

A Thesis on
**A Comparative Study of Policies and Performance of Saving and Credit
Cooperatives in Bhaktapur District, Nepal**

(With reference to Shankhadhar SACCOS & Sahayogi SACCOS)

Submitted By:

SUJANA SHRESTHA

Nepal Commerce Campus

Minbhawan, Kathmandu

Campus Roll No: 1019/064

T.U. Reg. No: 7-1-38-1907-2001

Thesis Submitted to:

Office of the Dean

Faculty of Management

Tribhuvan University

Nepal Commerce Campus (NCC)

Minbhawan, Kathmandu

in partial fulfillment of the requirements for the thesis of
Master of Business Studies (MBS)

Kathmandu, Nepal

March, 2012

Acknowledgement

I would like to thank Nepal Commerce Campus, Faculty of Management, Tribhuvan University for providing me an opportunity to carry out this research work.

I would like to express the deepest gratitude and appreciation to my respected teachers Professor Dr. Bihari Binod Pokharel, and Rabindra Neupane, Faculty member, NCC who continually provided me invaluable guidance, critical comments and persistent help to complete this thesis. I would also like to thank Dr. Shushil Bhakta Mathema, Head, Research Department for his continuous advice.

Also, I would like to express my sincere appreciation to my brother Dr. Pradeep Kumar Shrestha for his guidance, comments, encouragement and advice throughout this study.

I would like to convey sincere thanks to Mr Rajendra Kumar Kayastha who helped me a lot to collect data for this study and other valuable information about SACCOS in Thimi. Without him, I could not be able to finish this important part of thesis. I am very much indebted to my friend Ms. Renu and Ms. Bijaya for providing me timely information, guidance and help to complete this thesis.

I would like to dedicate this thesis to my father Dilip Kumar Shrestha and my mother Chandra Maya Shrestha as well as my brothers' suroj and sudeep, and my sister in laws Shyamsundari, Ramlaxmi and Sujana, without their everlasting love, support, help and inspiration this thesis work would not have been possible.

Last but not least, I am very much thankful to my husband Er Bipen Khambu Shrestha who has helped me to develop confidence in myself and has been my inspiration throughout this research period.

ABSTRACT

Saving and Credit Cooperative Societies (SACCOS) are one of the forms of micro finance which provide financial services to low income group. Gingrich (2004) has studied performance of community based SACCOS in Nepal and found that most SACCOS in Nepal are successful because of their strong financial performance which include reliance on member savings and control of administration costs. This study examines and compares the financial performance of two SACCOS in Bhaktapur District of Nepal and their ability to provide financial services. Two selected SACCOS of Bhaktapur District are Shankhadhar SACCOS and Sahayogi SACCOS. Despite same purpose and coverage area, these two SACCOS are performing differently. Therefore, this study focuses on comparison of SACCOS's saving and credit policies such as loan provision, loan collection, member's participation, their management and operation etc. Similarly, the performances of SACCOS are examined through PEARL monitoring system and financial ratios are compared among selected SACCOS. The financial indicators of PEARLS monitoring system of each SACCOS are compared to find their operational efficiencies. Semi-structured questionnaires were used to analyze the policies of SACCOS where as quantitative data published in annual reports and financial statements open to public were used for analyzing performance by PEARLS Indices.

Shankhadhar SACCOS have increased its members enormously and also the total loan size issued is almost twice higher than Sahayogi despite its short period of establishment. It could be due to the widespread connection of promoter share holders, strong advertisement campaign etc. It has also implemented several policies which increase its efficiency such as possibility of borrowing loan just after 7 days of membership, introduction of new schemes such as doubling the principle in 6 years, introduction of first daily interest scheme on Saving in Thimi etc. Also, Sankhadhar SACCOS has number of policies to control default such as to financial penalty on late interest as well as principle repayment, restriction on deposit withdrawal etc

The calculated values of different components of PEARLS indicate that the performance of Shankhadhar SACCOS is better than the performance of Sahahayogi SACCOS in spite of its short period of establishment of the former. Shankhadhar SACCOS has invested their funds on loan effectively. Sahayogi SACCOS should slow down their loan flow as it has high loan

investment in all given years. Sahayogi SACCOS that means Shankhadhar SACCOS collection of loan interest is more effective. To stand in the competitive business environment, both SACCOS have given interest on deposit demanded in market. Even though both co-operatives' Gross income ratio is enough to increase institutional capital after expenses, Shankhadhar SACCOS is in better position. However, operational cost ratio of Shankhadhar SACCOS is high than Sahayogi SACCOS and just above the limit. It should adopt measures to control operating expenses in future. Since both Sankhadhar and Sahayogi has higher cash ratio than maximum limit specified by DOC. It means SACCOS failed to manage the cash and it may fail to satisfy the deposit withdrawal request and can come across problem in running the SACCOS.

TABLE OF CONTENTS

Recommendation	ii
Viva-Voce Sheet	iii
Declaration	iv
Acknowledgement	v
Abstract	vi
Table of Contents	viii
List of Figures	xii
List of Tables	xiii
Acronyms	xv
CHAPTER I INTRODUCTION	1-5
1.1 Background of the Study	1
1.2 Statement of Problem	3
1.3 Objective of the Study	4
1.4 Significance of the Study	5
1.5 Limitation of the Study	5
1.6 Organization of the Study	5
CHAPTER II LITERATURE REVIEW	7-27
2.1 Socio-Economic Context of Nepal	7
2.1.1 Geography and Population	7
2.1.2 Macroeconomic Situation	8
2.1.3 Poverty Situation	8
2.2 Socio-Economic Context of Bhaktapur	9
2.3 Financial Service Providers	10
2.3.1 Formal Financial Sector	11
2.3.2 Semiformal Financial Sector	11
2.3.3 Informal Financial Sector	11

2.4	Microfinance Sector	12
	2.4.1 Definition	12
	2.4.2 Microfinance Definition in Nepal	13
2.5	History of Microfinance Sector in Nepal	14
2.6	Models of Nepalese Microfinance	16
2.7	Cooperatives Movements	17
	2.7.1 Definition, Types and Principles of Cooperatives	17
	2.7.2 History of Cooperatives in Nepal	18
	2.7.3 Institutes Working for Development of Cooperatives in Nepal	20
	2.7.4 Outreach of Cooperatives in Nepal	21
2.8	Saving and Credit Cooperatives (SACCOS)	22
	2.8.1 Characteristics of SACCOS	22
	2.8.2 Role of Saving and Credit Cooperatives	23
2.9	PEARLS Monitoring System	24
	2.9.1 P = Protection	24
	2.9.2 E = Effective Financial Structure	25
	2.9.3 A = Asset Quality	25
	2.9.4 R = Rates of Return and Costs	26
	2.9.5 L = Liquidity	27
	2.9.6 S = Signs of Growth	27
CHAPTER III: RESEARCH DESIGN AND METHODOLOGY		28-34
3.1	Research Strategy	28
3.2	Study Area and Selection of Case	28
3.3	Types and Sources of Data	29
3.4	Method of Data Collection	30

3.5	Method of Data Analysis	30
3.5.1	Comparative Study and Analysis of Policies of SACCOS	31
3.5.2	Comparative Analysis of Performance SACCOS	31

CHAPTER IV: COMPARATIVE STUDY AND ANALYSIS OF POLICIES

	OF SACCOS	35-43
4.1	Number of Members	35
4.2	Requirement to be a Member	36
4.3	Financial Services Provided by SACCOS	36
4.4	Sources of the SACCOS Capital	37
4.5	Existing Loan Provisions	37
4.5.1	Loan Size	37
4.5.2	Loan Assessment Process	38
4.5.3	Lending Interest Rate	39
4.5.4	Loan Period and Loan Service Charge	40
4.6	Collection Procedures Adopted by SACCOS	40
4.6.1	Collection Procedure and Degree of Collectivity	40
4.6.2	Measures to Control Credit Default	42
4.6.3	Collection Procedures for Default Loan Amount	42

CHAPTER V: COMPARATIVE ANALYSIS OF PERFORMANCE OF SACCOS 44-50

5.1	Analysis of Performance of SACCOS	44
5.1.1	Protection	44
5.1.2	Effective Financial Structure	45
5.1.3	Assets Quality	46
5.1.4	Rate of Return	47
5.1.5	Liquidity	48
5.1.6	Sign of Growth	49

CHAPTER VI: CONCLUSION AND RECOMMENDATION	51-54
6.1 Conclusion	51
6.1.1 Comparative Study and Analysis of Policies of SACCOS	51
6.1.2 Comparative Analysis of Performance of SACCOS	52
6.2 Recommendation	53
REFERENCES	55
APPENDIEX A: QUESTIONNAIRE SAMPLE	57
APPENDIEX B: PEARLS's RATIOS CALCULATION	61

LIST OF FIGURES

Figure 2-1: Microfinance Sectors in Nepal

17

LIST OF TABLES

Table 2-1: Nepal Population Growth	7
Table 2-2: Regional Population Densities in 2001	8
Table 2-3: Macroeconomic Indicators	8
Table 2-4: Change in Poverty between 1995/96 and 2003/04	9
Table 2-5: Providers of Financial Intermediation Services	10
Table 2-6: Number of Financial Institutions	12
Table 2-7 Status of Four Major Cooperatives in Nepal	22
Table 2-8: Protection Indicators of PEARLS Monitoring System	25
Table 2-9: Effective Financial Structure Indicators of PEARLS Monitoring System	25
Table 2-10: Asset Quality Indicators of PEARLS Monitoring System	26
Table 2-11: Rates of Return and Costs Indicators of PEARLS Monitoring System	26
Table 2-12: Liquidity Indicators of PEARLS Monitoring System	27
Table 2-13: Signs of Growth Indicators of PEARLS Monitoring System	27
Table 3-1: Calculation of Protection Indicators	31
Table 3-2: Calculation of Effective Financial Structure Indicators	32
Table 3-3: Calculation of Assets Quality Indicators	32
Table 3-4: Calculation of Rate of Return Indicators	33
Table 3-5: Calculation of Liquidity Indicators	33
Table 3-6: Calculation of Sign of Growth Indicators	34
Table 4-1: Numbers of SACCOS Members	35
Table 4-2: Requirements to be a Member	36
Table 4-3: Loan Size	38
Table 4-4: Loan Assessment Criteria	39
Table 4-5: Lending Interest Rate	40
Table 4-6: Loan Period and Loan Service Charge	40
Table 4-7: Collection Procedure	41
Table 4-8: Measures to Control Credit Default	42
Table 5-1: Protection Indicators	45
Table 5-2: Effective Financial Structure Indicators	46

Table 5-3: Asset Quality Indicators	47
Table 5-4: Rate of Return Indicators	48
Table 5-5: Liquidity Indicators	49
Table 5-6: Sign of Growth Indicators	50

ACRONYMS

ADB	Asian Development Bank
ADBN	Agricultural Development Bank Nepal
CAMEL	<u>C</u> apital, <u>A</u> sset quality, <u>M</u> anagement, <u>E</u> arnings, asset <u>L</u> iability Management
CBS	Central Bureau of Statistics
CDF	Cooperative Development Fund
CEO	Chief Executive Officer
CISC	Centre for International Studies and Cooperation
CSD	Centre for Self-help Development
DOC	Department of Co-operatives
FAO	Food and Agriculture Organization
FINGO	Financial Intermediaries Non Governmental Organization
GBB	Gramin Bikas Banks
GDP	Gross Domestic Product
IBP	Intensive Banking Program
ICA	International Cooperative Alliance
IDP	Institutional Development Program
INGO	International Non-Governmental Organization
MOAC	Ministry of Agriculture and Cooperatives
PEARLS	<u>P</u> rotection, <u>E</u> ffective Financial Structure, <u>A</u> sset Quality, <u>R</u> ates of Return, <u>L</u> iquidity and <u>S</u> igns of Growth
MCPW	Micro Credit Project for Women
MFDB	Micro-finance Development Bank
MDG	Millennium Development Goal
MFI Nepal	Microfinance Industry Report Nepal
MLD	Ministry of Local Development
NBL	Nepal Bank Limited
NCDB	National Cooperative Development Board
NCF	National Cooperative Federation
NGOs	Nongovernmental Organizations
NPC	National Planning Commission

NLSS	Nepal Living Standards Survey
NRB	Nepal Rastra Bank
PCRW	Production Credit for Rural Women
RBB	Rastriya Banijya Bank
RMDC	Rural Microfinance Development Centre Limited
RRDB	Regional Rural Development Banks
RSRF	Rural Self Reliance Fund
ROSCA	Rotating Savings and Credit Associations
Rs	Rupees
SACCOS	Saving and Credit Cooperative Societies
SFCL	Small Farmers Cooperative Limited (SFCL)
SFDP	Small Farmers Development Programs
SKBBL	Sana Kisan Bikas Bank Limited
SWOT	Strength, Weakness, Opportunity and Threats
UNDP	United Nations Development Project
UNICEF	United Nations Children's Fund
USD	United States of American Dollar
VDC	Village Development Committee
WOCCU	World Council of Credit Unions