

**FINANCIAL PERFORMANCE ANALYSIS AND SOCIAL
IMPACT ASSESSMENT OF MICROFINANCE INSTITUTION
(A Case Study of Nirdhan Utthan Bank Limited, Rupandehi District)**

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DECLARATION

I hereby, declare that the work reported in this thesis entitled "**Financial Performance Analysis and Social Impact Assessment of Microfinance Institution (A Case Study of Nirdhan Utthan Bank Limited, Rupandehi District)**" submitted to the Office of Dean, Faculty of Management, Tribhuvan University, is my original done in partial fulfillment of the requirements for the Masters of Business Studies (M.B.S), under the supervision of Rishi Raj Gautam of Shanker Dev Campus.

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TABLE OF CONTENTS

Acknowledgement
Table of Contents
List of Tables
List of Figures
Abbreviations

Page No.

Chapter

I	Introduction	1
1.1	Background	1
1.2	Statement of the Problems.....	2
1.3	Objective of the Study	3
1.4	Significance of the Study	4
1.5	Limitation of the Study	4
1.6	A Short Glimpse of Nirdhan Utthan Bank Limited.....	5
1.6.1	An Overview of Nirdhan Utthan Bank Limited	5
1.6.2	Vision, Mission, and Goals	7
1.6.3	Ownership.....	7
1.6.4	Target Clients	8
1.6.5	Product and services.....	8
1.7	Organisation of the Study	10
II	Review of Literature	11
2.1	Conceptual Framework.....	11
2.2	A Brief Introduction of Microfinance	14
2.3	History of Microfinance	16
2.4	Need of Microfinance	17
2.5	Evolution of Microfinance in Nepal	18
2.6	Challenges in Microfinance Delivery in Nepal	20
2.7	Review of Research Article	20
2.8	Review of Thesis	23
III	Research Methodology	26
3.1	Introduction.....	26
3.2	Research Design	26
3.3	Population and Sampling	26
3.4	Nature and Source of Data	27
3.5	Method of Data Analysis	27
IV	Presentation and Analysis of Data.....	29
4.1	Financial Management.....	29
4.1.1	Financial Expenses Ratio.....	29
4.1.2	Liquidity Ratio	30
4.1.3	Debt Equity Ratio	30
4.1.4	Current Ratio	31
4.1.5	Total Debt to Total Asset Ratio	32
4.1.6	Interest Coverage Ratio	32
4.1.7	Cash and Bank Balance to Total Deposit (Saving) ratio	33
4.2	Profitability	35
4.2.1	Return on Equity (ROE)	35
4.2.2	Return on Asset (ROA)	36
4.2.3	Portfolio Yield.....	36
4.3	Efficiency and Productivity	38
4.3.1	Operating Expenses	38
4.3.2	Borrowing Per Staff	39

4.3.3	Loan and Advance to Total Deposit and Borrowing Ratio	40
4.3.4	Net Profit to Total Deposit Ratio	41
4.3.5	Return on Capital Employed	42
4.4	Portfolio Quality	44
4.4.1	Portfolio at Risk	44
4.4.2	Provision Expenses Ratio	45
4.4.3	Loan Loss Reserve Ratio	45
4.4.4	Risk Coverage Ratio	46
4.5	Social Impact Analysis	48
4.6	Major Findings of the Study	53
4.6.1	In the area of Financial Management	53
4.6.2	In the area of Profitability	54
4.6.3	In the area of Efficiency and Productivity.....	55
4.6.4	In the area of Portfolio Quality	56
4.6.5	In the case of Social Impact Analysis	57
V	Summary, Conclusion and Recommendation.....	58
5.1	Summary	58
5.2	Conclusion	62
5.3	Recommendation.....	63
	BIBLIOGRAPHY	64
	Appendix 1: Nirdhan Utthan Bank Limited: At a glance	68
	Appendix 2: NUBL's Five Year's Balance Sheet as on July 15	70
	Appendix 3: NUBL's Five Years Income Statement as on July 15.....	71
	Appendix 4: Principal Indicators at least for previous 5 years.....	72
	Appendix 5: NUBL Five Years at a Glance as on July 15.....	73
	Appendix 6: Group Focused Questionnaire	74
	Appendix 7: Financial Performance Analysis Tools.....	76
	Appendix 8: Glimpses of NUBL.....	94

LIST OF TABLES

Table 4.1: Calculation of Financial Expenses Ratio	29
Table 4.2: Calculation of Liquidity Ratio.....	30
Table 4.3: Calculation of Debt Equity Ratio	30
Table 4.4: Calculation of Current Ratio.....	31
Table 4.5: Calculation of Total Debt to Total Asset Ratio.....	32
Table 4.6: Calculation of Interest Coverage Ratio	32
Table 4.7: Calculation of Cash and Bank Balance to Total Deposit (Saving) ratio	33
Table 4.8: Calculation of Return on Equity	35
Table 4.9: Calculation of Return on Asset	36
Table 4.10: Calculation of Portfolio Yield.....	36
Table 4.11: Calculation of Operating Expenses.....	38
Table 4.12: Calculation of Borrowing per Staff.....	39
Table 4.13: Calculation of Loan and Advance to Total Deposit and Borrowing Ratio.....	40
Table 4.14: Calculation of Net Profit to Total Deposit	41
Table 4.15: Calculation of Return on Capital Employed.....	42
Table 4.16: Portfolio at Risk Ratio	44
Table 4.17: Calculation of Provision Expenses Ratio.....	45
Table 4.18: Calculation of Loan Loss Reserve Ratio	45
Table 4.19: Risk Coverage Ratio.....	46
Table 4.20: Sources of Income.....	50
Table 4.21: Centre-wise Sources of Income.....	51
Table 4.22: : Relation between Income and Years of Involvement of Group Members ..	52

LIST OF FIGURES

Figure 4.1: Summarisation of Financial Management Analysis	34
Figure 4.2: Summarization of Profitability Analysis.....	37
Figure 4.3: Summarization of Efficiency and Productivity Analysis	43
Figure 4.4: Summarization of Portfolio Quality Analysis	47
Figure 4.5: Trend Analysis of Active Clients	48
Figure 4.6: Trend Analysis of Loan Clients.....	49
Figure 4.7: Source of Income in percentage.....	50

ABBREVIATIONS

INGO	:	International Non Governmental Organization
Ltd.	:	Limited
MCPW	:	Micro Credit Project for Women
M-CRIL	:	Micro- Credit Ratings International Limited
MFI	:	Micro Finance Institution
NGO	:	Non Governmental Organization
NRB	:	Nepal Rastra Bank
NUBL	:	Nirdhan Utthan Bank Limited
PGBB	:	Paschimanchal Grameen Bikas Bank
ROA	:	Return on Assets
ROE	:	Return on Equity
SFCL	:	Small Farmer Co-operative Limited
UNDP	:	United Nation Development Programme

Chapter- I

Introduction

1.1 Background

Basic financial services, like credit, savings and insurance, give people an opportunity to borrow, save, invest and protect their families against risk. But with little income or collateral, poor people are seldom able to borrow money from banks and other formal financial institutions. Even when they do have income or collateral, the amounts they require are often too small to appeal to banks. Instead, poor people tend to rely on informal financial relationships, like village moneylenders, that usually come at a very high cost to borrowers.

Microfinance has attracted much attention in the recent years. Some commentators have brimmed over with enthusiasm and optimism and see microfinance as the panacea to underdevelopment. Microfinance institutions, such as financial cooperatives, financial non-governmental organizations and rural banks among others, can provide poor people with small amounts of credit at reasonable interest rates. Microfinance is the provision of a broad range of financial services such as deposits, loans, payment services, money transfers, insurance to poor and low-income households and their micro enterprises.

Therefore, microfinance delivery mechanism could help to these poor people who have no any collateral but have willingness to work, and want to do some business from which they will get employment as well as income. Microfinance is one of the development tools, which benefit thousand of the poor people, poor women, micro-entrepreneurs and peasant farmers and anticipate that the industry should transform further as a lucrative business providing financial services for the poor.

While targeting the poorest of the poor, microfinance programmes attract a large majority of women clients. Other microfinance programmes have been established exclusively for women, not only because they are more vulnerable than men and represent the poorest of the poor, but because they have proved to be more

successful in repaying loans. However, most studies and publications show that small loans and micro enterprises development have a positive impact on the economic empowerment of women.

Micro financing institutions significantly contributed to gender equality and women's empowerment as well as poor development and civil society strengthening. Contribution to women's ability to earn an income led to their economic empowerment, increased well being of women and their families and wider social and political empowerment. Microfinance programs targeting women became a major plank of poverty alleviation and gender strategies in the 1990s. Increasing evidence of the centrality of gender equality to poverty reduction and women's higher credit repayment rates led to a general consensus on the desirability of targeting women.

1.2 Statement of the Problems

The economic condition of the people in Nepal is very poor. Despite ongoing development efforts, poverty remains rampant in Nepal with approximately 31% of the population living below the poverty line. The incidence of poverty is highest in rural areas, particularly in the remote areas.

As discussed earlier that microfinance has emerged as a powerful and most sustainable tool for poverty reduction. Microfinance means the easy access of financial services to low income people, often without physical collateral. Microfinance assists the poor by; a) promoting investment in 'assets, b) facilitating activities to earn a livelihood, c) protecting against economic shocks, and d) building social capital and improve quality of life.

Even though microfinance is playing vital role in the aspect of poverty reduction; only few academic based analysis has been done in this sector. Higher percentage of the research is done in commercial sector only. Almost all the theses submitted to the Faculty of Management of Tribhuvan University are related to the commercial banks. Therefore, it is necessary and vital to undertake research on microfinance

institutions of Nepal in order to find out their financial position as well as how their work has made impact to the lives of clients who are poor and marginalised.

Therefore, this study has focussed to assess the performance and the impact of microfinance programmes on the socio-economics status of rural people with the special reference to Nirdhan Utthan Bank Limited (NUBL), the oldest and biggest microfinance institution of the country.

In a nutshell, the research will try to investigate the following questions.

-) What is the current performance of NUBL in terms of financial management, profitability ratio, profit quality, efficiency and productivity?
-) Have the positive changes been occurred in people's lives, poverty reduction and empowerment due to increased access to financial services that results from NUBL supported microfinance intervention?

1.3 Objective of the Study

The general objective of the study is to assess the financial performance of Nirdhan Utthan Bank Limited and its impact in the socio-economic status of the lives of target population or clients. The specific objectives of the study are:

-) To analyse NUBL's Financial Management, Profitability Ratio, Profit Quality, Efficiency and Productivity;
-) To examine the achievement of banks' social objective to change the socio-economic situation of poor and disadvantaged people.

1.4 Significance of the Study

This study is devoted to assess the financial performance analysis of NUBL. Therefore, it provides important guidelines to the management in setting suitable policies and guidelines in future.

As mentioned earlier that a large number of academic researches are based on commercial banks. It means, there are only a few academic researches that have covered microfinance institution and its services. It is sad that microfinance institution which has a significant contribution in poverty reduction, social and economic development of poor people have been left out to a large extent from the academic research. Therefore, this study will fulfil this gap.

Again, there is no any research undertaken of NUBL focussing on both financial performance analysis and social impact assessment. Therefore, this study will cover these two aspects of the bank.

1.5 Limitation of the Study

This study has the following limitations:

-) The analysis and conclusion is made on the basis of the data of five years time period from Fiscal Year 2004 to 2008. Therefore, the findings reflect only of that time period exclusively;
-) The social impact of NUBL is examined from the field visit and survey undertaken in branch offices located in Bhairawha and Butwal of Rupandehi. Therefore, the results may or may not be generalised in other branches of NUBL. It may be also difficult to generalise in other types of microfinance institution of Nepal.
-) The socio-economic changes among the NUBL members have been examined on the basis of their sole responses as there was not any clear way or mechanism to verify their answers, e.g. income raise. Therefore, the opinions expressed in the field survey were taken as honest and true answers..

1.6 A Short Glimpse of Nirdhan Utthan Bank Limited

1.6.1 An Overview of Nirdhan Utthan Bank Limited

Nirdhan, which initially means “people without capital”, was founded as an NGO specialized to microfinance in 1991. The founder of Nirdhan is Dr. Harihar Dev Panta who once served as Deputy Governor of Nepal Rastra Bank. In 1986, he visited Grameen Bank, Bangladesh and was inspired to replicate the bank’s model in Nepal. Despite positive economic growth in the urban sector over the past decade, agriculture has remained stagnant and nine out of ten Nepalese live in the rural areas where infrastructure is lacking and illiteracy is the norm. Some 70% to 80% of the population is poor, and almost half the population, some nine million people, fall into the category of the hard-core poor. Poverty is most severe in the mountains of Nepal. But Dr Pant decided that these scattered, inaccessible communities were too daunting a place to being the Nirdhan project. So in 1993, Nirdhan started its operation in Siktohan in Western Nepal near the Indo-Nepal border as Terai plains has the poor and dense population just like Grameen Bank Bangladesh has. Nirdhan had only one manager and one credit officer for microfinance services in the beginning, but soon it started expansion its operational scale.

Nirdhan obtained a limited banking license from Nepal Rasta Bank (The Central Bank) in 1994 and it was permitted to mobilize voluntary saving only from its member/clients. The growth of operational size was quite rapid and by July 1997, Nirdhan had 8 branch offices, 75 employees and 4481 active borrowers. In November 1998, Nirdhan Utthan Bank Ltd. (NUBL), which means "the bank for upliftment of the poor", was registered with the Company Registrar with the recommendation of Nepal Rastra Bank.

In April 1999, NUBL was granted another banking license under the Development Bank Act 1996. In July 1999, Nirdhan NGO transferred all microfinance operations to Nirdhan Utthan Bank Limited. Nirdhan (NGO) promoted NUBL for the following strategic reasons:

-) Development banks are supervised and regulated by the Central Bank, which will enforce banking standards
-) The bank can lend to a wide range of clients, including micro entrepreneurs graduated out of the bank's regular clientele. Further, a bank can accept collateral for potentially larger and diverse loan products
-) As a bank NUBL will have access to wide range of funding including commercial one to satisfy growing needs of potential clients.

As the microfinance operations are transferred to Nirdhan Utthan Bank Limited, Nirdhan (NGO) continued working in plus activities like entrepreneurship training, primary health care services and vocational training mostly to NUBL clients.

Now, operated under Bank and Financial Institution Ordinance 2004, NUBL provides microfinance services such as Loans, Deposits, Micro insurance and Remittance services to rural poor of Nepal. NUBL is one of the very few MFIs in Nepal that provides such variety of microfinance services. The maximum limit of the loan amount NUBL issues is Rs. 150,000 for the period of up to 3yrs as a Micro-enterprise loan and minimum limit of the loan amount issues is Rs. 4,000 for up to period of 2 years as a tube well / irrigation loan. As of April 2008 record, NUBL is providing microfinance services to 92,542 clients of Nepal through its 50 branches networks, 4 regional networks, and its headquarter.

1.6.2 Vision, Mission, and Goals

Vision

The vision of Nirdhan Utthan Bank is to be a bank with a social conscience that enables poor to (i) contribute equally to a prosperous, self-reliant rural society through self-employment and social awareness and (ii) help to reduce poverty in Nepal.

Mission

The mission of Nirdhan Utthan Bank is to extend financial services and social awareness to the poor in under-served and un-served areas of Nepal in a sustainable manner.

Goals

The primary goals of Nirdhan Utthan Bank are to:

-) Reach a maximum number of poor households with potential and financial viability by adopting proven delivery mechanism.
-) Develop a well-managed institution with high staff morality.
-) Enhance women's "self-respect" through social awareness, proper use & on-time repayments of loans, regular savings and provision of related micro-finance services.

1.6.3 Ownership

Registered as a development bank, NUBL's authorised capital is Rs. 100 million. Issued capital is Rs. 25 million, and paid up capital as of July 2007 is Rs. 32.9 million. Distribution of shares is as follows:

Nirdhan (the parent NGO)	25%
Himalayan Bank Limited	12%
Nabil Bank Limited	12%
Everest Bank Limited	12%
Grameen Trust, Bangladesh	11%
Private Sector Individuals	7%
Clients and Public, including staff	21%

1.6.4 Target Clients

Nirdhan Utthan Bank recruits new clients who fit the following targeting criteria for its group based financial services:

-) Own less than .25 hectares of irrigated land or less than .5 hectares of un-irrigated land per five-person family.
-) House must not have cement walls or ceiling (pucca house).
-) Permanent residents of area.
-) No family members employed in the formal sector.
-) No current loans from other financial service providers.

1.6.5 Product and services

The product and services provided by NUBL are:

Saving Products

Products	Source
Compulsory Saving	Need to maintain Rs. 500 or 10% of loan outstanding whichever is higher
	Rs. 4 per center meeting
Personal / Voluntary Saving	Open to group based client as well as remittance client

NUBL provides 6% interest rate on client saving

Loan Products

Products	Maximum Limit Rs.	Loan Period
General Loan	60,000	Up to 2 years
Fertilizer Loan	10,000	1 year
Seasonal Business Loan	10,000	6 months
Tube Well / Irrigation Loan	4,000	2 years
Pit Latrine Loan	8,000	2 years
Homestead Purchase (Ghaderi Loan)	20,000	2 years
House Construction Loan	50,000	Up to 6 years
House Repair Loan	20,000	2 years
Micro-enterprise Loan	150,000	Up to 3 years
Bio-gas Loan	20,000	Up to 5 years
Foreign Employment Loan	100,000	Up to 3 years
Education Loan	50,000	Up to 3 years
Emergency Loan	10,000	2 years

NUBL charges 10% to 20% interest rate on declining basis.

Other Services

Services	Description
Micro Insurance	Livestock Insurance (Premium = 3% of the loan value)
	Micro-life Insurance (Social Security Fund) (Premium = from Rs 70 to Rs 280 on a yearly basis)
Remittance Service	

1.7 Organisation of the Study

The study has been organized into five chapters. They are:

Chapter 1: Introduction

This chapter contains the introduction of the study. It includes general background, statement of problems, objective of the study, significant of the study, limitations of the study and organization of the study.

Chapter 2: Review of Literature

This chapter includes review of related reports and articles, review of related case studies, review of previous thesis.

Chapter 3: Research Methodology

This chapter explains the methodology used in this research to find the result for achieving the objectives set earlier. It includes research design, population and sample, sampling procedure, source of data, data collection procedure, data processing procedure and analysis tools.

Chapter 4: Presentation and Analysis of Data

It deals with presentation and analysis of secondary and primary data. First section covers the presentation of secondary data, which tries to fulfil the first objective of the study. The next part covers the analysis of primary data which tries to fulfil the other objectives of the study. Major findings of the study have been presented at the end of this chapter,

Chapter 5: Summary, Conclusion and Recommendations.

It states summary, findings, conclusions and recommendations of the study.

Chapter- II

Review of Literature

This chapter is about reviewing the relevant literatures. The study is done on the basis of available information from libraries, documents collection centres and other information managing bureaus. The concerned literatures for this thesis are books, research articles, journals, publications and dissertation.

2.1 Conceptual Framework

In valuing and assessing the financial health of any company, various types of analyses are necessary to develop a competent report and conclusion, whether it is digging into the qualitative aspects of a company, or the quantitative. With the quantitative, it considers examining the measurable dynamics of a company. How we pull out the quantitative aspect will come largely from calculations using the items on a company's financial statements (i.e. income statement, balance sheet, statement of cash flows).

Surya (2000) explains that performance analysis is concerned basically with financial analysis and financial analysis involves analyzing financial statement prepared in accordance with generally accepted principle to ascertain information concerning the magnitude, timing and risking of future cash flow” Hence, a series of financial statement analysis and interpretation over different years help one to forecast the future regarding the bank's ability to meet the short-term and long-term liabilities, the profitability projections and so on. Financial Statements are often easily available and hence convenient means of assessing the performance of the firm with the help of these statements one can have an idea about the performance of the firm.

Financial Statement basically refers to the following:

-) Income Statement and
-) Statement of affairs i.e. Balance Sheet

Financial analysis is the process of identifying the financial strength and weaknesses of the firm by properly establishing relationship between the items of the balance and profit and loss account i.e. financial analysis is the process of analyzing various items of financial statement of a firm to ensure its comparative strengths and weaknesses (Pandey, 2000:17).

Horn & Copeland (1999) suggest that to evaluate the financial condition and performance of a company, the financial analyst needs certain Yardstick. The yardstick frequently used is a ratio or index, relating two pieces of financial data to each other. Analysis and interpretation of various ratios should give experienced and skilled analysts a better understanding of the firm that they would obtain from analysis of financial data alone.

Financial analysis is done by using various tools and techniques for instance:

-) Ratio Analysis
-) Statement of changes in financial position
-) Cash flow statement

Among them financial ratios are the powerful tools of financial analysis. They provide a good technique for assessing financial performance of the firm. Besides, financial ratio analysis is one tool used to improve financial decision making. Financial ratio analysis is used as a technique to quantify the relationship between two or more sets of financial data taken from income statement and balance sheet. It provides the information relating to strengths and weaknesses of a financial data in relation to others. The ratio analysis helps the management to analyse the past performance of the firm and to make further projections. Ratio analysis allow interested parties like shareholders, investors, creditors, government and analysis to make an evaluation of certain aspects of a firm's performance.

Ratios use financial data to summarize organizational performance. Ratio refers to the numerical or quantitative relationship between two items or variables. In simple language ratio is one number expressed in terms of another and can be worked out by dividing the number to the other. Then, it s calculated by dividing one items of the

relationship with the other. Financial ratios are usually expressed in percentage or times.

Ratios are used to analyze financial statements and to explain relationships between individual amounts in the financial statements (i.e., revenues and expenses; assets and liabilities; revenue to assets; and expenses to liabilities). A ratio in isolation is typically of little value. Ratios become more meaningful when they are compared to:

-) Organization's past performance.
-) Organizations of similar size.
-) Standards by charitable watchdog organizations (i.e., National Charities Information Bureau, Better Business Bureau).

Financial ratios can be grouped into four types:

Liquidity ratios

Liquidity ratio measure a firm's ability to meet its current obligations. Liquidity Ratios are ratios that come off the Balance Sheet and hence measure the liquidity of the company as on a particular day i.e the day that the Balance Sheet was prepared. These ratios are important in measuring the ability of a company to meet both its short term and long term obligations.

Profitability ratios

Profitability ratio measure management's ability to control expenses and to earn a return on the resources committed to the business. Profitability Ratios show how successful a company is in terms of generating returns or profits on the Investment that it has made in the business. If a business is Liquid and Efficient it should also be Profitable.

Leverage ratios

Leverage ratios measure the degree of protection of suppliers of long-term funds and can also aid in judging a firm's ability to raise additional debt and its capacity to pay its liabilities on time.

Efficiency, activity or turnover ratios

Efficiency, activity or turnover ratios provide information about management's ability to control expenses and to earn a return on the resources committed to the business.

2.2 A Brief Introduction of Microfinance

To most, microfinance means providing very poor families with very small loans (micro credit) to help them engage in productive activities or grows their tiny businesses. Over time, microfinance has come to include a broader range of services (credit, savings, insurance, etc.) as we have come to realize that the poor and the very poor who lack access to traditional formal financial institutions require a variety of financial.

Microfinance refers to the provision of financial services to poor or low-income clients, including consumers and the self-employed. The term also refers to the practice of sustainable delivering those services. More broadly, it refers to a movement that envisions "a world in which as many poor and near-poor households as possible have permanent access to an appropriate range of high quality financial services, including not just credit but also savings, insurance, and fund transfers.

According to International Labor Organization (ILO), microfinance is an economic development approach that involves providing financial services through institutions to low income clients.

The principles of Micro Finance are founded on the philosophy of cooperation and its central values of equality, equity and mutual self-help. At the heart of these principles are the concept of human development and the brotherhood of man expressed through people working together to achieve a better life for themselves and their children. Traditionally micro finance was focused on providing a very standardized credit product. The poor, just like anyone else, (in fact need like thirst) need a diverse range of financial instruments to be able to build assets, stabilize

consumption and protect themselves against risks. Thus, we see a broadening of the concept of micro finance.

Microfinance and Micro credit

To clarify the difference between Microfinance and Micro-Credit the following definition has been made: **Microfinance** refers to loans, savings, insurance, transfer services and other financial products targeted at low-income clients. **Micro credit** refers to a small loan to a client made by a bank or other institution. Micro credit can be offered, often without collateral, to an individual or through group lending.

Clients of microfinance

The typical microfinance clients are low-income persons that do not have access to formal financial institutions. Micro finance clients are typically self-employed, often household-based entrepreneurs. In rural areas, they are usually small farmers and others who are engaged in small income-generating activities such as food processing and petty trade. In urban areas, micro finance activities are more diverse and include shopkeepers, service providers, artisans, street vendors, etc.

Microfinance clients are poor and vulnerable non-poor who have a relatively unstable source of income. Access to conventional formal financial institutions, for many reasons, is inversely related to income: the poorer you are the less likely that you have access. On the other hand, the chances are that, the poorer you are, the more expensive or onerous informal financial arrangements. Moreover, informal arrangements may not suitably meet certain financial service needs or may exclude you anyway. Individuals in this excluded and under-served market segment are the clients of microfinance.

Activities in Microfinance:

It is a small amount of money loaned to a client by a bank or other institution. Micro credit can be offered, often without collateral, to an individual or through group lending.

Micro savings:

These are deposit services that allow one to save small amounts of money for future use. Often without minimum balance requirements, these savings accounts allow households to save in order to meet unexpected expenses and plan for future expenses.

Micro insurance:

It is a system by which people, businesses and other organizations make a payment to share risk. Access to insurance enables entrepreneurs to concentrate more on developing their businesses while mitigating other risks affecting property, health or the ability to work.

Remittances:

These are transfer of funds from people in one place to people in another, usually across borders to family and friends. Compared with other sources of capital that can fluctuate depending on the political or economic climate, remittances are a relatively steady source of funds.

2.3 History of Microfinance

Although neither of the terms micro credit or microfinance were used in the academic literature nor by development aid practitioners before the 1980s or 1990s, respectively, the concept of providing financial services to low income people is much older. While the emergence of informal financial institutions in Nigeria dates back to the 15th century, they were first established in Europe during the 18th century as a response to the enormous increase in poverty since the end of the extended European wars (1618 – 1648). In 1720 the first loan fund targeting poor people was founded in Ireland by the author Jonathan Swift.

Furthermore, the history of micro financing can be traced back as long to the middle of the 1800s when the theorist Lysander Spooner was writing over the benefits from small credits to entrepreneurs and farmers as a way getting the people out of

poverty. But it was at the end of World War II with the Marshall plan the concept had a big impact.

The today use of the expression micro financing has its roots in the 1970s when organizations, such as Grameen Bank of Bangladesh with the microfinance pioneer Muhammad Yunus, were starting and shaping the modern industry of micro financing. Another pioneer in this sector is Akhtar Hameed Khan. At that time a new wave of microfinance initiatives introduced many new innovations into the sector. Many pioneering enterprises began experimenting with loaning to the underserved people. The main reason why microfinance is dated to the 1970s is that the programs could show that people can be relied on to repay their loans and that it's possible to provide financial services to poor people through market based enterprises without subsidy. Shorebank was the first microfinance and community development bank founded 1974 in Chicago. Then after in 1983 Grameen Bank was founded and now serves more than 4 million borrowers.

The economics professor Muhammad Yunus and the founder of Grameen Bank were awarded the Nobel Prize 2006 for his efforts.

2.4 Need of Microfinance

-) Nepal is least developing countries and majority of the poor peoples lives here and depends on agriculture. About 17.6 million people do not have access to credit. Poor people need not just loans but also savings, insurance and money transfer services.
-) Microfinance must be useful to poor households: helping them raise income, build up assets and/or cushion themselves against external shocks.
-) 'Microfinance can pay for itself.' Subsidies from donors and government are scarce and uncertain, and so to reach large numbers of poor people, microfinance must pay for itself.
-) Microfinance means building permanent local institutions.
-) Microfinance also means integrating the financial needs of poor people into a country's mainstream financial system.

-) Interest rate ceilings hurt poor people by preventing microfinance institutions from covering their costs, which chokes off the supply of credit.

2.5 Evolution of Microfinance in Nepal

Over the past 25 years, the Government has introduced a number of programs to extend financial services to the rural people focusing on the poor and women. In the early 1960s, the cooperative movement became the first vehicle of microfinance in Nepal, as 13 cooperatives provided flood victims access to financial services adapted to their specific needs. In parallel, rural finance institutions were established such as the Agricultural Development Bank of Nepal, which aimed at providing credit and marketing support to agriculture.

In 1974, the two state-owned commercial banks, Nepal Bank Ltd. and Rastriya Banijya Bank were directed by the central bank, Nepal Rastra Bank, to invest at least a portion (first 5% to increase as high as 12%) of their deposit liabilities in the 'small sector'. This marked the beginning of the directed credit system in Nepal.

Starting in 1975, the Small Farmers Development Program, implemented by the Agricultural Development Bank of Nepal, mobilised farmers groups using a credit plus approach, and was the first experience of group-based lending in Nepal. Unfortunately, It failed due to political pressure for a fast expansion, overemphasis on credit, high delinquency levels and the overall not satisfactory performance of the system.

In 1976, the scope of the small sector was broadened to include agriculture, cottage industry and services, and has since then been called the 'priority sector'. The credit didn't reach the poor, as only influential and well-connected people, with collateral, were able to access the program. This led to the development of targeted initiatives, such as the Intensive Banking Program in 1981, initiated by the government and the central bank, through partnerships with commercial banks. Under this approach, group guarantee for loan repayment were used instead of physical collateral.

In 1982, the Cottage and Small Industries Project and the Production Credit for Rural Women all provided new directions to priority sector lending, focusing on project viability rather than collateral, and therefore provided a financing window to the poor through commercial banks collaborating with local development organisations. The commercial banks perceived this program as more of an obligation towards the central bank than a business interest.

In 1990, the government of Nepal established the Rural Self-Reliance Fund (RSRF), with the objective of providing wholesale loans to NGOs, cooperatives and financial intermediaries for on lending to the poor. The Microfinance Department of NRB acts as the secretariat of the RSRF and management committee headed by the NRB deputy governor oversees the fund.

In 1992, the government of Nepal, following a recommendation from the NRB, established Regional Rural Development Banks (RRDB) in each of the five development regions of Nepal, modelled on the Grameen Bank methodology. The majority of the ownership is in the hands of government, Nepal Rastra Bank (the central bank) and public commercial banks, while other private commercial banks have small equity stakes. During the same period, private initiatives led by NGOs, such as Nirdhan and the Center for Self-help Development, also used the Grameen Bank methodology, resulting in a generally more efficient and successful replication.

With a view to provide a source of wholesale fund to regulated microfinance institutions, the Rural Microfinance Development Center (RMDC) was established in 1998, and later on opened its lending to other microfinance providers. In 2001, the Small Farmer Development Bank was established under the Development Bank Act to provide wholesale funds to Small Farmers Cooperatives Ltd. (SFCLs).

A Microfinance Policy has been drafted by the NRB and consulted with stakeholders in 2005. It outlines the idea of a Second-Tier Institution to license, supervise and regulate MFIs and financial cooperatives, bringing all non-commercial bank financial service providers (Category D in the Banks and Financial Institutions Ordinance) under the same legislation, and possibly creating a sub-set of the classification.

2.6 Challenges in Microfinance Delivery in Nepal

Nepal has a diverse topography at varied development stages, a mix of different cultures and different ethnic groups, which challenges the successful delivery of micro-finance. The major challenges are:

-) Formulating a microfinance delivery mechanism that is better suited to the people in hills and mountains
-) Successfully extending the outreach to the hills and mountains
-) Redesigning existing programs of the formal MFIs to better target the poorest
-) Unsustainable delivery mechanisms of government initiated MFIs and programs
-) Dominance of the government and its agencies in micro-credit
-) Diffused or not concentrated focus
-) Role of INGOs, MFIs, Apex wholesale institutions
-) Sustainability and interest rate

2.7 Review of Research Article

Yunus has shared that micro credit is based on the premise that the poor have skills, which remains unutilized or underutilized. It is definitely not the lack of skills, which make poor people poor. It is believe that the poor do not create the poverty; the institutions and policies, which surround them, create it. In order to eliminate poverty all we need to do to make appropriate changes in the institutions and policies, and / or create new ones. It is also believe that charity is not an answer to poverty. It only helps poverty to continue. It creates dependency and takes away individuals initiative to break through the wall of poverty. Unleashing of energy and creativity in each human being is the answer to poverty.

As we are aware that about 90 percent of the people in developing countries lack access to financial services from institutions, either for credit or saving, which further fuels the "vicious cycle of poverty" (Robinson and Marguerite, 2002). If the people have limited capacity to invest in capital, productivity is restricted, incomes are inhibited, domestic saving remains low and again any increase in productivity are promoted. A lack access to financial institutions also hinders the ability for

entrepreneurs to engage in new business ventures, inhibiting economic growth and often. The source and consequences of entrepreneurial activities are neither financially nor environmentally sustainable. Microfinance serves as a means to empower the poor and provides a variable tool to assist the economic development process. However, unavoidably, various barriers and obstacles limit the roles of microfinance in reducing poverty around the world (The Microfinance Revolution: Sustainable Finance for the Poor; 2001)

Therefore realising the importance of microfinance United Nations (UN) has declared year 2005 as an International Year of Micro credit with recognition to microfinance as an effective tool for poverty reduction. The International Year of Micro credit 2005 underscores the importance of the microfinance as an integral part of our collective effort to meet the Millennium Development Goals (MDGs), especially the overarching target of having extreme poverty and hunger by 2015. Sustainable access to microfinance helps to alleviate poverty by generative income, creating jobs, allowing children to go school, enabling families to obtain health care, and empowering people to make the choices that best serve their needs. The great challenge before us is to address the constraints that exclude people from full participation in the financial sector. Together, we can and must build inclusive financial sectors that help people improve their lives.

Nirdhan Utthan Bank Limited, which is established with an objective of reaching to a maximum number of poor household with potential and financial viability and to develop a well-managed institution has been rated in category a- by Micro-Credit Ratings International Ltd (M-CRIL) on June 2005 which shows good performance. However it has declined from + achieved during the last rating in April 2000. According to M-CRIL, most of this downgrade is attributed to a drastic fall in the portfolio quality, reduced deployment of assets in loans to clients and also the introduction of stricter assessment standards by M-CRIL in tune with the changing outlook of the microfinance industry.

Research done by Sapkota (2008) found that one of the microfinance activities called Small Farmer Cooperative Limited (SFCL) has been managing their organization more efficiently and effectively as compared to Small Farmer

Development Program. Due to access to credit, living conditions have improved for a large majority of SFCL members. Saving habits among group members has increased. SFCLs are able to generate significantly large sums of cash from their internal sources. This program has had a positive impact on social as well as economic well being of the group members. Thus grass-roots level self-help organizations like SFCL has been proved to be an effective means in the process of poverty alleviation.

In context of NUBL, In March 1995, Professor David Gibbons Executive Trustee of CASHPOR Inc, concluded in this final evaluation that in Nirdhan Nepal pilot project had been very successful. Clearly there was a strong demand among poor women for Nirdhan's loans and saving services, and Nirdhan had demonstrated its capacity to meet that demand. However, although all of Nirdhan's borrowers are women, most of them do not use the loan themselves. A majority pass on their loans to their husband. Interviews carried out during the field visit tended to confirm the widespread representativeness of the case-studies, particularly in older Siktohan Branch and with borrowers who invested in milch buffaloes. As most Nirdhan are being more fully employed and/or more gainfully employed as a result of the programme, resulting in higher incomes. Paradoxically this has released some of the women from the need to do daily labour on other people's land. Thus employment among some poor women may have been reduced and actually they may have become more dependent upon their husbands. Most borrowers said there had been some improvement in their lever of living as a result of Nirdhan's loans, but not enough time had elapsed and not enough had been borrowed to result in a dramatic improvement (Todd,1996).

While assessing impact of the microfinance program of NUBL by The Centre for Micro-Finance (Pvt.) Limited on May 2006 it was found that the services of NUBL helped clients to move from poor to middle poor as the percentage of middle poor were found less in new clients to clients that have received services for five years and more than five years. In other words clients receiving services for more than five years had less very poor clients. The financial services of NUBL were found to help increase income of NUBL clients and those who were able to extend the existing business or to initiate the new business were able to do so. However, it was found

that the financial services of NUBL were useful more to the middle poor and poor than the very poor.

Similarly, Okamoto has found that Nirdhan successfully reached to the poor households though some of their clients are not in the category. The largest group of the clients is so-called the active poor engaging in small business and small scale farming. It is also found that the income structure of farmers in their household has changed and many of them have cash income in some ways, they can accept the scheme with weekly payment. The scheme of weekly payment means encouraging savings effectively after providing loans, thus filling the potential needs for savings. However, Nirdhan is not free from the difficulty of running a microfinance institution. The cost of providing financial services special to the low-income group is still quite high. Increasing the number of clients covered by one unit of staff can be improved to some extent but it also raises the risk with less monitoring by the staff.

2.8 Review of Thesis

✍ Ghimire (1981), conducted research on *"A comparative study of small farmer's development project in Nuwakot and Dhanusa"* with an objective to compare the important aspect and problems on loan disbursement and collection, of the Small Farmers Development Programme and the effectiveness of the loan provided for different activities by Small Farmers Development Projects in Nuwakot and Dhanusha. The findings shows that the programme has clearly made an important contribution to rural disadvantaged small farmers and to the rural development, the member farmers have utilised and benefited from the available facilities and loan, and rate of repayment found declining however different scheme and training encourage farmers to repayment. It is found that the research is based on financial aspect and its impact only.

- ✍ Nepal (2000), has done research work entitled *"Women's Perception of savings as an instrument to uplift their Social and Economic Status: A case study of urban women catered by MCPW"*. The main objective of the study was to identify women's perception about savings as an instrument to uplift their social status which conclude that the account was their own and the saved money was their own did give members a strength and confidence on their economic capabilities. The women attended regular meeting of their SCO, were taking more care of their enterprises, were able to generate money to payback their credit and also set aside some for savings were able to conduct monetary transactions and maintain accounts. Factors like these resulted in more confident and enterprising women, which brought about changes in the behaviour of their family. This research is more focused about socio and economic situation of women only therefore, the researcher has missed out the changes take place in the society and in their household because of the program.
- ✍ Lamsal, R. (2004), in his dissertation entitled *"Performance of Rural Banks in Nepal (A case study of Paschimanchal Rural Development Bank)"* with an objective to assess the impact of microfinance program of Pashchimanchal Grameen Bikas Bank (PGBB) on the socio-economic status of rural women and to examine the past and present performance of PGBB in terms of providing financial assistance to target groups found that the (I) rural financing under Paschimanchal Grameen Bikas Bank has brought positive effect on income and employment. However, it is found that maximum numbers of people are unable to use the fund in suitable productive sectors. They have used the fund to pay the interest and loan of landowner even though; rest of the other used the fund in other productive sectors like small shop, cash crops, cattle farming etc. (II) However the rural financing under PGBB is targeted toward women, it is found that women are not directly involved for using the fund. They are bound to work under husband's direction in the family. Mostly it is also observed that the obtain loan in favour of women member is utilised by husband of that family and therefore the women member are not able to accelerate effective result in many households. It is also found that in some family there is good cooperation

with husband and wife, they are working together for the sake of maintaining the good uses of fund for their stated work purpose. Even though the objective of the researcher is to examine the past and present performance of PGBB, it is restricted to the loan's effectiveness.

✍ Aryal (2006), conducted research on "Impact of Microfinance Program of Pashchimanchal Grameen Bikas Bank on the Status of Rural Women (A Case Study of Bayarghari Unit Office, Syangja) with a major objectives of (I) to examine the past and present performance of microfinance program of (PGBB) in terms of providing financial assistance to target groups (II) To determine the impact of microfinance on women's economic and social empowerment found that (I) PGBB's income only form the microfinance operations was just enough to meet its financial and operational expenses with a low ROA. However, the overall profit of the bank was good on account of the interest earned on its large amount of deposit with commercial banks and finance companies. (II) There is little evidence of impact on household income compared to base years although PGBB client's findings suggest increased income with programme participation. Women access to savings and credit gives them greater decision making role. Investment in a women's economic activity will improve her empowerment opportunities. A women gains more respect and plays more active role in the family and community through microfinance program. It provides her with greater empowerment and increased self-confidence. A woman becomes more involved in society as a member of women's organisations, professional associations and political parties adding her contribution to collective decision-making. It will be interesting to compare finding of the PGBB with NUBL in terms of financial performance as well as in the area of social impact.

Chapter- III

Research Methodology

3.1 Introduction

The research methodology adopted for the present study is mentioned in this chapter, which deals with research design, population and sample, sources and types of data, data gathering procedure, methods of analysis or tools and techniques of analysis.

3.2 Research Design

A questionnaire was formulated and used in the field, in Rupandehi district, with the members of NUBL. The responses were later analysed to examine the socio-economic improvement in their lives after involving in NUBL. In order to assess the financial performance, the central office of NUBL located in Bhairawha was visited and collected necessary secondary information. Then, the data was analysed later using various financial-performance-analysis tools.

3.3 Population and Sampling

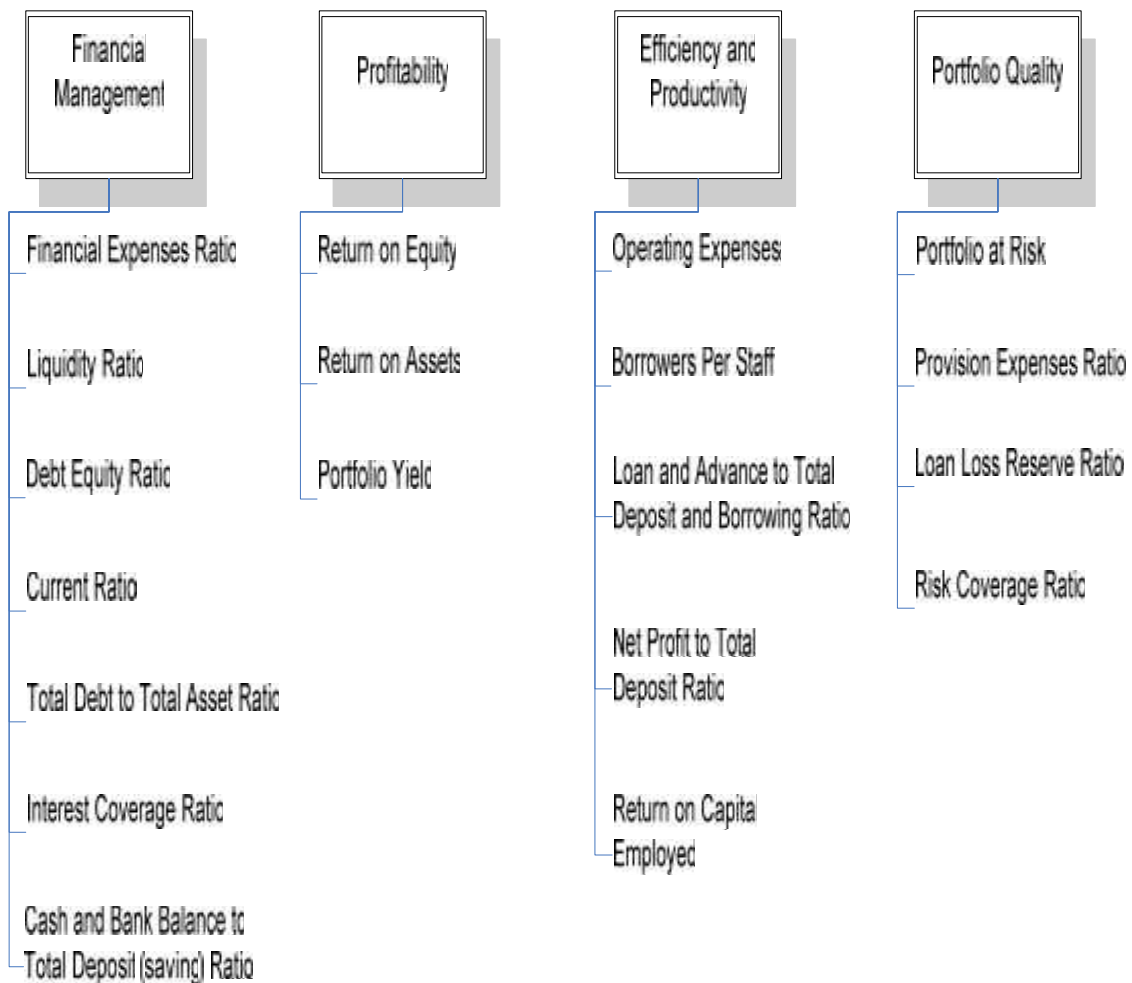
There are 14 branch offices of NUBL in Rupandehi district and out of which 2 branch offices were selected that comes to be about 14% selection. These two groups were selected purposefully or judgementally considered one of them is relatively good performing branch office and other is relatively weak one. All the members (except of those who were absent) were met and asked the questions as per the research questionnaire. The total number of respondents of this research are 111 members.

3.4 Nature and Source of Data

The present study is based on both primary and secondary data. Primary data is collected from the field survey and secondary data is collected from NUBL's published reports and bulletins. Regarding the literature review, various libraries and internet websites were consulted.

3.5 Method of Data Analysis

Data were both qualitative and quantitative and they have been analysed accordingly. The collected secondary data has been analysed by using the financial or statistical tool (financial management, profitability, efficiency and productivity and profit quality) as shown below:



The various forms of raw data have been converted and standardized into tabulated format. Similarly, each summary of section's analysis and some of the primary data have been presented in diagrams. Diagrams used in this study are mainly simple bar diagram and pie chart.

Details of financial performance analysis tools are cited in **Appendix 7**.

Chapter IV

Presentation and Analysis of Data

4.1 Financial Management

4.1.1 Financial Expenses Ratio

The financial expenses ratio for the period of FY 2004-2008 is exhibited below:

Table 4.1: Calculation of Financial Expenses Ratio

Year	Financial Expenses	Average Total Assets	Ratio in percentage
2004	18,775,218	477,164,043	3.95
2005	20,887,176	650,306,055	3.21
2006	26,482,083	802,547,076	3.30
2007	31,985,497	858,993,291	3.70
2008	35,153,700	1,164,613,976	3.02
Average	133,283,674	3,953,624,441	3.37

Data reference: NUBL's Annual Report

The Table 4.1 shows that the minimum lending rate to cover financial expenses ratio is 3.02% in the year 2008 where as the year 2004 is the maximum lending rate of 3.95%. The ratio from the year 2005 to 2007 is found in an increasing trend. However, if we tally the five year lending rate then we can found that the lending rate is around 3 percentage. Besides, five year's average ratio is 3.37 and the year 2006 is very much closest to the average ratio. On the whole financial expenses ratio is found fair.

4.1.2 Liquidity Ratio

The calculation of the Liquidity Ratio for the period of 2004-2008 is exhibited below:

Table 4.2: Calculation of Liquidity Ratio

Year	Cash and Bank Balance	Total Assets	Ratio in percentage
2004	12,938,346	477,164,043	2.71
2005	14,606,877	650,306,055	2.25
2006	23,445,085	802,547,076	2.92
2007	31,826,058	858,993,291	3.71
2008	35,470,967	1,164,613,976	3.05
Average	118,287,333	3,953,624,441	2.99

Data reference: NUBL's Annual Report

The Table 4.2 shows that liquidity ratio of NUBL is in increasing trend from 2004 to 2007 with a ratio of 2.71% to 3.71% respectively. This indicates that NUBL's ability to meet short-term obligation is Good. However, in 2008, the ratio with 3.05% is decreased by few percentage. As the difference is little, it is less be to worry because the five year's average liquidity ratio is 2.99%. The year 2006 is very close to the average ratio.

4.1.3 Debt Equity Ratio

The debt equity ratio for the year 2004-2008 is calculate below:

Table 4.3: Calculation of Debt Equity Ratio

Year	Total Liabilities	Total Equity	Ratio in percentage
2004	415,176,766	61,987,278	669.78
2005	556,455,375	93,850,680	992.92
2006	698,842,802	103,704,273	673.88
2007	749,554,503	109,438,788	684.91
2008	1,005,805,409	158,808,568	633.35
Average	3,425,834,855	527,789,587	649.09

Data reference: NUBL's Annual Report

As we know that higher debt/equity ratio is very good indicator to attract borrowers, therefore, the Table 4.3 shows that the year 2005 is very fruitful to NUBL because of higher percentage ratio 992.92%. The calculation shows ups and down in debt/equity ratio in the different years respectively. The five year's average debt equity ratio is 649.09% which is closer to the year 2006 with 673.88%. However, in 2008 the ratio is lesser than average percentage.

4.1.4 Current Ratio

The current ratio of NUBL for the period of FY 2004-2008 is exhibited below:

Table 4.4: Calculation of Current Ratio

Year	Current Assets	Current Liabilities	Ratio in percentage
2004	452,784,151	94,537,320	4.79
2005	612,214,415	130,785,969	4.68
2006	765,370,897	178,306,227	4.29
2007	799,020,322	213,266,329	3.75
2008	1,105,356,241	281,950,551	3.92
Average	3,734,746,026	898,846,396	4.16

Data reference: NUBL's Annual Report

The above Table 4.4 shows that NUBL has always exceed the current liabilities for the study period of five years from 2004-2008. The bank has the highest current ratio of 4.79 in the year 2004 with an average current ratio 4.16 during the study period of 2004-2008. In general terms, the bank has been able to meet it's short term obligations.

The above analysis indicates that the bank is in sound liquidity position.

4.1.5 Total Debt to Total Asset Ratio

The calculation of total debt to total asset ratio is exhibited below:

Table 4.5: Calculation of Total Debt to Total Asset Ratio

Year	Total Liabilities	Total Assets	Ratio in percentage
2004	415,176,766	477,164,043	87.01
2005	556,455,375	650,306,055	85.59
2006	698,842,802	802,547,076	87.08
2007	749,554,503	858,993,291	87.26
2008	1,005,805,409	1,164,613,976	86.36
Average	3,425,834,855	3,953,624,441	86.85

Data reference: NUBL's Annual Report

The above Table 4.5 shows that the total debt to total asset ratio lies at the range of 85% - 90%. There has not been huge differences in the year of five years for instance the ratio of 2004, 2006 and 2007 are found 87.01%, 87.01% and 87.26% respectively. It is seen that NUBL has able to maintain the expenses. The average of five year's expenses is 86.85% to which the year 2008 is very close with the average ratio of 86.36%.

4.1.6 Interest Coverage Ratio

The interest coverage ratio is calculated as below

Table 4.6: Calculation of Interest Coverage Ratio

Year	EAT + Tax + Interest	Interest	Ratio in times
2004	24,188,405	18,775,218	1.29
2005	32,946,636	20,887,176	1.58
2006	37,807,482	26,482,083	1.43
2007	51,907,532	31,985,497	1.62
2008	62,990,336	35,153,700	1.79
Average	209,840,391	133,283,674	1.57

Data reference: NUBL's Annual Report

NUBL's average interest coverage ratio is calculated 1.57 which means company should at least maintain average figure to cover its interest expenses. The above Table 4.6 shows that year 2004 with the ratio 1.29 times and 2006 with the ratio 1.43t times are below the average ratio where as the year 2005 with the ratio 1.58 times, 2007 with the ratio 1.62 times and 2008 with the ratio 1.79 times has maintained the average ratio. It indicates that NUBL has capacity to pay the interest debt.

4.1.7 Cash and Bank Balance to Total Deposit (Saving) ratio

The calculation of cash reserve ratio is executed below:

Table 4.7: Calculation of Cash and Bank Balance to Total Deposit (Saving) ratio

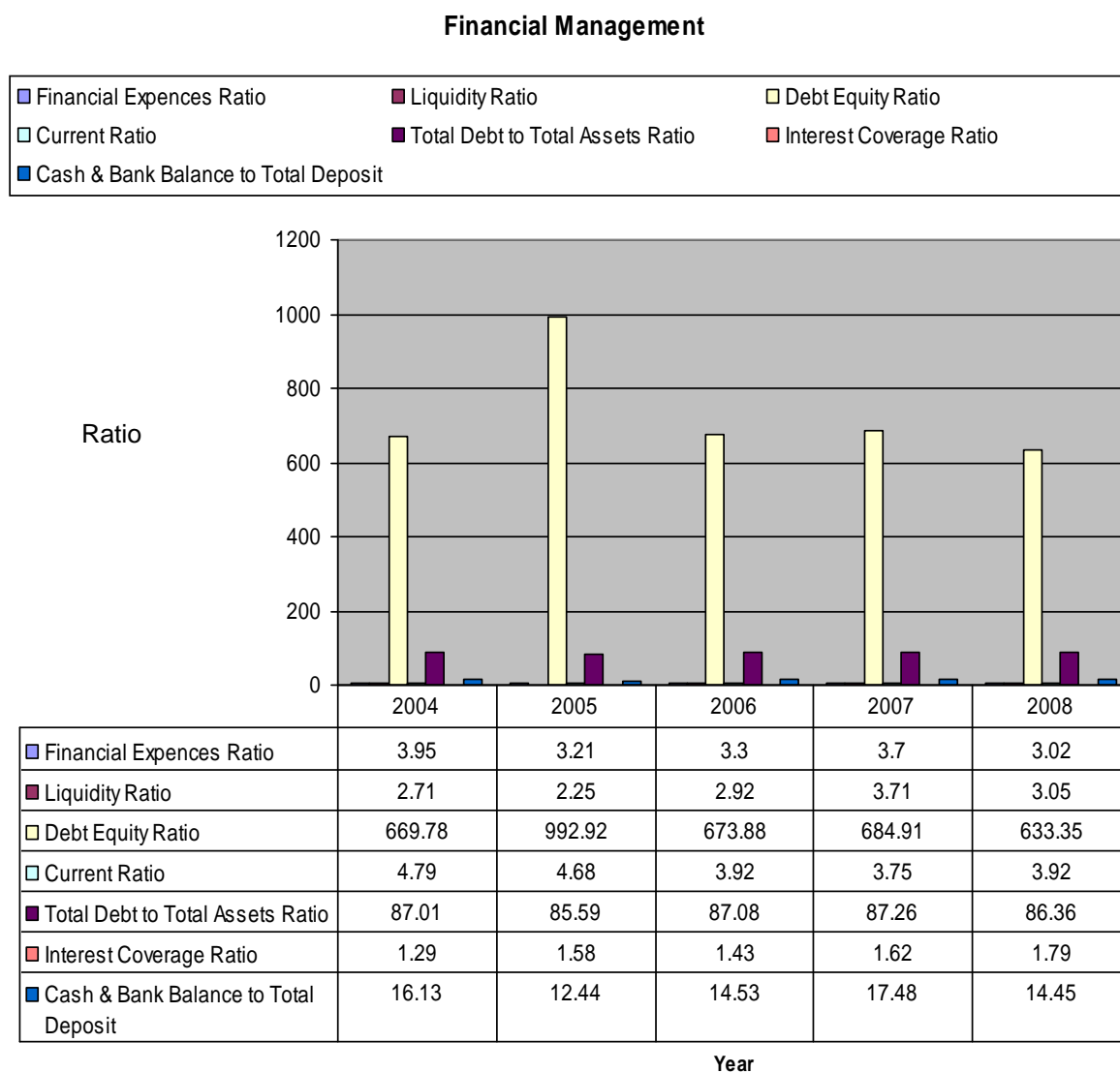
Year	Cash and Bank Balance	Total Deposit (Saving)	Ratio in percentage
2004	12,938,346	80,211,605	16.13
2005	14,606,877	117,449,140	12.44
2006	23,445,085	161,326,686	14.53
2007	31,826,058	182,054,272	17.48
2008	35,470,967	245,020,336.68	14.45
Average	118,287,333	786,062,039.68	15.05

Data reference: NUBL's Annual Report

The above Table 4.7 shows that the cash reserve ratio of NUBL is higher in the year 2007 by 17.48% and lower in the year 2005 by 12.44% with an average of 15.05% during the period of five years. The year 2004 with the ratio 16.13% is very closest with the average ratio. As the differ percentage ratio is very close between the respective years, NUBL has greater ability to meet the daily requirement.

To summarise Financial Management analysis of NUBL:

Figure 4.1: Summarisation of Financial Management Analysis



4.2 Profitability

4.2.1 Return on Equity (ROE)

The return on equity is calculated as exhibited below:

Table 4.8: Calculation of Return on Equity

Year	Net Income	Average Equity	Ratio in percentage
2004	4,898,493	619,787,278	7.90
2005	10,163,327	93,850,680	10.83
2006	8,390,062	103,704,273	8.90
2007	13,778,326	109,438,788	12.59
2008	18,973,324	158,808,568	11.95
Average	56,203,532	1,085,589,587	5.18

Data reference: NUBL's Annual Report

The above table 4.8 shows that the profitability of the institutions is higher at the year 2007 because of maximum ROE 12.59% which is much more greater than the average ratio of 5.18%. The minimum ROE can be seen in the year 2004 with 7.90%. The ROE trend after 2004 is in an increasing way but in the year 2008, the ratio is decrease by 0.64%. Overall, the profitability of NUBL seems motivating.

4.2.2 Return on Asset (ROA)

The calculation of ROA is exhibited below:

Table 4.9: Calculation of Return on Asset

Year	Net Income	Total Asset	Ratio in percentage
2004	4,898,493	477,164,043	1.03
2005	10,163,327	650,306,055	1.56
2006	8,390,062	802,547,076	1.05
2007	13,778,326	858,993,291	1.60
2008	18,973,324	1,164,613,976	1.63
Average	56,203,532	3,953,624,441	1.42

Data reference: NUBL's Annual Report

The above Table 4.9 shows that ROA of NUBL differ from maximum of 1.63% in the year 2008 to the minimum of 1.03% in the year 2004 with an average of 1.42% during the period of five years from 2004-2008. The mid years of NUBL is also shows the good performance with the ratio of 1.56% and 1.60% respectively however, the performance in the year 2006 with 1.05%.

4.2.3 Portfolio Yield

The calculation of the portfolio yield is exhibited below

Table 4.10: Calculation of Portfolio Yield

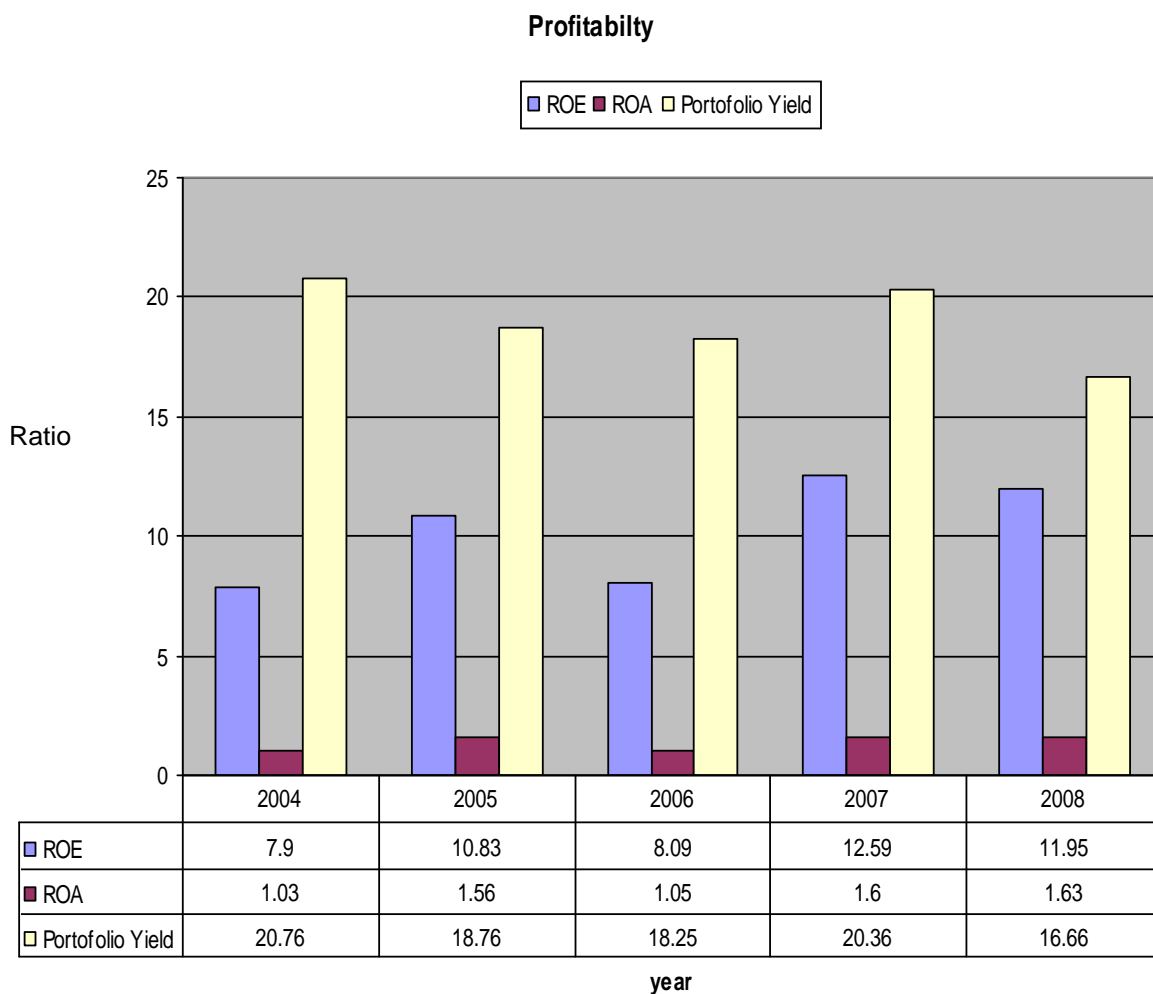
Year	Financial Income	Average Gross Portfolio	Yield in percentage
2004	55,802,255	268,850,737	20.76
2005	77,127,876	411,198,781	18.76
2006	100,830,078	552,397,100	18.25
2007	124,185,116	610,035,490	20.36
2008	139,251,356	835,936,015	16.66
Average	497,196,681	2,678,418,123	18.56

Data reference: NUBL's Annual Report

The above Table 4.10 shows that NUBL's maximum income earned from the dispersed loan is 20.76% in the year 2004 and 20.36% in the year 2007. Similarly, the minimum earning for the institution is found 16.66% in the year 2008 which is also lies below the average ratio. If we compare with the average percentage of 18.56% with the respective years then it is found that collection of NUBL is good and also assume that borrower are benefiting from the loan.

To summarise Profitability of NUBL:

Figure 4.2: Summarization of Profitability Analysis



4.3 Efficiency and Productivity

4.3.1 Operating Expenses

The operating expenses is calculated as per exhibited below

Table 4.11: Calculation of Operating Expenses

Year	Operating Expenses	Average Gross Portfolio	Ratio in percentage
2004	30,967,514	268,850,737	11.52
2005	43,643,352	411,198,781	10.61
2006	49,456,838	552,397,100	8.95
2007	70,326,779	610,035,490	11.53
2008	78,658,279	835,936,015	9.41
Average	273,052,762	2,678,418,123	10.20

Data reference: NUBL's Annual Report

As lower the operating expenses ratio, higher the efficiency of an institution, the year 2006 is the efficient year for NUBL with the minimum ratio of 8.95%. However, in the year 2004 with 11.52% and 2007 with 11.53%, the ratio is higher as compare with the respective years. The average ratio of operating expenses is 10.20% which is acceptable when compared as per international institution's standard.

4.3.2 Borrowing Per Staff

The calculation of borrowing per staff is calculated as below

Table 4.12: Calculation of Borrowing per Staff

Year	Number of Borrowers	Total Staff	Borrower per Staff
2004	32,678	229	143
2005	50,063	241	208
2006	58,679	275	213
2007	58,354	322	181
2008	68,203	369	185
Average	267,977	1436	187

Data reference: NUBL's Annual Report

The above Table 4.12 shows that the maximum number of borrowing per staff is 213 in the year 2006. The average number of borrowing per staff is 187. The year 2004 and 2007 are seen less efficient year for the NUBL with the number of 143 and 181 respectively which is also very less than the average figure. However, there might be the other factors like changes in the political situation might effected the efficiency of NUBL.

4.3.3 Loan and Advance to Total Deposit and Borrowing Ratio

The Loan and Advance to Total Deposit and Borrowing Ratio is calculated as below:

Table 4.13: Calculation of Loan and Advance to Total Deposit and Borrowing Ratio

Year	Loan and Advance	Total Borrowing	Ratio in percentage
2004	261,310,794	320,639,446	81.50
2005	400,366,350	425,669,406	94.06
2006	520,014,523	520,536,575	99.90
2007	569,945,120	536,288,174	106.28
2008	793,865,455	723,854,857.97	109.67
Average	2,545,502,242	2,526,988,458.97	100.73

Data reference: NUBL's Annual Report

The above Table 4.13 shows that utilization of the resources differ from maximum of 109.67% in the year 2008 to the minimum of 81.50% in the year 2004 with an average of 100.73% during the period of five years from 2004-2008. The trend has shown that utilization of the resources is in increasing trend with the ratio of 94.06%, 99.90% and 106.28% respectively. Hence, the utilization of the resources is improving in the yearly basis.

4.3.4 Net Profit to Total Deposit Ratio

The calculation of net profit to total deposit ratio is exhibited below:

Table 4.14: Calculation of Net Profit to Total Deposit

Year	Net Profit	Total Deposit	Ratio in percentage
2004	4,898,493	80,211,605	6.12
2005	10,163,327	117,449,140	8.65
2006	8,390,062	161,326,686	5.20
2007	13,778,326	182,054,272	7.57
2008	18,973,324	245,020,336.68	7.74
Average	56,203,532	786,062,039.68	7.15

Data reference: NUBL's Annual Report

The calculation in Table 4.14 shows that net profit to total deposit of NUBL varies from maximum of 8.65% in the year 2005 to the minimum of 5.20% in the year 2006 with an average of 7.15% during the period of five years from 2004-2008. This analysis indicates that the net profit earned in comparison to the total deposit is less during the year 2006 but the total deposits are in increasing trend. In general, it reveals that the bank is mobilizing its funds effectively and efficiently.

4.3.5 Return on Capital Employed

The return on capital employed is calculated as below:

Table 4.15: Calculation of Return on Capital Employed

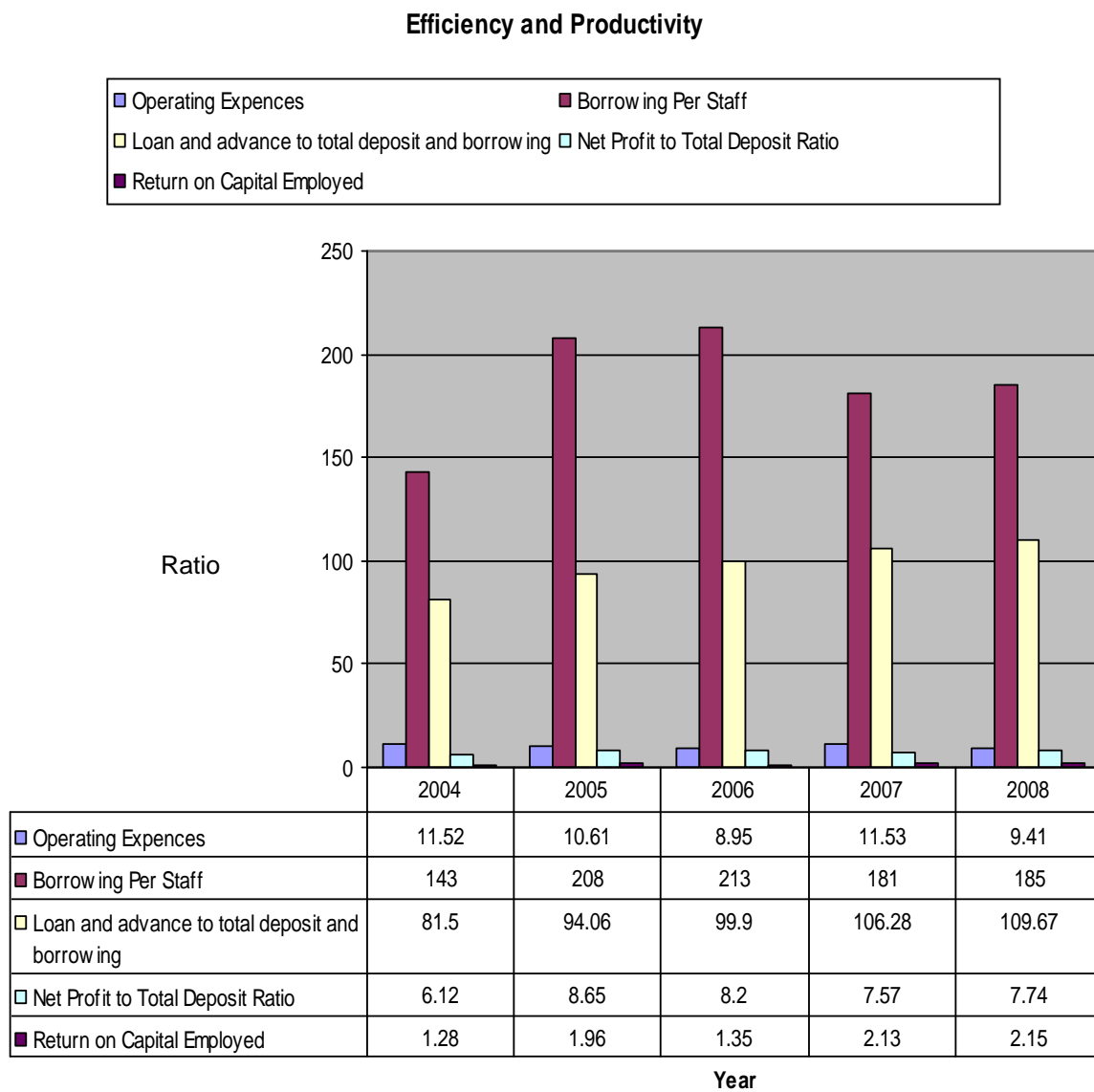
Year	Net Profit	Total Capital Employed	Ratio in percentage
2004	4,898,493	382,626,724	1.28
2005	10,163,327	519,520,086	1.96
2006	8,390,062	624,240,848	1.35
2007	13,778,326	645,726,962	2.13
2008	18,973,324	882,663,425.94	2.15
Average	56,203,532	3,054,778,045.94	1.84

Data reference: NUBL's Annual report

The above analysis in Table 4.15 shows that NUBL's capital efficiency is in increasing trend however, the year 2006 is slightly less as compared with the respective years. The maximum utilization is seen in the year 2007 by 2.13% and the year 2008 by 2.15% with an average of 1.84% during the period of five years from 2004-2008.

To summarise Efficiency and Productivity analysis of NUBL:

Figure 4.3: Summarization of Efficiency and Productivity Analysis



4.4 Portfolio Quality

4.4.1 Portfolio at Risk

The ratio of portfolio at risk is exhibited below:

Table 4.16: Portfolio at Risk Ratio

Year	Ratio in percentage
2004	3.61
2005	5.0
2006	6.70
2007	6.73
2008	4.78

Source: Annual Report

The above Table 4.16 shows that during the period of 2004-2007, the trend of the risk ratio is in increasing way which means the risk of repayment of loan is higher. But in the year 2008, there has been significant improvement shown in the loan repayment. The maximum risk ratio of 6.73% in the year 2007 has been reduced to 4.78% in the year 2008. The year 2004 is strong for NUBL in term of loan repayment from the borrower.

4.4.2 Provision Expenses Ratio

The calculation of provision expenses ratio is exhibited below

Table 4.17: Calculation of Provision Expenses Ratio

Year	Loan Loss Provision Expenses	Average Gross Portfolio	Ratio in percentage
2004	5,049,679	268,850,737	1.88
2005	9,016,680	411,198,781	2.20
2006	21,863,814	552,397,100	3.96
2007	7,741,354	610,035,490	1.27
2008	6,268,963	835,936,015	0.75

Data reference: NUBL's Annual Report

The above Table 4.17 shows that the provision for expense ratio differs from maximum of 3.96% in the year 2006 to minimum of 0.75% in the year 2008. In the initial phase the ratio is in increasing trend and reached at the higher percentage in 2006 then after the expenses is started to decreased. It shows that the year and maturity factors have also effected the NUBL policies.

4.4.3 Loan Loss Reserve Ratio

The calculation of loan loss reserve ratio is exhibited below:

Table 4.18: Calculation of Loan Loss Reserve Ratio

Year	Loan Loss Reserve	Total Outstanding Gross Portfolio	Ratio in percentage
2004	7,549,942	268,850,737	2.81
2005	10,832,431	411,198,781	2.63
2006	32,382,577	552,397,100	5.86
2007	40,090,371	610,035,490	6.57
2008	42,097,566.01	835,936,015	5.04

Data reference: NUBL's Annual Report

From the above Table 4.18, it can be seen that the loan loss reserve ratio started to increase rapidly from the year 2004 to 2007. This gives a hints that management has taken greater risk in loan distribution. In the year 2008, percentage ratio has been slightly decreased which can be assume that relationship between borrower and institution might developed or the livelihood of the borrower might assess as improved.

4.4.4 Risk Coverage Ratio

The ratio of risk coverage has been exhibited below

Table 4.19: Risk Coverage Ratio

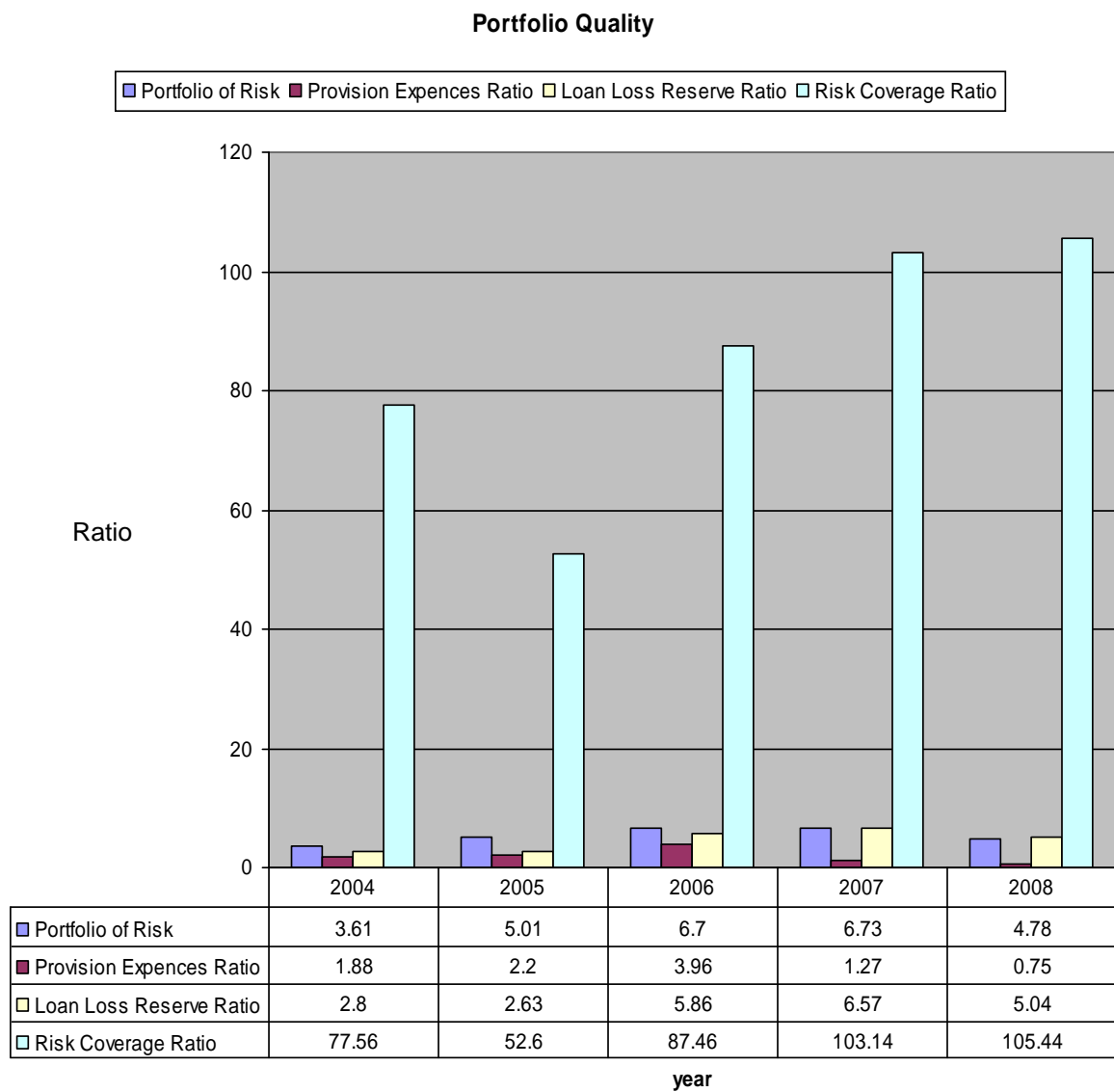
Year	Ratio in percentage
2004	77.56
2005	52.6
2006	87.46
2007	103.14
2008	105.44

Source: Annual Report

The above Table 4.19 shows that higher capacity to cover risky portfolio is seen in the year 2008 with the higher percentage ratio of 105.44% where as 52.6% is the minimum level of risk coverage ratio for the year 2005. It is seen that the year 2004 is also strong enough to handle risky portfolio with the ratio of 77.56%. Even though the trend of coverage ratio is in increasing way after 2005 the analysis indicates that NUBL is in safe side.

To summarise Portfolio Quality analysis of NUBL:

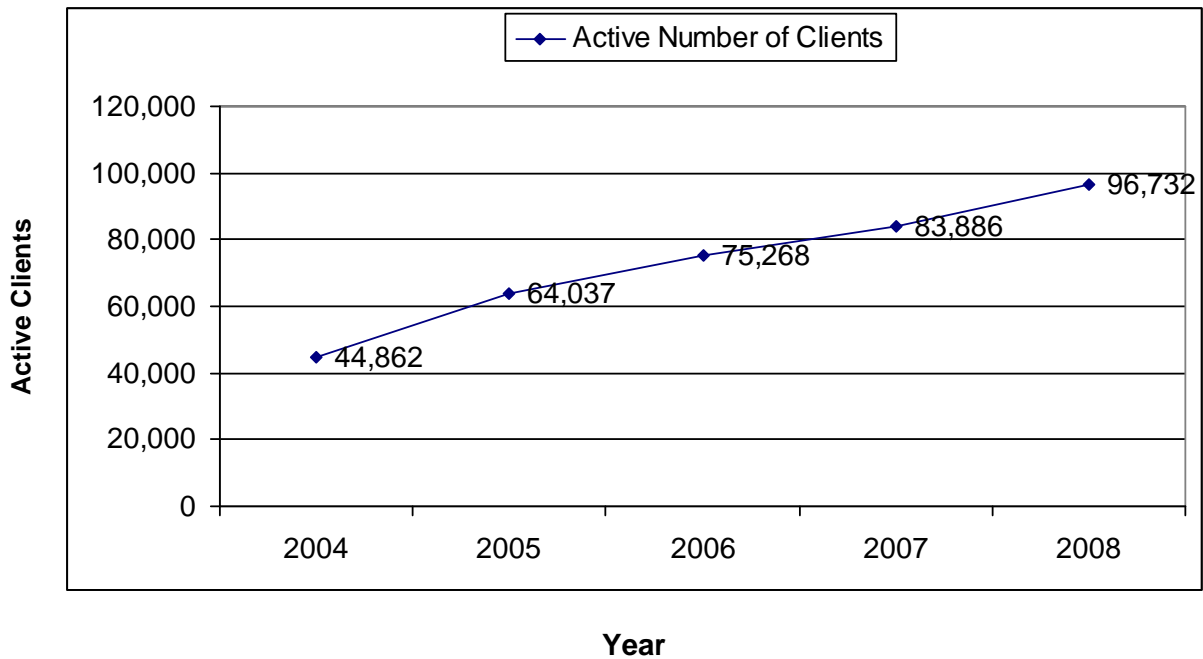
Figure 4.4: Summarization of Portfolio Quality Analysis



4.5 Social Impact Analysis

Before presenting analysis of the NUBL's social impact, the trend of clients number has been shown here.

Figure 4.5: Trend Analysis of Active Clients

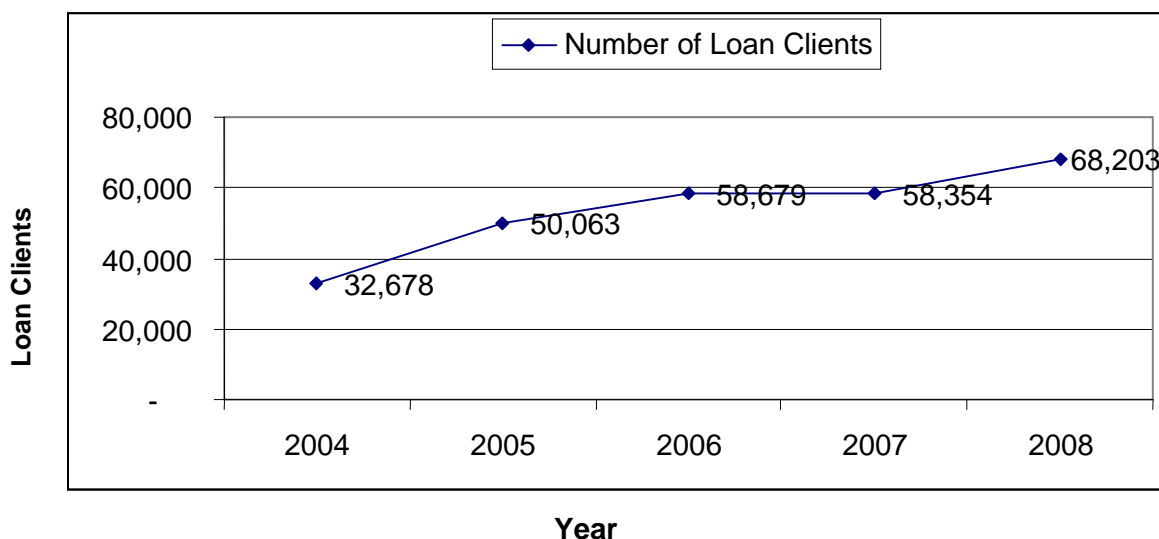


Source: Field survey by author, 2008.

The Figure 4.5 has shown that the number of active clients is in increasing trend from the year 2004 to 2008. The total number of 44,862 clients in the year 2004 has been increased by 51,870 while reaching in the year 2008. Therefore the increasing number of the active clients shows that NUBL is quite popular in the targeted group.

In the same way, the following figure has shown the trend analysis of number of active borrowers of NUBL.

Figure 4.6: Trend Analysis of Loan Clients



Source: Field survey by author, 2008.

The above Figure 4.6 shows that the total number of borrowers has also been increasing each year. The total number of active borrower is 32,678 in the year 2004 and after five year the number of borrower is increased to 68,203. Thus, it has positive correlation between total number of active clients.

Nirdhan Utthan Bank Limited (NUBL) provides credit to its members for productive activities such as goat raising, pig raising, poultry farming, starting shops, etc. All the sampled respondents (i.e. 139 group members) replied that their income has been increased after joining the saving and credit group of NUBL. Majority of them (71%) have raised income from starting and improving business related activities (please see table-20 below). These business related works includes grocery store, tea shops, clothing store, cycle repairing store, fruit shops, butcher (slaughter) shop, etc. Since growing and populated cities Butwal and Bhairawha are close from these group members, they had an opportunity to start and invest in business as mentioned above.

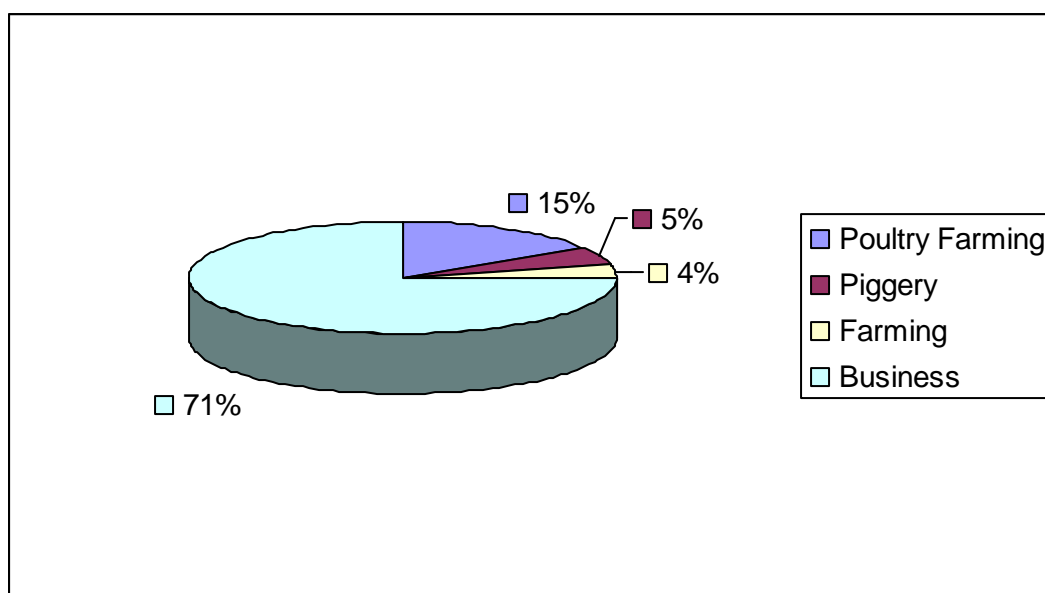
Following the business, the group members have made income from poultry farming, then from piggery and farm related activities.

Table 4.20: Sources of Income

Poultry Farming	Piggery	Farming	Business	Total
21	7	5	98	139

Source: Field survey by author, 2008.

Figure 4.7: Source of Income in percentage



Source: Field survey by author, 2008.

Interestingly, those members who are near to business/market centre have been found investing the credit in business related activities and who are far from it have been found investing in farm or animal husbandry related activities (see Table 4.21 below).

Table 4.21: Centre-wise Sources of Income

Distance of group centre from the market centre	Centre	Animal rearing (e.g. goat, cow, buffalo, piggery)	Farming	Business
Close to market centre	Pragatinagar	7 (5.04%)	4 (2.88%)	28 (20.14%)
	Pragatinagar Kha	2 (1.44%)	1 (0.72%)	39 (28.06%)
Far from market centre	Matkhola	9 (6.4%)	0	21 (15.11%)
	Matkhola Kha	18 (12.95%)	0	10 (7.19%)

Source: Field survey by author, 2008

For example (according to the Table 4.21 above), Pragatinagar is situated in Butwal, one of the busy cities of Terai, therefore the group members of NUBL have raised income from starting and promoting business. On the other hand, Matkhola is far from Bhairawha, the other city and from Butwal. Therefore, the members have engaged themselves in on-farm activities.

Furthermore, It has been found that there is a significant correlation between the number of years they have involved in the groups and the size of income they can make. The following table reveals that any members who is one year old can make an income up to Rs. 5000, while any group members who is two years old can make Rs. up to 15,000 and 3 years old Rs. up to 30,000. Any members crossing above Rs. 30,000 was not observed.

Table 4.22: : Relation between Income and Years of Involvement of Group Members

Number of years members involved in groups	0-1 Year	1-2 Years	Above 2 Years
Income ranges of members	Up to Rs. 5,000	Rs. 5,000-15,000	Rs. 15000-30,000

Source: Field survey by author, 2008.

From the Table 4.22 above, it can also be interpreted that the income made by the group members is not big enough.

Similarly, all the respondents feel that their livelihood has been changed after joining the group of the bank. They informed that they have learnt about sanitation, health and importance of education. Now, many of them know how to read and write. At top of this, they have experience of gaining confidence in public as well.

There is also significant reduction of loan taken from local landlords who charge a high rate of interest.

It has been found that the bank has not provided enough trainings for its members. Some of them even said what was provided was no in use. It could have two reasons, firstly, the members may not have interested and secondly, their needs could have been different. Therefore, it is inevitable to identify their needs first before delivering any sort of trainings.

4.6 Major Findings of the Study

On the basis of data analysis, the following major findings have been made.

4.6.1 In the area of Financial Management

-) It is found that NUBL is very careful in expenses related activities. It has always managed to minimize financial expenses as compared with total assets through out the period of five years. The percentage ratio is higher and nearer to the average ratio.

-) The liquidity awareness of NUBL is very good. From 2004 to 2007, the percentage of liquidity ratio is in increasing trend. This might be because of external political situation of Nepal during that period. NUBL has maintained the risk of liquidity accordingly and as a result we can see that it started to decrease in the year 2008 maintaining the average level.

-) The debt equity ratio of NUBL seems in fluctuating trend. As higher debt equity ratio is prefer to attract borrower, here it is very high in the year 2005 and the gap between the results of the remaining years are also seems very high. However, NUBL has tried to maintain the average level of debt/equity ratio.

-) Even though, NUBL could not maintain the average level of current ratio in the year 2007 to 2008, the bank has capacity to meet its short term obligations and is in sound liquidity position. However, it has crossed the limit of 2:1 standard of current ratio position which might always not be favourable because of unsatisfactory debt collection and idle cash balance.

-) The total debt to total assets ratio is in \pm fluctuation trend. The analysis found that in average 87% of the institution's assets is financed through debt. As the microfinance institution is purely runs under funding and shareholder's equity so the higher percentage of ratio is justifiable. However, it can be maintainable.

-) The analysis has shown that NUBL's ability to cover interest payment is in increasing trend. It shows that the performance of NUBL is in progressing trend because it reflects the relationship between the net profit (earning) before interest and taxes and the amount of interest payments for the period.
-) The cash and bank balance to total deposit ratio shows that the ability of NUBL's to meet the deposit liability is greater. However, if the each individual year compare with the average then it is found in a fluctuating trend. But, as the percentage ratio is very high this fluctuation can be ignored up to standard term.

4.6.2 In the area of Profitability

-) The return on equity which measures the profitability of the institutions seems higher in the year 2007 with 12.59%. Besides, the year 2005 and 2008 are also profitable for NUBL. However, the performance of the institutions is weak in the years 2004 and 2006 with ratio of 7.90% and 8.90% respectively.
-) The return on assets which measures the productivity of the assets is strong in the year 2008 with 1.63%. The analysis has shown that the ratio asset is in fluctuation trend from the year 2004-2007. Thus, effective utilization of the total fund supplied varies yearly basis.
-) The analysis has shown that NUBL's financial income from the interest of dispersed loan is higher in the year 2004 and 2007 with a ratio of 20.76% and 20.36% respectively. Similarly, the percentage of interest earned is very much close in the year 2005 with 18.76% and 2006 with 18.25%. However, it is found that the earning has reduced in the year 2008.

4.6.3 In the area of Efficiency and Productivity

-) It is found that NUBL can manage the operating expenses efficiently in the year 2006 with 8.95% where as the higher expenses ratio is found in the year 2004 with 11.52%. However, the analysis shows that differentiation of the five year period's ratio is found + and – of 1%.

-) The efficiency of the staff in distribution of the loans found slightly less productive however, low staff productivity usually doesn't mean that staff works less, there might be other factors for instance political situation, management issues which have affected the lending efficiency. The year 2006 was productive for NUBL with 213 borrowers per staff.

-) Loan and advance to total deposit ratio measures the extent to which the bank is successful to utilize the total deposits in profit generating purpose. The analysis for the period of 2004-2008, shows that the mobilization ratio of the deposit amount is in increasing trend.

-) The analysis of net profit to total deposit shows that the utilization of the total deposit to generate income for the NUBL is in fluctuation trend. However, the ratio is observed progressing in the year 2007 and 2008 with the percentage of 7.57% and 7.74% respectively.

-) The return on capital employed which measures the relationship between capital employed and net profit after tax seems in increasing trend from the year 2007. As higher the ratio show efficient utilization of fund, the year 2008 was found productive year for the NUBL.

4.6.4 In the area of Portfolio Quality

-) The analysis of the portfolio at risk shows that the risk of not being repaid was higher. However, in the year 2008, there has been significant improvement shown in the loan repayment ratio. It hints that management has seriously tried to address the vulnerability of not being repaid.

-) The provision expenses ratio indicates the expense incurred by the institution to anticipate future loan losses. The provision expense was higher in the year 2006 comparing the period of five year. The analysis has shown that the provision ratio is in fluctuating trend.

-) Loan loss reserve gives an indication of management's expectation of the future loan loss. The analysis shows that expectation of the future loan loss is in increasing trend. The cause of rising ratio might be external or internal factors. However, in the year 2008 the ratio has been found slightly decreased.

-) The risk coverage ratio is calculated to find out what percentage of the portfolio at risk is covered by actual loan loss reserve i.e. how prepared an institution is for a worst-case scenario. The analysis has shown that NUBL's capacity to cover the possible loan loss is very high. During the period of five years, NUBL's coverage capacity is found in increasing trend.

4.6.5 In the case of Social Impact Analysis

-) NUBL is quite popular as the number of clients/group members are in the increasing trend.

-) All the borrowers' (of field survey) income has been raised after joining NUBL.

-) Majority of the members (71%) have increase income through business related activities (e.g. grocery store, tea shops, cycle repairing store, fruit shop etc) and rest of the others have raised income from farm related activities (e.g. poultry farming, agriculture etc)

-) Those who are close to the market centre have utilised the credit loan in starting or improving business. On the contrary, those who are live far from the market centre have utilised in agriculture related activities.

-) It has been found that there is a significant correlation between the number of years they have involved in the groups and the size of income they have made. As they become older members, the more they can earn. It would be tow reasons behind it. Firstly, as they become older members, the more credit loan they can receive so that the investment becomes bigger which can return higher income/profit. Secondly, the confidence and experience increases in the following years which do have impact on business and its income.

-) All the respondents responded that their livelihood has been improved after joining the bank.

-) The group members are able to learn about sanitation, health and importance of education. Their confidence level is found increased.

-) Loan taken from local landlords who charge a high interest have been reduced in the villages.

Chapter V

Summary, Conclusion and Recommendation

5.1 Summary

Microfinance is a powerful lever to provide credits and deposits possibilities to poor individuals who are largely ignored by commercial banks and other lending institutions. By focusing on small amounts and easing collateral requirements microfinance institutions are better equipped to target poor individuals or group who need resources to finance small scale investment.

In other word, microfinance is defined as any activity that includes the provision of financial services such as credit, savings, and insurance to low income individuals which fall just above the nationally define poverty line, and poor individuals which fall below that poverty line, with the goal of creating social value. The creation of social value includes poverty alleviation and the broader impact of improving livelihood opportunities through the provision of capital for micro enterprise, and insurance and savings for risk mitigation and consumption smoothing.

With a mission of to extended financial services and social awareness to the poor in under-served and un-served areas of Nepal in a sustainable manner Nirdhan Utthan Bank Limited has been formed in 1991 as a Nirdhan NGO. In 1993, Nirdhan started its operation in Siktohan in Western Nepal near the Indo-Nepal border as Terai plains has the poor and dense population just like Grameen Bank Bangladesh has. And in 1998, NUBL which means “the bank for upliftment of the poor” was registered with the Company Registrar with the recommendation of Nepal Rastra Bank.

This study examine the financial performance of NUBL and its impact of microfinance program on the socio economic status of rural women. The researcher has used the financial tools and statistical tools to make this study more effective

and informative. The study has covered five years data from 2004 to 2008 of NUBL and also the opinion of NUBL members about the impact of NUBL works.

The required financial data and information have been collected from the Balance Sheet and Profit and Loss accounts of the bank. The data extracted from annual reports have been processed and interpreted considering the requirement of the study. The data are divided into four sections I. Financial Management II. Profitability III. Efficiency and Productivity and IV. Portfolio Quality.

Financial Management assures that there is enough liquidity to meet and MFIs obligations to disburse loans to its borrowers and to repay loans to its creditors. The importance of adequate liquidity, and hence of financial management, grows further if the MFI has mobilized savings from depositors. Similarly, Profitability indicators such as return on equity and return on assets, tend to summarize performance in all areas of the company. If portfolio quality is poor or efficiency is low, this will be reflected in profitability.

The efficiency and productivity indicators are performance measures that show how well the institution is streamlining its operations. Productivity indicators reflect the amount of output per unit of input, while efficiency indicators also take into account the cost of the inputs and/or the price of outputs. Other hand, measurement of Portfolio quality is very crucial for Microfinance Institutions because the largest source of risk for any financial institutions resides in its loan portfolio. It will help to measure condition and quality of portfolio.

The analysis has shown that the financial expenses ratio is maximum in the year 2004 by 3.95% and minimum in the year 2007 by 3.02% with an average of 3.37%. In the same way, the liquidity ratio has been higher in the year 2007 by 3.71% and less in the year 2005 by 2.25%. The average debt equity ratio is calculated 649.09% where the ratio 992.92% is the highest ratio lies in the year 2005 and the ratio 633.35% is the lowest ratio lies in the year 2008. The current ratio is found maximum in the year 2004 by 4.79% and minimum in the year 2007 by 3.75% with an average of 4.16%. Total debt to total asset ratio is 87.26% in the year 2007 and 85.59% in the year 2005 with an average of 86.85%. Additionally, the calculation of

interest coverage shows that the year 2008 is beneficial for the institution because of the higher ratio of 1.79% and the minimum percentage of the 1.29 is found in the year 2008. The cash and bank balance to total deposit (saving) ratio is calculated 17.48% in 2007 and 12.44% in the year 2005 with an average of 15.05% during the period of five years from 2004-2008.

In profitability ratio, the analysis of the return on equity is found maximum in the year 2007 by 12.59% and minimum in the year 2006 by 8.90% with an average of 5.18%. Besides, return on assets is higher in the year 2008 by 1.63% and lower in the year 2004 by 1.03% with an average of 1.42%. The portfolio yield is maximum in the year 2004 by 20.76% and minimum in the year 2008 by 16.66% with an average of 18.56% during the period of five years from 2004-2008.

The one of the component of efficiency and productivity ratio is operating expenses which is strong in the year 2007 and 2004 by 11.53% and 11.52% respectively. The lowest ratio lies in the year 2006 by 8.95% with an average of 10.20%. The borrowing per staff is found maximum in the year 2005 with 208 borrower and minimum in the year 2004 with 143 borrower. On the other hand, loan and advance to total deposit and borrowing ratio is 109.67% in the year 2008 and 81.50% in the year 2004. The higher ratio of net profit to total deposit ratio is found in the year 2005 by 8.65% and the ratio 5.20% in the year 2006 is the lowest one. Return on capital employed varies from maximum of 2.15% in the year 2008 and 1.28% in the year 2004 with an average of 1.84% during the period from 2004-2008.

The analysis of portfolio at risk is maximum in the year 2007 and 2006 by 6.73% and 6.70% respectively. It has been minimum in the year 2004 by 3.61%. In other hand, 3.96% in the year 2006 is the highest ratio and 0.75% in the year 2008 is the lowest ratio for the provision expenses ratio. The loan loss reserve ratio is maximum in the year 2007 by 6.57% and minimum in the year 2005 by 2.63%. Besides, risk coverage ratio is seen 105.44% in the year 2008 and 52.6% in the year 2005 with compare for the period of five years from 2004-2008.

The trend of NUBL's active clients and loan clients are in increasing trend which also justifies that the members of NUBL are getting benefits from the NUBL's services.

The survey shows that borrowing members are utilizing higher percentage of their loans in business which is 71% and 15% in poultry farming, 5% in piggery and 4% in farming.

Furthermore, it has been found that there is a significant correlation between the number of years they have involved in the groups and the size of the income they can make. The members who is one year old can make an income up to Rs. 15,000, while any group members who is two years old can make Rs. up to 15,000 and 3 years old Rs. up to 30,000. Any members crossing above Rs. 30,000 was not observed.

The respondents members feel that their livelihood has been changed after joining the group of the bank. They have learnt about sanitation, health, importance of education and they also know how to read and write. There is also significant reduction of loan taken from local landlords who charge a high rate of interest.

5.2 Conclusion

From the analysis of the five years' figures and its major findings, we can find that the year 2004 was very strong for financial expenses ratio and current ratio. In the same way, the year 2005 was very much strong for debt equity ratio. The year 2007, was strong for liquidity ratio, total debt to total assets ratio, and cash and bank balance to total deposit ratio. The year 2008 was good for interest coverage ratio. For NUBL, the year 2006 was average year where the entire ratio is neither in higher position nor in lower position.

In other hand, when we compared the profitability for the period of five years, 2007 is very strong in context of profitability where as the year 2004 is a least earning year. The year 2008 is strong for utilization of the assets. In the same way, portfolio yield is found greater in the 2004. For NUBL, the year 2005 and 2006 are seems average year in the context of profitability.

If we see, the utilization of the resources was efficient in the year 2006 in terms of operating expenses and borrowing per staff. In the same way, the year 2008 was productive in terms of loan and advance to total deposit and borrowing and return on capital employed. Besides, the year 2005 was positive for net profit to total deposit ratio. For NUBL, the year 2007 was average year where majority of the ratios neither falls in higher position nor in lower position.

Similarly, when the portfolio quality of NUBL for the period of five years is compared with each other then the year 2004 is less risky in terms of portfolio at risk. Besides, the year 2008 is strong year in context of provision expenses ratio and risk coverage ratio. The loan loss reserve ratio was found minimum in the year 2005. For NUBL, the period of five years found mixed up year in terms of portfolio quality.

The NUBL's contribution to its members is found satisfactory. Their income has been positively in a growing trend. Majority of the members (71%) have increase income through business related activities and rest of the others have raised income from farm related activities. It can be sense that NUBL member's livelihood have been improved after joining the bank.

5.3 Recommendation

On the basis of the study on financial performance and social impact analysis of NUBL and the major findings of the study, the following recommendations are made for NUBL's efficient performance:

1. In analysis of financial management ratio, NUBL has strong capacity to fulfil its liquidity as it has maintained the margin twice much higher. This might lead institution toward non-productive and unforeseen losses due to forfeit in opportunity cost. Besides, definitely higher lending rate increases the institution's profitability but there is also equal chance of leaving the members for profitable interest.
2. The better efficiency and utilization of the resources will be achieved if the result is stable rather than in fluctuating trend. Therefore, NUBL should need to be strong in monitoring and evaluation area. Similarly, the capacity of its own staff needs to build up according to the need and timely manner for the future projection.
3. More income generation related trainings need to be provided to the group members so that they can best utilise of loan and raise more income/profit.
4. As some of the group members opined that some trainings were not worth taking as they were not useful. Therefore, Training Need Assessment (TNA) should be undertaken to identify the needs or gaps of members. Following TNA, only relevant trainings should be provided.
5. Follow up, monitoring and coaching to the borrower is not sufficient. Therefore, it should be regular and done in a sufficient level. In fact, not only just doing follow up or monitoring, the staff of NUBL should help and coach the borrowers so that there is a high chance of getting success in their works.

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Appendices

Appendix 1: Nirdhan Utthan Bank Limited: At a glance

Established date : 29 October 1998

Date of license from Central Bank : 13 April 1999

Start of the transaction: 17 July 1999

<u>Central office</u>	<u>Liaison office</u>	<u>Number of offices</u>
Nirdhan Utthan Bank Limited Central office Himalipath, Siddharthanagar-7, Rupandehi Tel: 071-523764,527299 Fax: 071-521647 E-mail: nubl@ntc.net.np	Nirdhan Utthan Bank Limited Liaison office 125 Mirmire Marg, Anamnagar, Kathmandu Tel/Fax: 4228369 E-mail: nirdhanngo@mail.com.np	Central office----- 1 Regional office----- 5 Branch offices ----- 61 Liaison office, Kathmandu ----- 1

Operational Districts: Rupandehi, Nawalparasi, Kapilvastu, Chitawan, Parsa, Bara, Rautahat, Banke, Palpa, Dang, Syngja, Piuthan, Kaski, Tanahu, Bardia, Sarlahi, Ilam, Pachthar and Jhapa districts.

Product and services:

Microcredit : Without collateral based on group guarantee (Maximum NRs 60,000) and Collateral based microenterprise loan (NRs. 60,000 to 150,000)

Micro-saving: From member clients only

Microinsurence: Micro-life and Livestock insurance

Remittance Service: Remittance service from abroad in collaboration with different bank and financial institution

Target group:

(a) Group based loan: The family who has 0.5 Ha. of un-irrigated or 0.25 of irrigated land and not having cemented house and with no formal employment in organized sector

(b) Microenterprise loan: Graduated clients from group based loan

Capital: Authorized Capital: NRs. 100,000,000.00
 Issued Capital NRs. 100,000,000.00
 Paid-up Capital: NRs. 78928124.00

Share ownership and structure of the Board:

Shareholders	Total number of shares	%	No. of member in the Board	Number of Shareholders
Group "A" Promoters	551,737	70	5	23
Nirdhan NGO or Grameen Trust, Bangladesh	125,129 Shares 40,766 Shares	15.85% 5.16%	1	1 (Institutional) 1 (Institutional)
Nabil Bank Limited	109,276 Shares	13.84%	1	1 (Institutional)
Himalayan Bank Limited	95,832 Shares	12.14%	1	1 (Institutional)
Everest Bank Limited	95,832 Shares	12.14%	1	1 (Institutional)
Individuals promoters	84,302 Shares	10.75%	1	18
Group "B" General public	237,544.24 Shares	30.00%	2	1669 shareholders
Independent Director			2	
Total		100%	9	1692

Glimpse of progress (As of 16th October 2008):

Total active clients: 102,098
Total loan disbursement, Cumulative: NRs. 5,539,608,000
Total loan repayment, Cumulative: NRs 4,648,808,000
Write-off Loans: NRs 13,092,000
Loan Outstanding: NRs. 877,708,000
Total saving balance: NRs. 250,330,000

Appendix 2: NUBL's Five Year's Balance Sheet as on July 15

Particulars	2004	2005	2006	2007	2008
Assets					
Cash and Bank Balance	12,938,346	14,606,877	23,445,085	31,826,058	35,470,967
Cash in Vault (Including Cash in Transaction)	515,932	595,861	762,804	1,214,448	1,631,594
Non-interest bearing bank deposits	12,422,415	14,011,016	22,682,281	30,611,609	33,839,373
Call deposits in commercial banks	39,776,949	42,389,069	64,748,301	75,090,896	131,499,141
Investment	127,579,777	144,755,240	141,453,166	100,506,439	115,465,681
Government Bonds	120,000,000	120,000,000	120,000,000	38,725,000	38,725,000
Investment in shares	-	6,523,200	6,523,200	7,323,200	7,623,200
Investment in approved staff retirement	2,579,777	3,232,040	4,929,966	9,458,239	24,117,481
Fixed Deposit	5,000,000	15,000,000	10,000,000	45,000,000	45,000,000
Loan Outstanding	268,850,737	411,198,781	552,397,100	610,035,490	835,963,015
Group Member Loan	247,996,685	384,245,385	503,777,887	590,221,947	811,157,919
Micro Enterprise Loan	14,822,859	19,661,517	40,813,891	18,877,487	24,144,580
Group Fund Loan	6,031,192	7,291,879	7,805,323	936,057	660,516
Less: Loan Loss Reserve	(7,539,942)	(10,832,431)	(32,382,577)	(40,090,371)	(42,097,560)
Net Loan Outstanding	261,310,794	400,366,350	520,014,523	569,945,120	793,865,455
Staff Loans	3,305,029	5,224,337	9,446,443	15,707,180	24,591,010
Other Current Assets	7,873,255	4,872,542	6,263,379	5,944,630	4,463,988
Receivable	7,349,807	4,238,052	5,575,377	4,901,695	3,325,096
Inventory	523,448	634,490	688,001	1,042,935	1,138,892
Total Current Assets	452,784,151	612,214,415	765,370,897	799,020,322	1,105,356,241
Property And Equipment	29,106,037	45,181,159	47,409,227	67,963,930	70,560,210
Fixed Assets (at Cost)	29,106,037	45,181,159	47,409,227	67,963,930	70,560,210
Accumulated Depreciation	(5,029,990)	(7,377,923)	(10,643,160)	(14,025,899)	(17,077,840)
Net Property And Equipments	24,076,047	37,803,237	36,766,067	53,938,031	53,482,371
Expenses to be written-off	303,845	288,404	410,112	6,034,938	5,775,365
Premium on purchase of national saving certificate				5,745,783	5,266,968
Share issue expenses	303,845	288,404	410,112	289,155	508,397
Total Assets	477,164,043	650,306,055	802,547,076	858,993,291	1,164,613,976
Liabilities					
Current Liabilities	94,537,320	130,785,969	178,306,227	213,266,329	281,950,551
Client Savings	80,211,605	177,449,140	161,326,686	182,054,272	245,020,337
Other current liabilities	14,325,715	13,336,829	16,979,541	31,212,058	36,930,214
Long Term Liabilities	320,639,446	425,699,406	520,536,575	536,288,174	723,854,858
Long-term Borrowing	320,639,446	425,669,406	520,536,575	536,288,174	723,854,858
Total Liabilities	415,176,766	556,455,375	698,842,802	749,554,503	1,005,805,409
Equity	61,987,278	93,850,680	103,704,273	109,438,788	158,808,568
Paid up Equity	9,920,500	19,888,400	27,444,300	32,933,160	78,928,124
Proposed bonus share		2,500,000	5,488,860	6,528,396	21,071,876
General reserve	1,589,943	3,622,608	5,300,621	8,056,286	11,850,951
Capital reserve	8,360,833	9,840,422	10,070,418	11,409,892	11,860,018
Institutional Development Fund	35,888,523	47,618,790	45,209,815	42,183,539	33,901,391
Retained Net Profit (Loss)	6,227,479	10,380,460	10,190,259	8,327,515	1,196,208
Total Liabilities and Equity	477,164,043	650,306,055	802,547,076	858,993,291	1,164,613,976

Appendix 3: NUBL's Five Years Income Statement as on July 15

Particulars	2004	2005	2006	2007	2008
Financial Income					
Interest from current and past due loan	39,704,515	61,936,401	86,819,438	107,409,808	126,755,655
interest from investment and bank deposit	15,331,456	12,758,932	12,850,115	15,514,366	8,938,610
Other income	766,284	2,432,543	1,160,525	1,620,943	3,557,091
Total Financial Income	55,802,255	77,127,876	100,830,078	124,185,116	139,251,356
Financial Cost					
Interest on Borrowings	15,094,455	15,723,359	19,062,854	22,912,490	23,953,389
Interest on saving Deposit	3,680,763	5,163,817	7,419,228	9,073,007	11,200,312
Total Financial cost	18,775,218	20,887,176	26,482,082	31,985,497	35,153,701
Gross Financial Margin	37,027,037	56,240,700	74,347,996	92,199,619	104,097,655
Loan loss expenses	5,049,679	9,016,680	21,863,814	7,741,354	6,268,963
Provision for loan losses	5,049,679	9,016,680	21,863,814	7,741,354	6,268,963
Net Financial Margin	31,977,359	47,224,020	52,484,181	84,458,265	97,828,692
Operating Expenses					
Salaries and allowances	21,170,831	28,529,388	32,150,328	51,898,293	58,519,912
Office operating expenses	8,993,015	13,102,865	15,905,480	16,997,789	18,356,246
Training expenses	803,668	2,011,099	1,401,030	1,430,696	1,809,121
Total Operating Expenses	30,967,514	43,643,352	49,456,838	70,326,779	78,685,279
Net Income from operation	1,009,845	3,580,668	3,027,343	14,131,486	19,143,413
Grant Income					
Income from Grants for credit services	5,004,808	9,684,737	8,009,537	6,492,390	9,924,578
Total Grant income	5,004,808	9,684,737	8,009,537	6,492,390	9,924,578
Profit/loss from Extra-ordinary Activities			1,421,059	1,290,362	1,552,308
Net Income Before Bonus & Income Tax	6,014,653	13,265,406	12,457,939	21,914,238	30,620,299
Provision for bonus	601,465	1,205,946	1,132,540	1,992,203	2,783,663
Net Income before Income Tax	5,413,187	12,059,460	11,325,399	19,922,035	27,836,636
Provision for income tax	514,694	1,896,133	2,935,337	6,143,709	8,863,312
Net income after Income Tax	4,898,493	10,163,327	8,390,062	13,778,326	18,973,324
Appropriation					
available profit till this year	7,207,178	16,390,806	19,199,733	23,968,585	27,361,528
General Reserve	979,699	2,032,665	1,678,012	2,755,665	3,794,665
Proposed cash dividend	-	1,477,680	1,733,324	5,566,317	1,109,046
Proposed bonus share	-	2,500,000	5,488,860	6,528,396	21,071,876
Staff related reserve				138,188	189,733
Previous year's tax adjustment	-	-	109,277	652,504	-
Retained Profit	6,227,479	10,380,460	10,190,259	8,327,515	1,196,208

Appendix 4: Principal Indicators at least for previous 5 years

Particulars	Indicators	2004	2005	2006	2007	2008
Percentage of Net Profit / Gross Income	Percent	8%	12%	8%	10%	13%
Earning Per Share	Rs.	49.36	51.10	30.57	41.84	24.04
Market Value per Share	Rs.	100	100	103	110	148
Price earning Ratio	Ratio	2.03%	1.96%	3.37%	2.63%	6.16%
Dividend (including bonus) on share capital	Percent	0%	20%	26%	36.73%	28.1%
Cash dividend on Share Capital	Percent	0%	7.4%	6.3%	16.9%	1.41%
Interest Income/ Loan & Advances	Percent	16.4%	18.2%	18%	18.42%	17.53%
Staff Expenses / Total Operating Expenses	Percent	66.5%	66.5%	67.4%	75.79%	74.37%
Interest Expenses on Total Deposit and Borrowings	Percent	4.7%	4.4%	4.3%	5.28%	5.25%
Exchange Gain / Total Income	Percent	0%	0%	0%	0%	0%
Staff Bonus / Total Staff Expenses	Percent	2.8%	4.1%	3.4%	3.74%	4.76%
Net Profit / Loan and Advances	Percent	2%	3%	2%	2.37%	2.39%
Net Profit / Total Assets	Ratio	1%	2%	1.2%	1.66%	1.63%
Total Credit / Deposit	Percent	335.2%	350.1%	342.4%	335%	341%
Total Operating Expenses / Total Assets	Percent	6.7%	7.9%	6.9%	8.47%	0%
Adequacy of Capital fund on Risk Weighted Assets		7%	9%	8.9%	8.08%	11.77%
a. Core Capital	Amount in '000	17,738	36,391	48,424	55,845	113,047
b. Supplementary Capital	Amount in '000	2,592	3,985	5,327	6,612	8,330
c. Total Capital Fund	Amount in '000	20,330	40,376	53,751	62,457	121,377
Liquidity (CRR)	Ratio	215%	150%	117%	106%	106%
Non-performing credit / Total Credit	Percent	3.61%	3%	6.67%	6.73%	4.78%
Weighted Average Interest Rate Spread	Percent	11%	12%	13%	13%	13%
Book Net Worth	Rs.	17,737,922	93,850,680	109,438,788	109,438,788	119,281,310
Total Shares	No	99,205	198,884	274,443	329,332	789,281
Total Staffs	No	229	241	283	322	369

Appendix 5: NUBL Five Years at a Glance as on July 15

S.No.	Particulars	2004	2005	2006	2007	2008
A.	Institutional Profile					
	Number of Districts	10	10	10	11	15
	Number of V.D.Cs	298	402	424	461	515
	Number of Branches	36	40	43	48	53
	Loan Officers	134	135	166	185	175
	Total Staff	229	241	275	322	369
	Number of Active Clients	44,862	64,037	75,268	83,886	96,732
	Number of Loan Clients	32,678	50,063	58,679	58,354	68,203
B.	Savings Portfolio (Rs. In '000)					
	Group Fund Saving	69,514	99,732	136,601	145,630	181,651
	Personal Saving	7,845	14,155	20,299	28,814	49,199
	Other Saving	2,853	3,562	4,426	7,620	14,170
	Total Savings	80,212	117,449	161,327	182,064	245,020
	Savings Portfolio Growth		46%	37%	13%	35%
C.	Loan Portfolio (Rs. In '000)					
	Yearly Loan Disbursed	347,228	594,762	800,320	876,579	1,235,803
	Cumulative Loan Disbursed	1,682,734	2,271,465	3,064,493	3,948,868	5,184,671
	Yearly Loan Repaid	279,427	442,926	661,057	821,167	1,006,891
	Cumulative Loan Repaid	1,413,883	1,860,266	2,512,096	3,338,833	4,349,368
	Loan Portfolio	268,851	411,199	552,397	610,035	835,302
	Loan Portfolio Growth		53%	34%	10%	37%
D.	Sustainability/Profitability					
	Return on Equity (ROE)		13%	8%	13%	14%
	Profit Margin	2%	5%	3%	11%	14%
	Operating Self-sufficiency	101.8%	104.9%	103.1%	112.8%	115.9%
E.	Assets/Liability Management					
	Yield on Gross Portfolio		18.22%	18.31%	18.42%	17.53%
F.	Portfolio Quality					
	Portfolio at Risk (PAR) Ratio (>30 days)	3.61%	5%	6.7%	6.73%	4.78%
	Loan Loss Reserve Ratio	2.8%	2.6%	5.9%	6.6%	5%
G.	Efficiency/Productivity					
	Client Per Loan Officer	335	474	453	453	553
	Client Per Staff	196	266	274	272	309
	Loan Portfolio Per Loan Client (Rs.)	8.00	8.20	9.40	10.44	12.25
	Loan Portfolio Per Staff (Rs. In '000)	1,174	1,706	2,009	1,895	2,264
	Loan Portfolio Per Loan Officer (Rs.)	2,006	3,046	3,328	3,292	4,773
	Cost Per Unit of Money Lent	0.09	0.07	0.06	0.08	0.06
	Administrative Efficiency		13.2%	10.7%	12%	11%
H.	Other Ratio					
	Savings Portfolio to Total Assets	16.8%	18.1%	20.1%	21%	21%
	Loan Portfolio to Total Assets	56.3%	63.2%	68.8%	71%	68%
	Savings Portfolio to Loan Portfolio	29.8%	28.6%	29.2%	30%	31%

Appendix 6: Group Focused Questionnaire^B

1. How many of you had your income raised or decreased after being a member of NUBL? *(Note for researcher: Please write the number of participants counted in the box)*

Yes

No

2. If yes, then how many of you did it due to the following sources/ways? *(Note for researcher: Please write the number of participants counted in the box)*

Animal Husbandry	Poultry Farming	Piggery	Farming	Business	Other

3. After joining the group, how many of you had the following income per annum? *(Note for researcher: Please write the number of participants counted in the box)*

Rs. 5,000	Rs. 5,000-15,000	Rs.15,000-30,000	Rs. 30,000-50,000	Rs. 50,000-100,000	Above Rs.100,000

4. How many of you have attended any training organized by NUBL?

5. Is the training beneficial for you? If yes, then how?

6. Being a member of NUBL, how many of you have experienced a better livelihood? *(Note for researcher: Please write the number of participants counted in the box)*

Yes

No

^BThis questionnaire was asked to the participants in groups of their monthly saving meeting.

7. If yes, then how?

8. Being a member of NUBL, how many of you think that your confidence level is increased? *(Note for researcher: Please write the number of participants counted in the box)*

Increased

Decreased

9. If yes, how?

10. Being a member of NUBL, how many of you have had your debt increased (or decreased)? *(Note for researcher: Please write the number of participants counted in the box)*

Increased

Decreased

11. If increased, how?

12. Your expectation from NUBL?

Appendix 7: Financial Performance Analysis Tools

Financial Management

Financial management assures that there is enough liquidity to meet an MFIs obligations to disburse loans to its borrowers and to repay loans to its creditors. Even though financial management is a back office function, decisions in this area can directly affect the bottom line of the institution. Errors in liquidity or foreign exchange management, for example, can easily compromise an institution with efficient credit operations and otherwise sound management. The importance of adequate liquidity, and hence of financial management, grows further if the MFI has mobilized savings from depositors. Financial management can have a decisive impact on profitability through the skill with which liquid funds are invested. Finally, managing foreign exchange risk and matching the maturities of assets and liabilities involve financial management. Both are areas of great potential risk for an MFI and underline the importance of competent financial management.

This publication includes four indicators to gauge the financial management of a microfinance institution:

Financial Expenses Ratio

How to Calculate It

The Financial Expense Ratio is calculated by dividing interest and fee expenses on funding liabilities by the period average gross portfolio.

$$\text{Financial Expenses Ratio} = \frac{\text{Interest and Fee Expenses}}{\text{Average Gross Portfolio}}$$

What It Means

This ratio measures the total interest expense incurred by the institution to fund its loan portfolio. The difference between the portfolio yield (the income generated by the portfolio) and the Financial Expense Ratio (the financial cost incurred by the institution to fund itself) is the net interest margin. This measure is used to determine the minimum lending rate an MFI must charge in order to cover its costs. The minimum lending rate is determined by adding the Provision Expense Ratio and the Operating Expense Ratio to the Financial Expense Ratio.

The Financial Expense Ratio is determined, more than by anything else, by whether an MFI finances itself primarily through debt or through equity. It says little about the financial condition of an MFI. An institution with a high Financial Expense Ratio may in fact be very profitable if its leverage is high. Conversely, a low Financial Expense Ratio may be a sign of low leverage and therefore tends to go hand in hand with a low Return on Equity.

Liquidity ratio

How to Calculate It

The Liquidity Ratio is calculated by dividing total cash and readily marketable investments by total assets.

$$\text{Liquidity ratio} = \frac{\text{Cash and Bank current accounts} + \text{Readily Marketable Investment}}{\text{Total Assets}}$$

What It Means

The Liquidity Ratio indicates the institution's ability to meet short-term liabilities and unforeseen expenses. The ratio is so heavily influenced by the particular circumstances of each MFI that it is nearly impossible to construct benchmarks of good or bad practice. An MFI may prefer to maintain a very high Liquidity Ratio (>25%) because it foresees high demand for its loans, or because it worries about

instability. But high levels of liquidity can also indicate that an MFI is managing its funds poorly. A low Liquidity Ratio (<5%) often indicates that an MFI has outgrown its funding sources and is facing a cash crunch. It could also indicate that the institution has developed a sophisticated way of accurately predicting cash needs.

MFI's often do not have complete control of their funding sources and, especially in the case of subsidized funds, they therefore cannot optimize the timing of inflows. As a result, they may find themselves with insufficient or far too much liquidity. A low Liquidity Ratio should not always give cause for concern since many institutions maintain open credit lines with commercial banks from which they may be able to draw freely. It is important to take the amount and conditions of such credit lines into account when assessing the risk of a liquidity crunch.

Debt Equity Ratio

How to Calculate It

The Debt/Equity Ratio is calculated by dividing total liabilities by total equity.

$$\text{Debt /Equity ratio} = \frac{\text{Total Liabilities}}{\text{Total Equity}}$$

What It Means

The Debt/Equity Ratio is the simplest and best known measure of capital adequacy as it measures the overall leverage of the institution. The Debt/Equity Ratio is of particular interest to lenders because it indicates how much of a safety cushion (in the form of equity) there is in the institution to absorb losses.

Changes in the Debt/Equity Ratio are often more important than the absolute level of that indicator. If the debt to equity ratio increases rapidly, the MFI may be approaching its borrowing limits, which in turn will force it to curtail growth. Also, rapid increases in debt funding are bound to put pressure on an MFI's margins. The terms on which an MFI borrows also influence how much debt it can safely carry. If much of its liabilities consist of very long-term donor funding, a high Debt to Equity Ratio obviously represents less of a risk, than short-term lines of credit would.

Current Ratio

How to Calculate it

The Current Ratio is calculated by dividing current assets by current liabilities.

$$\text{Current ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

What It Means

A Current Ratio is the quantitative relationship between Current Assets and Current Liabilities. Here, The current ratio shows us how well a company is able to pay off its short-term debt using its most liquid assets. These include cash, and marketable securities, account receivable, inventories and so on. On the other hand, Current Liabilities refer to those obligations which must be paid within an according cycle. These include accruals, account payable, notes payables and so on.

As a conventional rule the ratio 2:1 is employed as a standard of comparison. Current ratio less than 2:1 is typically considered very low and indicates financial difficulties.

Total Debt to Total Asset Ratio

How to Calculate It

The Total Debt to Total Asset Ratio is calculated by dividing total liabilities by total assets.

$$\text{Total Debt to Total Asset ratio} = \frac{\text{Total Liabilities}}{\text{Total Asset}}$$

What It Means

This ratio is not much different from the Total Debt to Equity ratio. Essentially, it tells us what portion of the company's assets is financed through debt. If the ratio is above "1", that would indicate that the majority of the company's assets are financed through debt, while if the ratio is under "1", then the company is primarily financed through equity. However, it is rare that a company has a ratio higher than "1". As we know that the basic accounting equation: Assets = Liabilities + Owner's Equity. If the ratio is above "1", this would mean the company has negative Owner's Equity. If a company has negative Owner's Equity, this probably means that their Retained Earnings account (which is part of Owner's Equity) is negative; essentially, they're losing money, so the company needs to compensate to keep itself afloat by using debt to finance its assets.

Interest Coverage Ratio

The Interest Coverage is calculated dividing Earnings before Interest, Tax, Depreciation, and Accumulation (EBITDA) by the Interest Expenses of the company.

$$\text{Interest Coverage} = \frac{\text{EBITD}}{\text{Interest Expenses}}$$

The Interest Coverage ratio helps us gauge how well a company can cover its interest payments. The lower the ratio, the more of a burden the company's interest debt is on the company.

Cash and Bank Balance to Total Deposit (saving) Ratio

How to Calculate It

The Cash and Bank Balance to Total Deposit (saving) ratio is calculated by dividing cash and bank balance by total deposit.

$$\text{Cash and bank balance to total deposit (saving) ratio} = \frac{\text{Cash} + \text{Bank Balance}}{\text{Total Deposit (Saving)}}$$

What It Means

This ratio measures the ability to meet the daily requirement. It includes cash in hand, bank balance and other cash items. The total deposit encompasses current deposit, fixed deposit, investment in other institutions, money at call, short term deposit and other deposit.

A high ratio indicates the greater ability to meet their deposits liability and vice versa. Moreover, too high ratio is unfit as capital will be tied up and opportunity cost will be higher.

Profitability

Profitability indicators such as return on equity and return on assets, tend to summarize performance in all areas of the company. If portfolio quality is poor or efficiency is low, this will be reflected in profitability. Because they are an aggregate of so many factors, profitability indicators can be difficult to interpret. The fact that an MFI has a high return on equity says little about why that is so. All performance indicators tend to be of limited use (in fact, they can be outright misleading) if looked at in isolation and this is particularly the case for profitability indicators. To understand *how* an institution achieves its profits (or losses), the analysis also has to take into account other indicators that illuminate the operational performance of the institution, such as operational efficiency and portfolio quality.

Creative accounting can have an astonishing impact on profits. Normally, external auditors, tax authorities and banking regulators tend to set limits to this sort of creativity, but microfinance is not yet a normal industry. External auditors have, on the whole, been slow to adapt to microfinance, few MFIs are subject to taxation, and even fewer fall under the authority of banking supervisors. This means that more than the usual amount of care is needed for the analysis of microfinance institutions.

Return on Equity

How to Calculate It

Return on Equity is calculated by dividing net income (excluding any grants or donations) by period average equity.

$$\text{Return on Equity} = \frac{\text{Net Income}}{\text{Average Equity}}$$

What It Means

Return on Equity (RoE) indicates the profitability of the institution. This ratio is particularly relevant for a private for-profit entity with real flesh-and-blood owners. For them, RoE is a measure of paramount importance since it indicates the return on their investment in the institution. However, given that most MFIs are not-for-profit organizations, the RoE measure is most often used as a proxy for commercial viability.

A single year's RoE can at times misrepresent the institution's "true" profitability. Extraordinary income or losses, for example in the form of asset sales, can have a significant impact on the bottom line. In other circumstances an institution may severely under-provision and thus temporarily record higher net income figures. Another common issue to consider is that of taxes. Incorporated and supervised MFIs generally pay taxes, while not-for-profit, non-supervised MFIs do not; also, reporting and other requirements of bank regulators add to the cost of supervised institutions.

Return on Assets

How to Calculate It

Return on Assets is calculated by dividing net income (excluding any donations) by period average assets.

$$\text{Return on Assets} = \frac{\text{Net Income}}{\text{Average Assets}}$$

What It Means

Return on Assets (RoA) is an overall measure of profitability that reflects both the profit margin and the efficiency of the institution. Simply put, it measures how well the institution uses all its assets.

Return on Assets is a fairly straightforward measure. However, as in the case of RoE, a correct assessment of RoA depends on the analysis of the components that determine net income, primarily portfolio yield, cost of funds and operational efficiency. Supervised MFIs, which can more easily access commercial funding sources, are more highly leveraged and therefore manage to earn good returns on equity despite a relatively low returns on assets.

Portfolio Yield

How to Calculate It

Portfolio Yield is calculated by dividing total interest and fee income (in other words all income generated by the loan portfolio) by the period average gross portfolio.

$$\text{Portfolio Yield} = \frac{\text{Interest and Fee Income}}{\text{Average Gross Portfolio}}$$

What It Means

Portfolio Yield measures how much the MFI actually received in interest payments from its clients during the period. A comparison between the Portfolio Yield and the average effective lending rate gives an indication of the institution's efficiency in collecting fees. It also provides insight into its portfolio quality since most MFIs use cash accounting and Portfolio Yield does not include the accrued income that delinquent loans should have generated, but did not.

For Portfolio Yield to be meaningful, it must be understood in the context of the prevailing interest rate environment the MFI operates in. Generally speaking, Portfolio Yield is the initial indicator of an institution's ability to generate revenue with which to cover its financial and operating expenses. MFIs tend to disguise their interest rates, but Portfolio Yield is an easy way to calculate the actual rate obtained by an institution. Portfolio Yield cuts through the many tricks used by MFIs to disguise their lending rates such as flat rates, training fees, up front fees, discounts

from disbursed amounts, etc. Portfolio Yield shows how much, on average, the MFI receives in interest payments on its loans.

Efficiency and Productivity

Efficiency and productivity indicators are performance measures that show how well the institution is streamlining its operations. Productivity indicators reflect the amount of output per unit of input, while efficiency indicators also take into account the cost of the inputs and/or the price of outputs. Since these indicators are not easily manipulated by management decisions, they are more readily comparable across institutions than, say, profitability indicators such as return on equity and assets. On the other hand, productivity and efficiency indicators are less comprehensive indicators of performance than those of profitability.

Operating Expenses

How to Calculate It

The Operating Expense Ratio is calculated by dividing all expenses related to the operation of an institution (including all the administrative and salary expenses, depreciation and board fees) by the period average gross portfolio. Interest and provision expenses, as well as extraordinary expenses are not included.

$$\text{Operating Expenses ratio} = \frac{\text{Operating Expenses}}{\text{Average Gross Portfolio}}$$

What It Means

This ratio provides the best indicator of the overall efficiency of a lending institution. For this reason, the ratio is also commonly referred to as the efficiency ratio: it measures the institutional cost of delivering loan services. The lower the Operating Expense Ratio, the higher the efficiency of an institution.

Portfolio size, loan size and salary incentives can help put efficiency levels into context. Portfolio size matters, but not as much as is often assumed. Small MFIs can become more efficient simply by growing. The operating expenses of rural micro lenders are obviously much higher since their clients are more widely dispersed. Operating costs are strongly correlated to salary levels, as is to be expected in a highly labor-intensive industry. Here it is important to distinguish between cases where an MFI underpays its staff and where it simply operates in a low cost environment. Staff attrition rates and comparison to salary levels in commercial banks help make that distinction. Contrary to popular belief, salary levels in MFIs are not much different from those of banks.

Borrowers Per Staff

How to Calculate It

This ratio is calculated by dividing the total number of borrowers of an institution by the total number of staff. Total number of borrowers is defined as individually identifiable borrowers who have at least one current outstanding loan with the institution. Thus, a solidarity loan with four members is considered as four borrowers. Multiple loans to the same borrower are considered as one borrower. Total borrowers is used instead of total loans since the labor intensive credit function of the organization is more a function of borrowers than of loans. Total staff is defined as the total number of people that work full-time in an MFI.

$$\text{Borrowers per Staff} = \frac{\text{Number of Borrowers}}{\text{Total Staff}}$$

What It Means

This ratio captures the productivity of the institution's staff—the higher the ratio the more productive the institution. Indirectly, the ratio says a fair amount about how well the MFI has adapted its processes and procedures to its business purpose of lending money. Low staff productivity usually does not mean that staff works less, but that they are tied up in excessive and time-consuming paperwork and procedures.

Loan and Advance to Total Deposit and Borrowing Ratio

How to Calculate It

Loan and Advance Total Deposit and Borrowing Ratio is calculated by dividing loan and advance by total borrowing.

$$\text{Loan and advance total deposit borrowing ratio} = \frac{\text{Loan and Advance}}{\text{Total Borrowing}}$$

What It Mean

This ratio measures the utilization of resources (total deposit and borrowing) into the bank lending toward the people. High ratio is good indicator of its utilization.

Net Profit to Total Deposit Ratio

How to Calculate It

The Net Profit to Total Deposit Ratio is calculated by dividing net profit by total deposit.

$$\text{Net profit to total deposit ratio} = \frac{\text{Net Profit}}{\text{Total Deposit}}$$

What It Mean

The ratio examines whether management has been capable to mobilise and utilise the deposits. It also helps to know the overall performance and generation of profit on the institution.

Higher ratio is indication of better utilization of total deposits and vice versa.

Return on Capital Employed

How to Calculate It

The Return on Capital Employed is calculated by dividing net profit by total capital employed.

$$\text{Return on capital employed} = \frac{\text{Net Profit}}{\text{Total Capital Employed}}$$

What It Mean

It measures the return over the capital employed i.e. efficiency of the bank on capital mobilization. Return on capital employed basically assesses the profit related to the long-term sources of funds. Capital employed means the use of long term funds supplied by creditors and owners of the firm. Here, return means net profit and capital employed refers to paid up capital, revenue and surplus.

Higher ratio is indication of better mobilization of resources and vice versa

Portfolio Quality

The largest source of risk for any financial institution resides in its loan portfolio. Not only is the loan portfolio by far the largest asset of an MFI but, to make matters worse, the quality of that asset and therefore the risk it poses for the institution, can be quite difficult to measure. For microfinance institutions, whose loans are typically not backed by bankable collateral, the quality of the portfolio is absolutely crucial. Fortunately, many microfinance institutions have learned how to maintain loan portfolios of very high quality. In fact, leading microfinance institutions typically outperform their commercial bank peers in many countries.

The most widely used measure of portfolio quality in the microfinance industry is Portfolio at Risk (PaR), which measures the portion of the loan portfolio “contaminated” by arrears as a percentage of the total portfolio. Although various other measures are regularly used, PaR has emerged as the indicator of choice. It is easily understandable, does not understate risk, and is comparable across institutions. A micro enterprise loan is typically considered to be at risk if a payment on it is more than 30 days late. This rule is much stricter than what is practiced among commercial banks, but it is justified given the lack of bankable collateral in microfinance. In addition to the Portfolio at Risk indicator, this publication includes 4 other indicators related to portfolio quality and associated risks: Write-Off Ratio, Loan Loss Reserve Ratio, Provision Expense Ratio and Risk Coverage Ratio.

Portfolio at Risk

How to Calculate It

Portfolio at Risk (PaR) is calculated by dividing the outstanding balance of all loans with arrears over 30 days, plus all refinanced (restructured) loans, by the outstanding gross portfolio as of a certain date. Since the ratio is often used to measure loan delinquency as of 60, 90, 120 and 180 days, the number of days should be clearly stated. Not all MFIs are able to separate their restructured loans from their non-restructured loans. Consequently, if restructured loans do not appear to be material (certainly less than 1%), then the total portfolio affected by arrears greater than 30 days can be accepted as a proxy of the Portfolio at Risk. Even if restructuring

appears to be significant (but cannot be precisely determined) the Portfolio at Risk Ratio can still be presented, but should then specify that it does not include restructured loans. Simply ignoring restructured loans would underestimate risk significantly.

$$\text{Portfolio at Risk} = \frac{\text{Outstanding balance on Arrears over 30 days} + \text{Total Gross Outstanding Refinanced (restructure) Portfolio}}{\text{Total Outstanding Gross Portfolio}}$$

What It Means

This ratio is the most widely accepted measure of portfolio quality. It shows the portion of the portfolio that is “contaminated” by arrears and therefore at risk of not being repaid. The older the delinquency, the less likely the loan will be repaid. Generally speaking, any Portfolio at Risk (PaR30) exceeding 10% should be cause for concern, because unlike commercial loans, most microcredits are not backed by bankable collateral. The Portfolio at Risk measure is free from much of the subjective interpretations that plague other portfolio quality indicators, such as Repayment Rate. Furthermore, Portfolio at Risk is a more conservative measure of the institutional risk than repayment rate or arrears because both the numerator and the denominator include the outstanding balance - it measures the complete risk and not only the immediate threat.

Some institutions will only report arrears (the actual late payment amount) as opposed to the entire outstanding balance of the delinquent loan. As mentioned before, this practice will seriously underestimate portfolio risk. Another crucial aspect in assessing portfolio risk is related to the practice of restructuring and refinancing loans. Eventually, however, the restructured loans fell back into arrears.

Finally, loan repayment frequency is yet another relevant factor in assessing portfolio risk. Generally speaking, greater loan repayment frequency enhances the seriousness of the Portfolio at Risk figure. If repayments are weekly, a loan that is more than 30 days overdue will have missed at least three payments, which is certainly more serious than if only one monthly payment is late. At the other extreme,

one has to watch out for loans with one balloon payment at the end of the loan period, as is the case in agricultural lending when repayments are tied to the crop cycle. Where this is the case, conventional measures of PaR (30, 60, 90) are meaningless. Portfolio at Risk is a useful measure, but it does not always tell the whole story.

Provision Expenses Ratio

How to Calculate It

The Provision Expense Ratio is calculated by dividing the loan loss provisioning expense for the period by the period's average gross portfolio.

$$\text{Provision Expenses Ratio} = \frac{\text{Loan Loss Provisioning Expenses}}{\text{Average Portfolio}}$$

What It Means

This measure gives an indication of the expense incurred by the institution to anticipate future loan losses. One should expect this expense to increase in step with overall portfolio growth. For formalized MFIs, local banking and tax laws will prescribe the minimum rate at which they must make provisions to allow for loan losses. NGOs on the other hand can follow a wide variety of practices, including making no provisions at all (this is rare), provisioning a certain percentage of new loans, or relating provisions to the quality of the portfolio. The level of provision expenses has to be seen together with the Risk Coverage Ratio and the Loan Loss Reserve Ratio . If loan loss reserves in the balance sheet fall relative to the Portfolio at Risk, then provision expenses are probably too low.

MFIs need stricter provisioning practices than banks or finance companies, because their loans are less collateralized. Banking laws usually do not take this into account and require provisioning policies and reserve levels that are inadequate for a micro credit portfolio. Licensed and supervised MFIs may, therefore, be in compliance with the law and yet be under-provisioned. In some cases, there may also exist incentives to over-provision on the other hand, by simply scaling back on its provision expenses, a MFI can turn a looming loss into a profit.

Loan Loss Reserve Ratio

How to Calculate It

The Loan Loss Reserve Ratio is calculated by dividing loan loss reserves by total outstanding gross portfolio.

$$\text{Loan Loss Reserve Ratio} = \frac{\text{Loan Loss Reserve}}{\text{Total Outstanding Gross Portfolio}}$$

What It Means

The Loan Loss Reserve Ratio reflects accumulated provision expenses (minus write-offs) and gives an indication of management's expectation of future loan losses. Generally speaking, it is a rough indicator of the overall quality of the portfolio.

In isolation, the Loan Loss Reserve Ratio does not hold much information. An institution may have a low 5% Loan Loss Reserve Ratio and be seriously over-reserved; conversely, an institution with a high 12% Loan Loss Reserve Ratio may be seriously under-reserved. To obtain a meaningful idea of whether loan loss reserves are appropriate, it is essential to also look at other measures, such as Portfolio at Risk and the Provision Expense Ratio.

Risk Coverage Ratio

How to Calculate It

The Risk Coverage Ratio is calculated by dividing loan loss reserves by the outstanding balance on arrears over 30 days plus refinanced loans.

$$\text{Risk Coverage Ratio} = \frac{\text{Loan Loss Reserve}}{\text{Outstanding Balance on Areas over 30 days} + \text{Refined Loans}}$$

What It Means

This measure shows what percent of the Portfolio at Risk is covered by actual loan loss reserves. It gives an indication of how prepared an institution is for a worst-case scenario. For microfinance institutions, loan loss reserves are usually equal to 80% - 120% of Portfolio at Risk. These are much higher levels than maintained by most commercial banks. To some extent, these high reserves reflect an attitude of “when in doubt, be conservative,” which reflects the fact that microfinance still is a relatively new phenomenon and that the risk profile of microfinance portfolios is still not well understood. High loan loss reserves also take into account that microloan portfolios are often not well backed by collateral.

While a higher Risk Coverage Ratio should generally be preferred, there are cases that justify lower levels of coverage.

The Risk Coverage Ratio must be analyzed in conjunction with Portfolio at Risk and Write-Offs, since all three are interdependent. As Portfolio at Risk can have different risk profiles, even if the overall number is the same. A PaR30 of 5% of average gross portfolio can be highly risky if it contains a large proportion of loans that are seriously overdue, or it can be relatively safe if loans are overdue by only a few days. As for write-offs, they reduce Portfolio at Risk at the stroke of a pen. To understand portfolio risk, it is essential to check whether good Portfolio at Risk numbers—and therefore a favorable Risk Coverage Ratio—is the result of good client screening or massive write-offs.

Appendix 8: Glimpses of NUBL



Monthly Instalment collecting by NUBL Staff



Surveyor with NUBL member