# Chapter-I

# INTRODUCTION

## 1.1 Background of the study

Nepal is a land locked country sandwiched between two Asian giants China on the north and India in other sides. Nepalese economy basically depends upon agriculture. Agriculture is the backbone of Nepalese economy most of the people are depend on agriculture sector for their live hood. Agriculture provides rural people with seasonal employment. Thus many people are not fully employed, same as urban area many educated people are falling unemployment situation. In Nepal, the number of people under the poverty live is increasing day by day. Among often- highlighted causes of rural poverty is high population growth, low agriculture productivity, unsystematic distribution of land, and traditional method of farming and high rate of unemployment among other things economics and development polices and strategies have been changed quite frequently along with the change in the political situation in the country.

Overall national development of any country depends upon the economics development of that country and economic development largely depends upon the financial infrastructure of that country. Therefore the primary goal of any nation including Nepal is rapid economic development of promote the welfare of the people and the nation as well. Nepal being are the least development countries has been trying to embark upon the path of economic development by economic development by economic growth rate and developing all sections of economy.

The proper mobilization and utilization of domestic resource in are of the key factor in the economic development of a country, similarly integrated and speedy development of the country is only possible when competitive and reliable, financial institution services are reached and operated to every corner of the country. Financial institution have vital role in the process of economic development. Financial

performance, especially co- operatives has long term input not only on their growth and sustainability but also on the economic development of the country.

A small farmer co- operative ltd. (SFCL) is a multi purpose co- operative designed to deliver primarily financial but also non financial services to its members in rural areas. SFCLs are civil society organizations which pool their joint resources to meet basic needs and to defend their members interests, They are members owned and controlled and have an open members-ship policy towards "poor" farmers. An SFCL is a three tiered organization with small farmer groups, inter groups and a central committee as the main pillags. The objectives were to assess whether SFCLS are institutionally viasle grassroots organizations and to examine the impact of the program in terms of its ability to promote economic and social well being of its members. 'The SFCLS are clearly emerging as viable grassroots organizations of small farmers". Nevertheless there is also scope for improvement, particularly in the area of communication within the SFLs.

Co- operative are based on the value of self- help, mutual help,, self responsibility, democracy, equality, equity and solidarity, co- operative s members believe in the ethical values of honesty, owners, social responsibility and caring for others.

According to the definition of international co-operative alliance (ICA) "A co-operative is an autonomous association of people vented voluntary to meet- their common economic social and cultural needs and aspiration through out. A jointly owned and democratically controlled enterprise.

Co- operative organizations is developed to remove defects of capitalism to lesser competence to present exploitation over people and to help the week class people.

It ideology is tried to use in different possible area. In the beginning a success achieved as consumer store, where as now it is fund in the field of vegetable production, seed production, tea and coffee production, sales of distribution, health education, wood carving, metal carving, furniture, cottage industry, carpet industry, housing and other. Due to its nature co- operative with limited banking services, saving and credit co-operative is also called credit union (CU) and recognized as micro finance institutions

(MFIS). The sprit of co- operative has been developed from the ancient time. "Robert owen" from England is the founder of modern co- operative. The group of 28 labour founded a consumer's co- operative society called "Rochdale Equitable pioneers society" on 24th October 1844, Saving a pound each. It is the first co- operative society in the world co- operative development. After than it is extended to Germany, Italy and France and all over all over the world. As a result of the development of co- operative organization 'International co-operative alliance (ICA) was established in England in 1895.

Small farmer co- operative limited (SFCL) Sarangkot is situated in the western region in Kaski district Sarangkot VDC, Ward No. 7 SFCL Sarangkot is one of the credit flow loan for small farmer to vegetable production, seed production, Pasu palan, (buffalo, goat, farming activities) and saving (Bal Bachat).SFCL Sarangkot are full members women not shareholder for man.

Co- operative limited, which was established in 2054 B.S. The name of small farmer development project but in capital liabilities and other activities evaluation than changing name that organization the name of organization in 2061 Bhadra 9 small farmer co- operative limited. It has one branch of Agriculture Development Bank. SFCL Sarngkot is established under the provision of the section 26 of co- operative act 2048. It celesrated its 6th annual general meeting. The objective of the established of SFCL Sarngkot is to enhance economic and social status of its members by providing easy financial services. The mission of SFCL Sarngkot is to generate self- employment by financing member for the establishment of the income generation business and motivating than for developing the saving habit in the co-operative.

PEARLS is especially designed by the world Council of Credit Union, (WOCCU) for saving and credit co-operative institution. Since 1990, WOCC has been using a get of financial ratio is know as "PEARLS" to evaluate and monitor credit union and co-operative of its member countries. In addition, MFIs also are using the PEARLs as a managerial tool to monitor and improve their performance. Each latter of world PEARLS measures key areas of credit union operations: protection, effective financial

structure, asset quality, rates of return on cost, liquidity and sings of growth (Richardson 2002).

## 1.2 Statement of the Problem

Vary low per capital income, high population growth rate, lack of adequate infrastructure development and low economic growth rate Characterize economy. The obscene of employee opportunities in the non agricultural sector and high under employment in agricultural sector are the major factors responsible for poverty. To uplift of socio economic condition of poor people mainly the rural area, co- operative organizations are working continually. Even though, saving and credit co- operative organizations are found useful to help generate saving and provide credit when needed. Now a days several co- operative societies have been established with various aims likewise saving and loan co- operative multipurpose co- operative, diary co-operatives, publishing co-operative, consumer co-operative vegetable co- operative and Agriculture seeds production co-operative etc. SFCL Sarangkot is concerned about to provide saving and credit program. For the development of economic level of people it plans that to utilized local resources of skill.

The major fundamental objectives of the study is to examine the financial performance and institutional sustainability of SFCL Sarangkot in the framework of PEARLS. Based on this framework the followings specific problems are raised.

a. How to measure level of protection of the assets?
b. What is the level of effective financial structure?
c. What is the condition of assets quality?
d. What are the role of return on various in vestments and costs on savings deposits?
e. What is the level of liquidity and non – earning liquidity assets?
f. What is the sign of growth in portfolio of loan, saving Deposit, capital and total assets?
g. What is the sustainability of Sarngkot past and present condition?

## 1.3 Objectives of the Study.

This study is directed towards analyzing about financial performance of SFCL Sarangkot in the framework of PEARLS analytical tool. The objectives of the study is to examine the financial variability and to make the suggestion for improving the financial efficiency of the organization. It also highlights the concept, historical background current issues, challenges and weakness of co-operative organizations. Also compare the past and percent condition of sustainability of SFCL Sarngkot. The followings specific objectives have been set based on its fundamental objectives.

a. To measurement the level of protection of assets.
b. To analyze the level of effective financial structure.
c. To analyze the condition of assets quality.
d. To evaluate of return on various investment and cost on savings deposit.
e. To find out the level of liquids and non earnings liquid assets.
f. To evaluate the sign of growth in portfolio of loan saving deposit, capital and total assets.
g. To compare the sustainability of SFCL Sarangkot condition past present

## 1.4 Significance of the Study

This study more helpful to the management level of co-operative organization to make plan and policies to better handling to organization and this study is valuable in knowing the financial performance of organization using the new tools, PEARLS. There are various problems to make effective financial level which affect their performance to a greater extent. Performance of co-operative does not seem to satisfactory in terms of utilizing its resource efficiently in productive sectors. Hence the main significance of this study of financial performance of co-operative is to help how to minimize risk on investment and maximize return through PEARLS analysis. Also to finding of this study will be SFCL, show a strong trend towards reaching financial self sufficiency and best single performance are SFCls with a predominantly female membership.

It also be aimed that to fulfill the academic requirement in levels of the master of Business Studies for the researcher himself. On the other hand it is expected that the study will add a drop of literature to the literature on SFCL Sarangkot and for further researcher.

## 1.5 Delimitation of the Study

Every research naturally have some delimitation, so this study is not an exceptional wage the major delimitation of the study are as under.

a. The study is mainly focus financial data analysis of Small Farmer Co-operative Society ltd. Sarangkot VDC, Ward No. 7 Kaski, Nepal.
b. Due to the nature of the study the study is based mainly on secondary data.
c. As far as practicable all available resources are utilized for the study but the study cover especially financial information of the fiscal year 2062/2063 to 2066/2067 B.S.
d. Only the PEARLS analytical tools are used in this study.
e. The study is to full fill the requirements MBS to the study can't covered all the dimension of the subject matter.

## 1.6 Organization of the Study

The first chapter contains the background of the study, statement of the problems objective, significance, delimitation and organization of the study.

The second chapter contains review of literature. This chapter incorporates the conceptual review, meaning and definition of co-operative; principal of co-operative historical background, theoretical prescription of PREALS framework and review of related dissertation.

The third chapter deals with research methodology. In includes research design, sources and procedure of data collection, data procedure, tools techniques and limitation of the methodology.

The fourth chapter consist the presentation of relevant data and information. In includes the analyzing using the financial of PEARLS**.** Presentation of analyzed data will be made in the form of table and figure.

The final chapter summarizes the whole. It also contains the main conclusion that is taken from the study and offers some suggestion for the improvement in future.

# Chapter-II

# REVIEW OF LITERATURE

This chapter is basically concerned with review of relevant literature. It includes conceptual review, theoretical prescription of PEARLS framework and review of related studies.

## 2.1 Conceptual/ Theoretical Review

## 2.2 Review of Related Studies

## 2.1 Conceptual Review

The co-operatives prospective has bound globally. In this context following events are as follows.

### 2.1.1 Meaning and Definition of Co-operative

The term “Co-operative” is derived from the Latin words ‘Co’ means together and ‘Operai’ means to work. In ordinary sense co-operative means living, leaving, thinking and working together for the common goal and objectives. In a broader sense, it means self help, mutual help and assistance. The main philosophy of co-operation is “each for all and all for one”. Co-operation is associated with human being in every step of life. The term co-operative can be defined taking with it several meanings. This is why its meanings vary from person to persons. From sociological point of view, it is a socioeconomic movement and it is social order in which human is free from class struggle. From an economic point of view, with the help of co-operative as a form of business organization a middleman can get involved and make profit (Black, 1990)

Co-operative represents itself as a happy means between the forces of extreme individualism on one hand and socialism and communism on the other. It stands for individual rights tempered by consideration of justice, equity and fair dealing between

man and man and its one great aims is to prevent the exploitation the weakens by the stronger party. Co-operative is a form of organization in which person voluntarily associate on a basis of equality for the promotion of their economic interest. Those who come together have a common economic aim which they can not achieve by individual isolated action because the weakness of the economic portion of a large majority of this element of individual weakness is overcome by the pooling of their resources, by making self help effective through mutual aid, by strengthening the bonds of moral solidarity between them (Shreebastav, 1970).

From the above discussion it is concluded that co-operative is a form of organization of economically weak class people wherein actual users of certain goods and services voluntarily associate together for the uplift of their low economic status and improvement of life standard with following the norms and principles of co-operative.

At the beginning of 19$^{th}$ century, Robert owen came out the idea of co-operative, but it was practically developed by a group of Rochadole Pioneers called the 'Consumer the Society'. It was a successful co-operative society, which was started all over the Great Britain. In the beginning, this society sold goods only for its members but later it is started to sell goods to non members also. Rochadale Principal of co-operative discussed in co-operative literature through out the world are open membership, democratic control, distribution of surplus in proportion to purchase limited interest on capital, religion and political neutrality, cash trading, promotion and education. Although there have hundreds of societies but the thruth is that the Rochadale Pioneeers Society achieved tremendous success and put economic and social life to Britain of the road of continuous progress.

In 1919, the first co-operative college in the world was established in Manchaster. It is administered by the education committed of the co-operative union and open for the student from all part of world. After the achievement of co-operative society, it was recognized in 1944.The government of Great Britain decided that boys and girl must attend a country college after learning school. The main motto was to produce good co-operative citizens with the Grate Britain. Likewise, the idea of co-operative was suggested by two German at the time of Rochadale Pioneers and they stared their co-operative work in Germany after few years for improving the coordination of the poor

peasants. Freiz Schulze Delizsch opened the co-operative bank to help the Germany people (Shreevastav, 1970). The successful co-operative movement in Germany and Britain followed by it other countries. All of the developing countries as well as developed countries felt that co-operation might be one of the best instruments for uplifting the rural poor and liberating them the exploitation of landlords and moneylenders.

The above descriptions suggest that the co-operative movement was stated and developed. In Europe which later has followed by countries. Both developed and developing countries freely accept that co-operative movement might be an instrument for uplifting the rural poor and liberating them from the exploitation of land lords, many lenders and millionaires co-operative movement in some of the countries can be summarized as follows.

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

**Israel:** Since 1990A.D. Co-operative movement has started with the emergence of a variety of co-operative villages in Israel. today, three different types, viz. The kibbutz, moshav and moshav suitufiembrace over 80 percent of all villages in the country. More than three quarters of the rural population producing a similar percentage of all the national agriculture. The state of Israel came into existence only in 1948. However the history of co-operation is Israel began with the colonization of the jews people. It was due to hard life in immigration and agriculture as the main sources of livilihoods later, group settlement took the form of collective forms.

**Switzerland:** "Daisier" started the co-operative, movement, The various co-operative stores organize swiss agriculture and numbers of food societies were also formed in 1851 other contribution of co-operatives to young people of Switzerland in 1934. By all this people of Switzerland realized that co-operatives provides many things to them.

**Canada:** Co-operative movement was started by "Lanchshive" Iron and steel workers. The government of Canada organized co-operative butter and chees factories in 1891 and united fruit company also established. But there was no progress until1937, due to build of warehouse by the co-operative who checked the fruits from the destroyed. One of the remarkable and successful contributions of Canadian co-operative is the British Canadian Co-operative society of 'NOVA Scatia'.

**India:** During the British rule Nicholson a British officer in India suggested o introduce Raifferisen model of German agriculture, credit co-operatives in India. As a follow-up of the recommendation, the first co-operative society Act 1904 as enacted to enable formation of "agriculture credit co-operatives" in villages in India under government sponsor ship with the enactment of 1904 Act. Co-operative were to get a direct legal identity as every agriculture co-operative were to get a direct legal identity as every agriculture co-operative was repealed by 1912 co-operative societies Act, which provided formation of co-operationes societies. Under 1919, Administrative Reforms Act, co-operative was made a provincial subject making each province responsible for co-operative development. In 1942, The British Government enacted the multi-unit co-operative societies Act 1942 with an object to cover societies whose operations are extended to more than one stare. The impulses of the Indian freedom movement gave birth to many initiatives and institutions in the post independence era in India and armed with an experiences of 42 years in the working of multi unit co-operative societies Act, 1942 the control Government enacted a comprehensive Act known as multi state co-operative Societies Act, 1984, repealing the Act of 1942. Co-operatives have extended across the entire country and there are currently an estimated 230 million, members nation wide. The co-operative credit system of India has the largest network in the world and co-operatives have advanced more credit in the India agriculture sector than commercial banks.

**China:** It is assumed that agriculture co-operatives strted in China is 1917 AD. When the country was dependent on agriculture without proper utilization of its resources, flood, famine (extreme scareity of food) poverty. Suppression and exploitation of the landlords were common. After Dr. San Yatsat had taken the authority of the government, he applied co-operative to improve its economy which later started in modern method. After

the establishment of the republication government in China, the ownership of the land to the farmers was established as a program of land reform. Every farmer got the equal price of land and was avoided. The central committee of the Chinese communication party managed three different types of organization for more production. Which were mutual Aid Team, "Agriculture producer co-operative' and 'Advance producers co- operative' or 'peoples commune'.

**Japan:** In Japan after the second half of the 19$^{th}$ century co-operative movement was started. This movement seems to have been influenced by the European co-operative movement. The credit (loan) co-operative of Japan in like of the Germany and consumer co-operative in modeled on the British co-operative. The Japan Agriculture multi co-operative organization takes an important position in co-operative movement through in low level, we find a vital role of the government. In the movement of the government invites funds and granrs which directs the organizations. Few years after in 1947 AD. a central co-operative union was established. After the second world was, the agriculture co-operative society was established for developing and sustaining of farm management and livelihood of owner farmers. Who got their land through banking reforms program.

**Great Britain:** The co-operative in UK was first started in Urban areas where industrial revolution had brought so many problems such as low wages labour exploitation of women and children and bad living and working condition. Robert owen, a factory worker and economic thinker, was impressed by workers difficulties and sufferings. He established villages of co-operation at new link on the basic of equality. Kochdale pioneers group development a "Consumer Society" This was successful co-operative society, which was started all over the Great Britain, Due to spontaneous growth Dedicated leadership, sound policies, loyalty and self service elements the co-operative movement in Britain evolved rapidly.

**Germany:** At the time of ploneers, two German co-operators, Herman F. W. Raiffeisen (1818-1888 AD) and Herman Franze shulze (1808-1883 Ad) had started co-operative works purely on a humanitarian basis, quit independently, by providing credit facilities on co-operative basis in there respective area. The aims and objectives of both initiatives were identical but the ways of operating them were different. Shulze set up a co-operative

bank to help poor German and Raiffeisin established as agriculture credit co-operative society to help poor German Peasants Both of these co-operatives were run successfully.

As the cooperative movement took place in different countries, the international co-operative congress established International Co-operative Alliance (ICA) in London on august 1895, ICA is an independent worldwide international association of co-operative organizations of all types. ICA has the affiliation in 102 countries with 256 national and 4 international level organizations as members serving well over 800 million individual members worldwide. ICA collaborates with several United Nations agencies, including the International Labor Organization (ILO), Food and Agriculture Organization (FAO) and the Council for Trade and Development (UNCTAD) (DVA Federal Credit Union, 2008).

Similarly, in the yearly 1970s, World Council of Credit Union (WOCCU) was established. WOCCU has became a world's leading advocate, platform for knowledge exchange and development agency for credit unions on an international level, delivers the "Sound and Safe" credit union on an international level, legislator, regulators, donors, credit union projects with proven, tangible result. The PEARLS system was originally designed and implemented with Guatemalan CUs in the late 1980s. WOCCU has been using it worldwide to monitor the performance of CUs. The target goal, or standard of excellence for each indicator is put forth by the WOCCU based on its field experience working to strengthen and modernize credit unions and promote saving based growth (Evan, 1997).

### 2.1.2 Principles of Co-operations

Generally principles refer to the code of conduct that governs the life and activity of human beings similarly, co-operative principles are the set of rules and regulations to regulate and govern the activities of co-operatives enterprise. All the co-operatives are guided by its principles. Co-operative principles are the set of rules and regulations to regulate and govern the activities of co-operative enterprise. Every economic system is based on certain fundamental principles. Co-operative on as on economic system is not an exception these principles Broadly speaking, there have been three types of co-

operative system which are based, move or less, on the same principles, but differ from each other in the mode of operation. The there system are:

1) Rochadale system.

2) Raiffeisen system and.

3) Schulze Delizsch system.

The first system was concerned with consume, the second with the farmers and the third with traders the Rochadale pioneers laid emphasis on cash transactions, whereas Raiffeisen and schulze Delizsch organized co-operative as credit organizations Despite the operational difficulties of these system, it is interesting to note that all types of co-operatives have the some philosophical basis.

The principles that have been commonly adopted all over the world are those, which are laid down by Rochadle pioneers. This includes.

i. Voluntary and Open membership.

ii. Democratic member control.

iii. Member Economic participation.

iv. Autonomy and Independency.

v. Education, Trading and Information.

vi. Co-operation among co-operatives.

vii. Concern to society.

The international Co-operative Alliance Prescribed the followings seven principles of co-operation.

**i) Voluntary and Open Membership.**

The first of the Rochadale principle states that co-operative societies muse have an open and voluntary membership, According to ICA'S statement on the co-operative identity co-operatives are voluntary organizations., open to all persons able to use their services and willing to accept the responsibilities of membership, without gender social, racial, political or religious discrimination. A co-operative society does not-

discrimination any one on the basis of caste, creed and religious beliefs. All members are treated equal as a principle of equality.

**ii) Democratic Member Control.**

The second of the Rochadale principles states that co-operatives societies must have democratic member control. According to the ICA'S statement on the co-operative identity". Co-operatives are democratic organizations controlled by their member who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In setting their policies and making decision. In primary co-operative members have equal voting rights (one member, one vote) and co-operative at other levies are also organized in a democratic manner.

**iii) Member Economic Participation**

Member economic participation is one of the defining of co-operative societies, and constitutes the third Rochadale principle in the ICA'S statement on the co-operative identity. According to the ICA, Co-operative are enterprises in which" members contribute equality to and democratically control the capital of their co-operative. At least part of that capital is usually the common property of the co-operative member usually receive limited compensation, if any on capital sub Scribed as a condition of membership. Members allocate surpluses for any or all of the followings purpose; developing their co-operative, possibly by setting up reserves, part of which at least would be indivisible benefiting members in proportion to their transactions with the co-operatives and supporting other activities approved by the membership.

**iv) Autonomy and Independence**

The fourth of the Rochadale principles states that co-operative societies must be autonomous and independent. According to the ICA'S statement on the co-operative identity "co-operative are autonomous self help organizations controlled by their members. If they enter to agreements with other organizations including government or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their co-operative autonomy.

**v) Education, training and information**

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

**vi) Co-operative Among co-operative**

The sixth of the Rochadale principle states that co-operatives co-operative with each other according to the ICA'S statement on the co-operative identity, "Co-operatives serve their members most effectively and strengthen the co-operative movement by working together through local, national regional and international structure.

**vii) Concern for community**

Co-operative societies must have concern for their communities. According to the ICA'S statement on the co-operative identity "Co-operation work for the sustainable development of their communities through polices approved by their members. Without the support of communities, co-operatives can not staying for long term. So the co-operatives should be given its priority towards the communities for their long term existence.

### 2.1.3 Statistical Information on the Co-operative Movement

The Co-operative Movement brings together over 800 million people around the world. The United Nations estimated in 1994 that the livelihood of nearly 3 billion people, or half of the world's population, was made secure by co-operative enterprise. These enterprises continue to play significant economic and social roles in their communities. Below are some facts about the Movement that demonstrate their relevance and contribution to economic and social development.

- In Canada, 1 in 3 individuals is a member of a co-operative (33%). The Desjardins co-operative movement in Québec has over 5 million members.
- In Germany, there are 20 million people who are members of co-operatives, 1 out of 4 people.

- In Japan, 1 out of every 3 families are members of a co-operatives
- In India, over 239 million people are members of a co-operative.
- In Singapore, 50% of the population (1.6 million people) is members of a co-operative.
- In the United States, 4 in 10 individuals is a member of a co-operative (25%).
- In Korea, agricultural co-operatives have a membership of over 2 million farmers (90% of all farmers), and an output of USD 11 billion. The Korean fishery co-operatives also report a market share of 71%.
- In Norway, dairy co-operatives are responsible for 99% of the milk production; consumer co-operatives held 25% of the market; fisheries co-operatives were responsible for 8.7% of total Norwegian exports; forestry co-operatives were responsible for 76% of timber and that 1.5 million people of the 4.5 million Norwegians are member of co-operatives *(ICA: **http://www.ica.coop/coop/statistics.htm).***

### 2.1.4 Major Types of Co-operative

1. **Housing Co-operative:**

   Co-op city in New York is the largest co-operative housing business development in the world with 55000 people.

2. **Utility Co-operative:**

   A Utility co-operative is a type of consumer's co-operative that is tasked with the delivery of a public utility Such as electricity water or telecommunication services to it's members.

3. **Agriculture Co-operative :**

   Agriculture co-operative or farmers co-operative are co-operative where farmers pool their resources for mutual economic benefit. Agriculture co-operative are broadly divided into agriculture service to their individual farming members and agriculture production co-operative.

4. **Credit Unions and Banking Co-operatives :**

Credit Unions and Banking Co-operatives Financial Institution that are owned and controlled by their member. Credit Unions provided the some financial service as banks but are considered not for profit organization and adhere to co-operative Principles .

**5. Federal or Secondary Co-operative:**

Co-operative federations are a means through which co-operative societies can fulfill the sixth Rochdale Principals. Co-operation among co-operatives with the ICA noting that co-operative serve their members most effectively and strengthen the co-operative movement by working together through local, national regional and international structure.

### 2.1.5 Co-operative on Nepalese Prospective

The world "Co operative" and its concept is not a new. Everyone has already familiar about its concept and principles. Self help, mutual help and co-operation are in practice among the people from the very ancient times. Co-operative has been developed with the development of human civilization. Getting together with a view to helping each other or social occasions like Marriage, *Shradha* and other performing agriculture activities like marriage, plugging, sowing, crop protection, harvesting is a traditional of doing things in the rural mountainous and even the growing urban areas of Nepal. The different types of co-operative societies *Dharma Bhakari*, *Dhukuti*, *Parma* and *Guthi* are used in practice in Nepal from the ancient time. *Dharma Bhakari* means a religious store, which is a kind of grain bank. Each family in the village puts aside certain quantities of grains after the end of the harvest season. At the time of scarcity, the quantity of grains is distributed on advance to farmers. Loan is advanced from the grain bank only to the villagers who have contributed to the bank and agree to pay the loan in kind with interest (Shrestha, 2008).

*Dharma* is another type of rural co-operative, which is the best example of voluntary co-operation of the *Thakali Society*. It is formed by a group of people with a specific work. It is one of the important and popular forms of co-operation in Nepal. In this system, the members prepare the rules and regulation. Every member is required to

contribute certain amount of capital towards its fund. The fund is to be contributed on the basis of financial requirement of the members.

*Parma* is still another type of traditional rural co-operative operation. Historically, it is the first form of co-operative in Nepal. It is a socioeconomic organization in which farmers, neighbors, friends and relatives work in co-operative operation to promote their economic and social interests (Shrestha, 2008).

In this way, the concept of co-operative in Nepal is not new one. It is familiar from those days when people had the knowledge to live together in the society or community. But we can't ascertain the actual date when the co-operative movement was started in Nepal. Many types of informal co-operative were running in different part of Nepal. If we turnover the history of co-operative movement in Nepal, the organized history can be traced back to about 54 years old, formally, the history of Nepal has been started after the establishment of co-operative development in the year 1953 under the ministry of Agriculture for the promotion, supervision and evaluating of co-operative societies (Lamichhane, 2007).

In the beginning, co-operative movement was greed up with the establishment of 13 credit co-operative societies in 1956 as part of the resettlement of program for the flood stricken people in Rapti Dum Besi under the active support of United State Agency for International Development (USAID) on experimental basis. These co-operative were previously registered under an executive order of government of Nepal. The history of co-operative society dates back to 1956 A.D. in which year then the government incorporated Bakhan saving and credit co-operative society ltd. In Rapti valley, Chitwan by issuing the executive order for its legal validity. The thirty year Panchayat regime also attempted to promote co-operatives by inforcing the co-operative act, 1959 and co operative regulation,1961(Baral 2006).

However, co-operative became burdensome to the government due to the weak management, want of autonomy and unscientific accounting system of saving and credit. After the restoration of democracy in 1990 then the government considered co-operative is a means of poverty alleviation (Baral, 2006).

## 2.1.6 Major Events of Co-operative Movement in Nepal

**Table 2.01**

**Major Events of Co-operative Movement in Nepal Years Events**

| | | |
|---|---|---|
| 1953 | Establishment of Department of cooperatives (DOC) under the Ministry of Agriculture for Planning and Development | |
| 1954 | Realizing need of cooperatives for the resettlement programme initiated for the flood-stricken people through Multipurpose Development Plan of Government of Nepal. | |
| 1956 | a. | Promulgation of the Executive Order of Government of Nepal and recognition of cooperative society under it. |
| | b. | Credit Cooperative Society for the first time, was established in Chitwan District. |
| 1958 | | The district level staff of DOC under the administrative control of Rural Development Block carried out cooperative activities. |
| 1959 | a. | DOC was kept under the Ministry of Food, Agriculture and Forestry |
| | b. | Cooperative Society Act, 1959, came into effect |
| 1961 | a. | Cooperative Society Rules, 1961, came into effect |
| | b. | The first amendment of Cooperative Society Act, 1959 |
| | c. | Establishment of Cooperative Development Fund |
| | d. | Establishment of Sajha Society (Sajha Central Office) |
| 1962 | a. | Establishment of Cooperative Training Center |
| | b. | Establishment of Credit and Marketing Cooperative Union. |
| | c. | Cooperative Bank Act, 1962, came into effective |
| | d | DOC was transferred to the Ministry of Panchayat |
| 1963 | a. | Establishment of Cooperative Bank |

| | | |
|---|---|---|
| | b. | Conversion of Rural Development Blocks into District Panchayat Cooperative section was kept under the District Panchayat |
| 1964 | a. | Initiation of Agriculture Re-organization Programme |
| | b. | Initiation of Supervised Credit System |
| | c. | Transfer of Staff members in Cooperative activities to the Land Reforms programme |
| | d | Publication of "Sahakarita" (Cooperation). |
| 1966 | a. | DOC was kept under the Ministry of Land Reforms, Agriculture and Food. |
| 1967 | a. | Formation of Central Investigation Committee on cooperatives |
| | b. | Emphasis on 'Sajha Management' in the 7th point in the Back to the Village National Campaign |
| | c. | Conversion of Cooperative Bank into Agricultural Development Bank (ADB) |
| 1968 | | Transfer of administrative and developmental works being carried out by DOC to the Department of Land Reforms. |
| 1969 | a. | DOC was kept under the control of the Ministry of Land Reform. |
| | b. | Implementation of the Coordinated Agricultural Development Programme |
| | c. | Compulsory Saving for the first time converted into shares in Bhaktapur |
| | d. | Credit and Marketing Cooperative Union was converted into District Cooperative Union |
| | e. | Return of Cooperative promotional and strengthening of activities undertaken by the Department of Land Reform to DOC |
| | f. | Introduction of guided cooperative programme emphasizing qualitative growth through reorganization and amalgamation. |
| 1970 | a. | The second amendment of the Cooperative Society Act, 1959. |
| | b. | Introduction of Cooperative Strengthening Programme. |
| | c. | Establishment of Central Cooperative Strengthening Committee. |
| | d. | Establishment of District Cooperative Strengthening Committee. |

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|---|---|---|
| | e. | Transfer of management of Cooperatives to ADB. |
| 1971 | | The first amendment of Cooperative Societies Rules, 1961 |
| 1973 | | Implementation of Cooperative Education Programme regularly |
| 1976 | a | Integration of Population Education with Sajha |
| | b. | Implementation of Sajha Programme emphasizing Sajha in a wider scale |
| | c. | The second amendment of Cooperative Society Rules, 1961 |
| | d. | Compulsory Savings was converted into the share capital of Sajha Society |
| 1977 | | Introduction of Sajha Society Administrative and Financial Regulation, 1977 |
| 1978 | a. | Transfer of Sajha Societies' Management handled by ADB to the managing committee of cooperatives. |
| | b. | Introduction of Sajha Society Financial and Administrative Regulation, 1978 |
| | c. | More emphasis on the qualitative growth of Sajha Societies than on quantitative growth |
| 1980 | a. | Implementation of Small Farmer Cooperatives |
| | b. | Introduction of Sajha Society Financial and Administrative Regulation, 1980 |
| | c. | Special focus on co-operative system in the Constitution of Nepal. |
| 1984 | | Enactment of Sajha Society Act, 1984, for making the cooperative development campaign effective |
| 1985 | a. | Conversion of DOC into Sajha Development Department |
| | b. | Conversion of Cooperative Training Center into Sajha Development Training Center |
| | c. | Conversion of the Regional Cooperative Office into Regional Sajha Development Office |
| | d. | Conversion of the Cooperative Section into Sajha Development Section |
| 1986 | | Announcement of Sajha Sanstha Rules, 1986, |

| | | |
|---|---|---|
| 1987 | a. | Formation of a 17-member 'High Level Central Coordination Commission for making the Sajha campaign more strong and effective |
| | b. | Sajha Development Department was transferred to the Ministry of Agriculture |
| 1988 | | Announcement of compulsory savings to be refunded to the depositors |
| 1990 | a. | Remittance was announced by Government of Nepal up to the interest and compensation exceeding the principle amount in case of a full payment of principal paid by debtors within July, 1991. |
| | b. | Formation of an ad hoc committee for National Sajha Cooperative |
| 1991 | a. | Formation of a seven-member National Cooperative Federation Consultative Committee for submitting its opinion in order to strengthen the Sajha campaign and make it effective. The report presented by the Committee. |
| | b. | Dissolution of Sajha Central Office |
| | c. | Formation of a 11-member National Cooperative Development Board for the preparation of policy based norms, organizational structure its mobilization system, activities of cooperative movement for the preparation of necessary rules, bye-laws and other infrastructure in order to establish organizations from village level to central level. |
| 1992 | a. | Enactment of Cooperative Act, 1992. |
| | b. | Formation of District Cooperative Implementation Committee and an interim steering committee for continuation of cooperatives until January,1992 |
| | c. | Conversion of Sajha Development Department into DOC. |
| | d. | Conversion of Sajha Development Training Center into CTC. |
| | e. | Conversion of Regional Sajha Development Office into Regional Cooperative Office |
| | f. | Conversion of Sajha Development Section into District Cooperative Office. |
| 1993 | a. | Enactment of Cooperative Society Rules, 1993. |
| | b. | Dissolution of Regional Cooperative Office |

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|---|---|---|
| | c. | Nationwide election of cooperative societies/unions. |
| | d. | Establishment of National Cooperative Federation |
| | e. | Establishment of Central Consumer Cooperative Union. |
| | f. | Establishment of Central Milk Producers Cooperative Union. |
| | g. | Formation of a large number of Single-purpose Cooperatives such as Consumers Cooperatives, Milk Producers Cooperatives, Saving and Credit Cooperatives throughout the country. |
| 1994 | | Publication of "Sahakari Sandesh" (Co-operative Message). |
| 1995 | a. | Distribution of Rs. 31.8 million to the old cooperative employees by NCF as benefits received from Government of Nepal for only one time. |
| 1997 | a. | Reception of the membership from the International Cooperative Alliance (ICA). |
| | b. | Initiative taken by NCF for observance of International Cooperative Day. |
| 1998 | a. | Nepal (NCF/N) was elected for the post of Vice-Chairman of the Agriculture Committee for ICA, Asia and the Pacific Region. |
| 2000 | a. | Nepal (NCF/N) was elected for the post of Chairman of the Agriculture Committee for ICA, Asia and the Pacific Region. |
| | b. | Conversion of Ministry of Agriculture into the Ministry of Agriculture and Cooperatives. |
| | c. | Establishment of the National Cooperative Award by NCF. |
| | d. | Formation of the National Cooperative Development Advisory Working Team and submission of report. |
| | e. | The first amendment in the Section 26 of the Cooperative Act, 1992. |
| 2001 | a. | Announcement of observance of International Cooperative Day by the Government. |
| | b. | Republication of "Sahakari Sandesh " weekly. |
| 2002 | a. | Cooperative Ministers' Conference hosted by Nepal organized by International Cooperative Alliance, Regional Office for Asia and the Pacific, New Delhi in collaboration with National Cooperative Federation of Nepal. |

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| | b. | The Ministry of Agriculture and Cooperatives has issued a circular, saying that there is no restriction for the eligibility of 'civil servant' as shareholder of cooperative although the Sec. 14 of the Anti-corruption Act refers to civil servant not eligible to become the shareholder of cooperatives. |
| | c. | Nepal elected for the member of ICA ROAP Standing Committee. |
| 2003 | a. | Establishment of National Cooperative Bank Ltd. |
| | b. | Seventh General Assembly of Network for Development of Agricultural Cooperatives' (NEDAC) was held in Nepal from 29th Oct. to 1st Nov.. In which Nepal was elected as Co-Chairman for two years. |
| 2004 | a. | National Cooperative Federation of Nepal established "National Cooperative Development Fund, NCDF |
| | b. | Nepal Government constituted a high level cooperative sector improvement consultative committee under convenorship of the Minister of Agriculture and Cooperatives submitted its report to the Government of Nepal. |
| | c. | Ministry of Finance constituted to study the legal frame work and institutional development of the savings and credit cooperative society and National Cooperative Bank under the conveniorship of then Member of Ghanashaym Khatiwada submitted it's report to the Ministry of Finance. |
| | d. | Government of Nepal announced the policy of GOAN-GOANMA SAHAKARI GHAR GHAR GHAR MA ROJGARI through it's budget of the current fiscal year 2061-62 |
| 2005 | a. | Completion of Second National Women Cooperative Congress held at Kathmandu. |
| | b. | Change of Name of MOAC. |
| | c. | Change of name of CTC into Central Cooperative Training Centre. |
| | d. | Change of name of District Cooperative Office into Division Cooperative Office. |
| | e. | Establishment of Regional Level Cooperative Training Office combining with Division Cooperative Office in Kailali, Surkhet, Kaski and Chitawan. |
| | f. | Grant of the sum Rs. 1. Million by Government of Nepal to NCF as a token for NCDF |

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|---|---|---|
| 2006 | a. | Change of Agriculture Policy Unit into Agriculture and Cooperative Policy Unit in MOAC for coordination and establishing contact about cooperative policy-making. |
| | b. | Election of Nepal as Standing Committee Member of ICA/AP. |
| | c. | Establishment of Central Coffee Producers Cooperative Union |
| | d. | Establishment of Central Fruits and Vegetables producers Cooperative Union. |
| | e. | Election of Nepal as Vice-chairman of Housing Cooperative Foundation. |
| | f. | Beginning of Cooperative Golden Jubilee 2006/7 throughout the country for full year. |
| 2007 | a. | Completion of Cooperative Golden Jubilee 2006/07 with four special cooperative publications. |
| | b. | Recognition of cooperative as basic pillar of socio-economic development as equal footing those of private and government sector. |
| 2008 | a. | National conference on cooperative policy organized by NCF. |
| 2009 | a. | Government of Nepal announced the policy "GAUN GAUNMA SAHAKARI, GHAR GAHRMA BHAKARI." |
| 2010 | a. | Establishment of Central Sugarcane Cooperative Union. |
| | b. | Formation of Cooperative Cooperation Network. |
| | c. | UN proclaimed 2012 International Year of Cooperatives. |
| 2011 | a. | Establishment of Central Tea Cooperative Union |
| | b. | Completed the Regional and National Workshop on Cooperative Strategic Planning. |

### 2.1.7 National Co-operative Federation of Nepal (FCF/N)

The National co-operative federation of Nepal (NCF/N) established in June 20, 1943 under the co-operative Act, 1992 is an apex body the co-operative movement of all types and level of co-operatives organized on the basic of university accepted co-operative values and principle. As the national apex body of co-operatives of all types and levels. It on behold them represents in government, national and international forum.

NCF/N represents around 8000 co-operatives operating throughout the country. Approximately 2 million individual members are involved in the different types of co-operatives for their economic, social and culture development various actives.

NCF/N is a member of international co-operative alliance (ICA), Goneva, it is also affiliated with the international federation of Agriculture producers (IFAP), France and Network for the Development of Agriculture co-operative (NEDAC), Thailand.

Vision of NCF/N is to promote and establish such Nepalese civil society where the democracy, equality, solidarity, social justice, coring for other and gender balanced sustainable development will be followed by the co-operative. Mission of NCF/N is to unite, lead represent and serve members of their economic, social and culture empowerment through their co-operatives at all levels. The general objectives of NCF/N is to promote strengthen and empower the co-operatives for the benefit to their members on the basic of mutual co-operation through the participatory development process in the country. To attain the general objectives, some specific objectives of NCF/N are set as follows.

- To raise the sense of mutual help and co-operation among the people for fulfilling their needs and aspirations thoughts co-operatives.
- To organize seminars workshops, aware ness raising programs on the emerging issues and lead the movement for safe guarding and implementing the co-operative norms values and principles.
- To promote, streng then and develop the co-operatives through co-operative training education and specific projects activities for making co-operatives efficient and viable.
- To develop marketing network to the co-operative produces in order to promote the business for the economic benefits of the economic benefits of the members.
- To extend and explore support to the economic, social, professional and sustainable development of co-operatives in order to strengthen and promote co-operatives business.
- To provide leadership to the co-operative movement and to represent on he half of co-operatives in the government and other national and international forums.

### 2.1.8 NRB Licensed Co-operatives

Co operative have developed as alternative of usury. They are established by a group of economically wealthier people of the society under the Cooperatives Act 2048. They have the objectives to save rural and poor people from economic exploitation of profit motive ventures. The number of NRB licensed cooperative reached 16 by April 2009. The total financial resources/ capital fund of these cooperatives was Rs.431.6 million by January 2009. Their combined deposits were Rs.3.17 billion, the credit and loans reached Rs.2.82 billion (Gurung, 2010) The saving and credit cooperatives licensed by district district cooperative office and a glimple of their activities are shown in table 2.3.

**Table 2.02**

**Activities of Saving and Credit Cooperatives**

| Description | Mid July 2007 | Mid April 2008 |
|---|---|---|
| N. of Cooperatives | 3,392 | 4,432 |
| Members (in '000') | 403 | 686 |
| Savings (Rs. in million) | 89,630.0 | 15,730.6 |
| Investment (Rs. in Million) | 15,098.0 | 19,959.0 |

*Source: Economic survey, 2008/09 (as cited in Gurung, 2010)*

### 2.1.9 Number of Co-operative in different fiscal year

Co-operatives movement has improved as developed gradually in Nepal. The status of the movement and types are as follows.

**Table: 2.03**

**Number of Co-operative in different fiscal year**

| A) Primary Level Year | 2005/06 | 2006/07 | 2007/08 | 2008/9 | 2009/10 |
|---|---|---|---|---|---|
| 1. Multipurpose | 2402 | 2532 | 2808 | 2978 | NA |
| 2. Savings and Credit | 3241 | 3392 | 4432 | 5162 | NA |

| | | | | | |
|---|---|---|---|---|---|
| 3. Dairy | 1564 | 1564 | 1561 | 1603 | NA |
| 4. Agricultural | 1192 | 1218 | 1497 | 1736 | NA |
| 5. Small Farmers | 213 | 215 | 245 | 273 | NA |
| 6. Coffee Producers | 65 | 66 | 69 | 73 | NA |
| 7. Herbal Producers | 24 | 24 | 33 | 38 | NA |
| 8. Tea Producers | 22 | 22 | 39 | 48 | NA |
| 9.Vegetables and Fruits | | | | 123 | NA |
| 10. Bee Keeping | | | | 30 | NA |
| 11. Electricity | 169 | 226 | 254 | 257 | NA |
| 12. Science and Technology | 102 | 84 | 76 | 83 | NA |
| 13. Health | 28 | 30 | 41 | 41 | NA |
| 14. Consumers | 103 | 103 | 103 | 201 | NA |
| 15. Other | 237 | 244 | 144 | | NA |
| Total | 9,362 | 9,720 | 11,302 | 12,646 | 20,102 |
| b) Secondary Level Unions | 129 | 139 | 141 | 171 | 193 |
| c) Tertiary Level Unions | 3 | 5 | 7 | 8 | 10 |
| d) National Cooperative Bank | 1 | 1 | 1 | 1 | 1 |
| e) National Cooperative Federation of Nepal | 1 | 1 | 1 | 1 | 1 |

*Source: (http: //www.ncfnepal.com.np/PDF/Types of Cooperatives at all levels.pdf)*

The National Cooperative Federation of Nepal (NCF/N) established in June 20,1993 under the Co-operative Act, 1992 is an apex body of the cooperative movement of all types and levels of cooperatives organized on the basis of universally accepted cooperative values and principles. As the national apex body of cooperatives of all types and levels, it on behalf of them represents in government, national and international forum.

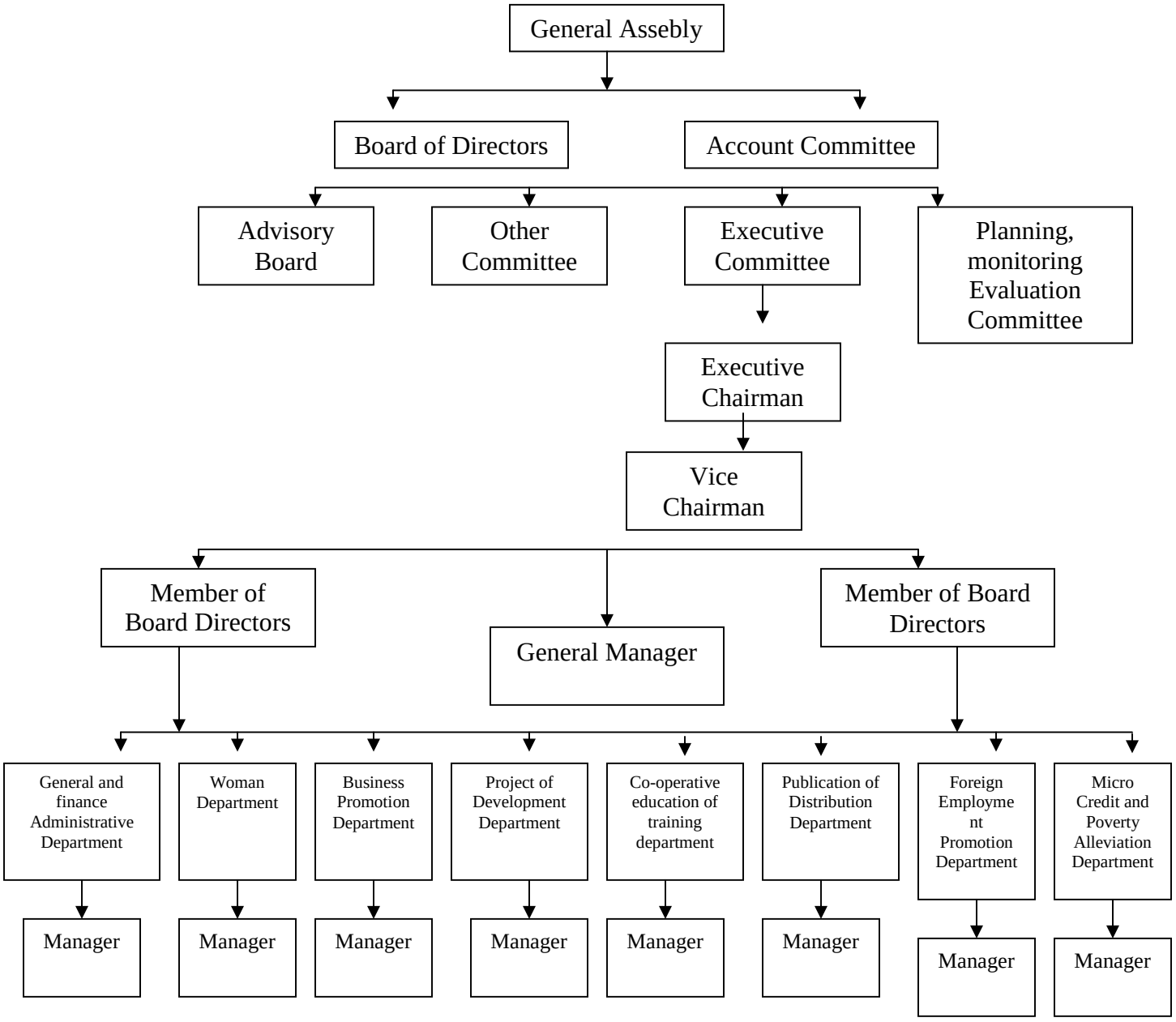
NCF/N represents around 18,000 cooperatives operating throughout the country. Approximately 6 million individual members are involved in the different types of co-operatives for their economic, social and cultural development various activities *(http:// www.ncfnepal.com.np/index.html)*

### 2.1.10 Organizational Structure of NCF/N

To run NCF/N'S functions, there are two segments of management. One segment includes Board of directors, Account committee, committees and other segment is paid management employees. Both the segments are integrated into are organization NCF/N for the effective and efficient operation of its total management

**Figure: 2.01**

**Organizational Structure of NCF/N**



### 2.1.11 Theoretical Prescription of PEARLS Framework

PEARLS stand for P- Protection, E- Effective financial structure, A- Asset quality, R- Rates of return and costs, L-liquidity and S-Sign of growth. Each letter has its own meaning. PEARLS is a financial performance monitoring system designed to offer management guidance for Credit Unions and other Saving Institutions. It is a set of financial indicators and management tool that help to standardize terminology between the institutions. PEARLS is also a supervisory tool for regulators. It can be used to compare and rank institutions, it can provide comparisons among peer institutions in one country or across countries. The PEARLS system was originally designed and implemented with Guatemalan CUs in the late 1980s WOCCU has been using it worldwide to monitor the performance of CUs. PEARLS provides a systematic approach to develop strong modern CUs that balance the needs of services, borrowers, stakeholders and staffs. It has proved a key tool in achieving CUs growth and self sustainability. (Almeyada & Brian, 1998). The purpose for including a myriad of indicators is to illustrate how to change in one ration has ups hot for numerous other indicators. Each indicator has a prudential norm or associated goals. The target goals or standard excellence for each indicator is put forth by the WOCCU based on its field experience working to strengthen and modernized CUs and promote saving based growth. PEARLS provides MFIs managers with concise, easy to read reports that reveal institutional weakness and trends. It also offers a strategic business planning tools to help managers to implement change. PEARLS indicators shows the adequacy of CUs delinquent loans provision, how close CUs were to international CUs capital structure standards, the excess non performing assets, the income and cost yields, the management cash administration abilities and the growth in key operational areas (Evan & Branch, 2002).

The methodologies adopted by MFIs are based on the examiner's overall subjective judgment, which does not provide the comparative rankings to its objectivity. The objective indicators are included in the assessment for the ranking that facilities to rank the performance of MFIs by applying the PEARLS monitoring tools and techniques. PEARLS avoid subjective assessment and present objective reports to the MFIs that are substantiated by financial information taken from their balance sheets. The objective

ranking system permits open discussion of problems with Board of Directors and management (Richardson, 2002).

The important realization from the use of PEARLS is the provision of framework for a management and supervisory tool that goes beyond the simple identification of problem. It identifies the weak capital base of MFI and its probable causes thereby giving the meaningful solution to serious institutional deficiencies by using the PEARLS monitoring system. Further, the use of standardize financial ratios under this system eliminates the diverse criteria used by the MFIs to evaluate their operation. National association can be use the financial ratios generated by PEARLS to conduct quarterly or monthly analysis of all key areas of MFI operations that determines the performance of MFI. These evaluations are invaluable for spotting trends and detecting areas of concern among the affiliates. Considering the assets growth of institutions is much horrible and one of the key strategies to address the problems that accompany monetary devaluation and runway inflation. Financial institution has to sustain the aggressive growth to preserve the value of the assets in the hostile macro-economic environment. As it has been already referred each of the letter of PEARLS, the first and foremost is the evaluation of asset indicators to ensure that the financial institution provides depositors a safe place to save their money with the standard of excellence (Evan & Branch, 2005).

### 2.1.12 Objectives of PEARLS

The use of PEARLS evaluation system accomplishes the following objectives and the PEARLS monitoring goals are presented in the appendix.

**a. Executive management tool**

Monitoring the performance of the credit union, MFIs is the most important use of the PEARLS system. It is designed as a management tool that goes beyond the simple identification of problems. It helps managers find meaningful solutions to serious institutional deficiencies. Use of the system permits managers to make the necessary adjustments before problems become serious. In essence PEARLS is an “Early warning system” that generates invaluable management information.

**b. Standardized Evaluation Ratios and Formulas**

The use of standardized financial ratios and formulas eliminates the diverse criteria used by MFIs to evaluate their operations. It also creates a universal financial language that everyone can speak and understand.

**c. Comparative Rankings**

The combined use of the standardized accounting system and the PEARLS performance indicators produce a completely new type of information: comparative rankings of the MFIs. The standardization of financial information eliminates the diversity and provides an effective tool for comparing MFIs performance on a national basis.

**d. Facilitates Supervisory Control**

In addition to its usefulness as a management tool, the PEARLS system provides the framework for a monitoring authority. Monitoring authority can use the financial ratios generated by PEARLS to conduct quarterly or monthly analyses of all key areas of MFIs operation. These evaluations are invaluable for the spotting trends and detecting areas of concern among the affiliates

## 2.1.13 PEARLS Performance on Financial Activities

**a. Protection (P)**

Protection is a one of the very important tool to monitor the financial performance of MFIs which saves the money of member client. The member client can borrow the money only after being the member of co-operatives so every client is member and every member is client of co-operative. To protect the saving of member client the management must save the asset by making a adequate loan losses allowances for loan investment with consideration of time stipulation. According to the WOCCU model, protection against loan losses is deemed adequate if a cooperative has sufficient provision to cover 100 percent of all loans delinquent for more than one year and 35 percent of all loan delinquent for 1-12 months(Richardson, 2002).

**Table: 2.04**

**NRB Guidelines for Protection of assets (Loan Loss Provision)**

| Classification of Loans | Time period | Loan loss Provision (%) |
|---|---|---|
| Pass | 1-3 Month Matured | 1 |
| Sub-standard | 3-9 Months Matured | 25 |
| Doubtful | 9-12 Months Matured | 50 |
| Bad | More than 1 year | 100 |

*Source: Nepal Rastra Bank*

Loan loss provision is deducted from gross loan portfolio. So co-operative keep less provision means deduction of less loan loss provision expenses from gross loan portfolio which finally overstatements the value of assets in the balance sheet. Loan loss provision is charged off to profit and loss account. Less loan loss provision charged off to profit and loss account means the reported net income is overstated. So, adequate loan loss provision should keep to accurate and pure valuation of asset and profit and loss (Baral, 2006). There are six different ratios: $p_1$, $p_2$, $p_3$, $p_4$, $p_5$, $p_6$. The research is done with the help of sufficient available data provided by SFCL.

**b. Effective Financial Structure (E)**

The financial structure means composition of different sources of resources. PEARLS system measures the effectiveness of financing and utilizing resources of MFIs. So, the ratios of different types of asset to total assets and different types of liabilities to total assets are work out to the effective financial structure of MFIs (Baral, 2006). According to PEARLS system, investment in net loan liquid assets, financial asset and non financial investment should be in the range of 70-80 percent, 10 percent and zero percent of total assets respectively. Financing of total assets with saving deposit, borrowed funds and member share capital should not exceed 80 percent, 5 percent and 20 percent of total assets respectively. Institutional capital should be at least 10 percent of total assets of MFIs (Richardson, 2002). The ratio of institutional capital to total assets at least should not come down below 10 percent of total assets. MFIs financial structure is said effective when assets financed by saving deposit generate sufficient income to pay

market interest rates on saving, cover operating cost and maintain capital adequacy (Evan & Branch, 2002).

**c. Asset Quality (A)**

Quality of assets affects the earning power. Investment in non earning asset deteriorate the earning power and decrease the institutional capital but sometime, MFIs have to invest their fund in such assets to improve their physical image, attract the new member clients and increase the member share capital and saving deposit. But, increase in percentage in non earning asset should be temporary because high ratio gets more difficult to generate sufficient income to cover the operating cost. Therefore, MFIs should maintain the minimum level of their investment in non earning assets. It should not exceed 5 percent of their total assets. PEARLS uses the three indicators- delinquency ratio, percentage of non earning ratio and financing of non earning asset (Richardson, 2002). Delinquency ratio measures the delinquency rate of the total loan portfolio. This ratio should not exceed 5 percent of the total gross loan portfolio. MFIs should finance 100 percent of non earning asset with zero cost funds to do away the negative effect on profitability.

**d. Rate of return and cost (R)**

PEARLS system differentiates the different component of yield on investment and management efficiency of controlling the operation cost. The indicators of this component are categorized into two categories. The indicators relate to rate of return and operational costs. R1, R2, R3, R4, R8 and R12 fall in the first category which measures the return on different component of investment: loan portfolio, liquid investment, financial investment, non financial investment and return on total asset. The WOCCU model compares the calculated returns to the entrepreneur return and market rate of returns. In the same way, R5, R6, R7, R9, R10 and R11 fall in the second category which shows the condition of cost of fund raised from the saving deposit, external credit, cost of member share capital. They are also compared with the market rates (Baral, 2006, 50).

**e. Liquidity (L)**

Liquid asset is very much essential for the performance of day to day financial transaction but management must be very careful about how much liquidity is need for the financial institution over the certain time period because high or low liquidity affects the profitability of MFIs. The new concept of liquidity refers to the cash required for possible withdrawal of saving deposit which is beyond the control of the management of MFIs. So management should maintain adequate reserve for the sound financial health. PEARLS system uses two ratios- liquidity reserve to saving deposit and non earning liquid assets to total assets. According to the WOCCU model, MFIs should maintain 10 percent, liquidity reserve of the saving deposit and have non earning assets less than 1 percent of total assets.

**f. Sign of growth**

PEARLS system links the growth to profitability and other key areas. The key areas are total assets, loan, liquid investment, financial investment, saving deposit, external credit, member share capital, institutional capital and number of members. Growth in total asset is most important ratios which should be more than inflation rate. The higher growth in loan portfolio signals good profitability. Growth in saving deposit affects the growth in loan portfolio and total assets but high growth in saving deposit may creates the burdensome if MFIs is not able to mobilize the deposit to portfolio investment. Growth in institutional capital reflects the profitability of MFIs.

## 2.2 Review of Related Studies

Various studies have been carried out regarding the evaluation of co-operative societies and MFIs. Societies some of the leading and available studies will be reviewed in the study. Study concerns the financial analysis of CON Community saving and credit Cooperative Society Limited the framework of PEARLS. There has been no study particularly regarding in this topic, but there are some researchers and articles on PEARLS on financial analysis and the analysis of Co-operatives and MFIs.

Baral(2006) has conducted the study on “Financial Health Check up of Pokhara Royal Co-operative Society Limited (PRCSL) in the Framework of PEARLS”. His finding were; PRCSL has made sufficient loan loss provision for bad debt loan but it has not made adequate provision to cover the possible loan losses from doubtful and sub-

standard loan. It has invested most of its funds in more productive assets and less in non earning and less productive assets, and managed the source of funds effectively from saving deposits. But, it has a weak institutional capital base a second line of defense against non performing asset. Percentage of delinquent loan ratio and non earning assets are greater than the standard set be the WOCCU model. Similarly, percentage of net zero cost funds is less than the set benchmark. Operation and administration expenses of PRCSL are within the set limit but the yield on loan is not enough to contribute institutional capital and pay the returns on member share capital. The decreasing percent of liquid cash reserves to satisfy deposit withdrawal request show the deteriorating liquidity position. The highly fluctuating growth rates in key financial variables imply that PRCSL does not have sound strategy for sustainable growth in its business. But the sign of growth key variables expect to institutional capital show that it has achieved desired growth during the study period.

Ale (2007) has conducted the study on "Diagnosis of financial health of Paschimanchal Gramin Bikas Bank limited in the framework of PEARLS" in 2007 with the objective of diagnose the financial health of Pas GBB ltd in the framework of PEARLS. He conducted in his study that the institution has adequate earning to defend any future losses by provisioning for loan loss. The solvency of the institution is not adequate due to speedily increase of delinquency and low increase of total savings. The ratio of net loans to total assets falling below the PEARLS standard is due poor quality of assets and provision of allowances for the loan losses. Pas GBB ltd. Has maintained the ratio of financial investment to total assets high above the maximum 10 percent. The ratio of institutional capital to total assets is lying high below the PEARLS standard. Total loan delinquency to total loan portfolio is in the fluctuation trend due to the fluctuation trend of total loan portfolio. It had the fluctuating trend of total loan income to average loan portfolio ration due to the poor asset quality. The decreasing trend of financial cost on saving deposit is that the institution is relying less in accumulating the saving deposits. The institution has maintained a high amount of liquidity reserve with respect to total deposits. He further conducted that the growth in loans ratio is not tune with increase in total asset due to poor quality assets resulted from delinquency. The growth in liquid investment and financial investment are high above PEARLS standard. The growth in

total assets has decreasing trend over the years. It indicates that the institution has not relied on to increase the saving deposits so as to augment the total assets.

Lamichane (2004) has conducted a research on Financial Performance Analysis of friendship and Economic Community Saving and Loan Co-operative Society ltd. For the five years period starting from FY 2053/2054 to 2057/2058. He has used different financial ratios to analyze the financial performance to the firm. He has found that the current ratio and inventory turnover ratio had not met the standard. The turnover is also not in good position as the firm is not able to receive debtors at time whereas average collection period is increasing rapidly which indicators bad condition. The capital structure of the society is also not sound as it has used more debt than equity. It is not a good decision because the interests are being crushed for a long time. The company has not able to increase its profit since last three years. The firm has not able to generate adequate profit by using its total assets and also the funds available from the creditors and shareholders are not utilized property.

Sharma(2006) has conducted the study on "Microfinance Practices and their Sustainability in Nepal" in 2006 with the objective to identify and evaluate the effectiveness and sustainability of the activities of MFIs, their contribution in socio-economic change and women empowerment, comparison of MFIs performance of Nepal and Bangladesh and to evaluate financial and institution viability and overall sustainability of selected MFIs. He found that the microfinance leads to social and economic change in the borrowers after the participation in the program. Woman empowerment showed the positive changes with high level confidence in decision making, participation in social activities, gender equality and control of income. He also concluded that MFIs program increases income and saving which meet their emergency needs. Furthermore, Microfinance is creating an environment for poverty alleviation and rural development but the overhead and office expenses of the MFIs of Nepal are higher than Bangladesh. Hence the productivity of Bangladesh MFIs is better than Nepal. In this study he further concluded that, however microfinance is not a solution in itself, other issues of development policy and implementation, which effect women empowerment, poverty reduction, and utility of microfinance need to be addressed at proper and appropriate levels.

Almeyada and Branch(1998) have been conducted the case study "microfinance in Gautemala; The case study of Credit union's" on measuring sustainability: Financial and Operational Performance of two CUs namely, Union Popular (UP) and Union Progresista Amatitaneca (UPA) based on PEARLS monitoring system for the periods 1994, 1995 and 1996. 25 components of PEARLS monitoring tool has been applied for comparison of these two CUs. The study has focuses in building the institutional base and growth of total assets with reliance in savings and deposits. In addition to it, the provisioning of allowance against the loss assets was also the attention they had paid for. The study exhibited that the UPA was able to generate more institutional capital than UP, a part of strategy to build a more solid capital base. But, contrary to the PEARLS standard, UPA heavily relied on member shares rather on savings deposits which UP was strictly adhering. They further concluded that loan pricing should take account of the fact that member's shares represent risk capital and therefore a long term investment in the institution. In conclusion, the study suggested building a stronger base for their performance and strengthening the credit unions financial system through the provision of efficient services, such as central liquidity management, system marketing, and new financial products.

'Srestha (2007) has conducted a study on "Financial Analysis of Survchha saving and credit co-operative limited in the framework of PEARIS. The basis objective of the study was to analyze the financial Health of Survechha saving and credit limited remaining confined within the framework of PEARIS. The analysis was made after the comparison of specific ratio obtained from SSCCL with the PEARIS standard. It was fund that the institution had adequately protected the loan loss with the provision of allowances. The allowance of loan losses to allowance required for loan losses ratio should that the institution was able to maintain the PEARS standard since last three years. There was high level of delinquency resulting from the provision of allowance for the loan losses and the institution invested it's fund in more productive assets.

'Shrestha' (2009) was conducted a study on "financial performance of Everest co-operative society limited in the framework of PEARIS. The basic objectives of the study was to analyze the level of effective financial structure remaining confined with in the framework of PEARIS standard. The analysis was made after the comparison of specific ratio obtained from ECSL with the PEARIS standard. It was found that the institution was able to made provision for delinquent loans at 100 percent of the required PEARIS

standard of delinquently. The delinquency of institution was very high. In three years FY(060/61-063/64) ESCL was able to maintain the 35 percent provision for the delinquent loan form 1 month to 12 mans. So ESSL was adequate provision to cover the doubtful loan. ESCL was not maintained the ratio of institutional capital to total assets within the PEARIS standard. The high ratio of institutional is 1.5 percent in FY 2061/062 and the lowest is 0.26 percent in FY 2063/064. The failure in the maintains of this ratio was inability of generating adequate earning due to its delinquency.

## 2.3 Research Gap

From the above literature review we can conclude that there are various study related in Nepal the topic of financial performance and framework of PEARIS programme. All of the above research studies are identify about the impact analysis of financial performance co-operative in for framework of PEARIS is some topics and areas in other district of Nepal.

However this study is related financial performance and institutional sustainability in the framework of PEARLS for Sarangkot VDC in Kaski district. There are very limited study about the effectiveness of financial performance of institutional sustainability on PEARLS standard is Kaski district. Available limited studies of present and past and instructional sustainability of Sarangkot VDC in Kaski district. Available limited studies in the subject can not examine the position of present and past and instructional impact. this study has its national for fulfilling the gap of the studying the effort of the training standard of living of the people of financial performance and instructional sustainability importance of the study is also to identify the present situation of financial performance and institutional sustainability on PEARLS standard in SFCL of Sarangkot, VDC, Kaski and suggest feed back to there co-operative. It also put forward some guidelines ness to SFCL in future.

# Chapter III

# RESEARCH METHODOLOGY

## 3.1 Introduction

The present chapter, the methodology of the study has been outlined. The chapter specially addresses the issuing operating to the research design, source of data, data collection procedure, data processing and tools and techniques of analysis.

## 3.2 Research Design

This study is an examination and evaluation of financial performance of SFCL in the framework of PEARLS and trace out the basic practice of the institution. Suggestions are made for the improvement in financial performance. This study research design is descriptive and analytical in nature.

## 3.3 Population and Sample

The whole Small Farmer cooperatives incorporated in Kaski district has been selected as population. And among of them Small Farmer Cooperative Society Limited has been selected as a single sample unit.

## 3.4 Nature and Source of Data

Collecting data is the connecting link to the world of reality for the researcher. For the purpose of the study, annual report of the cooperative through Cooperative Department, Cooperative Training Center and National Cooperative Development Board, documents related journal and related available publication are the basis sources of data. As such secondary sources of information have been consulted as per the need of the situation. Published and unpublished magazines, master's dissertations available report and materials are used this study.

## 3.5 Data Collection Procedure

Required for this study was primarily collected from the annual reports and extracted from the ledger of SFCL Sarangkot, Kaski. These are verified and reported by authorized auditors. Therefore it can be assured regarding the reliability of the supplied

data. Additional information required for the study collected from the Cooperative Department Board, Department of Co-operatives, Journals, Books, Booklet, master's dissertations.

## 3.6 Data Processing

After collecting raw data, data processing is essential for the presentation of data analysis. To meet the requirement of this study, most of the data used in this study have been processed according to the needs of the study. The obtained data were presented in various tables, bar diagrams, pie chart with supporting interpretation. Data were tabulated according to the nature of the data.

## 3.7 Tools and Techniques of Analysis

After collecting and processing, indicators of PEARLS were calculated strictly following the principles and guidelines given in the Toolkit series number 4 and Technical Guide to PEARLS available online at official website of the WOCCU. These data was entered into the spreadsheet to work out the PEARLS financial ratios and prepare the necessary figures. Financial indicators of PEARLS system are worked out with the help of computer.

# Chapter IV

# DATA PRESENTATION AND ANALYSIS

In this chapter 5 years (2062/063 to 2066/067) financial reports to SFCLS are presented and analyzed as following topic.

## 4.1 Protection (P)

Protection is very essential component offered by WOCCU for the limited banking service carried out Co-operative which refers to save the money of members. Every members feeling their deposited money safe shows the good performance of financial activities of related MFIS. If the management expects the successful future of their Co–operative they must input their effort to project the assets that would assured the member clients being save their deposit. The asset protection can be saved by providing the adequate allowance for the delinquent loan expenses.

### 4.1.1 Allowances for loan losses to Allowance

Required for loans delinquent> 12 months ($P_1$). According to WOCCU model, the loan delinquency has be classified into two parts on the basis of its time period. The first one is the balance of loan delinquent grater than 12 months and the other is the balance of loan delinquent from 1 months to 12 month. CU has suggested that institution should maintain it's standard by 100 percent provision of all allowances for the loan delinquency greater than 12 months and 35 percent provision of, allowances for the loan delinquency from 1 month to 12 month. In Nepal NRB provide a guideline to the licensed limited banking service co-operative for the loan loss provision but most of saving & credit Co-operative are one of the jurisdiction of NRB.

**Table 4.1.1**

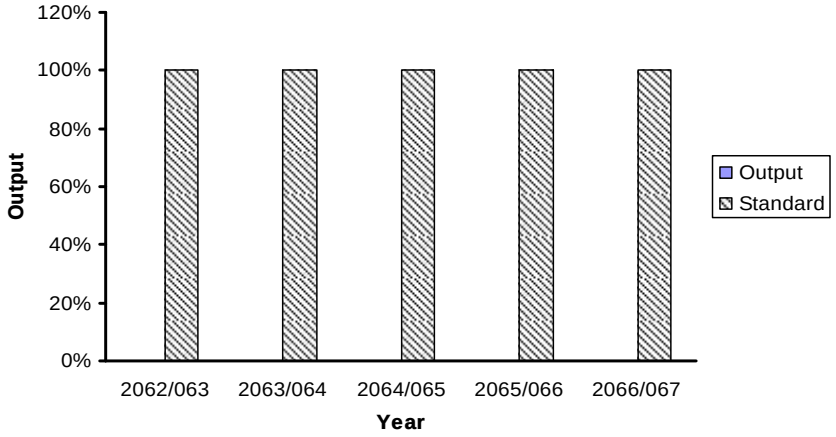
**Allowances for loan losses to allowance required for loan delinquent >12 months.**

| P1 | B.S. 2062/063 | B.S. 2063/064 | B.S. 2064/065 | B.S. 2065/066 | B.S. 2066/067 |
|---|---|---|---|---|---|
| a) Allowance for loan losses | 81023.63 | 65427.64 | 62421.08 | 64390.50 | 205000.00 |
| b) Loan balance of all loan delinquent, more than 12 months | 0 | 0 | 0 | 0 | 0 |
| c) P1 | 0% | 0% | 0% | 0% | 0% |
| Standard % | 100% | | | | |

*Source Annual Report of SFCL and Researcher's Calculation*

**Figure 4.1.1**

**Allowances for loan losses to Allowance required for loans Delinquent > 12 months**.



The table 4.4.1 and Figure 4.1.1 show the ratio of delinquency loan more than one year is no less than the standard rate in financial year B.S. 2062/063 to B.S. 2066/067 because of that time institution use to make the delinquent loan new loan investment with accumulating interest.

### 4.1.2 Solvency ($p_6$)

According to the PEARIS system the credit union should maintain their solvency ratio that is greater than or equal 100 percent. It is the net value of assets to total share and deposit the net value of assets calculated with the components to total delinquency loan, liability problem of assets, allowances for loan loss provision and saving deposit

**Table 4.1.2**

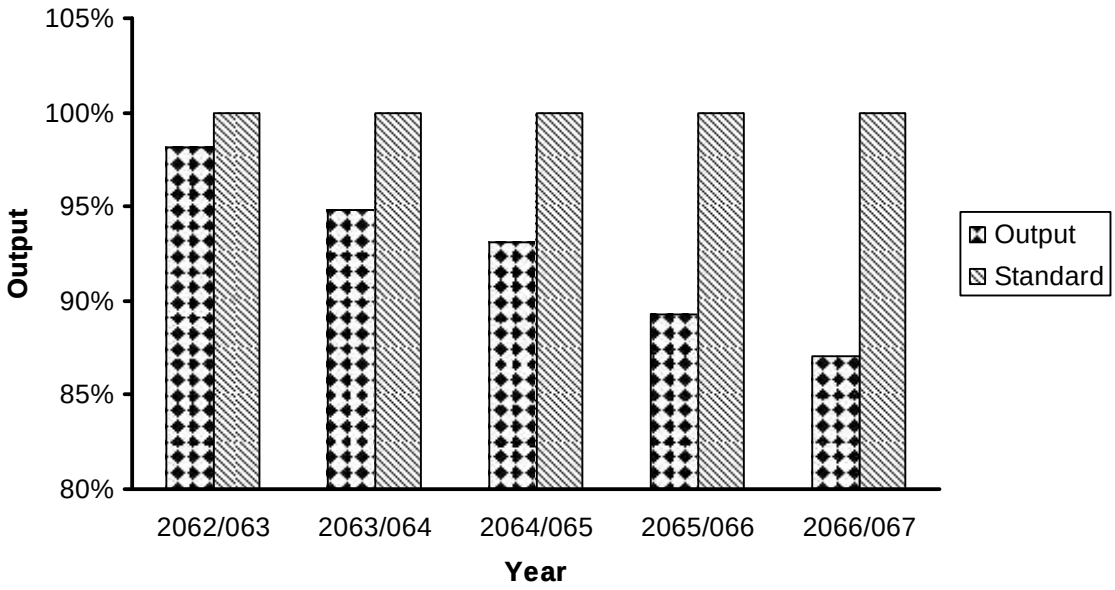
**Solvency (Net value of Assets to total share and / Deposit)**

| Year | B.S. 2062/063 | B.S. 2063/064 | B.S. 2064/065 | B.S. 2065/066 | B.S. 2066/067 |
|---|---|---|---|---|---|
| $P_6$% | 98.19% | 94.77% | 93.12% | 89.30% | 87.06% |
| Standard % | ⎸100 % | | | | |

*Source: Annual report of SFCL and Researcher's calculation.*

**Figure 4.1.2**

**Solvency (Net value of Assets to total Share and Deposit)**




The table and figure 4.1.3 shows that all ratios are below the PEARIS standard but in decreasing trend. The ratio is 98.99%, 94.77%, 93.12%, 89.30% and 87.06% in year 2062/063 to 2066/067 respectively.

## 4.2 Effective Financial Structure (E)

Financial structure shows the combination of different sources of resources. Proper financial structure makes the earning power high, save from the liquidation, decrease the non performing asserts, increasing the institutional and member share capital. According to PEARLS system financing of total assets with saving deposit, borrowed fund and member share capital should not exceed 80 percent, 5 percent, 20 percent of the total assets respectively. Institutional Capital should be at least 10 percent of total asserts of MFIS (Richard son, 2002)

### 4.2.1 Net Loan to total Assets ($E_1$)

According to the PEARLS System the ratio of net loan to total assets been under the 70 to 80 percent is known as effective financial structure table and figure shows the followings.

**Table 4.2.1**

**Net loan to total Assets**

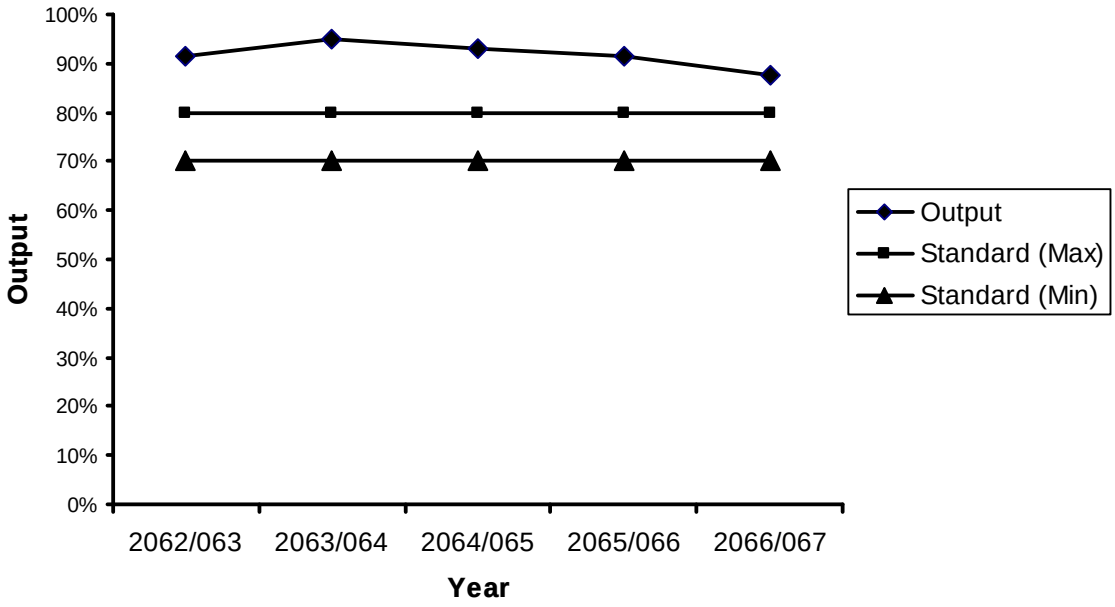
**Amount in (Rs.)**

| Year | B.S. 2062/063 | B.S. 2063/064 | B.S. 2064/065 | B.S. 2065/066 | B.S. 2066/067 |
|---|---|---|---|---|---|
| a) Total loan investment | 6083678 | 7699527 | 9595855 | 15948218 | 21459520 |
| b) Allowance for loan losses | 81023.63 | 6542764 | 62421.08 | 64390.50 | 205001 |
| c) Total Assets | 65594413.0 | 8054086.50 | 10237054.0 | 17381849 | 24794089.0 |
| $E_1$ | 91.51% | 94.78% | 93.12% | 91.38% | 87.72% |
| Standard % | (70-80%) | | | | |

*Source: Annual report of SFCL and Researcher's calculation.*

**Figure 4.2.1**

**Net Loan to total Assets**




The table 4.2.1 and figure 4.2.1 shows that the ratio is most highly with in the PEARLS standard. The trend is in 1st 3 financial year fluctuated and after decrease rate. The ratio is 91.51%, 94.78%, 93.12%, 91.38% and 87.72% in year 2062/063 to 2066/067 respectively

### 4.2.2 Liquid Investment to total Assets ($E_2$)

$E_2$ is the ratio of two factors. They are short term investment and total asset. According to the PEARLS model it must be maximum 20 percent. Management must arrange proper trade of between short term investment and loan portfolio because investment in short term in related with the member withdrawal and affects gross spread and institutional capital.

**Table. 4.2.2**

**Total Liquid investment to total Assets**

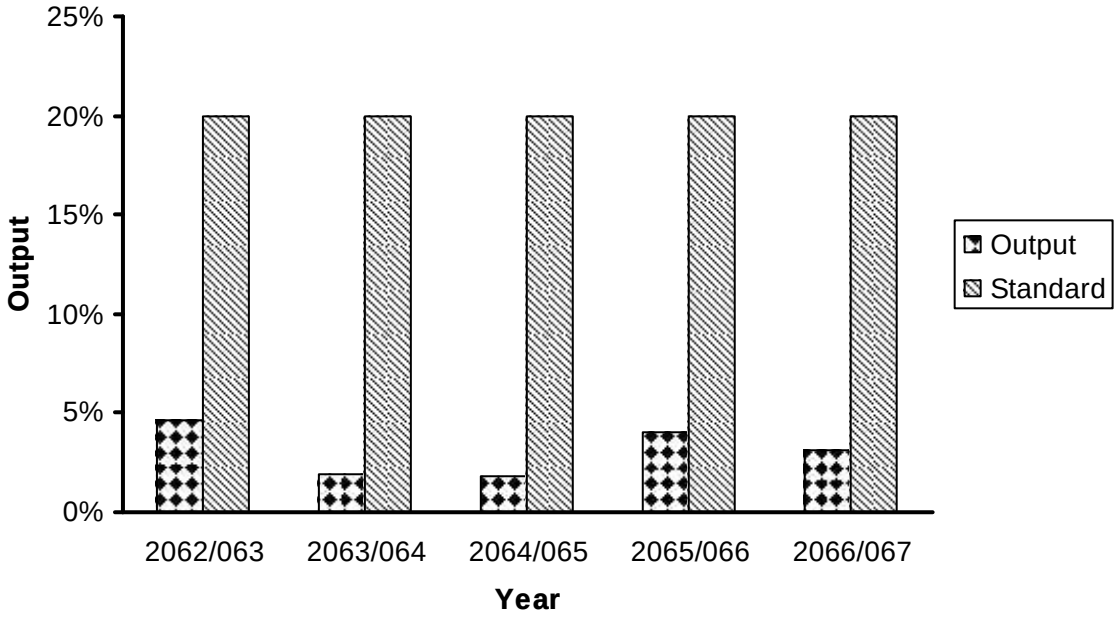
**Amount in (Rs.)**

| Year | B. S. 2062-063 | B. S. 2063-064 | B. S. 2064-065 | B. S. 2065-066 | B. S. 2066-067 |
|---|---|---|---|---|---|
| a) Total liquid investment | 307639 | 157056 | 182193 | 708570 | 776447 |
| b) Total Assets | 6559413 | 8054086.50 | 10237054 | 17381849 | 24794089 |
| $E_2$ | 4.68% | 1.95% | 1.78% | 4.08% | 3.13% |
| Standard % | | Max 20% | | | |

*Source: Annual Report of SFCL and Researcher's calculation.*

**Figure 4.2.2**

Total Liquid Investment to Total Assets



The table 4.2.2. and figure 4.2.2. shows that the output ratio in 4.68%, 1.95%, 1.78%, 4.08% and 3.13% in year 2062/063 to 2066/067 respectively. The output is in fluctuated trend during the year but all the output ratio is with in the PEARLS standard.

### 4.2.3 Financial Investment to total Assets ($E_3$)

$E_3$ measures the percentage of total assets invested in long term investments. Financial investment yields some income but have certain risk. Management should investment the fund in the productive sector to or more income earned sector and should arrange proper trade of between investment and deposit collection. If the management could not identify the investment opportunity. The earned significantly low interest.

**Table 4.2.3**

**Total Financial Investment to Total Assets.**

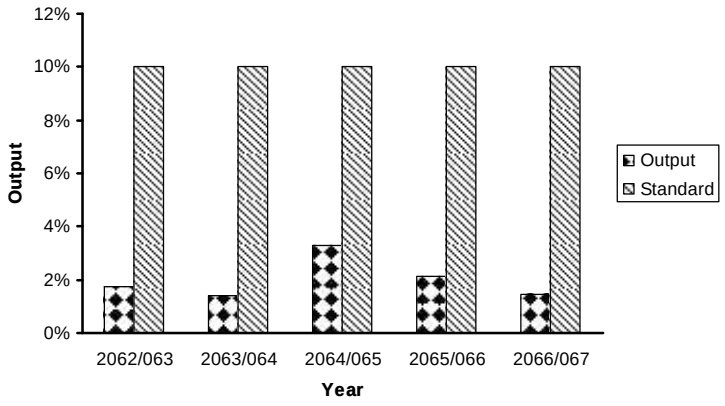
**Amount in (Rs.)**

| Year | B.S. 2062-063 | B. S. 2063-064 | B. S. 2064-065 | B. S. 2065-066 | B. S. 2066-067 |
|---|---|---|---|---|---|
| a) Total financial investment | 114460 | 114460 | 334660 | 366660 | 366660 |
| b) Total Assets | 6559413 | 8054086.50 | 10237054.0 | 17381849 | 24794089 |
| $E_3$ | 1.74% | 1.42% | 3.27% | 2.11% | 1.47% |
| Standard % | Max 10 % | | | | |

*Source: Annual Report of SFCL Sarangkot and researcher's calculation*

**Figure 4.2.3**

Total Financial Investment to Total Assets




Total financial investment to total assets ratio ranges 1.42% to 3.27 % in study period which seems sustainability lower than the given pearls standard of 10% .

### 4.2.4 Saving Deposits to total Assets ($E_5$)

$E_5$ measures the percentage of total assets financed by saving deposit. The huge deposit saving indicates the institution have developed effective marketing programs and achieved financial independence saving deposit is affected by the interest rate offered to the depositors according to the CU model setting a saving rate with in marker is a compulsory. But attempting to pay more than the market rate may hinder a problem. Such interest charge should below the longs rate charged. Adequate provision of allowances for loan loss is another consideration that institution should choose that safeguard to depositor.

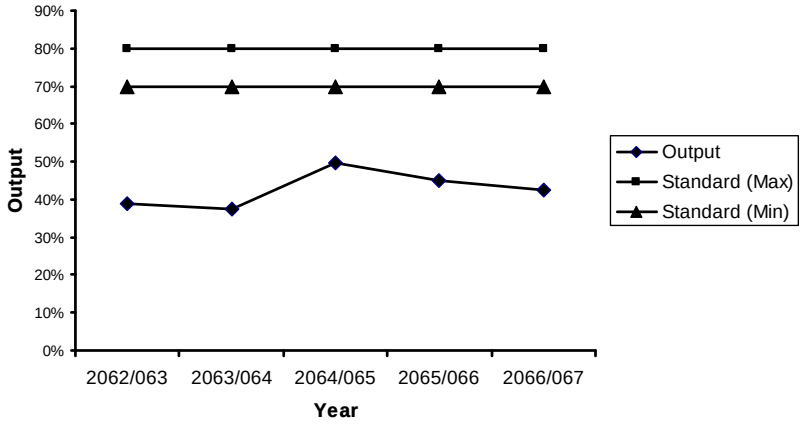
**Table No. 4.2.4**
**Saving Deposit to Total Assets**

**Amount in (Rs.)**

| Year | B. S. 2062-063 | B. S. 2063/064 | B. S. 2064-065 | B. S. 2065-066 | B. S. 2066-067 |
|---|---|---|---|---|---|
| a) Total financial deposit | 2548738 | 3030156 | 5081160 | 7802245 | 10491998 |
| b) Total Assets | 6559413 | 8054086.50 | 10237054 | 17381849 | 24794089 |
| $E_5$ | 38.86% | 37.62% | 49.63% | 44.89% | 42.31% |
| Standard % | 70-80% | | | | |

*Source: Annual Report of SFCL and Researchers calculation*

**Figure 4.2.4**
**Saving Deposit to Total Assets**




Savings deposits to total assets evaluate the percentage of deposit out of total assets, which ranges 37.62% to 49.63% in the study period. The ratio shows below than the given standard of 70-80%.

### 4.2.5 Member share capital to total assets ($E_7$)

It measures the percentage of total assets financed by member share capital since institution do not have any obligation of expenses for member share capital unless and until it generate profit. The institution should maintain the standard of share capital as increase otherwise the high cost fund grows up and adversely affects the earning of the institutions.

**Table 4.2.5**
**member share capital to total assets**

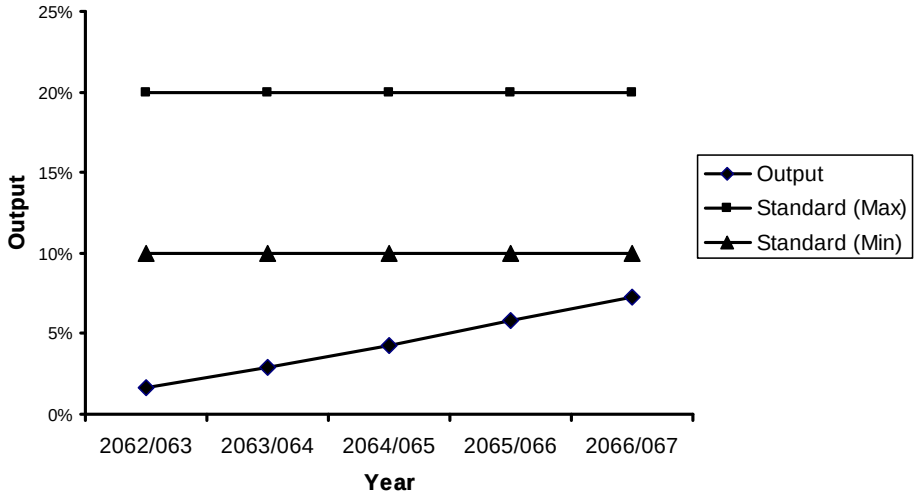
**Amount in (Rs.)**

| Year | B. S. 2062-063 | B. S. 2063/064 | B. S. 2064-065 | B. S. 2065-066 | B. S. 2066-067 |
|---|---|---|---|---|---|
| a) member share capital | 107900 | 236200 | 442000 | 1006500 | 1794800 |
| b) Total Assets | 6559413.0 | 8054086.0 | 10237054.0 | 17381849.0 | 24794089 |
| $E_7$ | 1.64% | 2.93% | 4.31% | 5.79% | 7.23% |
| Standard % | 10-20% | | | | |

*Source: Annual report of SFCL Sarangkot and researcher's calculation*

**Figure 4.2.5**

**Member Share Capital to Total Assets**




The output ratio is 1.64%, 2.93%, 4.31%, 5.79% and 7.23% in year 2062/063 to 2066/067 respectively. The member share ratio is much lower than PEARLS minimum standard rate but they are increasing trends which seen in the figure 4.2.5

### 4.2.6 Institutional Capital to Total Assets ($E_8$)

It measures the percentage of total assets financed by institutional capital. Since institutional capital has no explicit interest cost, it will generate 100 percent return to institutions investing to the productive assets according to CU model focus an epidemic is a crucial. That institution should pay observe in its operation. It includes general member education reserve for organization and net profit.

**Total 4.2.6**

**Total institutional capital to total assets**

**Amount in (Rs.)**

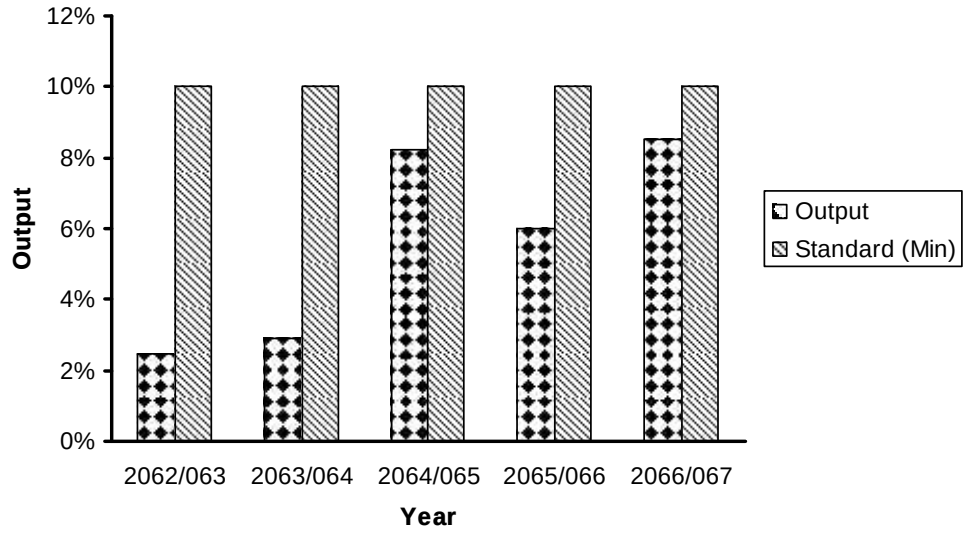
| Year | B. S. 2062-063 | B. S. 2063/064 | B. S. 2064-065 | B. S. 2065-066 | B. S. 2066-067 |
|---|---|---|---|---|---|
| a) Total institutional capital | 161,479.75 | 234177.13 | 843798 | 1042503 | 2109960 |
| b) Total Assets | 6559413 | 8054086.50 | 10237054 | 17381849 | 24794089 |

| | | | | | |
|---|---|---|---|---|---|
| $E_8$ | 2.46% | 2.90% | 8.24% | 5.99% | 8.50% |
| Standard % | Min 10% | | | | |

*Source: Annual report of SFCL Sarangkot and researches calculation*

**Figure 4.2.6**

**Total Institutional Capital to Total Assets**




The total institutional capital is 2.46%, 2.90%, 8.24%, 5.99% and 8.50% for the year 2062/063 to 2066/067 respectively. The total institutional capital is lower than PEARLS standard. The institutional capital seems. Increasing for the first there years and decreasing in one year and increasing in last year with respect to total assets.

## 4.2.7 Net Institutional Capital to Total Assets ($E_9$)

$E_9$ measures the real level of institutional capital after adjusting the allowances for risk assets to meet the standard of $P_1$ and $P_2$ covering any other potential losses. Net institutional capital is calculated by deducting all delinquent loan balance and problem assets. The net institutional capital to total assets has been shown in table and figure 4.2.7

**Table No. 4.2.7**

**Net Institutional Capital to Total Assets**

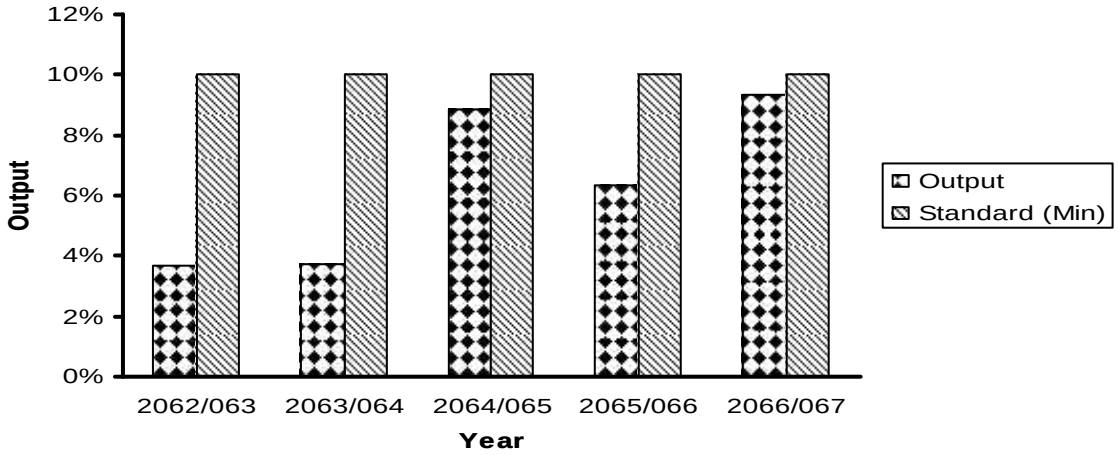
**Amount in (Rs.)**

| Year | B. S. 2062-063 | B. S. 2063-064 | B. S. 2064-065 | B. S. 2065-066 | B. S. 2066-067 |
|---|---|---|---|---|---|
| a) Net institutional Capital | 242503.38 | 299604.77 | 906219.08 | 1106893.5 | 2314961 |
| b) Total Assets | 6559413 | 8054086.50 | 10237054 | 17381849 | 24794089 |
| $E_9$ | 3.70% | 3.72% | 8.85% | 6.36% | 9.33% |
| Standard % | Min 10% | | | | |

Sources: Annual report of SFCL Sarangkot and Researches Calculations

**Figure 4.2.7**

**Net Institutional Capital to Total Assets**




The output rate is 3.70%, 3.72%, 8.85%, 6.36%, and 9.33% in year the year 2062/063 to 2066/067 respectively. The output ratio is satisfactory in last year in the PEARIS standard. The institutional capital ratio is increasing trend. The trend is seen with in the above PEARLS standards.

## 4.3 Assets Quality

Assets quality indicator measures the impact of assets which, do not generate income such as loan delinquency and non earning assets. The delinquency ratio is the most important measurement of institutional weakness. The higher the ratio of non earning assets the more difficult it is to generate sufficient earnings.

### 4.3.1 Total Loan Delinquency to Gross Loan Portfolio ($A_1$)

A non- productive or non earning assets is one that does non generate in come. An excess of non- earning assets affects credit union earning in a negative way of all the PEARLS ratios, the delinquency ratio is the most important key measurement of institutional weakness. If delinquency is high, it usually affects all other key areas of credit union operations. By using the PEARLS formula to accurately measures delinquency, credit union are properly informed of the severity of the situation before a crisis develops. The ideal goal is to maintain the delinquency rate below 5% of total loans outstanding.

**Table 4.3.1**

**Total Loan Delinquency to Gross Loan Portfolio**

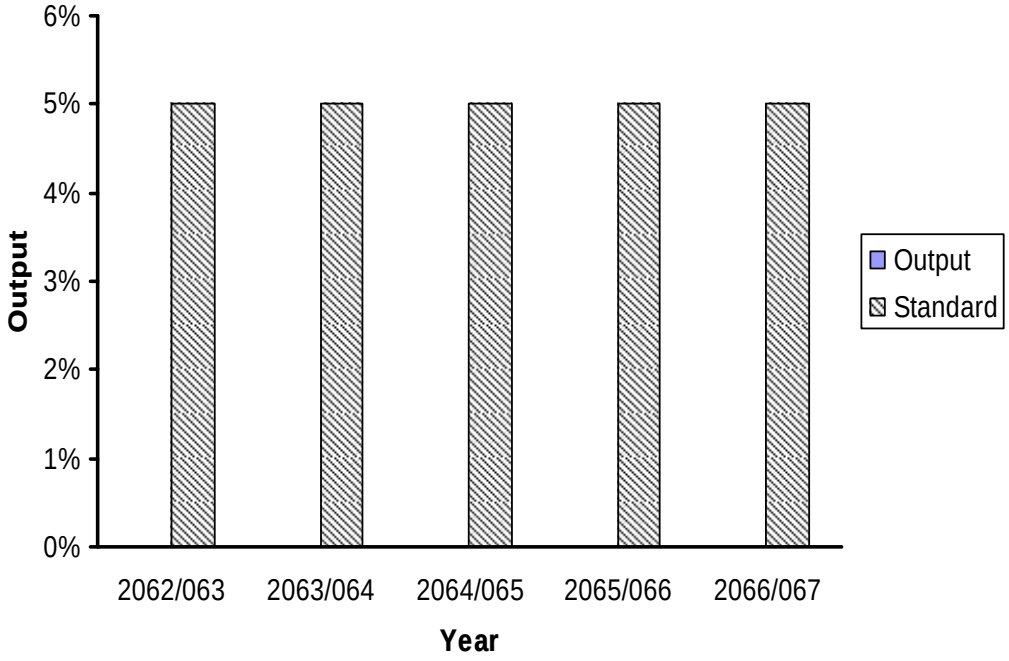
**Amount in (Rs.)**

| Year | B. S. 2062-063 | B. S. 2063-064 | B. S. 2064-065 | B. S. 2065-066 | B. S. 2066-067 |
|---|---|---|---|---|---|
| a) Net delinquency loans | 0 | 0 | 0 | 0 | 0 |
| b) Total Assets | 6083678 | 7699527 | 9595855 | 15948218 | 21459520 |
| $A_1$ | 0% | 0% | 0% | 0% | 0% |
| Standard % | Less than or equal to 5% | | | | |

Sources: Annual report of SFCL Sarangkot and Researcher's calculation

**Figure 4.3.1**

**Total Delinquent Loan to Gross Loan Portfolio**




The output ratio of SFCL on total delinquency loan is not so that total delinquency loan to gross loan portfolio is all financial years is 0%. Also the information of delinquent loan for the previous year non found during the study period.

### 4.3.2 Non Earning Assets to Total Assets ($A_2$)

A second key ratio is the percentage of non earning assets owned by the credit union the higher the ratio, the more difficult it is to generate sufficient earnings. The goal also limits non earnings assets to a maximum of 5% of the total credit union assets. Where credit unions are in dire need of improving their poor physical image. The non earning assets ratio can increase in the short run. An improved image is more important to the success of aggressive marketing programs than it is to keep a ratio with in its limits. As new members join and deposit their savings with the credit union, the non-earning assets ratio begins to decrease as a result of increased public confidence.

**Total 4.3.2**

**Non Earning Assets to Total Assets**

**Amount in (Rs.)**

| Year | B. S. 2062-063 | B. S. 2063/064 | B. S. 2064-065 | B. S. 2065-066 | B. S. 2066-067 |
|---|---|---|---|---|---|
| a) Total non earning assets | 54536 | 83043 | 124346 | 246701 | 2191462 |
| b) Total assets | 6559413 | 8054086.50 | 10237054 | 17381849 | 24794089 |
| $A_2$ | 8.31% | 1.03% | 1.21% | 1.41% | 8.84% |
| Standard % | Less than or equal to 5% | | | | |

*Source: Annual report of SFCL Sarangkot and Researches Calculation*

**Figure 4.3.2**

**Non earning assets to total assets**

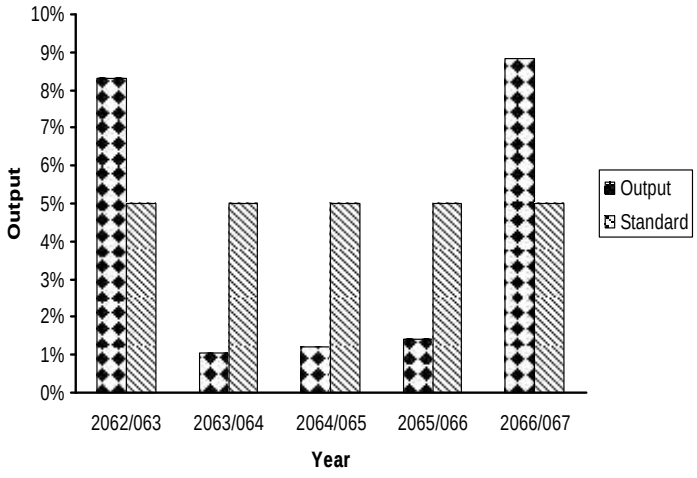



Table 4.3.2 and figure 4.3.2 shows that the outputs ratio of non earning assets to total assets is 8.31%, 1.03%, 1.21%, 1.41% and 8.84% in year 2062/063 to 2066/067 respectively. The output ratio is increase in 1st year, decrease in 2nd, 3rd and 4th year and

increase in 5th year. The histogram shows the fluctuation of non earning assets ratio to total assets in PEARLS standard.

### 4.3.3 Net zero cost fund to non earning assets ($A_3$)

$A_3$ measures the percentage of non earning assets that are financed with institutional capital, transitory capital and non interest bearing liabilities, transitory capital includes monitory educational and social reserve. The ratio should not be down below 200 percent

**Table 4.3.3 Net Zero Cost Fund to Non Earning Assets**

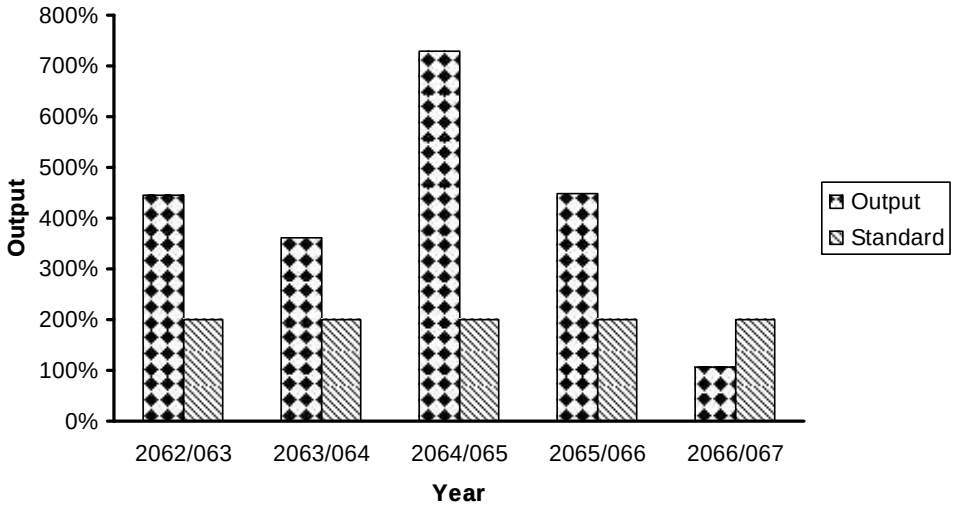
**Amount in (Rs.)**

| Year | B. S. 2062-063 | B. S. 2063/064 | B. S. 2064-065 | B. S. 2065-066 | B. S. 2066-067 |
|---|---|---|---|---|---|
| a) Net cost fund | 242503.38 | 299604.77 | 906219.08 | 1106893.5 | 2114961 |
| b) Total non earning assets | 54536 | 83043 | 124346 | 246701 | 2191426 |
| $A_3$ | 444.67% | 360.78% | 728.78% | 448.68% | 105.63% |
| Standard % | Greater than 200% | | | | |

Sources: Annual report of SFCL and Researches Calculation

**Figure 4.3.3**

**Net zero cost fund to Non Earning Assets**




From the table 4.3.3 and figure 4.3.3 shows that the output ratio is very much greater than the standard rate and last year lower than standard rate. It is 444.67%,360.78%, 728.78%, 448.68% and 105.63% in year 2062/063 to 2066/067 respectively.

## 4.4 Rate of Return and Cost

The PEARLS system segregates all of the essential components of net earning to help management calculate investment yields and evaluate operating expenses. In this way, PEARS demonstrates it's value as a management too. Unlike other system that calculated field on the basis of actual investment outstanding. This methodology assists management in determining which investments are the most profitable. It also permits the credit unions to be ranked according to the best and worst yields. By comparing financial structure with yields. It is possible to determine how effectively the credit union is able to place its productive resources in to investment that produce the higher yield. These powerful analysis technique help management stay abreast of the financial performance of the credit union. Yield information is computed on four main areas of investment.

### 4.4.1 Net Loan Income to Average Net Loan Portfolio ($R_1$)

All interest income, delinquent interest, penalties and commissions from landings operations are divided by the total amount invested in the loan portfolio. Interest income is inclusive to commission, fee and penalty charges and exclusive to premium on loan insurance. The outputs should cover the interest expenses, cost of operation and administration.

**Table 4.4.1**
**Net Loan Income to Average Net Loan portfolio**

**Amount in (Rs.)**

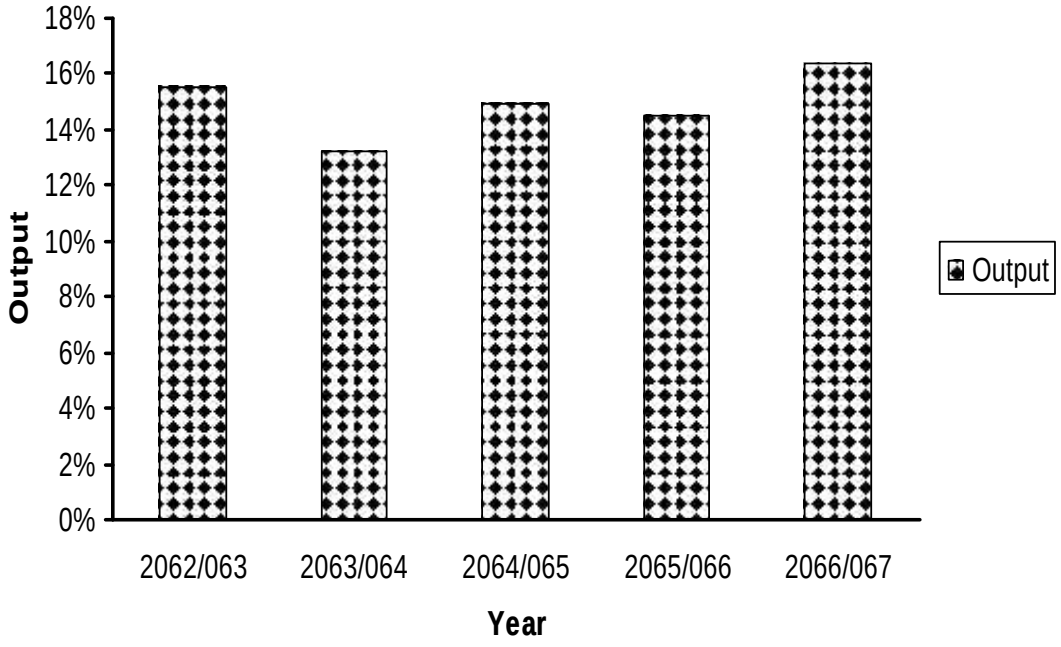
| Year | B. S. 2062/63 | B. S. 2063/64 | B. S. 2064/065 | B. S. 2065/66 | B. S. 2066/67 |
|---|---|---|---|---|---|
| a. Net loan income | 939827 | 899524 | 1279151 | 1837768 | 3040348 |
| b. Loan Portfolio Current year | 6002654.37 | 7634099.36 | 9533433.92 | 15883827.5 | 21254519 |
| c. Loan portfolio last year | 6089691.86 | 6002654.37 | 7634099.36 | 9533433.92 | 15883827.5 |
| $R_1$ | 15.54% | 13.19% | 14.90% | 14.46% | 16.37% |
| Standard | Entrepreneurial return | | | | |

Source, Annual report of SFCL and Researcher's Calculation

The output ratio is ratio is 15.54%, 13.19%, 14.90%, 14.40% and 16.37% in year 2062/63 to 2066/67 respectively. The ratio is greater than entrepreneurial rate during the study period.

**Figure 4.4.1**

**Net Income to Average Net Loan portfolio.**



Graphs shows the actual rate is higher than entrepreneurial rate.

### 4.4.2 Total liquid Investment Income to Average liquid Investment ($R_2$)

All Income from bank saving accounts and liquidity reserves deposited in either the National Association or regulatory body is divided by the amounts invested in those areas.

**Table 4.4.2**

**Total liquid Investment income to Average liquid investment. ($R_2$)**

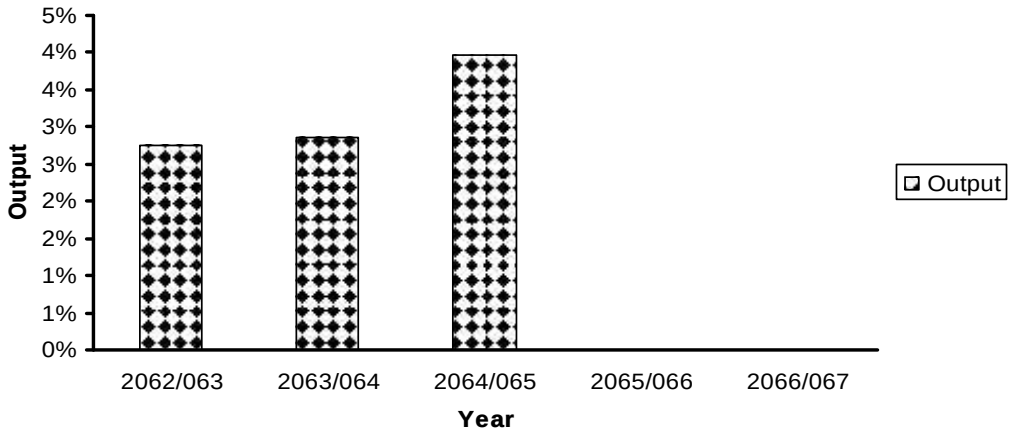
**Amount in (Rs.)**

| Year | B. S. 2062/63 | B. S. 2063/64 | B. S. 2064/065 | B. S. 2065/66 | B. S. 2066/67 |
|---|---|---|---|---|---|
| a. Liquid investment income | 9184 | 6608 | 6733 | 0 | 0 |
| b. Liquid investment (current year) | 306739 | 157056 | 182193 | 708570 | 776447 |
| c. Liquid incest ment (last year) | 358262.10 | 306739 | 157056 | 182193 | 708570 |
| $R_2$ | 2.76% | 2.85% | 3.97% | 0% | 0% |
| Standard % | Market rate | | | | |

*Source Annual Report of SFCL and Researcher's Calculation*

**Figure 4.4.2**

**Total liquid investment income to average liquid Investment ($R_2$)**




The outputs ratio is very lower than the market rates. There is no sufficient liquid investment income. The output ratio is 2.76%, 2.85%, 3.97%, 0% and 0% in year 2062/63 to 2066/67 respectively.

### 4.4.3 Total financial Investment Income to total Average financial Investment ($R_3$)

Many credit unions invest liquidity in to financial investments (e.g. government securities) that pay higher yields that bank saving accounts. This investment income is also divided by the outstanding capital invested in those Instruments.

There is no financial income find out during the study period so financial income is zero. Financial investment is same all the years.

**Table 4.4.3**

**Total financial investment income to average financial income.**

**Amount in (Rs.)**

| Year | B. S. 2062/63 | B. S. 2063/64 | B. S. 2064/065 | B. S. 2065/66 | B. S. 2066/67 |
|---|---|---|---|---|---|
| a. Total financial investment | NA | NA | NA | NA | NA |

| | | | | | |
|---|---|---|---|---|---|
| income | | | | | |
| b. Total financial investment (current year end) | 114460 | 114460 | 334660 | 366660 | 366660 |
| c. Total financial investment (last year end) | 36000 | 114460 | 114460 | 334660 | 366660 |
| $R_3$% | 0 | 0 | 0 | 0 | 0 |
| Standard % | Market rate | | | | |

*Source : Annual Report of SFCL and Researcher's calculation*

### 4.4.4 Total interest cost on saving deposit to average saving Deposit ($R_5$)

Saving deposit cost includes total interest paid on saving deposits, total interest premium paid on saving deposits, total tax paid by $MFI_s$ on saving deposit interest. The cost of insurance premium and tax paid on saving deposit not found during the study period.

**Table 4.4.4**

**Total Interest cost on saving Deposit to Average saving Deposit.**

**Amount in (Rs.)**

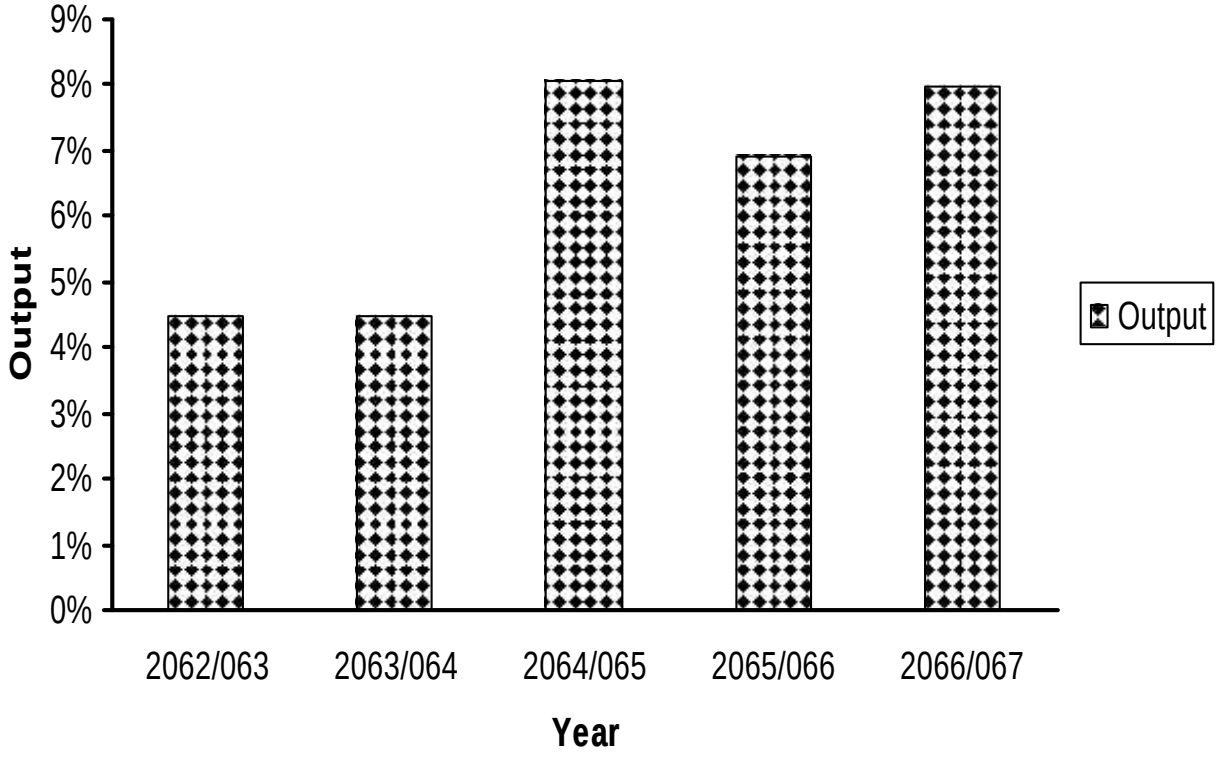
| Year | B. S. 2062/63 | B. S. 2063/64 | B. S. 2064/065 | B. S. 2065/66 | B. S. 2066/67 |
|---|---|---|---|---|---|
| a. Total Interest paid on saving deposit | 103177 | 124318 | 327878 | 446391 | 729987 |

| | | | | | |
|---|---|---|---|---|---|
| b. Total saving deposit as of current year and | 2548738 | 3030156 | 5081160 | 7802245 | 10491998 |
| c. Total saving deposit as of last year end | 2060542.10 | 2548738 | 3030156 | 5081160 | 7802245 |
| R5 | 4.48% | 4.46% | 8.08% | 6.93% | 7.98% |
| Standard % | market rate > inflation rate | | | | |

*Source : Annual report of SLCL and Researcher's Calculation*

**Figure : 4.4.3**

**Cost saving deposit to average saving deposit.**




The ratio is 4.48%, 4.46%, 8.08%, 6.93% and 7.98% in year 2062/63 to 2066/67 respectively But the ration is fluctuation. In PEARIS Standard.

### 4.4.5 Total operating expenses to Average total Asset ($R_9$)

$R_9$ measure the operating expenses on average total assets. It must be not above total assets. It must be not above 5 percent. It shows the efficiency of management either they are success or failure in controlling the office and administrative expenses in the co-operatives. The taste and figure shows the following.

**Table 4.4.5**

**Total operating expensed to total Assets**

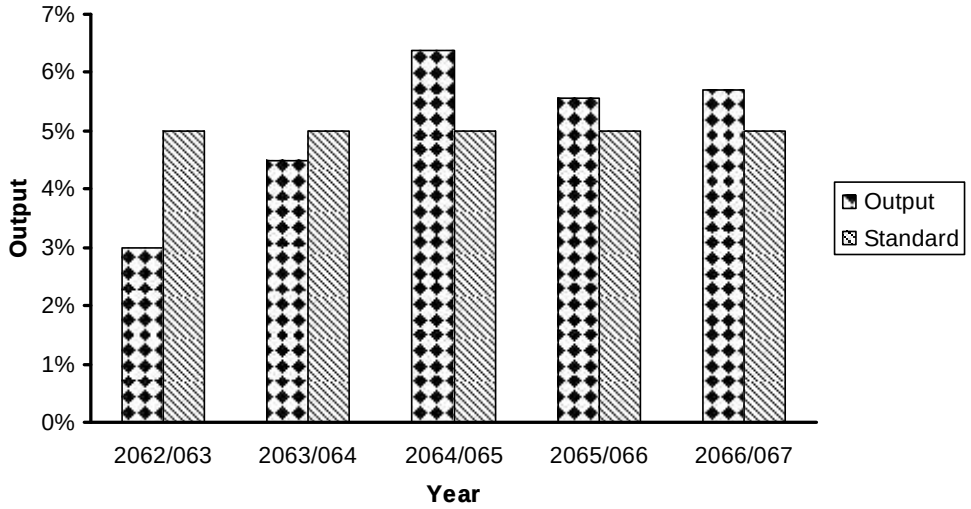
**Amount in (Rs.)**

| Year | B. S. 2062/63 | B. S. 2063/64 | B. S. 2064/065 | B. S. 2065/66 | B. S. 2066/67 |
|---|---|---|---|---|---|
| a. Total operating expenses | 195450 | 329038 | 583178 | 768148 | 1203667 |
| b. Total assets as of current year end | 6559413 | 8054086.50 | 10237054 | 17381849 | 24794089 |
| c. Total assets as of last year end | 655525610 | 6559413 | 8054086.50 | 10237054 | 17381849 |
| $R_9$ | 2.98% | 4.50% | 6.38% | 5.56% | 5.71% |
| Standard % | 5% | | | | |

*Source: Annual report of SFCL and Researcher's calculation.*

**Figure 4.4.4**

**Total operating Expenses to Average total Asset**.



The table 4.4.7 and figure 4.4.7 shows that the output is 2.98%, 4.50%, 6.38%, 5,56% and 5.71% in year 2062/63 to 2066/067 respectively. The operative cost is decreasing all the year. Operating cost is less then standard rate is first 2nd year and more then 3rd, 4th and 5th year throughout the year.

### 4.4.6 Total Loan loss provision Expenses to Average total Assets. ($R_{10}$)

The final cost area evaluated by PEARLS separates the cost of creating provisions for loan. losses from other administrative costs. This can be facilitated by the use of clear accounting no men clature. Traditional accounting standards usually include loan loss provision as part of the overall administrative costs. In reality the creation of adequate provision represents a completely different type of expenses. It is directly linced to experienced credit analysis and effective loan collection techniques by isolating this expenses from the other administrative costs. It is possible to get a much clearer picture of weak credit administration practices in the credit union.

**Table 4.4.6**

**Total loan loss provision expenses to average total Assets.**

**Amount in (Rs.)**

| Year | B. S. 2062-63 | B. S. 2063-64 | B. S. 2064-065 | B. S. 2065-66 | B. S. 2066-67 |
|---|---|---|---|---|---|
| a. Total loan loss provision expenses | 81023.63 | 65427.64 | 62421.08 | 64390.50 | 205001.00 |
| b. Total assets as of current year end | 6559413.0 | 8054086.50 | 10237054.0 | 17381849.0 | 24794089.0 |
| c. Total assets as of last year end | 6555256.10 | 6559413.0 | 8054056.50 | 10237054 | 17381849 |
| $R_{10}$ | 1.24% | 0.895% | 0.683% | 0.466% | 0.972% |
| Standard % | Dependent on delinquent loan | | | | |

*Source: Annual report of SFCL and Researcher's Calculation*

Loan loss provision expenses to total average assets is which ranges 0.466% to 1.24% in the study period. The ratio depends on delinquent loan. The ratio is decreasing in four year and increasing last year.

## 4.5 Liquidity

Liquidity indicator measures the cash position of an institution to meet deposit withdrawal request and liquidity reserve requirement. The sufficient cash reserve must be maintained to serve the client and sure from the cash crisis but management must be careful of high idle cash because it earns no interest income. Therefore, the management must maintain the confidence of depositor and overcome the Financial crisis efficiently in other to achieve the goal of liquid assets. Only two ratios $L_2$ and $L_3$ have workout the study. The other is not computed to the data availability.

### 4.5.1 St Investment, Liquid Assets and st payable to total average saving deposit. ($L_1$)

$L_1$ measures the liquidity position with the components of short term investment, liquid assets and short term payable on the basis of saving deposit. Short term investment and short term payable with in thirty days not found during the study period.

**Table 4.5.1**

**St Investment, Liquid Assets & St payable to total average saving Deposit.**

**Amount in (Rs.)**

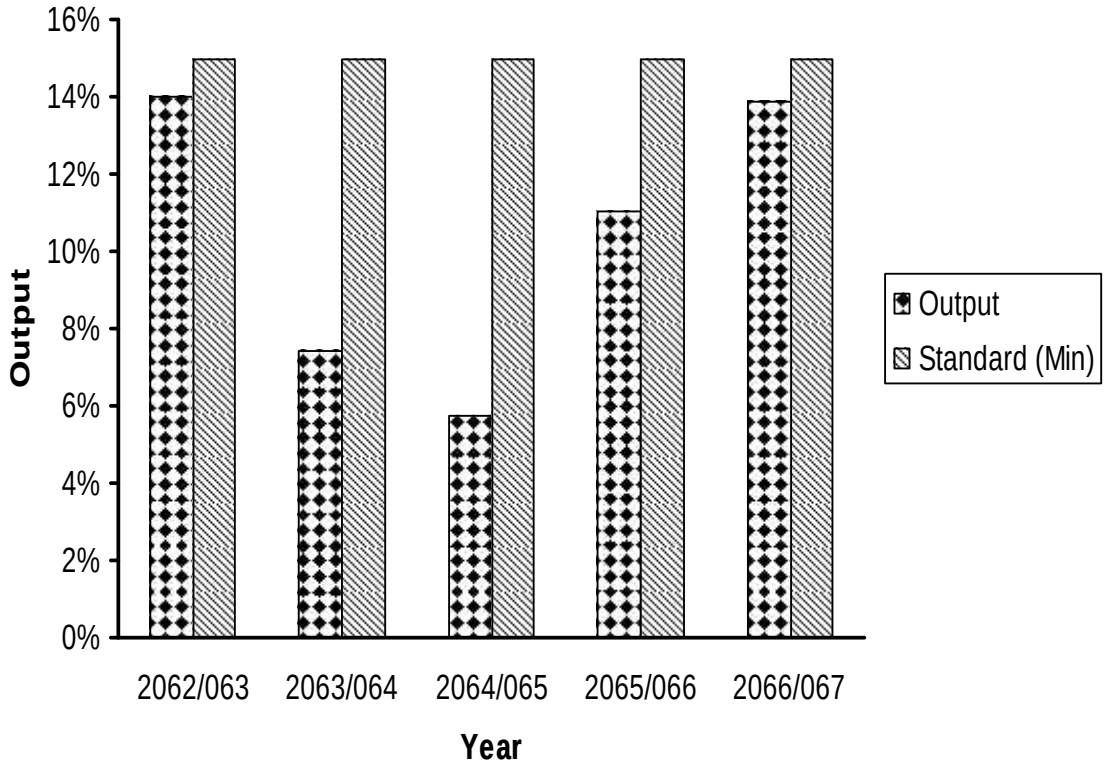
| Year | B. S. 2062/63 | B. S. 2063/64 | B. S. 2064/065 | B. S. 2065/66 | B. S. 2066/67 |
|---|---|---|---|---|---|
| a. Liquid assets | 357087 | 225392 | 291831 | 860986 | 1458035 |
| b. Total saving deposit | 2548738 | 3030156 | 5081160 | 7802245 | 10491998 |

| | | | | | |
|---|---|---|---|---|---|
| L1 | 14.01% | 7.44% | 5.74% | 11.03% | 13.90% |
| Standard % | min 15% | | | | |

*Source : Annual report of SFCL and Researcher's Calculation*

**Figure 4.5.1**

**St. Investment, Liquid Assets & St payable to total Average saving deposit.**




The table and figure shows the ratio is little lower than the standard rate in 2062/63, 2065/66 and 2066/67 but in 2063/064 and 2064/065 is much less than PEARLS standard rate.

### 4.5.2 Liquidity Reserve to saving Deposit ($L_2$)

$L_2$ measures the liquidity reserve on saving deposit. Sufficient liquidity reserve must maintain in other to carry out the transaction. An excess uphold of liquidity reserve hampers institution from generating income. The interest margin on depository institution and commercial banks in significantly lower than investing them in productive assets. Earning liquid reserve includes bank deposit and non earning liquid reserve includes cash in hand.

**Table 4.5.2**

**Liquidity Reserve to saving Deposit.**

**Amount in (Rs.)**

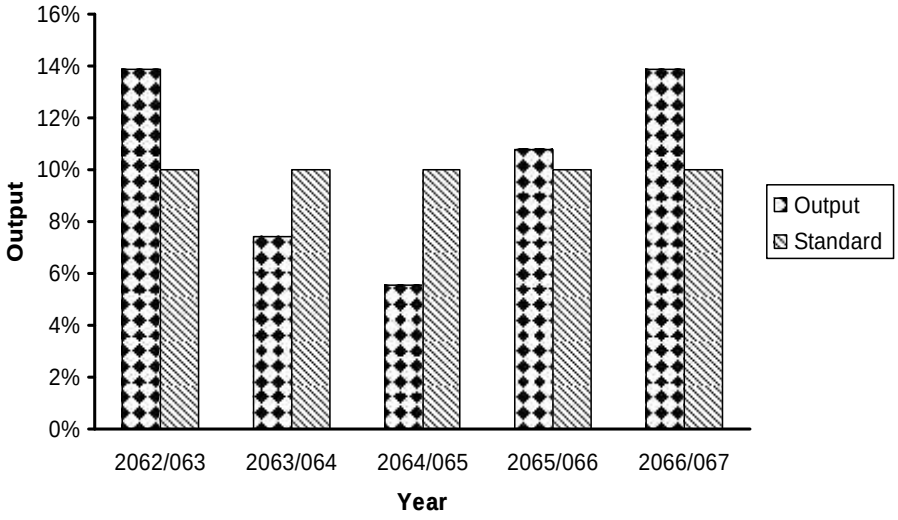
| Year | B. S. 2062/63 | B. S. 2063/64 | B. S. 2064/065 | B. S. 2065/66 | B. S. 2066/67 |
|---|---|---|---|---|---|
| a. Total earning liquid reserve | 306739 | 157056 | 182193 | 708570 | 776447 |
| b. Total non learning liquid reserve | 46596 | 68336 | 99238 | 134416 | 681588 |
| c. Saving deposit | 2548738 | 3030156 | 5081160 | 7802245 | 10491998 |
| L2 | 13.86% | 7.44% | 5.54% | 10.80% | 13.90% |
| Standard % | 10 % | | | | |

*Source: Annual Report of SFCL and Researcher's calculation.*

The table shows that the output ratio in 2063/64 and 2064/65 is 7.44% and 5.54% resp. Which is below the standard rate. The ratio in other year is higher than the PEALS standard. The ratio is 13.86%, 10.80% & 13.90% in year 2062/63, 2065/66 and 2066/67 respectively.

**Figure 4.5.2**

**Liquidity Reserve to saving Deposit.**




From the figure 4.5.1 the output ratio liquid reserve is fluctuating year by year during the study.

### 4.5.3 Total Non Earning liquid Assess to total Assess ($L_3$)

$L_3$ measures the percentage of total assets that is invested in non earning liquid assets. Non earning assets is the cash at hand which do not generate in come. But institution should keep sufficient cash and monitory deposit for the deposit withdrawal. For the daily operation how much keep the cash is depends upon the analysis of previous cash deposit and with drawl transaction and its trends.

**Table 4.5.3**

**Non Earning liquid Assets to total Assets.**

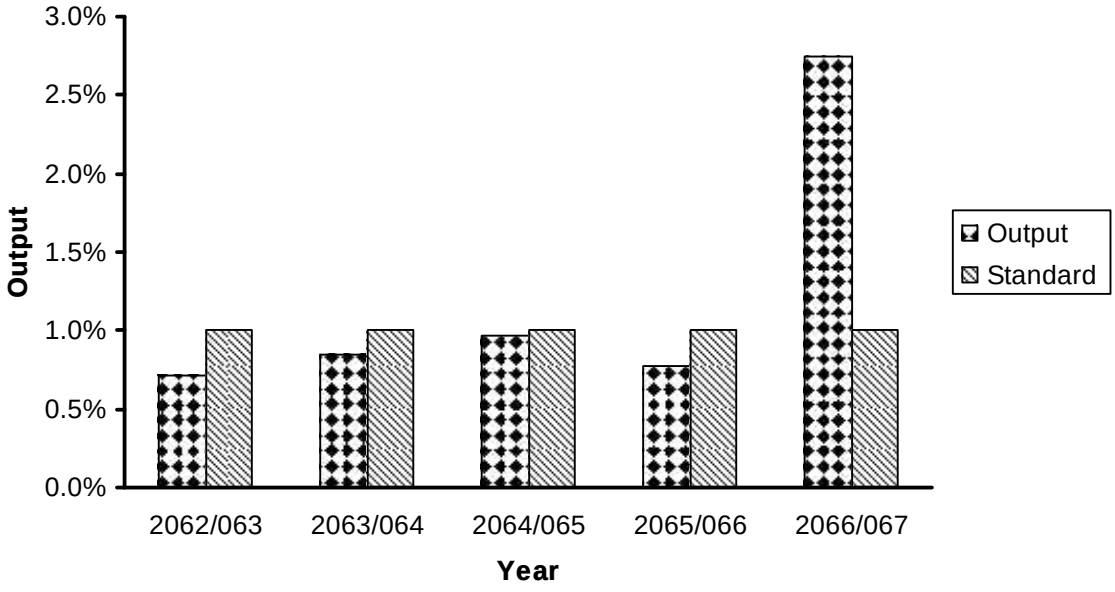
**Amount in (Rs.)**

| Year | B. S. 2062/63 | B. S. 2063/64 | B. S. 2064/065 | B. S. 2065/66 | B. S. 2066/67 |
|---|---|---|---|---|---|
| a. Non earning Liquid assets | 46596 | 68336 | 99238 | 134416 | 681588 |
| b. Total assets | 6559413.0 | 8054086.50 | 10237054 | 17381849 | 24794089 |
| L3 | o.71% | 0.85% | 0.97% | 0.77% | 2.75% |
| Standard % | <1 % | | | | |

*Source : Annual Report of SFCL and Researcher's Calculations*

**Figure 4.5.3**

**Non Earning Liquid Assets to total assets**




From the above table and figure the output is o.71%, 0.85%, 0.97%, 0.77% and 2.75% in year 2062/63 to 2066/67 respectively the output ratio is lower the first four year and more in last year in PEARLS standard.

## 4.6 Sign of Growth

There are eleven ratios in sign of growth. Sign of growth indicator helps to new strategy formulation, decision making and corrective action by analyzing the previous position of many financial variables. It helps to management how to arrange and achieve the better position in other to growth of assets. Sign of growth provides a trend of past condition of financial variable which more helpful to reach a decision in uncertain future. There are many keys which is separately watched out bout their growth trend. They are total assets, loans, liquid investment financial investment, non financial investment, saving deposit external credit, share capital, institutional capital, net institutional capital and membership. The loan portfolio is important in other to make the earning and assets grow high. Assets growth depends on the growth of saving and investment. Growth in institutional capital consists almost entirely of reserve and surplus. Increase in share

capital and membership depends up on the performance of management and member their activity and institution's well known and good will.

### 4.6.1 Growth in Loans of member ($S_1$)

$S_1$ measures the growth in loan portfolio. In other to growth the loan portfolio there must be more investment alternative fields and management must choose the best alternative for investment being very much careful of risk, cost and uncertain future. Investment on more profitable sector is essential for growth of assets and external environment also affects the investment sector. Earning from loan and provision of allowances for loan delinquency affects the growth in loans. If not occur the delinquency, increase in earning and can re-invest it in productive assets, which yield income. This ratio is affected by $R_1$ and $R_{10}$. According to PEARLS standard, if institution needs to increase the percentage of total loan outstanding ($E_1$), the growth in loans ($S_1$) should be greater than growth in total assets ($s_{11}$).

**Table 4.6.1**

**Growth in Gross Loan**

**Amount in (Rs.)**

| Year | 2062-63 | 2063-64 | 2064-65 | 2065-66 | 066-67 |
|---|---|---|---|---|---|
| a. Loan Portfolio as of current year end | 6083678 | 7699527 | 9595855 | 15948218 | 21459520 |
| b. Loan portfolio as of last year end | 6154000 | 6083678 | 7699527 | 9595855 | 15948218 |
| S1 | (1.14%) | 26.56% | 24.63% | 66.19% | 34.56% |

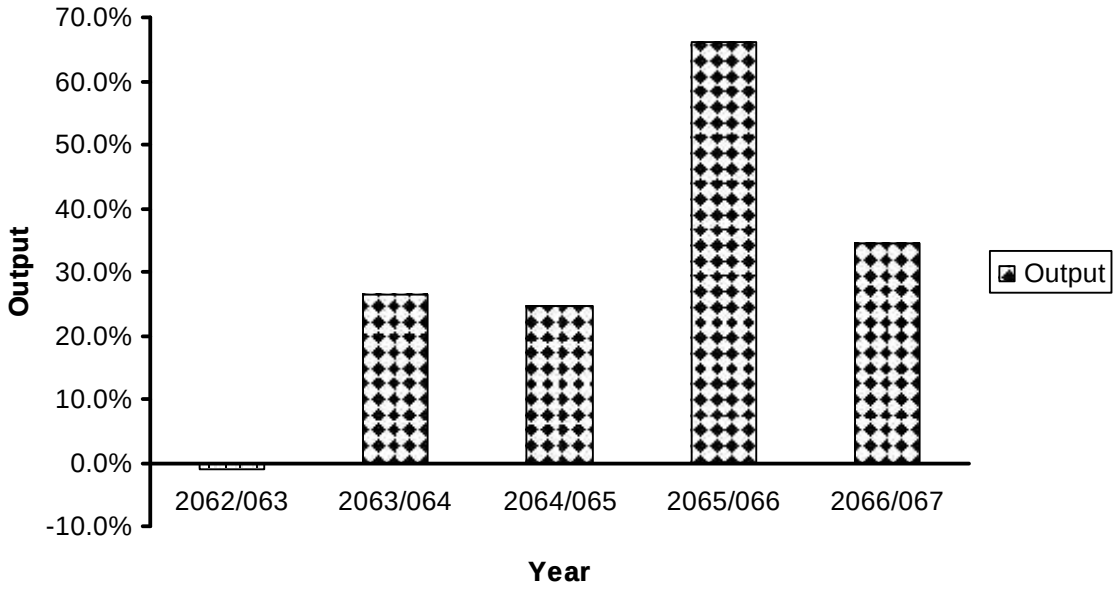
| Standard % | Dependent on $E_1$ |
|---|---|

*Source : Annual Report of SFCL and Researcher's calculation*

The output ratio is (1.14%), 26.56%, 24.63%, 66.19% and 34.56% in year 2062/063 to 2066/67 respectively. The figure is presented below.

**Figure 4.6.1**

**Growth in Loan to member**




## 4.6.2 Growth in liquid Investment ($S_2$)

It shows the position of liquid investment liquid assets is very much need for day to day transaction of institution but sufficient liquid assets must be kept because excess liquid assets generated very low earning and it stops the high productive investment sector. According to PEARLS standard if institution need to increase the percentage of liquid investment ($E_2$), the growth in liquid investment ($S_2$) should be greater than growth in total assets ($S_{11}$)

**Table 4.6.2**

**Growth in liquid investment**

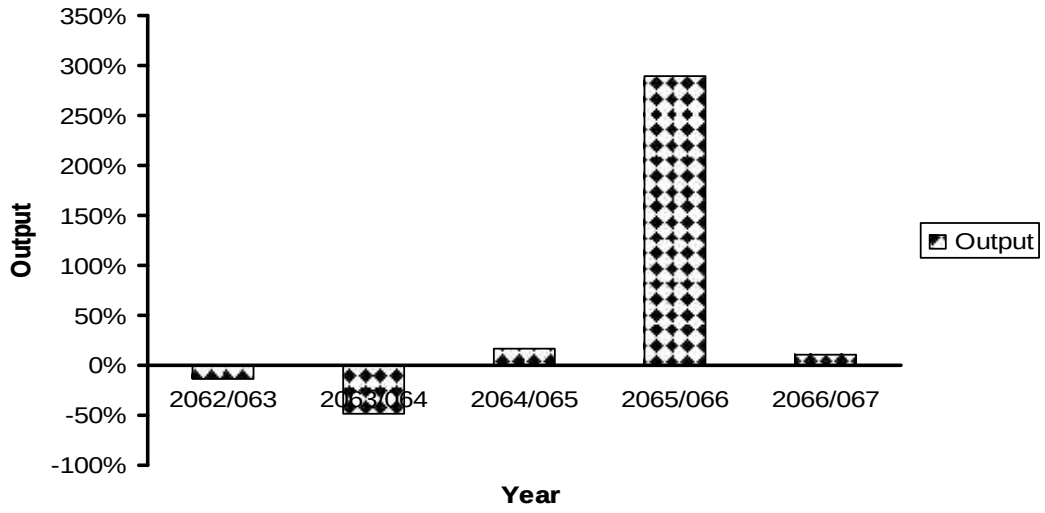
**Amount in (Rs.)**

| Year | B.S. 2062-63 | B.S. 2063-64 | B. S. 2064-65 | B. S. 2065-66 | B. S. 2066-67 |
|---|---|---|---|---|---|
| a. Liquid investment as of current year end | 306739 | 157056 | 182193 | 708570 | 776447 |
| b. Liquid investment as of last year end | 358262 | 306739 | 157056 | 182193 | 708570 |
| S2 | (14.38%) | (48.80%) | 16.00% | 288.91% | 9.58% |
| Standard % | Dependent on $E_2$ | | | | |

*Source: Annual Report of SFCL and Researcher's Calculation*

**Figure 4.6.2**

**Growth in liquid Investment**




The ratio is (14.38%), (48.80%), 16%, 288.91% and 9.58% in year 2062/63 to 2066/67 respectively. The output ratio is negative in first 2 year. It has increased and reached high in financial year 2065/66. It is decreasing for last year and year 2064/65 also.

### 4.6.3 Growth in Financial Investment ($S_3$)

$S_3$ Measures the growth of Financial investment. Investing the fund in the loan portfolio, yields a high portion of income rather than investing the fund in financial

securities because investing on financial securities reduce the risk but consequently result a low earnings. This growth depends upon the financial investment to total assets (E3).

**Table 4.6.3**

**Growth in financial Investment**

**Amount in (Rs.)**

| Year | B. S. 2062-63 | B. S. 2063-64 | B. S. 2064-65 | B. S. 2065-66 | B. S. 2066-67 |
|---|---|---|---|---|---|
| a. Financial Investment as of current year end | 114460 | 114460 | 334660 | 366660 | 366660 |
| b. Financial investment as of last year end | 36000 | 114460 | 114460 | 334660 | 366660 |
| $S_3$ | 217.94% | 0% | 192.38% | 9.56% | 0% |
| Standard % | Depended on $E_3$ | | | | |

*Source: Annual Report of SFCL and Researcher's calculation*

The output ratio is 217.54% in year 2062/63, 192.38% in year 2064/65 and 9.56% in year 2065/66 respectively but no any increasing in other year there no any financial investment during the study period. the investment position is not good.

### 4.6.4 Growth is saving Deposit ($S_5$)

Saving deposit is most essential ratio for MFIS. All the investment, financial and operating activities depends on saving deposit. Higher the saving deposit higher the investment. Financial activities generating high profit and increasing the total assets.

Growth in saving deposit depends up on the activity and goodwill of institution. Saving deposit affects all the other variable. Saving deposit growing is possible only by encouraging the people to be a member of institution and conduct the effective marketing program. And mobilizing the saving deposit properly is also most important work of management in other to increase the total assets as a whole the growth depends on $E_5$

**Table 4.6.4**

**Growth in saving deposit**

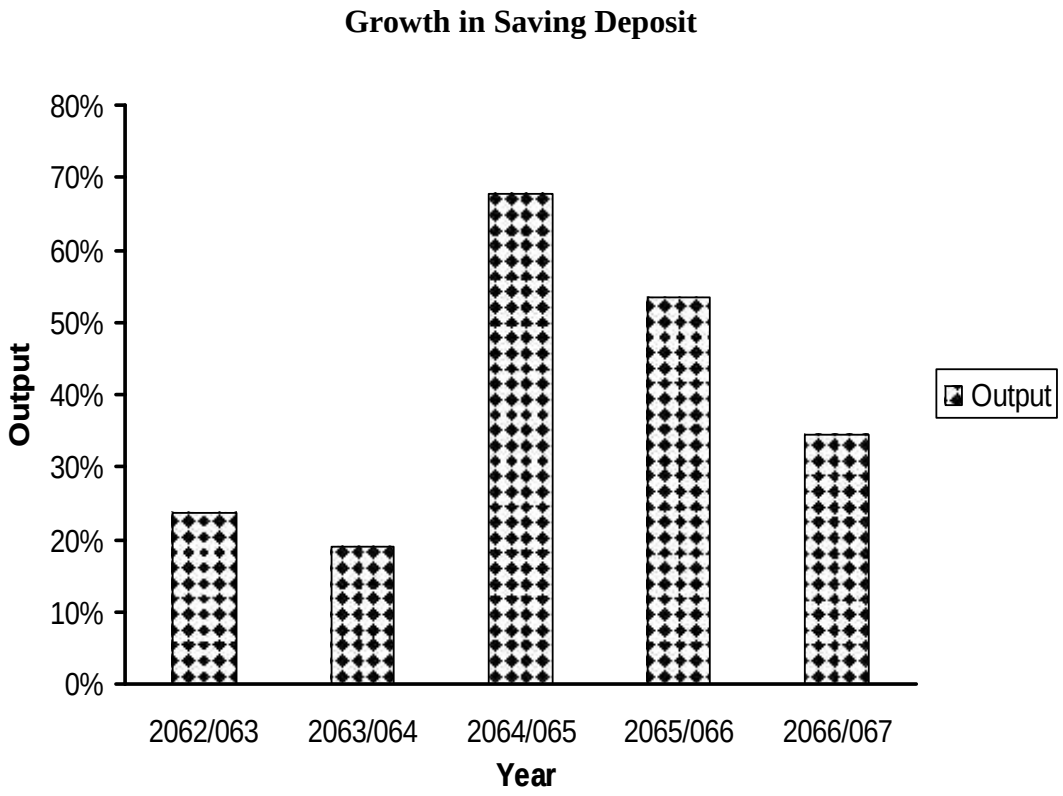
**Amount in (Rs.)**

| Year | B. S. 2062-63 | B. S. 2063-64 | B. S. 2064-65 | B. S. 2065-66 | B. S. 2066-67 |
|---|---|---|---|---|---|
| a. Saving deposit as of current year end | 2548738 | 3030156 | 5081160 | 7802245 | 10491998 |
| b. Saving deposit as of last year | 2060542.10 | 2548738 | 3030156 | 5081160 | 7802245 |
| S5 | 23.69% | 18.89% | 67.68% | 53.55% | 34.47% |
| Standard % | Dependent on $E_5$ | | | | |

*Source: Annual Report of SFCL and Researcher's calculation*

From the table 4.6.5 the ratio of saving deposit is 23.69%, 18.89%, 67.68%, 53.55% and 34.47% . The saving deposit is decreasing in 2$^{nd}$ year and increasing fourth year than decreasing in last two year. The deposit in year 2064/65 is very high and deposit in year 2063/64 is very low during the study period.

**Figure 4.6.3**




The figure shows that the saving deposit is fluctuating. The saving deposit depends upon $E_5$.

### 4.6.5 Growth in share capital ($S_7$)

Increasing the share capital may be fundamental objective of MFIs. Increasing in member share capital depends upon the financial activities and investment decision making policy of management. Management must invest the fund in more profit generating investing sector and control the overhead coot as well as they can in other to increase the member share capital. External environment like peace and safety of investing field, government's rule and regulation, tax system and political situation are also the variables for the achievement of objectives of institutions which fully affects the growth and development of assets and capital. According to PEARIS standard, if institution needs to increase the percentage of member share ($E_7$) the growth in member share ($S_7$) must be greater than $S_{11}$.

**Table 4.6.5**

**Growth is share capital**

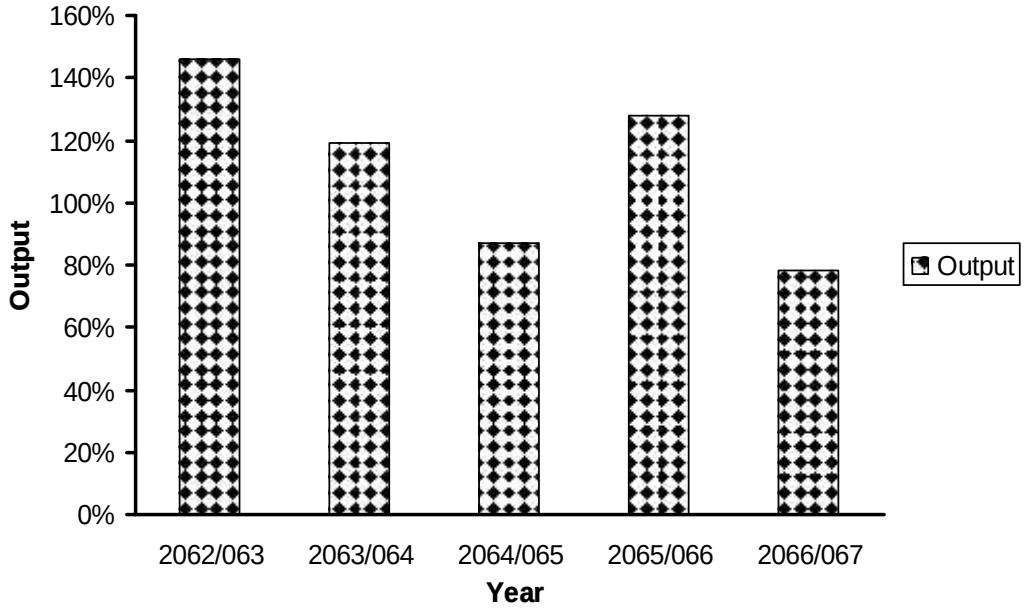
**Amount in (Rs.)**

| Year | B. S. 2062-63 | B. S. 2063-64 | B. S. 2064-65 | B. S. 2065-66 | B. S. 2066-67 |
|---|---|---|---|---|---|
| a. Share Capital as of current year end | 107900 | 236200 | 442000 | 1006500 | 1974800 |
| b. Share capital as of last year end | 43900 | 107900 | 236200 | 442000 | 1006500 |
| S7 | 145.78% | 118.90% | 87.13% | 127.71% | 78.32% |
| Standard | Dependent in $E_7$ | | | | |

*Source : Annual Report of SFCL and Researcher's calculation*

**Figure 4.6.4**

**Growth in Share Capital.**



From the above table and figure the growth rate's ranges 78.32% to 145.78% in year 2062/063 to 2066/067. The growth rate is low in year 2066/067. The rate is decreasing in the first three year than increasing in fourth year and again decreasing in last year.

### 4.6.6 Growth in Institutional Capital ($S_8$)

Institutional capital refers to the profit and loss, retained earning, capital reserve and other fund related to institutional capital. Increase in capital reserve is depends upon the profit achievement success of institution. In other to achieve the expected profit, management must invest the fund in high profit giving investment alternative with care of uncertain future, effective profit oriented financial programs must be conducted and control the overhead cost as well as management can. The growth is depends on $E_8$.

**Table 4.6.6**

**Growth in Institutional capital**

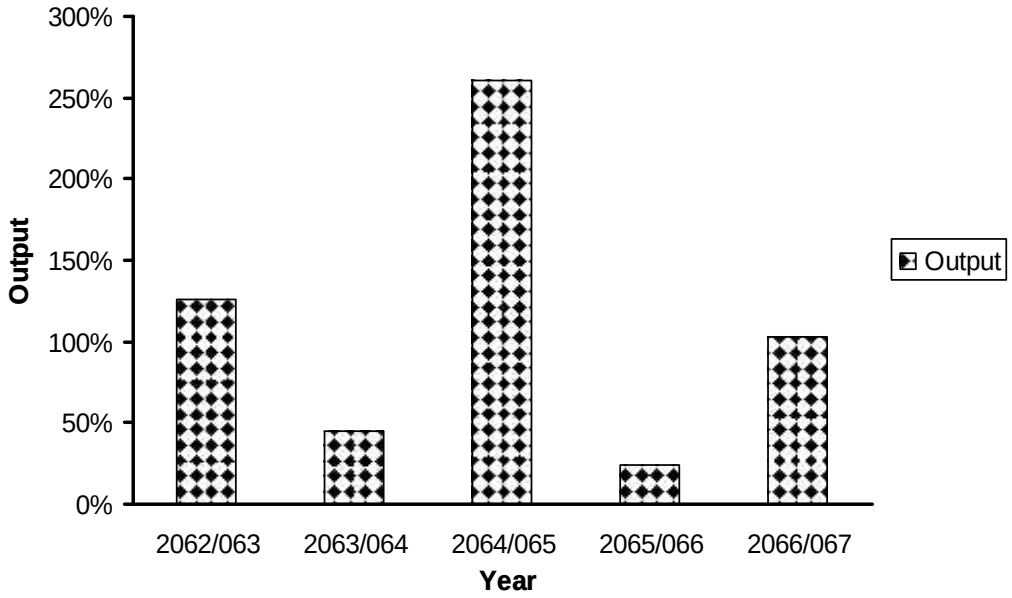
**Amount in (Rs.)**

| Year | B. S. 2062-63 | B. S. 2063-64 | B. S. 2064-65 | B. S. 2065-66 | B. S. 2066-67 |
|---|---|---|---|---|---|
| a. Total institutional capital as of current year end | 161479.75 | 234177.13 | 843798 | 1042503 | 2109960 |
| b. Total institutional capital as of last year end | 71453.50 | 161479.75 | 234177.13 | 843798 | 1042503 |
| $S_8$ | 125.99% | 45.02% | 260.32% | 23.55% | 102.39% |
| Standard % | Dependent on $E_8$ | | | | |

*Source : Annual report of SFCL and Researcher's calculation*

**Figure 4.6.5**

**Growth in Institutional capital**




From the above table the growth in institutional capital is 125.99%, 45.02%, 260.32%, 23.55 and 12.39% in the year 2062/063 to 2066/67 respectively. The ratio is very fluctuation.

### 4.6.7 Growth in Net Institutional Capital ($S_9$)

Net institutional capital comes adding the allowance of risk assets on institutional capital and reducing the balance of loan delinquent greater than 12 months and 1 to 12 months and problem of asset. Without earning the profit increasing in net Institutional capital is impossible. Higher the earning higher the reserve and increase the net institutional capital. Net institutional capital ($S_9$) linked with $E_9$.

**Table 4.6.7**

**Growth in Net Institutional capital**

**Amount in (Rs.)**

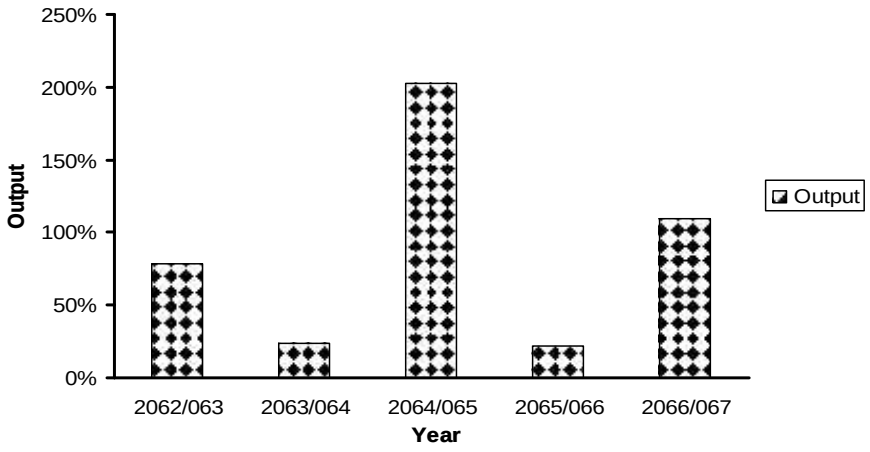
| Year | B. S. | B. S. | B. S. | B. S. | B. S. |
|---|---|---|---|---|---|

| | 2062-63 | 2063-64 | 2064-65 | 2065-66 | 2066-67 |
|---|---|---|---|---|---|
| a. Net institutional capital as of current year end | 242503.38 | 299604.77 | 906219.08 | 1106893.5 | 2314961 |
| b. Net institutional capital as of last year end | 135761.64 | 242503.38 | 299604.77 | 906219.08 | 1106893.5 |
| $S_9$ | 78.62% | 23.54% | 202.47% | 22.14% | 109.14% |
| Standard | Dependent on $E_9$ | | | | |

*Source : Annual report of SFCL and Researcher's calculation*

**Figure 4.6.6**

**Growth in Net Institutional capital.**



From the above table the growth rate in net institutional capital is 78.62%, 23.54%, 202.47%, 22.14% and 109.14% in year 2062/063 to 2066/067 respectively. The growth rate is very fluctuation. The maximum growth rate is in 2064/065.

### 4.6.8 Growth in General member ($S_{10}$)

$S_{10}$ measures increasing in general member always depends upon the activity of institution financial position, goodwill of institution, programs policy of institution and behavior and character of founder and operational committee. Institution should adopt the effective programs and show the good image society in other to increase the membership in organization. The PEARIS standard suggests the growth rate must be above 12 percent.

**Table 4.6.8**

**Growth in General member**

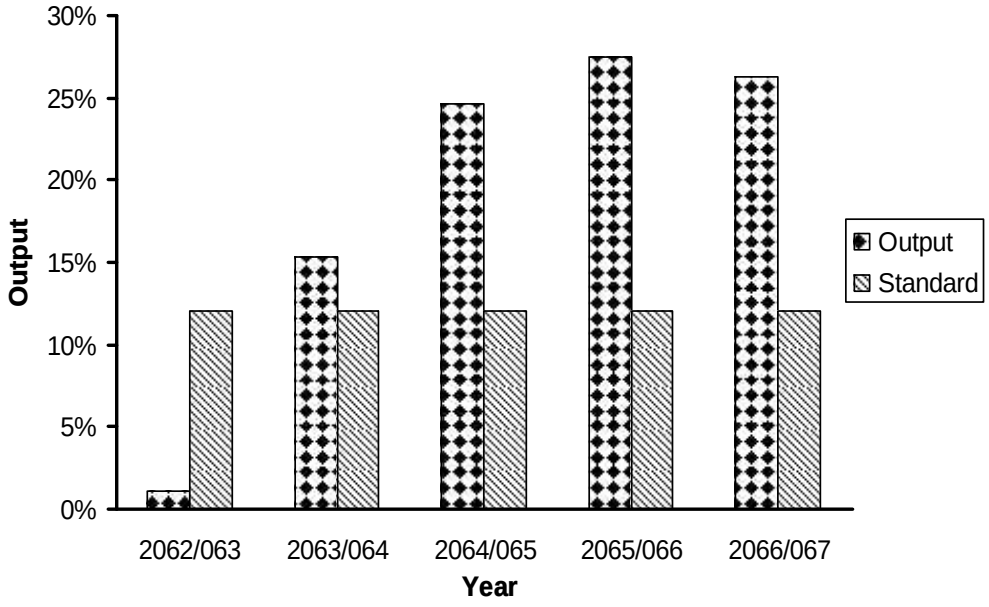
**(member in number)**

| Year | 2062/63 | 2063/64 | 2064/65 | 2065/66 | 066/67 |
|---|---|---|---|---|---|
| a. General member as of current year end | 444 | 512 | 638 | 813 | 1027 |
| b. General member as of last year end | 439 | 444 | 512 | 638 | 813 |
| $S_{10}$ | 1,14% | 15,32% | 24.61% | 27.43% | 26.32% |
| Standard % | Greater than 12% | | | | |

*Source : Annual report of SFCL and Researchers, Calculation*

**Figure 4.6.7.**

**Growth in General Membership**




From the above table the growth rate in general member is 1.14%, 15.32%, 24.61%, 27.43% and 26.32% in year 2062/63 to 2066/67 respectively. The growth rate is increasing in first 4 year and decrease in last year. The growth rate in 2065/66 is very high and in year 2062/63 is below in the PEARLS standard.

### 4.6.9 Growth in Total Assets ($S_{11}$)

Measurement of total assets is very much essential and important work of management in which depends most of the PEARIS ratios. Growth and declining rate of assets directly impact the other ratios. Increasing in assets is the fundamental objective of Institution. But management must think over the increasing of qualitative assets rather than increasing only assets. Only increasing in qualitative assess shows the real value of assess. Save from the problem of overstatement and understatement of assess and inflation.

**Table 4.6.9**

**Growth in total Assets**

**Amount in (Rs.)**

| Year | B. S. 2062-63 | B. S. 2063-64 | B. S. 2064-65 | B. S. 2065-66 | B. S. 2066-67 |
|---|---|---|---|---|---|
| a. Total assess as of current year end | 6559413 | 8054086.50 | 10237054 | 17381849 | 24794089 |
| b. Total assess as of last year end | 6555256.10 | 6559413 | 8054086.50 | 10237054 | 17381849 |
| $S_{11}$ | 0.063% | 22.79% | 27.10% | 69.79% | 42.64% |
| Standard | Greater than inflation | | | | |

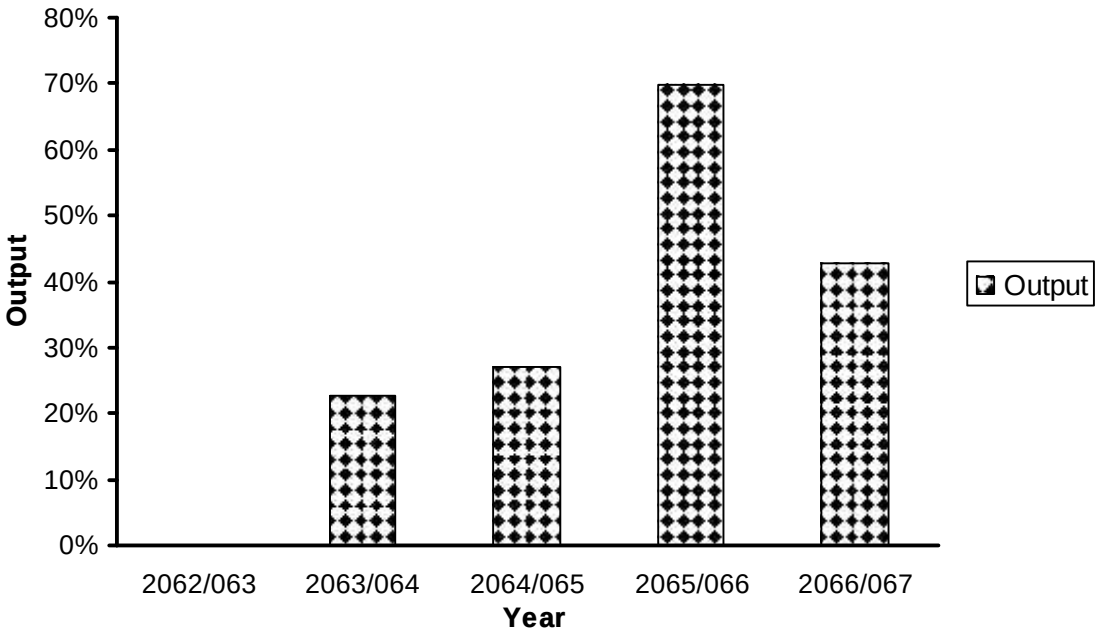
**Inflation Rates**

| Year | 2062/63 | 2063/64 | 2064/65 | 2065/66 | 066/67 |
|---|---|---|---|---|---|
| inflation rate | 7.8% | 8.6% | 6.4% | 7.7% | 8.1% |

*www.indexnundi. com/99.asp*

**Figure 4.6.8**

**Growth in total Assets**




From the above table, the growth rate in total assets which ranges 0.063% to 69.79% in the study period. The growth rate is increasing first four year but it has decreased in year 2066/67. The growth rate is 2065/66 is very high and 2062/63 is very low the growth rate is lower than inflation rate in year 2062/63 but other year higher than inflation rate.

## 4.7 Major Findings

1. According to the PEARLS standard provision for delinquent loans above 12 months and 1-12 months is 100 percent and 35 percent respectively. SFCL has made the provision foe delinquent loons. But the delinquent loan not found in these five financial year or study period.
2. Solvency ($P_6$) measures the solvency position of institution. According to PEARLS the standard the ratio of solvency of institution must be greater than 100 percent but in SFCL, the solvency ratio found below the PEARLS standards during the study period. The ratio financial year B.S. 2062/63 is very high and the ratio on financial year B.S. 2066/67 is very low. Low solvency position shows that the real value of 1 rupee worth of institution is less than that.

3. The ratio of net loan to total assets ($E_1$) in all financial year found almost near to standard.
4. The investment on liquid assets to total assets is found under the PEARLS standard. The ratio seems lower in fluctuating trend as compare to given standard.
5. The ratio of financial investment to total assets seems ranges 1.42% to 3.27% in the study period. Which seems lower ratio than given standard of 10%.
6. According to PEARLS standard the rate of saving deposit to total assets must be 70 to 80 percent but institution has lower than the standard rate. The ratio found in fluctuating trend during the study period.
7. Member share capital to total assets evaluate the percentage of share capital out of total assets which ranges 1.64% to 7.23% in the study period the ratio shows below the given standard of 10- 20%.
8. Institutional capital to total assets shows the ratio lower than the PEARLS standard. The ratio fluctuates 2.46% to 8.5%.
9. Net institutional capital to total assets ratio ranges 3.70% to 9.33% in study period which seems lower than to given PEARLS standard of 10 percent.
10. According to the PEARLS standard total loan delinquency to gross loan portfolio must be less than or equal to 5 percent. The actual ratio of institution is 0% under the framework of PEARLS. The delinquent loan not found in study period loan renewable policy had used at that time. It shows better loan management.
11. The actual ratio SFCL on non earning assets to total assets found higher than standard rate in year 2062/63 and 2066/67 and other three financial year ratio is less than or equal to 5 percent.
12. The ratio of net zero cost fund to non earning assets greater than 200 percent according to the PEARIS standard rate. The highest ratio is 728.78% in year 2064/65 Which ratio is very much, greater than standard rate and lowest ratio is 105.63% in year 2066/67 which ratio is lower than standard rate. The ratio found fluctuating throughout the study period.

13. The ratio of net loan income to average net loan portfolio ranges 13.19% to 16.37% in study period which seems in fluctuating trend.
14. Liquid investment income to average liquid investment ratio ranges 0% to 3.97% in study period which ratio seems in fluctuating trend.
15. Total financial investment to total average financial investment ratio is 0 because there is no the study period.
16. The total interest cost on saving deposit to average saving deposit is in ranges 4.46% to 8.08% in study period.
17. According to the PEARLS standard the operating expenses to total assets must be 5 percent. The operating expenses all are nearly in standard rate. The ratio of operating expenses is higher than standard rate in 2064/65, 2065/66 and 2066/67 But lower in 2062/63 and 2063/64.
18. The total loan loss provision expenses to average total assets ratio ranges 0.466% to 1.24% in 5 financial period. The ratio is in fluctuating trend.
19. According to the PEARLS standard the ratio of st investment, liquid assets and st payable to total average saving deposit must be min 15%. The ratio evaluate the percentage of average saving deposit which ranges 5.74% to 14.01% in the study period the ratio shows below the given PEALS standard.
20. The ratio of liquidity reserve to saving deposit is found greater than the PEALS standard during the study period. The rate of financial year 2063/64 and 2064/65 is below the standard rate. The highest ratio is 13.90% in last financial year. The ratio is in fluctuating trend.
21. Non-earning liquid assets to total assets must be less than 1 Percent according to PEARIS rate but the actual rate of institution found nearly PEARIS standard rate.
22. The growth in loans to member has increasing sufficiently during the study period of institution. The highest rate is 66.19% in financial year 2065/066 and lowest rate is negative (1.14%) in financial year 2062/63.
23. Growth in liquid investment found fluctuating ratio in the study period. The highest ratio is 288.91% in financial year 2065/66 and it is negative ratio in financial year 2062/63, 2063/64 and 2064/65.

24. The growth in financial investment found zero in 2063/64 and 2066/67. But 217.94%, 192.38% and 9.56% in year 2062/63, 2064/65 and 2065/66 respectively.
25. Growth in saving deposit found satisfactory during the study period. All the growth is above the 20 percent except 2063/64. The maximum growth found 67.68% in financial year 2065/65 and the minimum growth found 18.89% in financial year 2063/64.
26. The growth of share capital found in fluctuating during the study period. The maximum and minimum growth was found 145.78% and 78.32% in the financial year.
27. The growth in institutional capital found highly satisfactory during the study period.
28. Net institutional capital also found highly satisfactory during the study period.
29. The growth in general membership found is satisfactory. The growth in financial year 2065/66 is very high. But in financial year 2062/63 is very low.
30. The growth in total assets found greater than inflation during the study period except FY 2062/63. The high growth rate is in financial year 2065/66 and the lower growth rate is in financial year 2062/63.

# Chapter-V

## SUMMARY, CONCLUSION AND RECOMMENDATION

**This Chapter includes Summary, Conclusion and Recommendation of the Study**

### 5.1 Summary

Co-operative refers to the working together for the fulfillment of the member common economic and social goals. Democratic control, and member one vote, each for all and all for each, voluntary service, freedom to involve and out are the main characters of co-operative organization.

To achieve the goal of co-operative proper financial transaction analysis is essential to smoothly run and evaluate the performance as well as enhancing the right financial decision of the financial institutions. Very financial analytical tools are developed to evaluate the performance of financial transaction worldwide. CAMELS, CARSEL and PEARLS are the word wide famous tools to analyze financial ratios.

The study concerned with the financial performance of small farmer co-operatives societies limited. The main objectives of the study is to know the financial performance within the framework of PEARLS designed by world council of credit union. The specific objectives are raised in first chapter.

There are seven set of problem raised in this study. Problem of quality in assets, effective financial capital structure, protection of assets, condition of rate of return and cost liquidity position and growth position are raised as question forms in first chapter. The objective has raised on measure the protection of assets analyze the condition of asset quality and liquidity position, forms of financial structure know the rate of return and growth position of SFCL.

The study includes the concept of micro finance meaning and definition of co-operatives, global prospects of co-operative, co-operatives creates and maintain

employment, statistical, information on the co-operative movement, principle of co-operative history and development of co-operative of Nepal, major events of co-operative of Nepal, situation of bank and financial institution in Nepal, micro finance institution and NRB licensed co-operatives as conceptual framework, similarly, prescription of PEARLS framework, objectives of PEARLS, NRB guidelines review of related study and research gap are included as literature review in this study.

This study is based on the study of secondary financial audited data of SFCL. The study is descriptive and analytical nature. Co-operative is a means of development economic lifestyle of people for the developed as well as developing country like Nepal but for the achievement of success the financial work performance must be under the guidelines of WOCCU. Therefore PEARLS is the tool that guide the co-operative to perform their financial work under the PEARLS ratio. Out of 44 ratios only 30 ratios has been work out due to data availability. Data presentation and analysis provides the facts and figure of financial activities of institution. The table and figure of most of the ratio and trend has been also presented in this study. All the finding have been summarized in last part of analytical section.

## 5.2 Conclusion

5.2.1 Institution has not followed the provision for loan delinquent policy for the financial (study) years. Loan renewal policy is used at that time in which policy institution used to make the delinquent loan with accumulating interest. There is no any provision found for the loan delinquent 1 to 12 month. The solvency position of institution is also below the PEARLS standard rate which means the worth of one rupee of institution is less than that.

5.5.2 The Output ratio- net loan to total assets ($E_1$)Liquid investment to totals assets ($E_2$) and financial investment to total assets ($E_3$) seems within the range fixed by WOCCU model. Effective management of source and use of fund seems satisfactory which means the institution has invested the fund is more productive assets, less in non earning asset. The ratio of saving deposit to total assets ($E_5$) is less than the range of WOCCU standards, refers saving deposit is low satisfactory. Member share capital to total asset ($E_7$) is lower than the WOCCU standard for the year which shows that the institution has running with low marketing program. Institutional capital to total assets ($E_8$) and net institutional

capital to totals assets ($E_9$) is lower than the range of WOCCU model. The lower level of $E_8$ and $E_9$ implies that SFCL has little insufficient reserve and retained earning in institution.

5.2.3 The ratio of total loan delinquency to gross loan portfolio ($A_1$) is within the standards of WOCCU model which means there is low in loan delinquency on the base of loan portfolio. Quality of Assets is satisfactory. The ratio of non learning assets to total assets ($A_2$) is first financial year and last financial year above the WOCCU model and other financial year is maintain the WOCCU model and it is in fluctuation trend. Net zero cost fund to non earning assets ($A_3$) ratios lower than the standard of WOCCU model in last financial year and other financial year is seems WOCCU standard. Non earning assets and zero cost fund seems fluctuating during the study period. Increasing in zero cost fund increases the quality in assets and vice versa.

5.2.4 The fluctuation trend of total loan income to average loan portfolio is not high satisfactory due to the poor assets quality. It is not generating income sufficiently with respect to investment portfolio. Liquid investment income to average liquid investment is very lower than market rate there is no sufficiently liquid investment income cost as saving deposit to average saving deposit is quite above the inflation rate operating expenses to average total assets is fluctuating trend. Which shows that institution is get the success to control the operating cost efficiently in first two financial year and not get the success to control the operating cost efficiently in third, fourth and fifth financial year. Similarly provision for loan losses to average total assets is decreasing through the study period.

5.2.5 The liquidity position of institution found satisfactory. According to the WOCCU model, the standard of liquidity reserve to saving deposit is to percent. The actual output ratio is quit above in financial year 2062-063, 2065/066 and 2066/067 but lower in financial year 2063/064 and 2064/065 which indicates when the output ratio is above the standard rate the institution has sufficiently liquidity reserve to standard because more than sufficient reserve get earn nothing. Similarly the ratio

of non earning liquid assets found to PEARLS standards except FY 2066/067. The ratio of mentioned year shows that the institution is success to pay all immediate obligation as per need of institution the ratio in FY 2066/067 found high means the institution have high non earning liquid reserve (cash) than need of institution to pay the immediate obligation in future. Therefore the institution must take don the non earning liquid assets (cash) to standard rate and keep only for paying immediate obligation because non earning liquid assets get earn nothing.

5.2.6 Growth in loan portfolio found satisfactory during the study period which depends on net loan to total assets is also found with in the WOCCU standard. Growth in liquid investment found high fluctuation trend liquid investment is not stable in institution. Growth in financial investment found in sufficient it is 2017.94% in FY 2064/3 192.38% in FY 2064/065, 9.56%, in FY 2065/066 but other financial year found zero growth during the study period growth in saving deposit to total assets is above the WOCCU standard . Growth in membership capital found high population trend. Growth in institutional capital found very high fluctuation trend. Growth in net institutional capital also found very high fluctuation trend which is not good signal for future in transaction. Growth in general member found satisfactory as a whole during the year. It seems that institution must input other more effort to grow the member to get WOCCU standard. Growth in total assets depends up an inflation rate. All the growth found very high above the inflation expect FY 2062/063. Therefore growth in total assets found satisfactory during the study period.

## 5.3 Recommendation

5.3.1 The institution is suggested to follow the NRB directive to protect the delinquent loan and institution must be keep the sufficient provision for delinquent loan. Solvency positions is getting quite low than WOCCU standard. Therefore institution must be careful to increase the net value of assets with decreasing the risky assets. The institution is suggested to good position for delinquency with effective loan providing and collection programs. Effective penalty, suggestion,

rule and regulation and highly implementation of than are the cure of insolvency in other to get higher solvency position for the successful future of institution.

5.3.2 The financial structure of net loan to total assets found higher than the WOCCU standard but the financial structure of liquid investment to total assets, financial statement to total assets, saving deposit to total assets, member share capital to total assets, institutional capital to total assets net institutional capital to total assets net institutional capital to total assets found lower than the WOCCU standard.

Therefore the institution is suggested in increase financial structure of liquid investment, saving deposit to total assets, member share capital, institutional capital, net institutional capital with high implementation of effective policy and programs, built the active role in institution to increase member share capital in the market, choose the high return investment portfolio with the risk base, decreasing the un necessary expenses and losses. The structure of saving deposit total assets is very much important for other financial structure which is basic structure. The actual structure found lower than the range of WOCCU model. It found fluctuating trend on the base of assets growth. Therefore the institution is suggested to interest the fund and make the expenses on high and stable return portfolio.

5.3.3 The institution must be have sufficient provision for delinquent loan. Net delinquency loans is not found in study, period. And non earning assets to total assets is greater than standard rate in only two financial year and remaining financial year it is in increasing trend. But its standard is well for institution. The ratio of net zero cost fund to non earning assets found greater than the standard rate except financial year 2066/067. Financial year 2066/067, which suggest to the institution to decrease the non earning assets with only use of necessary expenses on non earning assets and increase the zero cost fund with make the institution well know in the market with un ducting effective programs and policy.

5.3.4 Net loan income to average loan portfolio found satisfactory but it is fluctuation trend. The institution must invest other extra effort to get higher income with stability. Liquid investment income to average liquid investment found low and

quite fluctuating trend in first there financial year and two year found outputs is 0% which shows the institution must use the idle fund on earning sector. Total financial investment in come found nothing during the study period. Total interest on saving deposit to average saving deposit found fluctuation trend during the study period but other extra efforts should apply in other to success achievement. Total operating expenses to average total assets found satisfactory. It seem stable during the study period.

5.3.5 Liquidity position ($L_1$) found satisfactory which is around the standard rate. Except two financial year 2063/064 and 2064/065. The ratio of liquidity reserve of total saving deposit must be 10 percent according to WOCCU model. But actual ratio found satisfactory which is around the standard rate. Institution is recommended to stop increasing and take down on standard. Non earning liquid assets to total assets found higher in financial year 2066/067 than standard fixed by WOCCU which is recommended to institution to decrease in non earning assets. But other year found satisfactory.

5.3.6 Growth is loan found satisfactory except financial year 2062/063. It is linked with $E_1$ growth in liquid investment found higher unsuitable stability on fluctuation trend which is not good for the institution. It is recommended to make the suitable stability on growth. Growth is financial investment is bad. The growth is all the financial year is zero except financial year 2062/063, 2064/065, 2065/066. Growth in saving deposit found well satisfactory. It is fluctuating trend. As a whole it is found well during the year but other extra effort must be invested to get higher saving deposit member share capital found highly fluctuation during the study period institution must think over to get stable and suitable growth. Growth in institutional capital found very fluctuation trend. Similarly net institutional capital is also found high fluctuation trend. Institution is recommended is to achieve stable and suitable growth. Growth in total assets also found satisfactory and growth in total assets also found satisfactory. The ratio is above the inflation rate except financial year 2062/063. This standard should be maintained in coming years also.

5.3.7 For institutional sustainability, institution member to give attractive rules, regulation and other facilities or benefits in changing time the institution increases better sustainability than past.

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# Appendix 1

## 1. Protection P

### 1.1 Allowances for loan losses to Allowances Required for loan Delinquent more than 12 months ($P_1$)

$$p \, X \frac{a}{b}$$

Where,

A = Allowances for loan loss (loan loss fund)

B = Loan balance of all loan delinquent more than 12 months

Therefore,

$p_1$ for the year 2066/067 = $\frac{205001.00}{0}$

= 0%

### 1.2 Solvency ($P_6$)

| Year | 2062/063 | 2063/064 | 2064/065 | 2065/066 | 2066/067 |
|---|---|---|---|---|---|
| a. Total assets | 6559413.0 | 8054086.50 | 10237054.0 | 17381849.0 | 24794089.0 |
| b. Allowances for risk assets | 81023.63 | 65427.64 | 62421.08 | 64390.50 | 205001.00 |
| c. Delinquent loan >12 months | 0 | 0 | 0 | 0 | 0 |
| d. Delinquent loan 1-12 months | 0 | 0 | 0 | 0 | 0 |
| e. Total Liabilities | 6559413.0 | 8054086.50 | 10237054.0 | 17381849.0 | 24794089.0 |
| f. Problem of assets | 0 | 0 | 0 | 0 | 0 |
| g. Total savings | 2548738.0 | 3030156.0 | 5081160.0 | 7802245.0 | 10491998.0 |
| h. Total Shares | 107900.0 | 236200.0 | 442000.0 | 1006500.0 | 1794800.0 |

*Source : Annual report of SFCL Sarangkot and Researcher's calculation.*

$$P_6 \; X \frac{(a \Gamma b) Z \bullet c \Gamma 0.35 f d A \Gamma e \Gamma f \; Z g'}{(g \Gamma h)}$$

Where,

a = Total assets

b = Allowances for Risk Assets (Loan loss fund)

c = Delinquent loans Greater than 12 months.

d = Delinquent loans 1-12 months.

e = Total liabilities

f = Problem of Assets

g = Total saving (Deposit)

h = Total Shares ( Paid up Capital)

Therefore

$p_6$ for 2066/067

$$\frac{(24794089 \Gamma 205001) Z (0 \Gamma 0.35(0) \Gamma 24794089 \Gamma 0 Z 10491998)}{(10491998 \Gamma 1794800)}$$

= 87.06%

# Appendix 2

## 2. Effective Financial Structure (E)

### 2.1 Net Loan to total Assets ($E_1$)

$E_1 = (a-b)/ c$

Where, a = Total Gross Loan (investment in Loan)

b = Total Allowances for Loan Losses (Loan loss fund)

c = Total Assets

There, $E_1$ for 2062 /063 = $\frac{6083678\,Z81023.63}{6559413}$

= 91.51%

### 2.2 Liquid Investment of Total Asset ($E_2$) = a / b

Therefore,

$E_2$ for 2062/063

$= \frac{306739}{6559413}$

=4.68%

Where,

a = Liquid investment (Bank)

b= Total Asset

### 2.3 Financial investment to total Assets ($E_3$) = $\frac{a}{b}$

Where a = Financial investment (Investment on share)

b = Total Assent.

Therefore $E_3$ for 2062/2063

$\frac{114460}{6559413}$

= 1.74%

**2.4 Saving Deposit to Total Asset ($E_5$) = $\frac{a}{b}$**

Where a = Saving Deposit (Deposit)

b = Total Assets

Therefore, $E_5$ for 2062 / 2063

$$\frac{2548738}{6559413}$$

= 38.86%

**2.5 Member Share Capital to total Assets ($E_7$) = $\frac{a}{b}$**

Where,

a = Member share capital ( paid up capital)

b = Total Asset

Therefore $E_7$ for 2062 / 2063

$$= \frac{107900}{6559413}$$

= 1.64%

**2.6 Institutional Capital to total assets ($E_8$) = $\frac{a}{b}$**

Where,

a = Institutional Capital (Reserve fund)

b = Total Assets.

Therefore, $E_8$ for 2062/063

$$= \frac{161479.75}{6559413}$$

= 2.46%

**2.7 Net institutional capital to total Assets ($E_9$) = $\frac{a}{b}$**

Where,

a = Net Institutional Capital

b= Total Assets.

Therefore $E_9$ for 2062/63

$$= \frac{242503.38}{6559413}$$

= 3.70

## Net Institutional Capital

| Year | 2062/63 | 2063/64 | 2064/65 | 2065/666 | 2066/67 |
|---|---|---|---|---|---|
| **c. Institutional capital (Reserve fund)** | **161479.75** | **234177.13** | **843798** | **1042503** | **2109960** |
| **d. Allowances for risk assets** | **81023.63** | **65427.64** | **62421.08** | **64390.50** | **205001.00** |
| **e. Outstanding loan delinquent >1 year.** | **0** | **0** | **0** | **0** | **0** |
| **f. Outstanding loan delinquent < 1 year** | **0** | **0** | **0** | **0** | **0** |
| **Net institutional capital** | **242503.38** | **299604.77** | **906219/08** | **1106893.5** | **2314961** |

*Source: Annual Report of SFCL*

Net Institutional capital (a) = (c+d) – (e + 0.35f)

Where,

a = Net Institutional capital

b= Total Assets.

c = Institutional capital (Reserve funds)

d = Allowances for Rish Assets (Loan Loss fund)

e = Outstanding loan Delinquent loan > 12 month.

f= Outstanding loan Delinquent loan < 12 months

# Appendix 3

## 3 Asset Quality

### 3.1 Total Delinquent Loan to gross Loan portfolio (A1)

$$A_1 = \frac{a}{b}$$

Where,

a= Total delinquent loan

b = Gross Loan portfolio (investment on Loan)

Therefore A1 for 2066/ 067

$$\frac{0}{21459520}$$

= 0%

### 3.2 Non Earning Assets to total Assets ($A_2$)

$$\mathbf{A_2} = \frac{a}{b}$$

When,

a = Non Earning Assets

b = Total Assets.

Therefore,

$A_2$ for 2066 / 67

$$= \frac{2191462}{24794089}$$

= 8.84%

Non Earning Assets (a) = (c+ d + e + f + g +h)

Where,

c = Cash on hand

d= Non Interest bearing monitory checking Account

e = Account Receivable (Other Assets)

F = Assets in Liquidation

g= Fixed Assess.

h = Prepaid Expenses and other deferrals.

**Statement of Non Earning Assets.**

| Year | 2062/63 | 2063/64 | 2064/05 | 2065/66 | 2066/67 |
|---|---|---|---|---|---|
| c. Cash in hand | 46595 | 68336 | 99238 | 134416 | 681588 |
| d. Total non interest bearing monitory checking account | 0 | 0 | 0 | 0 | 0 |
| e. Account receivable | 3752 | 0 | 10400 | 18000 | 0 |
| f. Assets in liquidation | 0 | 0 | 0 | 0 | 0 |
| g. Fixed Assets | 4188 | 14707 | 14708 | 94285 | 1509874 |
| h. Prepaid Expenses | 0 | 0 | 0 | 0 | 0 |
| Total non earning assets | 54536 | 83043 | 124346 | 246701 | 2191462 |
| Total Assets | 6559413 | 8054086.50 | 10237054 | 17381849 | 24794089 |

*Source : Annual Report of SFCL Sarangkot and Researcher's Calculation*

### 3.3 Net cero cost fund to total non Earning Assets Ration $A_3$

$$A_3 = \frac{a}{b}$$

Where,

a = Net zero cost fund
b = Total Non Earning Assert

Net Zero cost fund (a) = (C + d + e)

Where,

c = Total Net Institution of capital
d = Total Transitory capital
e= Total Non Interest bearing Liabilities

**Statement of Net Zero cost Fund**

| Year | 2062/63 | 2063/64 | 2064/05 | 2065/66 | 2066/67 |
|---|---|---|---|---|---|
| c. Net Institutional capital | 242503.38 | 299604.77 | 906219.08 | 1106893.5 | 2314961 |
| d. Total Transitory capital | 0 | 0 | 0 | 0 | 0 |
| e. Total non interest bearing liabilities | 0 | 0 | 0 | 0 | 0 |
| Net zero cost fund | 242503.38 | 299604.77 | 906219.08 | 1106893.5 | 2314961 |
| Total non earning assets | 54536 | 83043 | 124346 | 246701 | 2191462 |

*Source : Annual Report of SFCL And Researcher's Calculation*

# Appendix 4

## 4. Rates of Return and cost.

### 4.1 Net Loan Income to Average Net Loan Portfolio ($R_1$)

$$R_1 = \frac{a}{\frac{b \Gamma c}{2}}$$

$R_1$ for 2066/067= 3040348/ ( 21254519 + 15883827.5)/2

= 16.37%

Where,

A= Net Loan Income

B = Current year Net Loan portfolio (Gross Loan Portfolio – Loan loss Fund)

C= Last year Net Loan Portfolio (Gross loan portfolio-Loan loss fund)

**Statement of Net Income**

| Year | 2062/63 | 2063/64 | 2064/05 | 2065/66 | 2066/67 |
|---|---|---|---|---|---|
| Interest income | 939827 | 899524 | 1279151 | 1837768 | 3040348 |
| Commission | 0 | 0 | 0 | 0 | 0 |
| Fees | 0 | 0 | 0 | 0 | 0 |
| Penalty income | 0 | 0 | 0 | 0 | 0 |
| Total income | 939827 | 899524 | 1279151 | 1837768 | 3040348 |
| Insurance premium paid on loan | 0 | 0 | 0 | 0 | 0 |
| a. Net income | 939827 | 899524 | 42791.51 | 1837768 | 3040348 |
| b. Net loan portfolios as on current year end | 6002654.37 | 7634099.36 | 9533433.92 | 15883827.5 | 21254519 |
| c. Net loan as on last year end | 6089691.86 | 6002654.37 | 7634099.36 | 9533433.92 | 15883827.5 |

*Source : Annual Report of SFCL and Researcher's calculation*

### 4.2 Total liquid investment income to Average liquid Investment ($R_2$)

$$R_2 = \frac{a}{\frac{b \Gamma c}{2}}$$

Where,

a = Total liquid Investment (Bank interest Received)

b = Liquid Investment current year End (Bank Deposit)

L= Liquid investment Last year End)

$$R2 \text{ for } 2066 / 067 = \frac{o}{\frac{776447 \Gamma 708570}{2}} x100\%$$

= 0 %

### 4.3 Total financial Investment Income to Average financial investment ($R_3$)

$$R_3 = \frac{a}{\frac{b \Gamma c}{2}}$$

Where,

A= Total financial investment income

B= Financial investment current year End (Investment on share)

C = Financial Investment last year End

$$R3 \text{ for } 2066/67 = \frac{0}{\frac{366660 \Gamma 36660}{2}}$$

= 0 %

### 4.4 Total interest cost on saving Deposit to Average saving Deposit. ($R_5$)

$$R_5 = \frac{\frac{a \Gamma b \Gamma c}{d \Gamma e}}{2}$$

$$R_5 \text{ for } 2066/67 = \frac{729987 \Gamma 0 \Gamma 0}{\frac{10491998 \Gamma 7802254}{2}}$$

= 7.98 %

Where,

a = Total Interest paid on saving Deposit

b = Total insurance premium on saving deposit.

c = Total Tax paid on, saving deposit.

d = total saving deposit as of current year end

e = Total saving deposit as of last year end.

**4.5 Total operating Expenses to Average total Assets ($R_9$) statement of operating expenses.**

| **Year** | **2062/63** | **2063/64** | **206465** | **2065/66** | **2066/67** |
|---|---|---|---|---|---|
| **Salary Expense** | **78000** | **111600** | **149112** | **148982** | **288391** |
| **Allowances** | **7500** | **10200** | **-** | **-** | **-** |
| **Discount on interest** | **-** | **-** | **-** | **-** | **-** |
| **Interest Expenses** | **103177** | **124318** | **327878** | **446391** | **729987** |
| **Audit fees** | **2500** | **2500** | **-** | **5000** | **3500** |
| **Selling expense** | **-** | **-** | **-** | **-** | **-** |
| **Stationery Expenses** | **2908** | **21947** | **94876** | **60847** | **34723** |
| **Renewal Expenses** | **-** | **-** | **-** | **-** | **-** |
| **Telephone Expenses** | **-** | **6363** | **-** | **-** | **12210** |
| **Electricity expenses** | **-** | **-** | **-** | **-** | **-** |
| **Refreshment expenses** | **105** | **5391** | **-** | **-** | **17375** |
| **Published expenses** | **-** | **-** | **-** | **-** | **-** |
| **Other operating exp.** | **-** | **3159** | **-** | **-** | **18493** |
| **Traveling exp.** | **-** | **35389** | **8312** | **57433** | **22825** |
| **Training exp** | **-** | **-** | **3000** | **22312** | **-** |
| **Maintain expenses** | **-** | **-** | **-** | **-** | **-** |
| **Meeting expenses** | **1260** | **8171** | **-** | **27183** | **76163** |
| **Total operating exp.** | **195450** | **329038** | **583178** | **768148** | **1203667** |

*Source : Annual Report of SFCL and Researcher's calculation.*

$$R_9 = \frac{a}{\frac{b \Gamma c}{2}}$$

$$R_9 \text{ for } 2066/67 = \frac{1203667}{\frac{24794089\ \Gamma 17381849}{2}}$$

$$= 5.7\%$$

**4.8 Total Loan loss provision Expenses to Average total assets ($R_{10}$)**

$$R_{10} = \frac{a}{\frac{b \Gamma c}{2}}$$

$$R10 \text{ for } 2066/67 = \frac{205001}{\frac{24794089.0 \Gamma 17381849.0}{2}}$$

$$= 0.972\%$$

Where,

a = Total loan loss provision Expenses (Loan loss fund)

b = Total Assets as of current year End.

c = Total Assets as of last year End.

# Appendix 5

## 5. Liquidity

### 5.1 Short term Investment liquid Assets short term payables to saving Deposit.

| Year | 2062/63 | 2063/64 | 206465 | 2065/66 | 2066/67 |
|---|---|---|---|---|---|
| a. Short term investment | 0 | 0 | 0 | 0 | 0 |
| b. liquid assets | 357087 | 225392 | 291831 | 860986 | 1458035 |
| c. Short term payable | 0 | 0 | 0 | 0 | 0 |
| Total net liquidity / (a+b+c) | 357087 | 225392 | 291831 | 860986 | 1458035 |
| Saving deposit | 2548738 | 3030156 | 5081160 | 7802245 | 10491998 |

*Source: Annual Report of SFCL and Researcher's Calculation*

$$\text{L1 for 2062/63} = \frac{\text{Short Term investment + Liquid assets - Short term payable}}{\text{Saving deposit}}$$

$$= \frac{0\ \Gamma\ 357087\ Z0}{2548738}$$

$$= 14.01\%$$

### 5.2 Liquidity Reserve to Saving Deposit ($L_2$)

$L_2 = (a+b) \div c$

Where, a= Total earning liquid reserve (Bank)

b= Total non earning liquid reserve (Cash)

c= Total saving deposit (Deposit)

$$L_2 \text{ for } 2062/63 = \frac{306739\ \Gamma\ 46596}{2548738}$$

= 13.86%

### 5.3 Non Earning liquid Assets to total Assets to total Assets ($L_3$)

$$L3 = \frac{a}{b}$$

Where,

a = Non Earning liquid Assets (Cash)

b = Total Assets

$$L_3 \text{ for } 2062/063 = \frac{46596}{6559413}$$

= 0.71%

# Appendix 6

## 6. Sign of Growth.

### 6.1 Growth in loans to member ($S_1$)

$$S1 = \frac{a}{b} \; 100 \quad Z \; 100$$

Where,

a = Total gross loan as of current year end.

b = Total gross loans as of last year End. (Investment on Loan)

$$S_1 \text{ for } 2063/064 = \frac{7699527}{6083678} \; 100 \; Z100$$

= 26.56%

### 6.2 Growth in liquid Investment ($S_2$)

$$s_2 = \frac{a}{b} \; 100 \quad Z \; 100$$

Where,

a = Total liquid investment as of current Year End.

b = Total liquid investment as of last year end (Bank)

$$S_2 \text{ for } 2063/064 = \frac{157056}{306739} \; 100 \; Z100$$

- 48.80%

### 6.3 Growth in financial investment. ($S_3$)

$$s_3 = \frac{a}{b} \; 100 \quad Z \; 100$$

Where, a = Financial Investment as of current year End.

a = Financial Investment as of last year End (Investment on Share)

$$S_3 \text{ for } 2063/\ 64 = \frac{114460}{114460} \; 100 \; Z100$$

= 0%

### 6.4 Growth in saving Deposit ($S_5$)

$$S_5 = \frac{a}{b} \; 100 \quad Z\ 100$$

$$S_5 \text{ for } 2063/64 = \frac{3030156}{2548738} \; 100 \quad Z\,100$$

$$= 18.89\%$$

Where,

a = Saving Deposit as of current Year End.

b = Saving Deposit as of last year (Deposit)

### 6.5 Growth in share capital ($S_7$)

$$S_7 = \frac{a}{b} \; 100 \quad Z\ 100$$

$$S_7 \text{ for } 2063/64 = \frac{236200}{107900} \; 100 \quad Z\,100$$

$$= 118.90\%$$

Where,

a = Total share capital as of current year (End)

b = Total share capital us of last year end (paid up capital)

### 6.6 Growth in Institution capital ($S_8$)

$$S_8 = \frac{a}{b} \; 100 \quad Z\ 100$$

$$S_8 \text{ for } 2063/\ 064 = \frac{234177 \quad .13}{161479 \quad .75} \; 100 \quad Z\,100$$

$$= 45.02\%$$

Where,

a = Total Institutional capital as of current year End (Reserve fund)

b= Total Institutional capital as of last year End (Reserve fund)

### 6.7 Growth in Net institutional capital ($S_9$)

$$S_9 = \frac{a}{b} \; 100 \quad Z\ 100$$

$$S_9 \text{ for } 2063/64 = \frac{299604 \quad .77}{242503 \quad .38} \; 100 \quad Z\ 100$$

$$= 23.54$$

Where,

a = Total Net institutional capital as of current year End.

b = Total Net institutional capital as of last year End.

### 6.8 Growth in General membership ($S_{10}$)

$$S_{10} = \frac{a}{b} \; 100 \quad Z\ 100$$

$$S_{10} \text{ for } 2063/\ 64 = \frac{512}{444} \; 100 \quad Z\ 100$$

$$= 15.32\%$$

Where.

a = General membership as of current year End.

b = General membership as of last year End.

### 6.9 Growth in total Assets ($S_{11}$)

$$S_{11} = \frac{a}{b} \; 100 \quad Z\ 100$$

$$S_{11} \text{ for } 2063/64 = \frac{8054086\ .50}{6559413} \; 100\ Z100$$

$$= 22.79\ \%$$

Where,

a = Total Assess as of current year End.

B = Total Asserts as of last year End.

**Appendix 7**

The worked out ratios of PEARLS of SFCL

| Standard | Ratio year | 2062/063 | 2063/064 | 2064/065 | 2065/066 | 2066/067 |
|---|---|---|---|---|---|---|
| P = Protection | | | | | | |
| 100% | P1 | 0% | 0% | 0% | 0% | 0% |
| ≥ 100% | P6 | 98.99% | 94.77% | 93.12% | 89.30% | 87.06% |
| E = Effective financial structure | | | | | | |
| 70%-80% | E1 | 91.51% | 94.78% | 93.12% | 91.38% | 87.72% |
| Max 20% | E2 | 4.68% | 1.95% | 1.78% | 4.08% | 3.13% |
| Max 10% | E3 | 1.74% | 1.42% | 3.27% | 2.11% | 1.47% |
| 70%-80% | E5 | 38.86% | 37.62% | 49.63% | 44.89% | 42.31% |
| 10%-20% | E7 | 1.64% | 2.93% | 4.31% | 5.79% | 7.23% |
| Min 10% | E8 | 2.46% | 2.90% | 8.24% | 5.99% | 8.50% |
| Min 10% | E9 | 3.70% | 3.72% | 8.85% | 6.36% | 9.33% |
| A = Asset quality | | | | | | |
| ≤ 5% | A1 | 0% | 0% | 0% | 0% | 0% |
| ≤ 5% | A2 | 8.31% | 1.03% | 1.21% | 1.41% | 8.84% |
| > 200% | A3 | 444.67% | 360.78% | 728.78% | 448.68% | 105.63% |
| R = Rate of return and cost | | | | | | |
| Entrepreneurial rate | R1 | 15.54% | 13.19% | 14.90% | 14.46% | 16.37% |
| Market rate | R2 | 2.76% | 2.85% | 3.97% | 0% | 0% |
| Market rate | R3 | 0 | 0 | 0 | 0 | 0 |
| Market rate > inflation rate | R5 | 4.48% | 4.46% | 8.08% | 6.93% | 7.98% |
| 5% | R9 | 2.98% | 4.50% | 6.38% | 5.56% | 5.71% |
| Dependent on delinquent loan | R10 | 1.24% | 0.895% | 0.683% | 0.466% | 0.972% |
| L = Liquidity | | | | | | |
| Minimum 15% | L1 | 14.01% | 7.44% | 5.74% | 11.03% | 13.90% |
| 10% | L2 | 13.86% | 7.44% | 5.54% | 10.80% | 13.90% |
| < 1% | L3 | 0.71% | 0.85% | 0.97% | 0.77% | 2.75% |
| S = Sign of growth | | | | | | |
| Dependent E1 | S1 | (1.14%) | 26.56% | 24.63% | 66.19% | 34.56% |
| Dependent on E2 | S2 | (14.38%) | (48.80%) | 16% | 288.91% | 9.58% |
| Dependent on E3 | S3 | 217.94% | 0% | 192.38% | 9.56% | 0% |
| Dependent on E5 | S5 | 23.69% | 18.89% | 67.68% | 53.55% | 34.47% |
| Dependent on E7 | S7 | 145.78% | 118.90% | 87.13% | 127.71% | 78.32% |
| Dependent on E8 | S8 | 125.99% | 45.02% | 260.32% | 23.55% | 102.39% |
| Dependent on E9 | S9 | 78.62% | 23.54% | 202.47% | 22.14% | 109.14% |
| > 12% | S10 | 1.14% | 15.32% | 24.61% | 27.43% | 26.32% |
| > Inflation | S11 | 0.063% | 22.79% | 27.10% | 69.79% | 42.64 |

*Source; Annual report of SFCL and Researcher's Calculation*

## Appendix 8

Balance Sheet as on ( 2061/062-066/067)

| Year | 2061/062 | 2062/063 | 2063/064 | 2064/065 | 2065/066 | 2066/067 |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash | 1410 | 46596 | 68336 | 99238 | 134416 | 681588 |
| Bank | 358262.10 | 306739 | 157056 | 182193 | 708570 | 776447 |
| Investment on Share | 36000 | 114460 | 114460 | 334660 | 366660 | 366660 |
| Investment on Loan | 6154000 | 6083678 | 7699527 | 9595855 | 15948218 | 21459520 |
| Fixed Assets | 5584 | 4188 | 14707.50 | 14708 | 94285 | 1509874 |
| Current Assets | - | 3752 | - | 10400 | 18000 | - |
| Final Inventory | - | - | - | - | - | - |
| Total Assets | 692816.10 | 6259413 | 8054086.5 | 10237054 | 17270149 | 24794089 |
| **Liabilities & Equity** | | | | | | |
| Paid up Capital | 43900 | 107900 | 236200 | 442000 | 1006500 | 1794800 |
| Reserve Fund | 71453.50 | 161479.75 | 234177.13 | 843798 | 1042503 | 2109960 |
| Deposit | 2060542.10 | 2548738 | 3030156 | 5081160 | 7802245 | 10491998 |
| Share Bonus Funds | 42872.10 | 54015.75 | 43618.43 | 41614.05 | 42927 | 136668 |
| Reserve Capital Return Fund | 32154.08 | 72665.89 | 105379.71 | 31210.54 | 32195.25 | 102500 |
| Staff Bonus Fund | 21436.05 | 48443.73 | 70253.14 | 20807.03 | 21464 | 68334 |
| Co-op. Educ. Fund | 21436.05 | 48443.93 | 70253.14 | 20807 | 21463.50 | 68334 |
| Loan Loss Fund | 64308.14 | 81023.63 | 65427.64 | 62421.08 | 64390.50 | 205001 |
| Risk Bearing Fund of Loan | - | - | - | - | - | - |
| Staff Security Fund | - | - | 19200 | - | - | - |
| Organization Development Fund | - | - | - | - | - | - |
| C. Liabilities | - | 2500 | 2500 | - | - | - |
| Contra | - | 63337 | 163446 | 79760.26 | 420432 | - |
| Total Liabilities | 2314202.02 | 3188547.88 | 4040610.05 | 6623277.99 | 10454120.25 | 14577595 |

*Source; Annual report of SFCL and Researcher's Calculation*

## Appendix 9

Profit & Loss Account (2062/063-066/067)

| Fiscal Year | 2062/063 | 2063/064 | 2064/065 | 2065/066 | 2066/067 |
|---|---|---|---|---|---|
| **Income** | | | | | |
| Loan Interest | 939827 | 899524 | 1279151 | 1837768 | 3040348 |
| Penalty Interest | - | - | - | - | - |
| Entrance Charge | 320 | 950 | 2230 | 1770 | 2100 |
| Service Charge | - | - | - | - | - |
| Other | 19671 | 15621 | - | 31202 | 43407 |
| Account Close | - | - | - | - | - |
| Total | 959818 | 916095 | 1281381 | 1870740 | 3085855 |
| **Expenses** | | | | | |
| Total Interest | 103177 | 124318 | 327878 | 446391 | 729987 |
| Salary | 78000 | 111600 | 149112 | 148982 | 240372 |
| Allowance | 7500 | 10200 | - | - | 9000 |
| Total Staff Overhead | 1764 | 11691 | 8312 | 48900 | 49400 |
| Office Operating | 8308 | 27347 | 100276 | 66247 | 38323 |
| Provision on Loan | - | - | - | - | - |
| Deprecation | 1396 | 4902.50 | - | 29873 | 42327 |
| Bad-debts | - | - | - | - | - |
| Total Expenses | 200145 | 290058.50 | 985578 | 696383 | 1109409 |
| Gross Income | 759673 | 626036.5 | 695803 | 1174357 | 1976446 |

*Source; Annual report of SFCL and Researcher's Calculation*

**Appendix 10**

Table: 2.5 PEARLS Monitoring System Key to PEARLS

| PEARLS | | DESCRIPTION | GOALS |
|---|---|---|---|
| P = Protection | P1 | Allowance for loan losses/Allowance required for loan delinquent > 12 months | 100% |
| | P2 | Net allowance for loan losses/Allowance required for loan delinquent < 12 months | 35% |
| | P3 | Total charge off of delinquent loans > 12 months | 100% |
| | P5 | Annual loan chare off | Minimum |
| | P4 | Accumulated loan recoveries/Accumulated loan charge off | 100% |
| | P6 | Solvency | ≥100% |
| E = Effective Financial Structure | E1 | Net loan / Total assets | 70%-80% |
| | E3 | Liquid investment / Total assets | Max -20% |
| | E2 | Financial investment / Total assets | Max -10% |
| | E4 | Non financial investment / Total assets | 0% |
| | E5 | Saving deposit / Total assets | 70%-8% |
| | E6 | External credit / Total assets | Max-5% |
| | E7 | Member share capital / Total assets | 10%-20% |
| | E8 | Institutional capita / Total assets | Min -10% |
| | E9 | Non institutional capital / Total assets | Min -10% |
| A = Asset Quality | A1 | Total loan delinquency/ Gross loan portfolio | ≤5% |
| | A2 | Non earning assets/ Total assets | ≤5% |
| | A3 | Net institutional & transitory capital + non interest-bearing liabilities/ Non earning assets | >200% |
| R = Rate of Return and | R1 | Net loan income/ Average loan portfolio | Entrepreneurial rate |
| | R2 | Total liquid investment income/ Average liquid investment | Market rate |
| | R3 | Total financial investment income/ Average financial investments | Market rate |
| | R4 | Total non financial investment income/ Average non financial investment | Greater than R1 |
| | R5 | Total interest cost on saving deposits/ Average saving deposit | Market rate > inflation rate |

| | | | |
|---|---|---|---|
| | R6 | Total interest cost on external credit/ Average external credit | Market rates |
| | R7 | Total interest (dividend) cost on share/ Average member shares | Market rates |
| | R8 | Total gross margin income/Average total assets | Variables-linked to R9, R11 & R12 |
| | R9 | Total operating expenses/ Average total asset | 5% |
| | R10 | Total loan loss provision or expenses/ Average total asset | Dependent on delinquent loan |
| | R11 | Non recurring income or expenses/ Average total assets | Minimum |
| | R12 | Net income/ Average total assets | Linked to E9 |
| Liquidity | | | |
| L=liquidity | L1 | S.T. Investment + liquid assets- S.T. payable/ saving deposit | Min 15% |
| | L2 | Liquidity reserve/ saving deposit | 10% |
| | L3 | Non earning liquid assets/ Total assets | <1% |
| Sign of growth | | | |
| S = Sign of Growth | S1 | Growth in loan to member | Dependent on E1 |
| | S2 | Growth in liquid investment | Dependent on E2 |
| | S3 | Growth in financial investment | Dependent on E3 |
| | S4 | Growth in non financial investment | Dependent on E4 |
| | S5 | Growth in saving deposit | Dependent on E5 |
| | S6 | Growth in external credit | Dependent on E6 |
| | S7 | Growth in share capital | Dependent on E7 |
| | S8 | Growth in institutional capital | Dependent on E8 |
| | S9 | Growth in net institutional capital | Dependent on E9 |
| | S10 | Growth in membership | >12% |
| | S11 | Growth in total asset | >Inflation |

*Source: World Council of Credit Union (WOCCU)*

# Appendix 11

Checklist

| Problems | Objectives | Research Mythology | | Analysis | | Findings | | | | | Conclusion | Recommendation |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Tables | Figures | 61/62 | 62/63 | 63/64 | 64/65 | 65/66 | | |
| a. What is the protection level of assets? | a. To evaluate the protection level of assets | Limits | P1 | 4.1.1 | 4.1.1 | 0% | 0% | 0% | 0% | 0% | No any delinquency loan | Co-operative is not find delinquency loan but solvency position is lower then standard rate so that institution run effective management of loan collection and investment activities in order to protect the assets |
| | | | P6 | | | | | | | | | |
| | | Secondary Sources | | 4.1.2 | 4.1.2 | 98.99% | 94.77% | 93.12% | 89.30% | 87.06% | Lower then Standard rate | |
| b. How effective is the financial structure ? | b. Analyze the effective financial Structure | Limitation | E1 | 4.2.1 | 4.2.1 | 91.51% | 94.78% | 93.12% | 91.38% | 87.72% | Little more then standard. | Effective marketing programs should be run and increase in reserve and retained earning with high profit generating in order to achieve the good financial structure |
| | | | E2 | 4.2.2 | 4.2.2 | 4.68% | 1.95% | 1.78% | 4.08% | 3.13% | Within standard but low | |
| | | | E3 | 4.2.3 | 4.2.3 | 1.74% | 1.42% | 3.27% | 2.11% | 1.47% | Within standard | |
| | | | E5 | 4.2.4 | 4.2.4 | 38.86% | 37.62% | 49.63% | 44.89% | 42.31% | Less then standard | |
| | | | E7 | 4.2.5 | 4.2.5 | 1.64% | 2.93% | 4.31% | 5.79% | 7.23% | Less then standard | |
| | | | E8 | 4.2.6 | 4.2.6 | 2.46% | 2.90% | 8.24% | 5.99% | 8.50% | Less then standard | |
| | | | E9 | 4.2.7 | 4.2.7 | 3.70% | 3.72% | 8.85% | 6.36% | 9.33% | Mostly correctly | |
| | | Secondary Sources | | | | | | | | | | |
| c. What is the condition of assets quality? | c. To analyze the condition of assets quality. | Limits | A1 | 4.3.1 | 4.3.1 | 0% | 0% | 0% | 0% | 0% | Within standard | Institution should make sufficient provision to protect the delinquent loan and decrease in non earning assets and zero cost fund. |
| | | | A2 | 4.3.2 | 4.3.2 | 8.31% | 1.03% | 1.21% | 1.41% | 8.84% | More then Standard | |
| | | | A3 | 4.3.3 | 4.3.3 | 444.67% | 360.78% | 728.78% | 448.68% | 105.63% | More then Standard | |
| | | Secondary Sources | | | | | | | | | | |
| d. What is the rate of return on various investments and cost on saving deposit? | d. To Evaluate the return on various investments & cost on saving deposit. | Limits | R1 | 4.4.1 | 4.4.1 | 15.54% | 13.19% | 14.90% | 14.46% | 16.37% | Less income gain | The institution is recommended to control over the operating cost, administrative cost, non earning cost and investment made on high productive assets in order to increase the profit margin. |
| | | | R2 | 4.4.2 | 4.4.2 | 2.76% | 2.85% | 3.97% | 0% | 0% | Not good | |
| | | | R3 | 4.4.3 | | 0% | 0% | 0% | 0% | 0% | No any income | |
| | | | R5 | 4.4.4 | 4.4.3 | 4.48% | 4.46% | 8.08% | 6.93% | 7.98% | High cost ratio | |
| | | | R9 | 4.4.5 | 4.4.4 | 2.98% | 4.50% | 6.38% | 5.56% | 5.71% | Little more than standard | |
| | | | R10 | 4.4.6 | | 1.24% | 0.895% | 0.683% | 0.466% | 0.972% | Less Provision | |
| | | Secondary Sources | | | | | | | | | | |
| e. What is | e. To find out | mi | L1 | 4.5.1 | 4.5.1 | 14.01% | 7.44% | 5.74% | 11.03% | 13.90% | Less than standard | The institution is recommended to |

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **the liquidity position ?** | **the liquidity position & non earning assets ?** | | **L2** | **4.5.2** | **4.5.2** | **13.86%** | **7.44%** | **5.54%** | **10.80%** | **13.90%** | **More than standard** | **reduce the liquidity reserve and non earning liquid assets** |
| | | | **L3** | **4.5.3** | **4.5.3** | **0.71%** | **0.85%** | **0.97%** | **0.77%** | **2.75%** | **Correctly** | |
| | | **Secondary Sources** | | | | | | | | | | |
| **f. What is the position of loan, liquid and financial investment, saving deposit, institutional capital , membership & total assets ?** | **f. To evaluate the growth in loan, liquid and financial investment, saving deposit, institutional capital, membership & total assets** | **Limits** | **S1** | **4.6.1** | **4.6.1** | **(1.14%)** | **26.56%** | **24.63%** | **66.19%** | **34.56%** | **Highly fluctuation** | **Recommended to run the suitable and stable growth getting financial activities effectively** |
| | | | **S2** | **4.6.2** | **4.6.2** | **(14.38%)** | **(48.80%)** | **16%** | **288.91%** | **9.58%** | **Highly fluctuation** | |
| | | | **S3** | **4.6.3** | | **217.94%** | **0%** | **192.38%** | **9.56%** | **0%** | **Highly fluctuation** | |
| | | | **S5** | **4.6.4** | **4.6.3** | **23.69%** | **18.89%** | **67.68%** | **53.55%** | **34.47%** | **Most likely** | |
| | | | **S7** | **4.6.5** | **4.6.4** | **145.78%** | **118.90%** | **87.13%** | **127.71%** | **78.32%** | **Highly fluctuation** | |
| | | | **S8** | **4.6.6** | **4.6.5** | **125.99%** | **45.02%** | **260.32%** | **23.55%** | **102.39%** | **Highly fluctuation** | |
| | | | **S9** | **4.6.7** | **4.6.6** | **78.62%** | **23.54%** | **202.47%** | **22.14%** | **109.14%** | **Highly fluctuation** | |
| | | | **S10** | **4.6.8** | **4.6.7** | **1.14%** | **15.32%** | **24.61%** | **27.43%** | **26.32%** | **Good** | |
| | | | **S11** | **4.6.9** | **4.6.8** | **0.063%** | **22.79%** | **27.10%** | **69.79%** | **42.64** | **Good** | |
| | | **Secondary Sources** | | | | | | | | | | |

*Source; Annual report of SFCL and Researcher's Calculation*