Furthermore high ratio of debts to equity is bad news for outsiders because of the higher risk in their investment and lower margin of safety.

#### 4.1.3.5 Growth Ratio

Growth ratio is the major tool for analyzing financial performance of the organization. Growth ratio measure the capability of the organization. It plays the significant roles as they are directly related to the mobilization of fund and the investment decision of the company. So higher the growth ratio, better the performance of the organization. Basically, in this study growth ratio related to the total deposit, total loan and advances, total assets of MCL have been analyzed.

**Table: 4.12**  
**Growth Rate of Total Deposit**

	(Rs. in '000')				
Fiscal Year	2065/066	2066/067	2067/068	2068/069	2069/070
Total Deposit	58,911	69,089	66,457	70,305	94,158
Growth Ratio (%)	-	17	-4	6	34

*Source: Annual report of MCL*

**Figure: 4.12**  
**Growth Rate of Total Deposit Ratio**

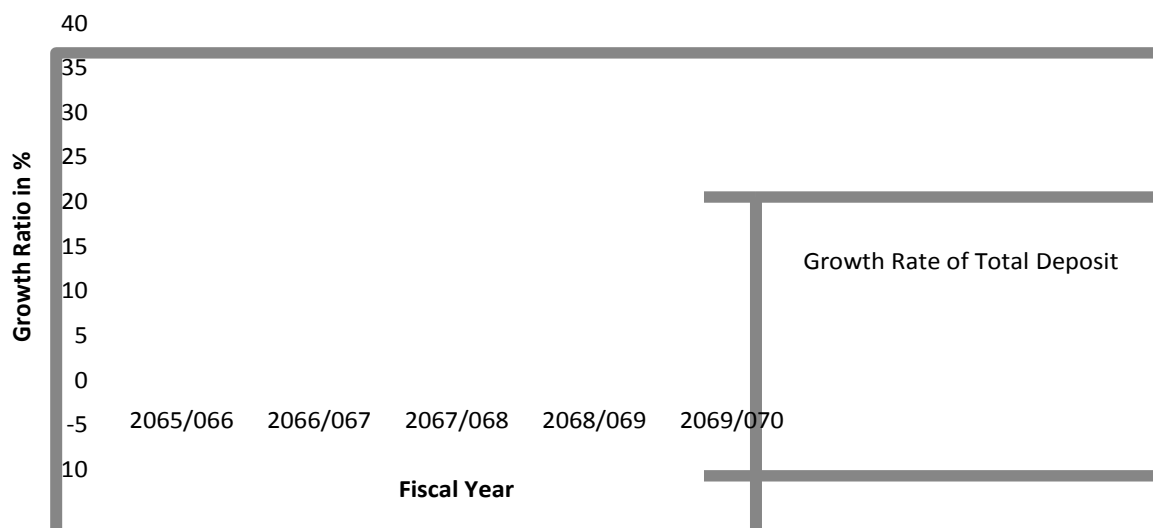


Table 4.12 and figure 4.12 shows the growth rate of total deposit of the MCL during the study period. The growth rate of total deposit is in fluctuating trend which ranged from lowest of -4% to highest of 34%.The ratio is maximum in the F.Y 2069/070 with 34% and minimum in the F.Y 2067/068 with -4%.In final year MCL is able to collect the maximum deposit as comparison to other year.

**Table: 4.13**  
**Growth Rate of Loan and Advances**

**(Rs. in '000')**

<b>F.Y</b>	<b>2065/066</b>	<b>2066/067</b>	<b>2067/068</b>	<b>2068/069</b>	<b>2069/070</b>
Total Loan and Advance	53,640	70,061	76,779	78,288	84,478
Growth Ratio(%)	-	31	10	2	8

*Source: Annual report of MCL*

**Figure : 4.13**  
**Growth Rate of Loan and Advance**

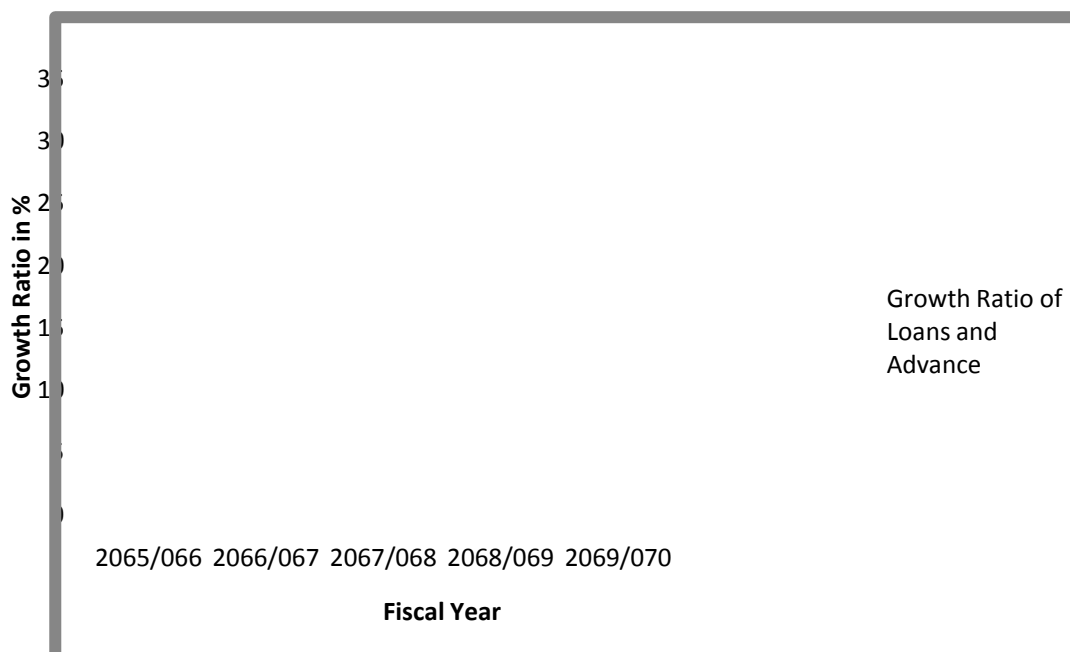


Table and figure 4.13 shows the growth ratio of loans and advance of MCL over the five years .The growth ratio of total loan and advance is also in fluctuating trends over the study period. The maximum ratio is in F.Y 2066/067 with 31% and minimum is in F.Y 2068/069 with 2%.

**Table: 4.14**  
**Growth Rate of Total Assets**

F.Y	2065/066	2066/067	2067/068	2068/069	2069/070
Total Assets	19,653	15,762	11,302	15,942	36,213
Growth Ratio (%)	-	-20	-28	41	127

(Rs. in '000')

*Source: Annual report of MCL*

**Figure: 4.14**  
**Growth Rate of Total Assets**

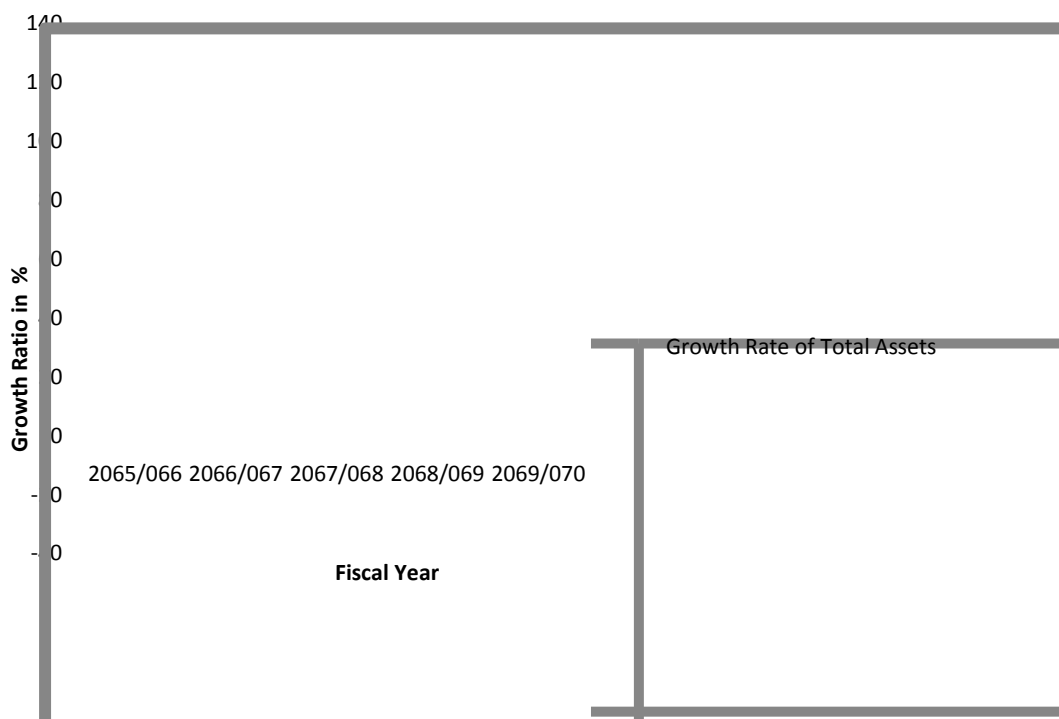


Table 4.14 and Figure 4.14 show the growth ratio of Total Assets over five years of study period. During the study period the ratio is found negative continuously for two years but after that the ratio goes on increasing. The highest growth rate is in last year i.e. F.Y 2069/070 and lowest is in F.Y 2065/066 with 127 % and -28% respectively.

**Table: 4.15**  
**Growth Rate of Share Capital**

F.Y	2065/066	2066/067	2067/068	2068/069	2069/070
Share capital	7,157	9,238	10,678	11,555	11,612
Growth Ratio (%)	-	29	16	8	0.5

(Rs. in '000')

*Source: Annual report of MCL*

**Figure: 4.15**  
**Growth Rate of Share Capital**

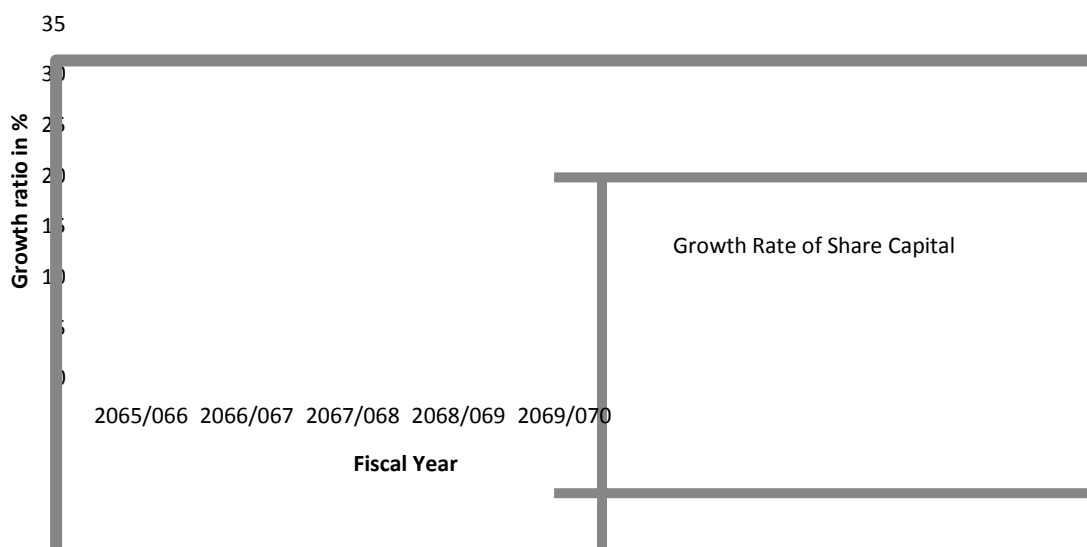


Table and figure 4.15 shows the growth rate of share capital of MCL during the study period. The ratio of share is in increasing trend which is better for the co-operatives but in the last year the growth rate was quite low in comparison to other year. The highest ratio was 29% and lowest was 0.5%.

#### 4.1.3.6 Measuring Correlation between different Variables

##### a) Correlation between Deposit Loan and Advances

The Correlation between the total deposit, loans and advance describe the degree of relationship between two items. Here, deposit is an independent variable and the loans and advances is the dependent variable. This measures how a unit increases or decrease in deposit effects in the volume of loans and advances respectively. (Detail in Appendix IX)

**Table: 4.16**

**Correlation between Deposit and Loan and Advance**

Correlation Coefficient(r)	P.Er	6*P.Er	Remarks
0.7702	0.1230	0.738	$r > 6 * P.Er$

*Sources: Annual Report of MCL*

Table 4.16 clearly shows the correlation coefficient between deposit and loan and advance of MCL .The correlation coefficient is 0.7702 probable error 0.1230 and probable error multiplied by six is 0.738.The coefficient of correlation between deposit and loans and advance of MCL is positive. It is more than 0.75 and also more than six times of P.Er. If the correlation coefficient is 0.75 to 1, there is very high positive correlation coefficient between the variable. So, it can be interpreted that there is significant or very high positive correlation between deposit and loans and advance during the study period.

## **4.2 Major Finding of the Study**

From the above tabulation and analysis of data the following major findings have been drawn.

- 4.2.1 .The annual income rate is fluctuating. The figure shows that the highest annual income rate is 27% in F.Y 2069/070 and lower is -14% in 2068/069.
- 4.2.2 The annual expenditure ratio of MCL is fluctuating over the study period. The growth rate is more in 2069/070 with 28% similarly less in FY 2068/069 with 1 %.
- 4.2.3 The growth rate of cash and bank balance to total deposit ratio of MCL was slightly decreased in FY 2066/067 and 2067/068 and after that it is in increasing trend. The highest ratio is in F.Y 2069/070 with 3.75 and lowest in F.Y 1.45.
- 4.2.4 Loan and Advance to total deposit ratio is in fluctuating trend the ratio was high in F.Y 2067/068 with 115.53 % and lowest in F.Y 89.71 with Mean ratio 101.74%,S.D 9.2 % and C.V 9.1%.
- 4.2.5 Return on Assets of MCL is high in first three year i.e F.Y 2065/066,2066/067,and 2067/068 with ratios 20.34%,13.7% and 17.69% after which the ratio decreased to

9.4% and 6.05% in F.Y 2068/069 and 2069/070 with Mean ratio 13.43%.S.D 5.2% and C.V 38.7%.

- 4.2.6 Return on Equity is in fluctuating trend the ratio highest of 55.86% to lowest of 13.08% in F.Y 2065/066 and 2068/069 with Mean ratio 25.98%,S.D15.3% and C.V 58.8%.
- 4.2.7 The return on total deposit ratio of the MCL is in decreasing trend .The ratio is maximum in F.Y 2065/066 with 6.78% and minimum in F.Y 2068/069 with 2.15%.The mean ratio is 3.47%,standard deviation is 1.7% and coefficient of variation is 81%.
- 4.2.8 The interest earn to total assets ratio of the company has increasing from F.Y 2065/066 to F.Y 2066/067 but decrease in F.Y 2067/068 but increase next year in F.Y 2068/069 again in last year it decreases. The Mean ratio was found 5.94%,S.D2.5% and C.V43.57%.
- 4.2.9 The debt to total assets ratio is fluctuating over the study period which we can clearly seen in the above study ,it goes on increasing from the beginning to first three years but after that it goes on decreasing. The ratio is minimum in F.Y 2069/070 with 493.29% and maximum in F.Y 2067/068 with 1267.3%.The mean ratio is 21.53 standard deviation is 7.09 and C.V is 32.93% .
- 4.2.10 Total debt to equity ratio is in decreasing trend the ratio can be seen high in F.Y 2066/067 with 682.30 and low in F.Y 2068/069 with 653.33. The mean ratio is 37.37, standard deviation is 10.66% and C.V is 28.52%.
- 4.2.11 From the analysis of growth ratios of total deposit, total loan and advance, total assets and share capital of MCL during the study period shows that the growth ratio of total deposit fluctuating over the years. The growth rate of total deposit is in fluctuating trend which ranged from lowest of -4% to highest of 34%. Similarly the growth rate of loans and advances of the company is also fluctuating over the years as the ratio ranged from 0% to 31%.The growth ratio of total assets ranges from 41% to 127% in F.Y 2068/069 and F.Y 2069/070.. The highest growth rate is in last year i.e. F.Y2069/070 and lowest is in F.Y 2067/068.

4.2.12 The coefficient of correlation between deposit and loans and advance of MCL is positive. It is more than 0.75 and also more than six times of P.Er. the correlation coefficient is 0.75 to 1, there is very high positive correlation coefficient between the variable.

## CHAPTER V

### SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

This chapter basically includes three aspects of the study: summary, conclusion and recommendation. The first part includes with a summarization of the whole study. The second part includes the conclusion and the last part presents the recommendation based on finding of the study.

#### 5.1 Summary

Co-operatives are the most significant tools for mobilizing scattered saving which are used in productive sectors for the benefit of the entire members and the society. The role of co-operative organization can be regarded as a most important factor for socio-economic development. Co-operative movement across the world has been emphasized to be important instrument to attain the sustainable development of the poor people, for the developing country like Nepal, the co-operative movement can play a significant role to boost up the economic as well as social development.

According to the Co-operative training center and Division Office Kaski, there are 553 co-operative organizations are registered in kaski district till 2070 Mangsir 30. Out of thousands saving and credit co-operatives of Nepal, only few of them are under the jurisdiction on monitoring authority.

To develop agriculture sector co-operative can play the vital role. Especially in rural areas of Nepal, saving and credit co-operative activities could be useful to alleviate poverty. Co-operatives organizations are not only providing job opportunities but also provides various kinds of support and services to the community and its members.

Several co-operatives societies have been established with various aims in Kaski district Machhapuchre co-operative is one of them which provides various services to its member's .It is established under the provision of co-operative Act 2048 B.S. It is registered in District Co-operative Office Kaski in 2055 B.S and started operating its services from Chipledhunga Pokhara. At the end of F.Y 2069/070 the member of co-operatives have reached 947 out of which 378 (39.90%)are female and 569(60.10%) are male.

The review of literature shows that the saving and credit co-operatives organization are most significant tools for poverty alleviation in Nepal because they enhance people for saving and to invest their money in productive sectors and employment generation sector. This kind of co-operatives organization are themselves micro financial institutions. Hence they are the most significant tools for mobilizing the scattered deposit and use them in productive sectors. Due to the difficult geographic topography the banks and finance companies are unable to reached in rural areas, but the co-operatives are able to shows their presence in those area and are able to motivate people for using their services and helping them to uplift there economic conditions.

According to the literature review discussed in Chapter II, the role of saving and credit co-operative organization can be regarded as most significant tools for the economic development of the people .The present study concentrates to measures the financial sustainability of MCL. The annual report of MCL have observed for five years from F.Y2065/066 to 2069/070 and information are collected from survey, personal meeting and discussion have been examined for the purpose of the study. Secondary data are arranged ,analyzed, and interpreted through the use of various financial and statistical tools such as financial ratio analysis, coefficient of variation standard deviation, bar diagram etc The deposit is the main sources of fund .It collects deposit from various deposit scheme like fixed deposit, saving deposit ,shareholder deposit and so on. The growth rate of deposit is fluctuating but overall it is satisfactory. Similarly growth rate of income is quite good in last year in comparisons to previous years. Expenditure is categorized in two parts administration and interest expenses which is in increasing trend. Growth rate of cash and bank balance to total deposit are found quite satisfactory in last two years. Loan and advance to total deposit is in increasing trend which indicate that MCL is able to utilize the outsider's fund in existing credit to further profit generation. To measure the profitability ratio return on total assets, return in equity .return on total deposit ,interest earned to total assets ratio are calculated and examined, the ratio are seen fluctuating throughout the study period . The growth rate of return on total asset was good for first three years but after that it goes on decreasing on last two year .The return on equity ratio is slightly increased in last year in comparisons to previous year, equity is decreased because the co-operative have to pay dividend to their shareholder as well as capital also decreasing because the organization is not able to attract new shareholder in the organization , similarly the ratio of interest earned to total assets

increased in first two years but after that is slowly decreased in next year but started rises thereafter which is a positive sign of improvement and shows the organization are trying their best to earn more interest. From the analysis of growth ratio of total deposit, loan and advance, total assets and share capital of MCL shows that the growth rate of total deposit is quite good in last year as in previous year the growth rate have seen negative likewise loan and advance are in fluctuating trend, similarly growth rate of total assets are seen increased in last two years which is quite good as in previous year the ratio are seen negative. Share capital is decreased in the organization in comparisons to previous years so the organization should follow some necessary steps to increase the capital because without capital the organization cannot run smoothly. From the study we have found that there is high positive correlation between deposit loans and advance .Finally we can conclude that MCL has been facing unhealthy competition and high interest rate as most important challenges because the number of co-operatives are increasing day by day and people are being cheated so there is negative thinking in people regarding the co-operative but despite this the MCL is operating smoothly and able to win the heart of its shareholder which results the completion of 15 years.

## **5.2 Conclusion**

Based on the finding the following conclusions have been drawn.

- 5.2.1 It is found that MCL has received its income from the interest received from its member after issuing loan to them as well as from the new membership fee and the service charge in loan and other facilities. The Income of MCL is found quite satisfactory.
- 5.2.2 The annual expenditure of the MCL is seen high in final year with 17% more than previous year. From the study it is seen that the expenditure may goes up in coming years.
- 5.2.3 The Loan and advance to total deposit ratio is found quite satisfactory in MCL although the ratio is decreased in final year but in overall it is seen satisfactory. which represent that the management team of MCL is successful in utilizing the outsider's fund properly
- 5.2.4 The return on assets ratio is seen fluctuating there is no consistency in the growth. In the beginning of the year the ratio are found satisfactory but after that is goes on

decreasing which shows that the management is not employing the company's total assets to make a profit.

- 5.2.5 The return on equity of MCL is found quite satisfactory although in some year growth rate goes down which indicate that the MCL and its management team is succeeded in generates profit from the money invested by their shareholders.
- 5.2.6 The growth rate of return on total deposit is in fluctuating trend and the growth ratios are too low which shows the the management team is not taking necessary steps in mobilization and utilization of deposit because the higher ratio indicates the better utilization of the deposits.
- 5.2.7 Interest earned to total assets of the firm is seen increased in first two years but it slightly decreased in next years and starts fluctuating which indicates that the MCL was not able to generate more interest by utilization of resources.
- 5.2.8 Total debt to total assets ratio is seen fluctuating but in last year it goes decrease which is the lowest among the study period which is good for the organization because the higher ratio indicate more risk and shows that the corporation's assets are financed by the creditors or debt.
- 5.2.9 The debt equity ratio of MCL is in decreasing trend which indicates that the MCL has low leverage ratio as well as low risk.
- 5.2.9 Growth ratio of total deposit ,total loan and advance,total assets and share capital are calculated and found that there is no consistency in the growth . The trend of growth seems fluctuating.

### **5.3 Recommendation**

Based on the study and above conclusion, the following recommendations are made for further improvement in order to enhance the prospect of sustainability of co-operative.

- 5.3.1 It is recommended that MCL should search some new area to generate more income rather than depending upon same sources the management should focus to invest their capital on more profitable area.

- 5.3.2 Since the organization have open its new branches and constructing new building which may increases even more expenses the management team is recommended to focus and cut off its expenses on unnecessary things like guest entertainment, gifts stationery fuel etc this type of expense should be minimized.
- 5.3.3 Loan and advance is seen satisfactory but it is recommended that it should be managed properly because if the ratio is too high, it means that banks might not have enough liquidity to cover any unforeseen fund requirements if the ratio is too low, banks may not be earning as much as they could be.
- 5.3.4 The management of the MCL should recommended to increase the ratio of ROA because it gives an idea of how efficient management is at using its assets to generate profit. Decreased in ROA indicates less profitability so management should focus on this.
- 5.3.5 The management of MCL should recommended to increase ROE because it is more important of all the profitability ratio to investors in the company which allow investor to see how effectively the money they invested in the firm is being used because higher the ROE helps to attract more capital from the investors.
- 5.3.6 MCL is recommended to utilize its deposit properly so to get more and more return from it as it also indicates the overall performance of the organization. MCL should search new areas of investment and new areas for lending loans so they can get maximum output from its deposit.
- 5.3.7 The MCL should focus on interest earning by providing new types of loan like residential mortgage loan, vehicle loan ,education loan etc from which it can get more interest.
- 5.3.8 The MCL is recommended to decrease the ratio of total debt to total assets because the higher ratio indicate more risk to the organization.
- 5.3.9 Neither too high total debt to equity is good nor too low is good so the management is recommended to make a balance in between them for the smooth operation of the organization.
- 5.3.10 Co-operative should increase the amount of monthly saving from its shareholder and should capitalize that amount due to which the capital increased since the

capital are non- cost bearing sources of the company. Deposit collection and investment capacity depends on its capital funds.

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Annual Report of MCL 2065/066

Annual Report of MCL 2066/067

Annual Report of MCL 2067/068

Annual Report of MCL 2068/069

Annual Report of MCL 2069/070

## Appendix 1

### Cash and Bank Balance to Total Deposit

(Rs in '000')

Fiscal Year	Cash & Bank Balance	Total Deposit	CBTD(X%)	X2
2065/066	17171	58911	2.91	8.46
2066/067	13425	69089	1.94	3.76
2067/068	9690	66457	1.45	2.10
2068/069	15343	70305	2.18	4.75
2069/070	35146	94158	3.73	13.91
Total			12.21	32.98
Mean			2.44	
S.D			1.1	
C.V			45.08	

$$\begin{aligned}
 \text{Mean}(x) &= \frac{\sum x}{N} \\
 &= \frac{12.21}{5} \\
 &= 2.44
 \end{aligned}$$

$$\begin{aligned}
 \text{Standard Deviation}(\sigma) &= \sqrt{\frac{\sum x^2}{N} - \left(\frac{\sum x}{N}\right)^2} \\
 &= \sqrt{\frac{32.98}{5} - \left(\frac{12.21}{5}\right)^2} \\
 &= \sqrt{6.596 - 5.363} \\
 &= 1.1
 \end{aligned}$$

$$\begin{aligned}
 \text{Coefficient of Variation} &= \frac{\text{Standard Deviation}}{\text{Mean}} \times 100 \\
 &= \frac{1.1}{2.44} \\
 &= 45.08
 \end{aligned}$$

## Appendix 2

### Loan and Advance to Total Deposit

(Rs in '000')

Fiscal Year	Loan and	Total Deposit	LATD(X%)	X2
2065/066	53640	58911	91.05	8230.10
2066/067	70061	69089	101.10	10221.21
2067/068	76779	66457	115.53	13347.18
2068/069	78288	70305	111.35	12338.82
2069/070	84478	94158	89.91	8047.88
Total			508.74	52185.19
Mean			101.74	
S.D			9.2	
C.V			9.1	

$$\begin{aligned}
 \text{Mean}(x) &= \frac{\Sigma x}{N} \\
 &= \frac{508.74}{5} \\
 &= 101.74
 \end{aligned}$$

$$\begin{aligned}
 \text{Standard Deviation}(\sigma) &= \sqrt{\frac{\Sigma x^2}{N} - \left(\frac{\Sigma x}{N}\right)^2} \\
 &= \sqrt{\frac{52185.19}{5} - \left(\frac{508.74}{5}\right)^2} \\
 &= \sqrt{10437 - 10351} \\
 &= 9.2
 \end{aligned}$$

$$\begin{aligned}
 \text{Coefficient of Variation} &= \frac{\text{Standard Deviation}}{\text{Mean}} \times 100 \\
 &= \frac{9.2}{101.74} \\
 &= 9.1
 \end{aligned}$$

### Appendix 3

#### Return on Assets

(Rs in '000')

Fiscal Year	NPAT	Total Assets	ROA(X%)	X2
2065/066	3998	19653	20.34	413.70
2066/067	2160	15762	13.7	187.69
2067/068	2000	11302	17.69	312.93
2068/069	1512	15942	9.4	88.36
2069/070	2192	36213	6.05	36.60
Total			67.18	1039.28
Mean			13.43	
S.D			5.2	
C.V			38.7	

$$\text{Mean}(x) = \frac{\Sigma x}{N}$$

$$= \frac{67.18}{5}$$

$$= 13.43$$

$$\begin{aligned} \text{Standard Deviation}(\sigma) &= \sqrt{\frac{\Sigma x^2}{N} - \left(\frac{\Sigma x}{N}\right)^2} \\ &= \sqrt{\frac{1039.28}{5} - \left(\frac{67.18}{5}\right)^2} \\ &= \sqrt{207.8 - 180.36} \\ &= 5.2 \end{aligned}$$

$$\begin{aligned} \text{Coefficient of Variation} &= \frac{\text{Standard Deviation}}{\text{Mean}} \times 100 \\ &= \frac{5.2}{13.43} \\ &= 38.7\% \end{aligned}$$

## Appendix 4

### Return on Equity

(Rs in '000')

Fiscal Year	NPAT	Equity	ROA(X%)	X2
2065/066	3998	7157	55.86	3120.33
2066/067	2160	9238	23.38	546.62
2067/068	2000	10678	18.73	350.81
2068/069	1512	11555	13.08	171.2
2069/070	2192	11612	18.87	356.34
Total			129.92	4545.3
Mean			25.98	
S.D			15.3	
C.V			58.89	

$$\text{Mean}(x) = \frac{\Sigma x}{N}$$

$$= \frac{129.92}{5}$$

$$= 25.98$$

$$\begin{aligned} \text{Standard Deviation}(\sigma) &= \sqrt{\frac{\Sigma x^2}{N} - \left(\frac{\Sigma x}{N}\right)^2} \\ &= \sqrt{\frac{4545.3}{5} - \left(\frac{129.92}{5}\right)^2} \\ &= \sqrt{909.06 - 674.96} \\ &= 15.3 \end{aligned}$$

$$\text{Coefficient of Variation} = \frac{\text{Standard Deviation}}{\text{Mean}} \times 100$$

$$= \frac{15.3}{25.98}$$

$$= 58.89$$

## Appendix 5

### Return on Total Deposit

(Rs in '000')

Fiscal Year	NPAT	Total Deposit	ROTD(X%)	X <sup>2</sup>
2065/066	3998	58911	6.78	45.9
2066/067	2160	69089	3.12	9.73
2067/068	2000	66457	3.0	9
2068/069	1512	70305	2.15	4.62
2069/070	2192	94158	2.3	5.25
Total			17.35	74.54
Mean			3.47	
S.D			1.7	
C.V			49	

$$\begin{aligned}
 \text{Mean}(x) &= \frac{\Sigma x}{N} \\
 &= \frac{17.35}{5} \\
 &= 3.47
 \end{aligned}$$

$$\begin{aligned}
 \text{Standard Deviation}(\sigma) &= \sqrt{\frac{\Sigma x^2}{N} - \left(\frac{\Sigma x}{N}\right)^2} \\
 &= \sqrt{\frac{74.54}{5} - \left(\frac{17.35}{5}\right)^2} \\
 &= \sqrt{14.9 - 17.35} \\
 &= 1.7
 \end{aligned}$$

$$\begin{aligned}
 \text{Coefficient of Variation} &= \frac{\text{Standard Deviation}}{\text{Mean}} \times 100 \\
 &= \frac{1.7}{3.47} \\
 &= 49 \%
 \end{aligned}$$

## Appendix 6

### Interest Earned to Total Assets Ratio

(Rs in '000')

Fiscal Year	Interest earned	Total Deposit	IETAR(X%)	X2
2065/066	13637	19653	6.9	47.61
2066/067	12378	15762	7.8	60.84
2067/068	15867	11302	1.4	1.96
2068/069	13885	15942	8.7	75.69
2069/070	17766	36213	4.9	24.01
Total			29.7	210.11
Mean			5.94	
S.D			2.5	
C.V			43.57	

$$\text{Mean}(x) = \frac{\Sigma x}{N}$$

$$= \frac{29.7}{5}$$

$$= 5.94$$

$$\begin{aligned} \text{Standard Deviation}(\sigma) &= \sqrt{\frac{\Sigma x^2}{N} - \left(\frac{\Sigma x}{N}\right)^2} \\ &= \sqrt{\frac{210.11}{5} - \left(\frac{29.7}{5}\right)^2} \\ &= \sqrt{42.0 - 35.28} \\ &= 2.5 \end{aligned}$$

$$\text{Coefficient of Variation} = \frac{\text{Standard Deviation}}{\text{Mean}} \times 100$$

$$= \frac{2.5}{5.94}$$

$$= 43.57 \%$$

## Appendix 7

### Total Debt to Total Assets Ratio

(Rs in '000')

Fiscal Year	Total Debt	Total Assets	TDTA (X%)	X2
2065/066	113152	19683	574.87	330475.51
2066/067	139150	15762	882.81	779353.49
2067/068	143236	11302	1267.35	1601676.02
2068/069	148594	15942	932.09	868791.76
2069/070	178637	36213	493.29	243335.02
Total			4150.41	3823631.8
Mean			830.08	
S.D			275.12	
C.V			33.14	

$$\text{Mean}(x) = \frac{\Sigma x}{N}$$

$$= \frac{4150.41}{5}$$

$$= 830.08$$

$$\begin{aligned} \text{Standard Deviation}(\sigma) &= \sqrt{\frac{\Sigma x^2}{N} - \left(\frac{\Sigma x}{N}\right)^2} \\ &= \sqrt{\frac{3823631.8}{5} - \left(\frac{4150.41}{5}\right)^2} \\ &= \sqrt{764726.36 - 689032.80} \\ &= 275.12 \end{aligned}$$

$$\text{Coefficient of Variation} = \frac{\text{Standard Deviation}}{\text{Mean}} \times 100$$

$$= \frac{275.12}{830.08}$$

$$= 33.14 \%$$

## Appendix 8

### Total Debt to Equity Ratio

(Rs in '000')

Fiscal Year	Total Debt	Equity	TDER(X%)	X <sup>2</sup>
2065/066	113152	14862	761.35	579653.82
2066/067	139150	18143	766.96	588227.41
2067/068	143236	20993	682.30	465533.29
2068/069	148594	22744	653.33	426840.08
2069/070	178637	24598	726.22	527395.48
Total			3590.16	2587650.08
Mean			718	
S.D			44.78	
C.V			6.23	

$$\text{Mean}(x) = \frac{\Sigma x}{N}$$

$$= \frac{3590.16}{5}$$

$$= 718$$

$$\begin{aligned} \text{Standard Deviation}(\sigma) &= \sqrt{\frac{\Sigma x^2}{N} - \left(\frac{\Sigma x}{N}\right)^2} \\ &= \sqrt{\frac{2587650.08}{5} - \left(\frac{3590.16}{5}\right)^2} \\ &= \sqrt{517530.01 - 515524} \\ &= 44.78 \end{aligned}$$

$$\text{Coefficient of Variation} = \frac{\text{Standard Deviation}}{\text{Mean}} \times 100$$

$$= \frac{44.78}{718}$$

$$= 6.23$$

## Appendix 9

### Correlation Coefficient of Deposit, Loan and Advance

(Rs.in '0000')

Fiscal Year	X	X <sup>2</sup>	Y	Y <sup>2</sup>	XY
2065/066	5.8911	34.70506	5.3640	28.7725	31.59986
2066/067	6.9089	47.7329	7.0061	49.08544	48.3623
2067/068	6.6457	44.16533	7.6779	58.95015	51.02502
2068/069	7.0305	49.42793	7.8288	61.29011	55.04038
2069/070	9.4158	88.65729	8.4478	71.36532	79.5428
Total	∑x=35.892	∑x <sup>2</sup> =264.6885	∑y=36.3246	∑y <sup>2</sup> =269.4635	∑xy=265.57036

$$\begin{aligned}
 \text{Correlation Coefficient}(r) &= \frac{N\sum XY - \sum X \sum Y}{\sqrt{N\sum X^2 - (\sum X)^2} \times \sqrt{N\sum Y^2 - (\sum Y)^2}} \\
 &= \frac{5 \times 265.57036 - 35.892 \times 36.3246}{\sqrt{5 \times 264.6885 - (35.892)^2} \times \sqrt{5 \times 269.4635 - (36.3246)^2}} \\
 &= \frac{24.0892}{\sqrt{35.20687} \times \sqrt{27.7900}} \\
 &= \frac{24.0892}{5.933 \times 5.271} \\
 &= 0.7702
 \end{aligned}$$

Probable Error of Correlation Coefficient(P.Er)

$$\begin{aligned}
 PE(r) &= 0.6747 \frac{1-r^2}{\sqrt{N}} \\
 &= 0.6747 \times \frac{1-(0.7702)^2}{\sqrt{5}} \\
 &= 0.1230
 \end{aligned}$$

6\*P.Er

$$= 6 \times 0.1230$$

$$= 0.738$$