

CHAPTER - I

INTRODUCTION

1.1 General Background

Co-operative is a form of business enterprises, or community organization, in corporate service to its member and users, in order to meet their common economic social and culture needs and aspiration. Co-operative is jointly – owned and democratically controlled by its members and user on the basis of one member one vote. It means cooperative one of all and all for one.

Co-operative follows democratic, participatory and transparent decision making process and organizational structure so that their member and users may be directly responsible for benefiting themselves and the society in general.

A co-operative is an autonomous association of people united voluntarily to meet their common economic, social and culture needs and aspiration through out a jointly – owned and democratically controlled enterprise. (“International co-operative Alliance”, 1995, Seventh annual General meeting)

Nepal is landlocked country which lies between two largest countries china & India. According to the 2058 B.s the population of Nepal is 23151423 with an annual growth rate of 2.25%. We know that about 85.8 % of people live in rural areas & 14.2% live in urban area. (His Majesty's Government, Central Bureau of Statistics, Statistical Pocket Book 2002)

Keeping this reality in mind the overall development of the country is not possible without uplifting the rural area economically. Thus government has made efforts are primarily within objective to increase the living standard of the rural people. However the rural people should made attempts to organize, supervise, and manage the co-operative in order to raise their economic condition. They must work for the common interest of the members of the society.

Co-operative organization is developed to remove defects of capitalism, to lesser competence, to prevent exploitation over people and to help the weaker class people. Its ideology is applied in different possible areas. In the beginning success achieved as consumer store, where as now it is found in the field of vegetable production seed production, tea and coffee production, poultry and animal farming, sales and distribution ,transportation, health, education ,wood carving ,metal carving, furniture cottage industry ,carpet industry ,housing and other .Besides these cooperative provides access to microfinance service, saving and credit cooperative are the example of it. Due to its nature, cooperative with limited service, saving and credit cooperative is also called credit union (CU) and recognized as microfinance institutions (MFIS)

The sprit of cooperative has been developed from the ancient time “Robert Owen” from England is the founder of modern cooperative. The group of 28 laborers founded a consumer’s cooperative society called “ROCHDALE EQUITABLE PIONEERS SOCIETY” on 24th October 1844, saving a pound each. It is the first cooperative society in the history of the world cooperative development. After then it is extended to Germany, Italy, France, and all over the world. As a result of the development of cooperative organization, “international cooperative alliance” (ICA) was established in England in 1895.

Cooperative society in Nepal is not a new concept. Traditionally cooperative is known’s Parma, Bheja, Dhikuti, Dharma, Bhakari, Guthi has been continuing till now. The history of cooperative society dates back to 1956 AD in which years the government incorporated” BAKHAN saving and credit cooperated limited”. In Rapti valley, Chitwan by issuing executing order for its legal validity. (Keshar Jung Baral, 2005, Cooperative in Nepal: use and effectiveness, a paper presented in the interaction programmed organized by Royal cooperative limited, Pokhara)

The third years Panchayat regime also attempted to promote cooperate by in enforcing the cooperative Act 2016BS (1959AD) and cooperative regulation 2018BS. After the restoration of democracy in 1990, the government considered cooperative as a means of poverty alleviation. It enforced new cooperative Act 2048BS and cooperative regulation 2049BS.

The cooperative society has taken momentum together with beginning of the planned development of Nepal. The first five years plan [1956-61] has considered cooperative movement as an important campaign to uplift the standard of living of people in the country. It had ambitious target of establishing 450 cooperative societies throughout the country but at the end of plan only 378 cooperative societies had been established.

The second 3rd years plan [1962-65] has also given priority to establish along with cooperative societies in the country. 542 cooperative were established along with cooperative bank at 2019, a cooperative bank were established in 2020 by which cooperative bank provides loan to cooperative societies at low rate of interest.

The third five years plan [1965-70] the cooperative bank which was established during second plan converted to ADP in 2024 BS .366 cooperative were established.

During the fourth five years plan[1970-1975] cooperative society had provide services in 60 districts of the country the plan had emphasized in improving the quality of cooperative rather than quantity. In this period 251 guided cooperative were established. The fifth five years plan [1975-80] had taken steps to modify the guided cooperative societies into Sagha societies. The existing cooperative was converted into "Sagha societies" with a view to conceive as the institutional arrangement for rural development.

The Sixth Five-Year Plan emphasized on the co-ordination of Sagha programmes. The seventh and eighth five year-plans laid emphasis on education and training for the institutional and physical development for the trainers.

The ninth and tenth year-plans targeted to improve the training methodologies on cooperative education and make it profession. [Kamal Raj Dhungel, Cooperative Movement of Nepal, the Basic Economic 2000]

Cooperative to collect scattered saving and mobilized them by investing in productive sector. Cooperative today, has gained extensive importance in public of and rural and urban area. Their major function is being confined to accept of deposit and extending loans to productive sector. Cooperative collects deposit by offering various deposit schemes with

attractive interest rate. Funds collected through acceptance of deposit are being mobilized through different ways.

Everest Cooperative Society Ltd was established in 2057B.S. It was established to raise the economic condition of its members. It provided the economic support to especially lower class people to raise their status.

ESCL was established under the Cooperative Act 2048. It was established to fulfill the immediate need and public welfare. The head office of the ESCL is in Taalchock, Lekhnath Municipality, Kaski. It has only one sub-branch at Chipledhunga, Pokhara. ESCL collects the deposit under various accounts and their collected deposits are inverted in several areas as in the form of loan for different purposes. It also provides loan in different fields like business, hire purchase, industries, housing & real state etc. The future plan of society is to be expanding the banking transaction and try to decentralize the ESCL in difference parts of country to reduce the regional disparity. At present the authorized capital of ESCL is Rs 5 cores & issued capital Rs 2cores & paid up capital is Rs 1 corers. There are 234 shareholders among them, 34 are promoter shareholders.

1.2 Statement of the Problem

Saving and credit cooperative as a movement has grown significantly within last decade. In terms of number of cooperative societies, it has become more than double. Most of the reports of the surveys and studies conducted in this field also acknowledge the important role that the cooperatives are playing in providing access to financial services in the country.

Nepal is the landlocked, least developed and poor country in the world because it has low per capital income [i.e. \$240] and high population growth rate [i.e. 2.27%]. There are so many people residing in rural areas. Out of total population, 85.8% live in rural areas & rest 14.2% live in urban areas. [Govinda Prasad Kusam & Durgesh Kumar Shrestha, Business Environment in Nepal, 2nd ed. 2063BS]

Out of thousand saving & credit cooperatives, only 19 cooperatives are under the jurisdiction of monitoring authority, Nepal Rasta Bank [Nepal Rasta Bank, economic review 2007]. NRB does the offside and onside supervision of cooperative licensed for limited banking service. It regulates and supervises

the cooperative under its jurisdiction on the basis of same supervision parameters.

There are so many commercial banks finance and insurance companies in Pokhara which are focusing their aim to the limited & economically advance ratio of the population. There is vital role of agriculture industry in the development of Pokhara, but industry and trade need large volume of capital. Therefore, Everest cooperative society ltd. invests to industrial and small traders, farmers, of especially rural area. However it has not fixed group to invest.

ESCL was established on 2055 at Pokhara according to the cooperative act 2049. ESCL is located at main place Chipledhunga of Pokhara Sub Metropolitan. ESCL helps people having low and moderate income by gradually collecting the small scattered amount of saving and providing them with loan for the small scale cottage industries. Under this fact, the proposed study will be reasonable and a researcher expect that a study on deposit collection and mobilization of ESCL. Thus, this study attempted to address the following research problems:

- 1) How much amount is collected as deposit since fiscal from 2060 to 2064?
- 2) How does it collect its deposit?
- 3) How much interest rate is given to the people who want deposit?
- 4) What are the sectors for mobilizing collected deposit?
- 5) What is liquidity position of the ESCL?

1.3 Objectives of the Study

The present study is directed towards analyzing about deposit collection and mobilization of ESCL. The purpose of study is to examine the deposit collection and mobilization of cooperatives. It also highlights the concept, historical background, current issues of cooperative in Nepal. The specific objective is listed below:

- 1) To analysis deposit situation of Everest cooperative limited of five fiscal years 2060 to 2064.

- 2) To know interest rate on deposit.
- 3) To know how the deposit is collected from the consumer.
- 4) To access the sector for mobilizing collected deposit.
- 5) To measure the liquidity position of the ESCL.

1.4 Significant of the Study

Basically, the cooperative to provide service only profit yes or not and collect saving from lower and moderate income people & to invest the some for their economic development. The organization does protect weaker section of the community that is poor and unprivileged member & increase than purchasing power provide welfare & amenities to raise their living standard.

It will identify the issues and challengers of cooperative organization in Nepal. This study will update the researcher about the current scenario of the rural based cooperative organization through empirical analysis. This study is visualized the current situation of the cooperative in Nepal. Thus, this study will play significant role for further improvement to the researcher, scholars as well as the Everest Cooperative Society itself. & it will be also beneficial for the other financial institutions regarding proper deposit collection & its mobilizations.

1.5 Limitation of the Study

The study is conducted as an academic requirement for master degree of business studies due to which is mainly focused with a view to deposit collection and mobilization of ESCL. There are some following limitations.

- 1) The study is focused only on deposit collection & mobilization of ESCL.
- 2) The study is based on five fiscal years data form 2060 to 2064.
- 3) I used limited took & techniques.
- 4) This study is dependent upon partial fulfillment of MBS and prepared with in time constraints.
- 5) Due to the natural of the study, the study is based mainly on secondary data.

1.6 Organization of the Study

This study is organized into five chapters which are as follows:

Chapter 1 : Introduction

Chapter 2 : Review of literature

Chapter3 : Research methodology

Chapter4 : Data presentation and analysis

Chapter5 : Summary, Conclusion and Recommendation

The first chapter contains the background of the study, statement of the problem, objective, significance, limitation etc.

The second chapter contains review of literature. This chapter incorporates the meaning and definition of cooperative, principles of cooperative, historical background, Nepalese prospective , organizational structure , current issues and challengers of cooperative, review of analysis tools, introduction of ESCL and related studies.

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

The fourth chapter consists the presentation of relevant data and information. Presentation of analyzed data will be made in the form of table and graphs and interpretation of the result explored.

At last and final chapter summarizes the whole study. 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 section provides current stage of the research work and guidelines for further study and helps to avoid unnecessary duplication of research work. It highlights upon the literatures that are available in the area of deposit collection & mobilization sector and cooperative society sector. This chapter consists of the existing literature and research related to the present study for the purpose of finding out what had already been explained & how the present research adds to the dimension in this regard. The chapter also deals with conceptual aspect of cooperative, global and national scenario of cooperative and cooperative movement of Nepal. This chapter is divided into two parts conceptual review and theoretical review

2.1 Conceptual Review

2.1.1 Meaning and Definition of Co-operative

The word “cooperative” has been derived from the Latin word “co-operare” which means in its ordinary sense working together but in broad sense, it means the system of people voluntarily associated working together in terms of equality to their economic exploitation by others.

Cooperative is associated with human being in all walks of life. It may be compared with the company of birds, beasts and insects. It teaches maintain disciplined life and coordination among each other. A cooperative organization is more guided by the service. It has render to the member that by the profit motive. It is completely different from other business organizations.

‘Bhide’ has defined cooperative represents itself as a happy means between the force of extreme individualism on one hand and socialism and communism on the other. It stands for individual rights tampered by consideration of justice, equity and fair dealing between man and man, and its

one great aim is to prevent the exploitation of the weaker by the stronger party (The place of cooperative in national life, Bombay).

The definition given by international labor organization covered most of the principal of cooperation. So it can be considered to be the most comprehensive one. Cooperative society is "An association of the economically weak who voluntarily associates on the basis of equal rights & equal responsibility, transfer to an undertaking one or several of their function, corresponding to one or other economic needs which are common to them all, but which each of them is unable fully to satisfy by his/her own individual efforts & manage and use such undertakings in mutual collaboration to their common material and moral advantage (B.P Shrestha an introduction to Nepalese economy 1974 page 115). H Calvert defined cooperative as "A cooperative form of organization where in person voluntary associate together as human being on a basis of equality for the promotion of economic interest of themselves (P.C Dhal "A text book of Cooperative Management Konark Publisher Pvt. Ltd.")

The international cooperative alliances general meeting on 1995 defines, "A cooperative is an autonomous association of people united voluntarily to meet their common economic, social & cultural needs & aspiration through out a jointly-owned and democratically-controlled enterprise".

The progress of cooperative movement has been slow & in some countries it is exceedingly slow. In the constitution of Nepal, it has been resolved to secure to all the citizen of Nepal justice, social, economic & political. As such, cooperative societies have been given an important place in the constitution. Economic development and social change are equally vital elements in the reconstruction of Nepal socio change are equally vital elements in the reconstruction of Nepal social economic structure. Cooperation is one of the principal's means for bringing about changes of a fundamental nature in the country. As such cooperative development has got priorities and various programmes have been launched by the government through various economic plans to propagate the idea of cooperation in the country.

Hence, the given above discussion conclude that cooperative is a form of organization especially of the weak and powerless people were in actual users of certain goal and services, voluntarily associate together as human beings, on the basis of equality for the promotion of their economic interest by honest means. Cooperation is the super philosophy of life, besides of a form of business organizations.

2.1.2 Principles of Cooperatives

All of the cooperative activities are guided by its principles. Cooperative principles are the set of rules and regulations to regulate and govern the activities of cooperative enterprise. They were first set out by “ROCHDALE society of equitable pioneers” [<http://en.wikipedia.org/wiki/rochdale-principles>] in Rochdale, England, in 1844, and have formed the basis for the principles on which cooperative around the world operate to this day and being the guide line principles for all kinds of cooperative activities for the attainment of pre-determine goals. The principles of cooperation have been given new dimensions in order to make the cooperative movement purposeful.

Due to the rapid changes in the economy of the world, the need for review of this principle was increasingly felt. International cooperative alliance[ICA]has under taken their reviews modernized the idea of cooperation , maintained its relevance and provide an up to date test of whether an organization qualified to call itself a co-operative. The definition of a co- operative as established in the 1995 co-operative principles has been included in a number of policy documents including the united Nations Guidelines, the international labour organization recommendation 193 on the promotion of co-operatives[http://www.ica.coop/coop/principle_revisions.html] In 1963, the ICA had reviewed the principles the existing principles and the committee enunciated the following principle which have commonly adopted all over the world.

2.1.2.1 Voluntary and Open Membership

The first of the Rochdale principles states that cooperative societies must have an open and voluntary membership. According to ICA’s statement on the cooperative identify, “cooperative are voluntary organization, open to

all persons able to use their services and willing to accept the responsibilities of membership, without gender, and social, racial, political or religious discrimination.

2.1.2.2 Democratic Member Control

The second of the Rochdale principles states that cooperative societies must have democratic member control. According to the ICA's statement on the cooperative identity, "Cooperative is democratic organization control by their member, who actively participated in setting their policies and making decision. Man and women servings elected representatives are accountable to the membership. In primary cooperatives member have equal voting rights and cooperatives at other levels are also organized in democratic member.

2.1.2.3 Member Economic Participation

Member economic participation is one of the defining features of cooperative societies, and constitutes the third Rochdale principle in the ICA's statement on the cooperative identity. According to ICA "Cooperative is enterprises in which members contribute equitably to, and democratically control, the capital of their cooperative. At least part of that capital is usually the common property of the cooperative. Member usually receives limited compensation, if any on capital subscribes a condition of membership. Member allocate surplus for any or all of the following purposed developing their cooperative, possibly by setting up reserves, part of which at least would be indivisible , benefiting members in proportion to their transactions with the cooperative and supporting other activities approved by the membership.

2.1.2.4 Autonomy and Independence

The fourth of Rochdale principles states that cooperative societies must have autonomous and independent. According to the ICA's statement on the cooperative identify, "cooperative are autonomous self help organization control by their member. If they enter the agreements with other organization, including governments or rise capital from external sources, they do so on terms that ensure democratic control by their member and maintain their co-operative autonomy.

2.1.2.5 Education, Training and Information

The fifth of the Rochdale principles states that cooperative societies must provide education and training to their members and the public.

According to the ICA's statements on the cooperative identify," cooperative provide education and training for their members, elected representatives , manager, employees so they can contribute effectively to the development of their cooperative. They inform the general public-particularly young people and opinion leaders about the nature and benefit of cooperation.

2.1.2.6 Cooperation Among Cooperatives

The sixth of the Rochdale principals states that cooperatives cooperate with each other. According to the ICA's statement on the cooperative identify, "cooperatives serves their members most effectively and strengthen the cooperative movement by working together through local, national, regional, and international structure".

2.1.2.7 Concern for Community

The seventh of the Rochdale principal status that cooperative societies must have concern for their communities. According to the ICA's statement on the cooperative identity, "Cooperative works for the sustainable development of their communities through policies approved by their members".

2.1.3 Historical Background

2.1.3.1 Global Prospective

In India, during the British rule, Nicholson a British officer in India suggested to introduce Raiffersen model of German agriculture credit cooperative in India. As a fallow up of that recommendation, the first cooperative society act of 1904 was enacted to enable formation of " agriculture credit cooperatives " in villages in India under Government sponsorship. With the enactment of 1904 Act, cooperatives were to get a direct legal identity as every agricultural cooperative is to be registered under that Act. The 1904 Cooperative Societies Act was replaced by 1912 cooperative societies other than credit. Under 1919 Administrative Reforms Act, cooperative was made a provincial subject making each province responsible for cooperative development. In 1942, the British Government enacted the multi unit cooperative society's Act, 1942 with on object to cover societies whose operations are extended to more than one state. The impulses of the India freedom movement gave birth to may initiatives and institutions in the post independence era in India and armed with an

experience of 42 yrs in working of multi unit cooperative societies & the multi unit cooperative societies Act, 1942, the central Government enacted a comprehensive Act known as multi state cooperative societies Act 1984, repealing the Act of 1942. Cooperative has extended across the entire country and there are currently and estimated 230 million member nation wide. The cooperative credit system of India has the largest network in the world and cooperative has advanced more credit in the Indian agriculture sector than commercial banks. ("Problem and Prospectus of the Cooperative Movement in India under the Globalization Regime " Palai Nirod Kumar and Das Kumar, 2006)

The cooperative movement started for the first time in Britain. At the beginning of the 19th century the idea of cooperative was given by Robert Owen, but it was practically developed by the group of Rochdale pioneers called the "consumers society". This was a successful cooperative society which was started all over Great Britain, this society sold goods only for its members in the beginning but later it started to sell goods to non members also.

Rochdale principles of cooperative discussed in cooperative literature throughout the world are open membership, democratic control, distribution of surplus in proportion to purchase limited interest on capital, religious and political neutrality cash trading, promotion and education. Although there have been in excess of hundred of societies but the truth is that it was the Rochdale pioneers society that achieved tremendous success and put economic and social life to Britain on the road of continuous progress.

Likewise, the idea of cooperative was suggested by two German at the time Rochdale pioneers and they started their cooperative work in Germany after few years for improving the coordination of the poor peasants, Friedrich Raiffeisen successfully tried to help that poor peasant through agriculture credit cooperatives societies by. The other Germany cooperative was Friedrich Schulze Dalich who opened the cooperative bank to help the Germany people. There was little difference between these two Germany cooperators Raiffeisen's credit societies were suitable in village while other was suitable in town but both were started their first cooperative societies in 1849 and both ran successfully.

In Switzerland, the cooperative movement was started by 'Daisies'. Swiss agriculture is organized by the various cooperative. Cooperatives movement contributed a lot for the development of Switzerland in 1847 and 1848. Establishment of cooperative stores and number of food societies were also formed in 1851. Another contribution of cooperative is 'holiday home' in Switzerland. This was given job opportunities to young people of Switzerland in 1934. By all people of Switzerland realized that cooperative provides many things to them.

After the second half of the 19th century cooperative movement was started. This movement seems to have been influenced by the European cooperative movement. The credit cooperative of Japan is like that of Germany and consumer cooperative is modeled in the British cooperative. The Japan Agriculture multi cooperative organization takes an important position in cooperative movement, though in low level; we find a vital role of the government. In the movement the government invests funds and grants which directs the organizations.

Denmark is the homeland of agriculture cooperation in the world. A local Pastor, Rev. Hans Christian, started the cooperative movement in 1861 at Thisted in Jylland. After visit of England they established the cooperative stores in 1868. In 1882, the first cooperative dairy was established and in 1887 the first balloon factory was established in Denmark. Today the cooperative dairies occupy the front position in the cooperative of Denmark.

The successful cooperative movement in Germany and Britain followed it by the other countries of the world. All of the developing countries as well as developed countries felt that cooperation might be one of the best instruments for uplifting the rural poor and liberating them from the exploitation of landlords and moneylenders.

As the cooperative movement took place in different countries, ICA was established in London on August 1895 by the International Association of Cooperative Congress, ICA is an independent worldwide international association of cooperative organization of all types. ICA has the affiliation in 102 countries with 256 national and 4 international level organizations as member serving well over 800 million individual member worldwide. ICA collaborates with several United Nations agencies, including the international

labour organization (ILO), food and agriculture organization and the council for trade and development. ICA enjoys category-1 consultative within the united nation and social council.

2.1.3.2 Nepalese Perspective

The different types of cooperatives activities, 'DHARMA BHAKARI', DHIKURI, PARMA, BHEJA, GUTHI and MANKAKAHAL are used in practice from the ancient time. DHARMA BHAKARI means a religious store of a kind of grain after the end of the harvest season. At the time of scarcity, the quantities of grains are distributed advance to the farmers. Loan is advanced from the grain bank only to their villagers, who have contributed to the bank and agree to pay the loan in kind with interest.

'PARMA' is still another type of traditional type of traditional type of cooperative in Nepal. It is a socio economic organization in which farmers, neighbors, friends and relatives work with cooperative operation promote their economic and social interest. Another traditional form of rural cooperative 'DHIKURI is the best example of voluntary cooperation of the 'THAKALI'. It is formed by the group of people with the specific work. 'DHIKURI' is one of the important and popular forms of cooperation in Nepal. This system of cooperative is utilized in all part of the country. The member prepares the rules and regulation. After preparing rules of such society, every member is required to contribute certain amount of capital towards the fund. The fund is to be contributing certain amount of capital towards the found. The fund is to be contributed on the basis of financial requirement of the member.

'Manke jaya or manka Gathi is practiced as group farming in valley. Each group is called 'manka khala' and its head is called "Thakuli" which means chairman of that group. Informal group of farmers are farmed for doing agricultural operation like cultivation, sowing and harvesting etc.

Thus the concept of cooperative in Nepal is not a new one. It is familiar from those days when people had the knowledge to live together in a society or community. But we can not ascertain the actual date when the cooperative movement was started in Nepal. Many types of informal cooperatives were running in different part of Nepal but those are not in position to take formal slope of cooperative. If we turn over the history of cooperative movement of Nepal, the organized history can be tracked back to about 56 yrs old. Formally

the history of Nepal has been started after establishment of cooperative department in the years 1953 under the ministry of agriculture for the promotion, supervision and evaluation of cooperative societies.

In the beginning cooperatives movement in the real sense was greed up with establishment of 'BAKHAN saving and credit cooperative ltd' in Rapti valley, Chitwan in 1956 as part of the resettlement program for the flood stricken people in Rapti valley under the active support of united states agency for international development on experimental basis. These cooperatives were previously registered under an executive order of His Majesty's Government of Nepal.

Considering the importance of necessary rules and regulations for managing and guiding cooperatives effectively and efficiently, the first Cooperative Act was promulgated in 1959, which provided legal entity among other things, to all cooperatives, registered under the executive order.

Consequently Cooperative Society Rules, 1961 was promulgated and prompted the cooperative movement in the country. With the introduction of the first Cooperative Act, numerical growth of the cooperative boomed up. In the mean time, the cooperative activities were tired up with the so called revolutionary many land-reforms program. In later dates, the guided cooperative program was introduced which followed a rapid merging process. In 1969, the management of cooperative was entreated to the agriculture development bank of Nepal. The number of cooperative registered with the concerned department increased gradually and by the end of 1970 – 1971 reached to be about 1500.

During the period, a cooperative development fund (CDF) was established to finance cooperative for leading to their members. In order to provide broader spectrum to supervision, guidance and leading to cooperatives a cooperative bank was established in 1963. Within a short period of establishment, the cooperative bank suffered heavy financial losses because of misuse and fraud in the operation of its member cooperatives. This led to establishment of ADB and dissolution of cooperative bank in 1970 with all the assets and liabilities under the formal control. In 1976, the cooperative were redesigned as 'Sajha.' The cooperative societies were also subjected to various agencies regarding management control. In the early

seventies they were brought under the ADB/N for financial and administrative control. This did not last long. They were handed over back to the cooperative development.

Obviously, the reason for failure of cooperatives was the nature of organization government took initiatives to organize, manage, and control them. Cooperative was used as tools for the extension of the government, services designed to serve the interest the government, not of the members.

After the restoration of democracy in the country in 1990, it paved the way for the new changes in the cooperative movement, consequently new Cooperative Act was promulgated in 1992 recognizing co-operative as a popular organization with an autonomous body. On the basis of Act, a long waited national cooperative federation came into existence on June 20, 1993 (National Cooperative Federation of Nepal Ltd, Ktm Nepal). Soon after the reinstatement of democracy in 1990, the interim government formed a National-Level Cooperative Confederation Advisory Committee. The committee made an in-depth analysis of the problems faced by the cooperative movement and which emphasized on the need for promoting cooperatives in the line with cooperative principles and democratic values. The committee report was studied by the government and subsequently 11-member National Cooperative Development Board (NCDB) was formed by the Cabinet in August 1991. The board was formed with initial task of formulating cooperative polices and new legislation to set up the structure of co-operative movement up to the central level, coordinate the activities of cooperative in different sectors and for creating the necessary foundation for facilitating the process of cooperative development.

There have been several commissions and task forces formed for studies in the field of cooperatives. Such commission and task forces include consultative committee for national cooperative federation 1990, study on improvement on organizational structure of cooperative sector, 1999, task force for suggestions for cooperative development, 2000, and high level cooperative sector improvement committee, 2004, legal frame work and institutional development study of saving and credit cooperative society and national cooperative Bank by Ministry of finance, 2004. (Prahald Man Mali "Cooperative Movement in Nepal and its Role in Rural Development

Innovations and Challengers ” A Paper Presented in the “Program on Development of Rural Financing Institutions and Cooperatives, KTM, Nepal 2005)

Cooperative Bank was established in 9th July, 2003 with the aim to provide financial services to all cooperatives issuing share and making member to cooperative (Brochure, National Cooperative Bank Ltd, Nepal) Within the four-year period of establishment, it is not capable to include most of the cooperative of Nepal and facing problem in including all the cooperatives and extension of branch office in major parts of Nepal. For the supervision of cooperatives in regional level cooperative office cooperative training office combining with division cooperative office in Kailali, Surkhet, Kaski and Chitwan in 2005. In 2006, on the occasion of the 50th year of formal establishment of cooperative in Nepal, cooperative golden jubilee was celebrated all over the country.

Table – 2.1

Major Events of Co-operative Movement in Nepal

Year	Events
2010 B.S.(1953AD)	) Establishment of cooperative division under the Ministry of plan Development and Agriculture
2013B.S.(1956A.D)	) Issue of executive order for the legal variety of cooperative societies by the government) Government incorporated Bakhan Saving and credit cooperative Ltd in Rapti Valley, Chitwan by issuing executing order for its legal validity.
2016B.S(1958AD)	) Cooperative department transferred under the Ministry of Food, Agriculture & forest.) Issue of Cooperative Acts 2016
2018B.S.(1961AD)	) Issue of Cooperative Regulation 2018) First amendment of Cooperative Act 2016) Establishment of cooperative Development Fund) Establishment of Sajha Sanstha Ltd.

2019B.S.(1962AD)	<ul style="list-style-type: none">) Establishment of cooperative Training Center) Establishment of cooperative exchange & loan Association) Issue of Cooperative Bank Act 2019
2020B.S.(1963AD)	<ul style="list-style-type: none">) Establishment of Cooperative Bank.) Cooperative section had kept under the District Panchayat.
2021B.S.(1964AD)	<ul style="list-style-type: none">) Being of Agriculture Reorganization Program.) Cooperative Division staffs transferred to Land-reform Program.
2023B.S.(1966AD)	<ul style="list-style-type: none">) Cooperative Division had been transferred under the Ministry of Land-reform, Agriculture and food.
2024B.S.(1967AD)	<ul style="list-style-type: none">) Formation of central investigation committee.) Cooperative Bank had transferred into Agriculture Development Bank.
2026B.S.(1969AD)	<ul style="list-style-type: none">) Cooperative Division transferred under the ministry of land reform.) Operation of cooperative Agriculture Development.) At first compulsory saving (Anibarya Bachat) has converted into share of cooperative societies, Bhaktapur.) Cooperative Exchange and Loan Association changed into District Cooperative Association.
2027B.S.(1970AD)	<ul style="list-style-type: none">) Second Amendment in Cooperative Act 2016) Arrangement of Central and District Cooperative Improvement Committee.) The management of cooperative societies has transferred to ADB/N.
2028B.S.(1971AD)	<ul style="list-style-type: none">) First Amendment in Cooperative Regulation 2018.
2029B.S.(1972AD)	<ul style="list-style-type: none">) Operational of regular cooperative education program.
2033B.S.(1976D)	<ul style="list-style-type: none">) Beginning of population education through

	<p>cooperative.</p> <p>) Occurrence of central Sajha Development Committee.</p> <p>) Second amendment on cooperative Regulation 2018.</p> <p>) Compulsory saving converted into the share of Sajha.</p>
2034B.S.(1977AD)	) Fiscal Regulation 2034 issued for the Sajha society management.
2035B.S.(1978AD)	<p>) Management of cooperatives transferred to operating committee from ADB/N.</p> <p>) Issue of fiscal and Administrative regulation for cooperatives</p>
2041 B.S.(1984AD)	) Sajha Society Act 2041 was issued.
2043 B.S.(1986AD)	<p>) National co-operative seminar conducted.</p> <p>) Issue of Sajha Society Regulation 2043.</p>
2044 B.S.(1987AD)	) Member's high-level central co-ordination committee formed for the effective development of sajha movement.
2045 B.S.(1988AD)	) Announcement to return of compulsory saving to the savers.
2046 B.S.(1990AD)	) Formation of ad-hoc committee for the formation of the central sajha society.
2047 B.S.(1991AD)	) Formation of 7 member central cooperative general association consulting committee and the committee submitted its report.
2048 B.S.(1991AD)	<p>) Sajha central office dissolved.</p> <p>) 11 member National co-operative development boards established.</p>
2049B.S.(1992AD)	<p>) Co-operative Act 2048 issued.</p> <p>) District co-ordination committee and co-operative ad-hoc committee formed.</p>

	<ul style="list-style-type: none">) Sajha Development Department transferred into co-operative department.) Sajha training center transferred into co-operative training center.
2050B.S(1993AD)	<ul style="list-style-type: none">) Cooperative society Regulation 2049 issued.) Formation of national cooperative federation.) Establishment of central cooperative Federation.) Establishment of national saving and credit cooperative Federation.) Establishment of Nepal Federation of saving and cooperative Union Ltd.) Consumer and saving and credit co-operative societies are established at the large scale all over the country.
2052B.S(1995AD)	<ul style="list-style-type: none">) Formation of high level committee for co-operative improvement and proposal submitted.
2057B.S(2000AD)	<ul style="list-style-type: none">) Conversion of ministry of agriculture into the ministry of agriculture and co-operatives.) Formation of the national co-operative development advisory working team and submission of report.) The first amendment in the section 26 of the Co-operative Act, 1992.
2058 B.S(2001AD)	<ul style="list-style-type: none">) Announcement of observance of international co-operative improvement and proposal submitted.
2060B.S(2003AD)	<ul style="list-style-type: none">) Establishment of national co-operative bank Ltd.
2061B.S(2004AD)	<ul style="list-style-type: none">) Structure of co-operative division changed according to the administrative improvement program.) Nepal government constituted a high-level co-operative sector improvement consultative committee under chairmanship of the Minister of

	<p>Agriculture and Co-operative submitted its report to the government of Nepal.</p> <p>) Ministry of Finance constituted to study the legal framework and institutional development of the saving and co-operatives & national co-operative bank.</p> <p>) Government of Nepal announced the policy of GAU GAUMA MA SAHAKARI GHAR GHAR GHAR MA ROJGARI through it's budget fiscal year 2061/062</p>
2062B.S(2005 AD)	<p>) Change of name of district co-operative office into division co-operative office.</p> <p>) Establishment of regional level co-operative training office combining with division co-operative office in Kailali, Surkhet, Kaski and Chitwan.</p>
2063B.S to 2064 (2006 to 2008 AD)	<p>) Celebration of Co-operative golden jubilee 2006/8 through the country.</p>

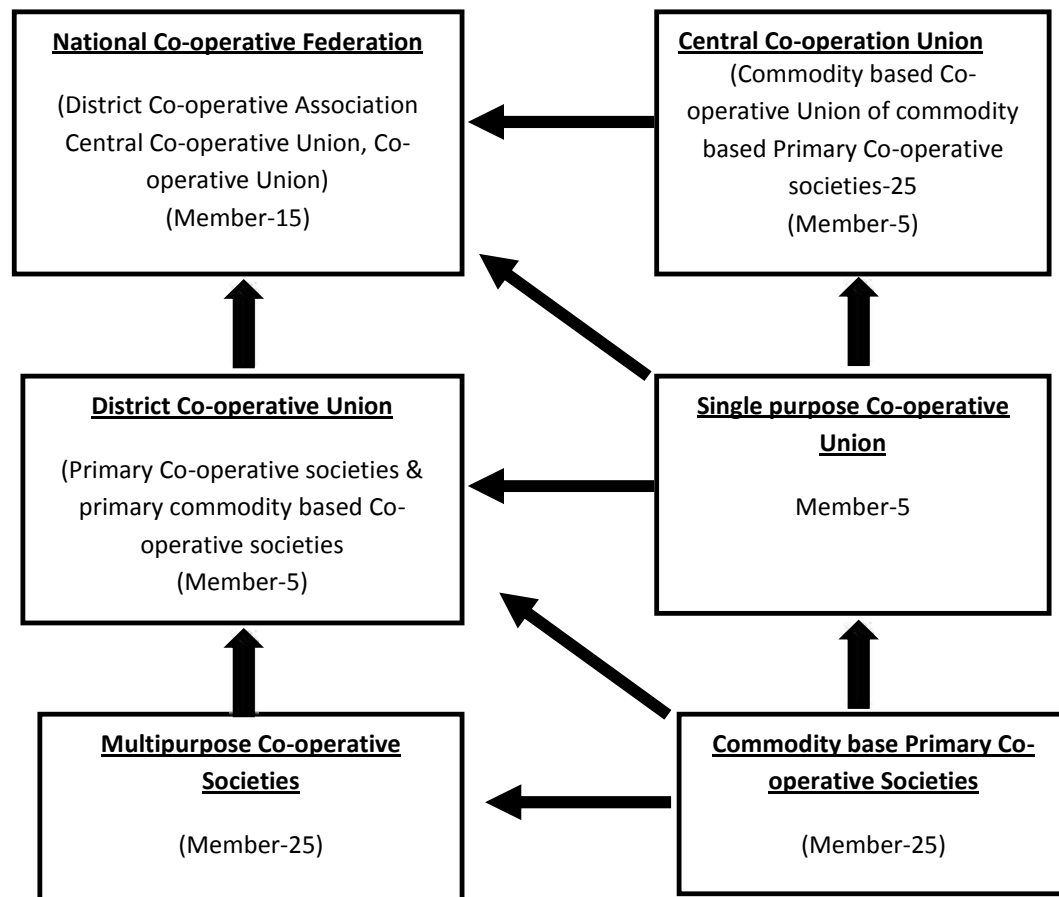
Source: National Co-operative Bank Limited

2.1.4 Organization Structure

Cooperative Act 1992 has the provision of three-tier system of non agriculture cooperative or commodities based. The major function of the primary cooperative societies is to benefit the members by providing necessary services, help in development of the member's socio economic conditions and community by providing services in group and community basis disburse loans to member on their needs basis as well as provide other services for the betterment of the member. The organization structure of the cooperative organization is shown in the form of a chart.

Chart 2.1

Organization Structure of Co-operative of Nepal



2.1.5 Saving and Credit Co-operative in Nepal

Nepal has not made to separate saving and credit co-operative Act till now. After came democracy in Nepal 2047 B.S., co-operative Act 2049 B.S. According to section 26 co-operative Act 2049 B.S. saving and credit co-operative movement has been exercising in Nepal. There are some saving and credit co-operative organization in Nepal. They are shown below:

2.1.5.1 Traditional Saving and Credit Co-operative

These types of co-operatives encourage the members to collect deposit from them. It provides debt to members for production and consumption function. The purpose of co-operative at establishing time is to develop the socio-economic conditions of members.

2.1.5.2 Multipurpose Saving and Credit Co-operative

These kinds of co-operatives provide saving and credit facility to their members.

2.1.5.3 Financial Co-operative

Financial co-operative can accept saving from general and provide loan to agriculture, co-operative, industries or specific economic provision is called financial institution. These types of co-operatives have limited right to provide financial activities.

2.1.5.4 Banking Co-operative

These types of co-operatives can conduct limited banking activities after obtaining approval from a Nepal Rasta Bank (NRB). NRB has given them only to saving and credit facilities. NRB has issued following provisions for this types of co-operatives.

- ❖ These co-operative can provide limited banking facilities.
- ❖ The co-operative can collect saving and provide debt to both member and other people.
- ❖ Co-operative can give current account facilities.
- ❖ Co-operative have manage 10% liquidity fund of total collection.
- ❖ Co-operative can't give current account facilities.
- ❖ The different between interest in saving and credit are not than 6%.
- ❖ Co-operative is able to accept saving and credit to 10 times of up capital and one person can issue debt only 10% of total paid off capital.

2.1.6 Current issues and Challenges of Co-operatives

There have been several commissions and task force formed for studies in the field of co-operatives. Such commissions and task forces include consultative committee for national co-operative federation 1990. (Study on improvement on organizational structure of a co-operative sector 1999, Task force for suggestion for co-operative development, 2000, and high-level co-operative sector improvement committee, 2004)

All of the above committees have identified challenges of the co-operative sector and provided their recommendations to overcome them. The challenges identified are mostly too general and focused on what the government should do. The challenges identified in this report include but not limited to the following points:

1. Confusion in national vision of co-operative sector.
2. Lack of identify of co-operatives.
3. Lack of professionalism.
4. Lack of investment in this sector.
5. Too small membership to gain economy of scale.
6. Lack of credibility.
7. Lack of capacity of government to monitor.

There are different challenges within the different types of co-operatives. To quote an example, saving and credit co-operative societies are not registered by the department of co-operative since last few years. Other types of co-operatives are not facing this challenge. There is some issue and challenges facing the Nepalese co-operative at now. They are as follows:

2.1.6.1 Lack of Clear Vision of Promoter of Saving and Credit Programs

In Nepal almost all government and non-government organization have included saving as a component of there various development programs such as literacy group, health group, forest user group, mothers group, irrigation users group, agriculture production group and so on and so forth. After the preliminary objective of the group formation is completed the saving and later credit component continues and as the groups grow, the technical assistance need for these group increases, which is most cases are not provided by the promoters.

2.1.6.2 Legal and Regulatory

There is no separate co-operative Act in Nepal. The current Co-operative Act does not even have a separate chapter for co-operative. In addition from last 2 years, the registration of savings and credit co-operatives has been suspended by the department of co-operative.

2.1.6.3 Diversifying Financial Services

Most of the savings and credit co-operatives have not been able to diversify their financial services. They remain in providing saving and credits services within limited number of saving and credit services within limited number of savings and loan product. Other competitors of co-operative providing micro insurance and even money transfer services. This may in long run, start membership drop outs in co-operatives.

2.1.6.4 Lack of Adequate Monitoring

There very limited capacity of co-operatives to self regulates. At the same time the capacity of department of co-operatives to monitor also is almost non-existent. NEFSCUN too has limited capacity to monitor and can not monitor those co-operative that are not its member. Because of the above the quality of financial services are negatively affected. In few instances there have been cases where some officials of urban based credit co-operatives misused the funds of co-operatives and ran away. Though such cases were very few, that too within the non-community based co-operative of the credit co-operative societies.

2.1.6.5 No linkages with Business Development Services

Most of the credit co-operatives have been unable to link their members with business development services. This has resulted into stagnancy in the credit need of their members.

2.1.7 Concept of Deposit Collection

According to Banking and Financial Act 2061, deposit means the collection of fund in current saving and fixed account. Deposit collection is the main sources by which organization enjoy, in the investment by which they invest the collected deposit to the different section and charge interest. Increase in deposit provides a financial sector with additional cash, the increase in cash supplement its loan able resources and permits a more than proportionate increase in its loan. ESCL accept deposit from the people who can save but can't invest themselves. Deposit is the main sources of income for any co-operative society. Higher the deposit collection higher the investment in loans in other companies can be done. So as to increase there sources of deposit and to provide different facilities such as establishing different heads for deposit for there member. ESCL mainly collected it in 2 types of deposit account.

2.1.7.1 Saving Deposit

People who want to save certain amount of money for a short period of time can take benefit by keeping money in this account. Saving account encourages small savers to save it is paid because they are paid certain rate of interest, whatever they deposit. The savers are expected to curtail

unnecessary consumption because co-operative fix numbers of withdraws and amount of money to be withdrawn (Shyam Joshi, Banking, an introduction to economic theory, Nabin Prakashan, Ktm. 2058)

2.1.7.2 Fixed Deposit

People who have considerable amount of saving but can't use for productive purpose can take benefit from this account. In this account money is deposit for certain fixed period, sever cannot withdraw then money. If sever need a amount before the maturity period. ESCL provide such facility that he or she may take a loan i.e. the 80% of his deposit not more than 80% is collected it is the rule of co-operative more the time period more will be the interest rate on deposit. The rate is differing from time period. In this type of account mainly only 4 times of the interest is given (Dilli Raj Bhandari banking operation, banking and insurance, August publication, Ktm.)

Interest rate provided by the ESCL on fixed account is given below in the table.

Table 2.1
Interest rate of fixed account

Time period	9 months	1 yrs	2 yrs	3 yrs	4 yrs	5 yrs
Monthly		11%	11.5%	12%	12.5%	13%
Quarterly		11.25%	11.75%	12.75%	12.75%	13.5%
Half-yearly		11.5%	12%	12.5%	13%	14%
Yearly		12%	12.25%	12.75%	13.25%	14.5%
Total	8%	12%	12.5%	13%	13.5%	15%

Source: Brochure of ESCL

Interest rate provided in fixed account is different time period. If anybody who wants take interest rate monthly the rate is lower. From the above table if interest rate is taken monthly to yearly rate.

2.1.8 Concept of Deposit Mobilization

Vogel (1984), Adams (1985) and others have pointed out that a financial intuitional mobilizing savings must respond to the depositors

requests for safety, efficiently and stability. In addition, it also needs to deliver the products demanded at a reasonable price. Because the roles are reversed in the credit business, the institutions must convince depositors that it will handle their funds with care and provide with them benefits such as return and/or liquidity. Hence, the business of deposit taking should increase institutional efficiency and profitability and strengthen the professionalism of the governance structure by introducing greater customer-orientations. Successful mobilization of institutional saving can only be the existence of demand driven savings products offer by appropriate institutional structure. A broader understanding of the savings decisions of poor households has shown that appropriate supply can attract significant volumes of saving. Furthermore, a much larger number of clients can be reached through saving mobilization through credit granting.

Deposit mobilization plays a vital role for the economic development of underdeveloped and developing countries. Underdeveloped countries like Nepal face major problem for economic development like low national income, low per capita income, and lack of technical knowhow, property, pressure of population growth, geographical situation etc. for the economic development of nation these aspect are to be taken into consideration and for this capital is required. Capital formation is possible through collection of scattered unproductive and small from the people. Small deposits from individual customer are often the largest segment of this deposit and represent the most diversified and stable funding source. Mobilization of internal resources i.e. deposit has greater significance for external sources is not dependable to meet the required capital. So deposit mobilization is the dependable sources for formation of required capital. Deposit mobilization helps in circulation of idle money. The meaning of deposit mobilization is to convert idle saving into active saving. Banks provide incentives to the depositors and thus encourage the depositor to create habit of savings. The scattered deposits collected are further invested in productive sector which increase national productivity. Further from the investment there will be generation of income to the investors. Thus there is circulation of idle money which ultimately leads to the economic development of the nation.

Cooperative is considered to be the best in deposit mobilization. They collect savings/deposit scattered inform of saving deposit and fixed deposits through their out spread branches. Effective deposit mobilization help in acquisition of surplus capital from capital hoarding sector which are further invested in deprive sectors. This helps to fulfill the gap between these two sectors and maintain proper coordination as the surplus sector will earn interest income in their deposits and deprive sector will meet their capital requirement through loan and advances.

2.1.9 Introduction ESCL

There are many commercial bank, financial and insurance companies in Pokhara which are focusing their aim to the limited and economically advance section of the population. There is vital role of agriculture industry in the development of Pokhara, but industry and trade need large volume of capital therefore Everest cooperative society limited invests to industrial and small traders, farmers of especially rural area. However it has not fixed group to invest.

Everest cooperative society limited was established on 2055/10/5 at Pokhara according to the cooperative Act 2048. It was established to raise the economy condition of the country, which was going very slowly on aspect of economy. It provided the economical help to the people to raise the style, especially for the middle and lower class people. The head office of ESCL is located in Taalchock, Lekhnath Municipality, Kaski. The main objectives of ESCL is to uplift the living standard of socially and economically disadvantaged poor people by providing them economical support on cooperative basis with suitable financial facilities, which is long run will support social and economical development of country as a whole. ESCL helps people having low and moderate income by gradually collecting the small scattered amount of saving and providing them with loans for the establishment of small scale cottage Industries and livestock raising.

Everest cooperative society limited was established by highly efficient and experience personalities in management, commerce, banking, social and political sector.

There are 234 shareholders among them 34 are actual shareholders, and remaining others are the simple shareholders. 7 persons are in the board of member of the ESCL, in which Rajendra Needi Koirala is the president. The authorized capital of Everest cooperative society limited was Rs 5 cores and issued capital is Rs 2 cores in which Rs1crore is paid up capital. There is 5 staff and in which 3 are males and rest of them are females. All the works are performed by computerized system.

2.2 Theoretical Review

2.2.1 Review of Other Related Studies

Deposit collection of fund from the people who wants to save their income after expenditures people deposit there to get the certain of interest. Deposit is one of the key elements of banking factor without the deposit collection no any banking transaction would be possible. Deposit plays a dominant role to find the actual amount of deposit collection to invest. So the financial organization aims to collect the scattered amount and mobilization to productive sector. Therefore deposit collection is main or key elements of financial sector. There has been no study particularly regarding in this topic, but there are some researches and article on deposit collection and mobilization of banking and financing sector and the analysis of cooperative organization.

Bhattarai (1978) carried out study on lending policy of commercial bank in Nepal. During her study she found that important aspect of commercial bank is lending its funds effectively more than deposit collection. Unless proper lending of resources is done deposit collection will be useless. It leads to disparity in economic life of people. There will be low capital formation and so less rate of development. So only the increase in interest rate cannot develop the economy of a nation though it is obvious that higher interest rates motivate savers and so may generate higher volume of deposit.

Vogel (1984), Adams (1985) and others have pointed out that a financial institution mobilizing saving must respond to the depositor's requests for safely, efficiency and stability, in addition, the financial institutional needs to deliver the products demanded at the responsible price. Because the roles are reversed in the credit business, the institution must convince depositors

that it will handle their funds with care and provide them with benefits such as return and / or liquidity. Hence, the business of deposit taking should increase institutional efficiency and profitability and strengthen the professionalism of the governance structure by introducing greater customer–orientation.

Burkett (1986) pointed out the interest rate regulation has proved to be a significant disincentive for savings mobilization. A policy of adequate real interest rate in deposit is inconsistent with policies ceilings exists for loan and deposits, the financial spread to cover costs shrinks and thus often make savings mobilization too costly. Even if official deposit interest rate ceilings do not exist, MFIs must fix them at every low level to cover their costs when loan interest rate ceilings exist. This often results in negative real interest, which represents strong disincentives for depositors to save in financial institution. Low interest refinancing opportunities such as donor quasi – equity and soft loan or cheap rediscount facilities at the central bank also make deposit taking a costly and thus unattractive, alternative. Further to these minimum reserve requirements may significance contribute to the cost of saving mobilization by freezing a portion of the capital earning capacity at no or very low interest, Kashyap, Rajan and Stein(2002) present a model in which a risk management motive explain the combinations of transaction deposit and loan commitments as long as the demand for liquidity from depositors through the checking account is not highly correlated with liquidity demands from borrowers, intermediary will be able to reduce its need to hold cash by serving both customers. Thus, their model yield a diversification synergy between demand deposit (or transaction deposit more generally) and loan commitments. As evidence, they show that banks offering more transaction deposit (as a percentage of total deposit) tend also to make more loan commitments (also scaled appropriately). The correlation is robust across all size categories of financial institutions.

Bajracharya (1990) in his article, “Monetary policy and Deposit mobilization of domestic savings is one of the prime objectives of the monetary policy in Nepal, commercial banks and active financial intermediary for generating resources in the form of deposit of private sector and providing credits to investor in different sector for the economy.

Pradhan (1996) presented a short glimpse on investment in different sector, its problem and prospects, through his article "Deposit mobilization, its problem and prospects. The article expressed that deposit is the life of blood of any financial institution, be it commercial bank, finance company, cooperative or non government organization. Further added, in consideration of 10 commercial banks and nearly three dozen of financial companies, the latest figure does produce a strong feeling that a serious review must be made of problems and prospects of deposit sector. Expect few joint venture banks, other organizations heavily on the business deposit receiving and credit disbursement. In the light of this, Pradhan has pointed out following problems of deposit mobilization in Nepalese perspective.

1. Due to the lesser office hours of banking system people prefer holding the cash in the personal possession.
2. Unavailability of the institutional services in the rural areas.
3. No more mobilization and improvement of the employment deposit in the loan sectors.
4. Due to the lack of education, most of the Nepalese do not go for saving in institutional manner. However, they are very much used of saving, be it is the form of cash, ornaments or kind. Their reluctance to deal with institutional system are governed by their lower level of understanding about financial organizations, process requirements, office hours withdrawal system, availability of depositing facilities and so on.

The study mentioned that the deposit mobilization carried out effectively is in the interest of depositors, society, financial sector and the nation. Lower level of deposit rising allows squeezed level delivery leaving more room to informal sector. That is why higher priority to deposit mobilization has all the relevance.

Giri Yagya Raj has conducted the study on the topic of "a case study of Damak Cooperative Sanstha in Jhapa District" in 1996. The main objective of the study was to evaluate the contribution of Demak Cooperative Sanstha. The main finding of his study was that due to lack of capital in time, lack of effective management and lack of people participation. The cooperative Sanstha has failed to provide chemical fertilization. In comparison with

medium and big farmer, small farmers have got more benefit. By the lack of adequate distribution of agriculture inputs, distribution of credit in time and lack of effective management of big farmers are not satisfied with the service of cooperatives.

Lamsal Toya Nath has conducted the study on financial performance of nepalese cooperative societies with reference to district in 2000. His findings include that association had invested most of its fund in current assets unnecessarily position is not satisfactory having unnecessary fund accumulated in the current assets, which the association is not able to manage. He has also concluded that capital structure of the association is not sound; there is heavy debt capital as compared to ownership capital. The main source of external capital was bank loan and gratuity fund of the employees of the association .He further concluded that the association is unable to mobilize its fund in profitable sector. Therefore the association has been suffering from loss all over 5 years study period.

Khatiwada Bahawan Prasad researched on the topic of "impact of training on cooperative sustainability" in June 2001. The main objective of this study was to assess the impact of training on cooperative operation and its sustainability. In this study he has concluded that the sustainability of the operative is highly depend on the qualitative and quantitative aspect of the training to the cooperatives. The attitude knowledge and skill situation of the cooperative member was lower than the essential standard. The nature and specialist of the cooperative did not able to follow the generalized program of the trainings as well as adoptive information.

Dahal Sushil has studied on the topic of "financial performance of cooperative societies" limited in the Inaruwa and Sunsari districts in the year 2002. The main objective of the study was to find out the financial position of cooperative society. The main finding of this study was that the liquidity position is improving. The capital structure of cooperative society is not found. There is heavy debt capital as compared to equity for ownership capital. The society has not been issuing share for collection capital and rising for loans in those periods has collected most of the funds. Paying rate of interest is very high, providing insufficient amount of dividend, inefficient management, high operating cost etc. are the main variables which reflect the poor financial

performance of cooperative society. He also suggests that the society must try to remove all these variables and improve its financial performance significantly.

Acharya (2002) performs a study on investment and deposit pattern of joint venture banks in Nepal the objective of this study was to carry out the comparative analysis and evaluation of deposit collection and investment of Nepal Bangladesh bank Ltd (NBB) and Himalayan bank Ltd (HBL). The study has covered the time span of fiscal years 1995\96 to 1999\2000. In this study, he has used financial ratio viz. liquidity profitability, turnover, statistical tools viz. Karl Pearson's correlation coefficient, coefficient of variation and simple average. The researcher found that average fixed deposit to total deposit of NBB was found to be greater than average ratio of HBL. But the average ratio with respect to short term loan to total deposit of HBL was greater than of NBB. In respect to investment in government securities HBL proved to be better than NBB during the study period. So on the whole HBL was superior to NBB with respect to total investment to total deposit ratio.

Mr. Shrestha has conducted another study on the topic of "The Role of cooperative society in the economic Development in 2003." The main objective of this study was to find out the condition of Sajha cooperatives & utilization of fund. From this study he has concluded that the most of the farmers of the Sajha group are better regarding the use of the money borrowed as they used it for agriculture because of their between knowledge and efficiency to bear risk.

Pokhrel Bihari Binod conducted a research work on the topic of "cooperative movement in Nepal 2004". The main objective of this study is to review the overall situation of cooperative movement in Nepal. In this study he found some problems faced by the cooperative movement which are lack of fund and spontaneity towards cooperation, lack of loyalty and efficient management, absence of lonely service and political interferences, lack of specific and stable policy and center level organization, absence of good publicity and good process of loan distribution and payment. This study stressed the role of Sajha societies resources utilization of funds mandating activities reveals that there is a great need for reutilization in order to make the movement strong and stable.

Subedi Bishwa Prakash has been studied on the topic of "Accounting information system of cooperative in Nepal 2005." His aim was to analyze the working of the accounting system of the cooperative their defects and difficulties. He has also aimed to suggest measuring against such problems of the economics development of the country. In his study he has concluded that huge amount of economic resources has been flown to over 881 cooperatives. The study has also suggested to removing the various problems facing the cooperative movement in the country and plying due attention to developmental activities and controlling the existing irregularities and weakness by establishing sound accounting information system. Many problems of the cooperative of Nepal re not properly identified yet by the concern and interested parties and people are in general not to mention that no productive and unity plans and programs to solve the problems are prepared so far for this systematic accounting information system is needed. This study focus on the information system of the cooperative societies lack of which is one of the reason of failure of cooperatives and been conducted specially with reference to Narayanpur cooperative limited, Chit wan.

Baral Keshar Jung has conducted the study on financial health check up of Pokhara Royal Cooperative Society Limited (PRCSL) in the frame work of PERLS in 2006. 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 productive assets and managed the sources of funds effectively from saving deposits but it has a weak institutional capital base as a second line of defense against non performing assets. Percentage of delinquent loan ratio and non earning assets are greater than the standard set be the WOCCU model. Similarly, percent of net zero cost funds is less than the set benchmark operation and administration expenses of PRCL are within the set limit but the yield on loan is not enough to contribute institutional capital and pay the return on member share capital. The decreasing percent of liquid cash reserve to satisfy deposit withdrawal request show the deteriorating liquidity position. The highly fluctuating growth rates in key financial variables imply that PRSCL does not have sound strategy for sustainable growth of key variables expect, to

institutional capital show that it has achieved desirable growth during the study period.

Sharma Puspa Raj 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 changes and women empowerment, comparison of MFIS performance of Nepal and Bangladesh and to evaluate financial and institutional viability and overall sustainability of selected MFIs. He found that the microfinance leads to social and economic changes in the borrowers after the participation in the program. Women empowerment showed the positive change 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. Further more, micro finance 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 his study he further concluded that , however microfinance is not a solution in itself, other issues of development policy and implementation, which effect woman empowerment ,poverty reduction, and utility of micro finance need to be addressed at proper and appropriate levels.

B.K. Man Bahadur has studied, "financial performance analysis of Nepalese cooperative societies with reference to District cooperative Association limited Banapa" in 2006. His aim was to analyse the strengths and weaknesses of the association by analyzing the financial statement. In that study, he found that liquidity position of association was satisfactory but it has invested it's found in current assets unnecessarily. The assets utilization position of the association is not satisfactory. The association has not maintained its appropriate leverage position. The share capital is not paying any significant role to meet requirement.

The funds are not appropriately managed and well. The financial position of the association is found in very week condition. He has concluded that the main cause of weakness of the association is the previous ruling system of the country. In fact, there was no freedom to decide about the

association itself, the plans were imposed by the center. The study suggests that cooperative should maintain political neutrality. If cooperatives were managed and utilized properly cooperative can be the back bone.

Shrestha (2006) performed research on investment portfolio of Pokhara Finance Ltd. In her study she has analyzed deposit mobilization and investment trends in different sectors made by the company six years of data from 2055 BS to 2061BS BS been taken into consideration for conducting the research. The researcher found that the said company had high liquidity Turing the period and has focused more or loan and advance than other government securities. From the study she has concluded that Pokhara finance has to relate to maintenance of appropriate risk return trade off between credit outflow by the way of loans and investments and strict monitoring of its repayment to ensure timely cash inflows. She further recommended launching demand driven or customer oriented schemes so as to initiate depositors and to focus on diversification of investment.

CHAPTER - III

RESEARCH METHODOLOGY

3.1 Introduction

Research methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objectives and views. In order to find out a true result, an appropriate research methodology is necessary for an investigation.

The main objective of this study is deposit collection and mobilization of Everest Co-operative Society Limited, during the fiscal years 2060/061 to 2064/065. In the present chapter, the methodology of the study has been outlined. The chapter specially addresses the issues relating to the research design, population and sample, nature and sources of data, data collection procedure, data processing and financial tools and techniques of analysis.

3.2 Research Design

The research design refers to the conceptual structure within which the research is conducted. It gives the framework of the study. "A research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economic in procedure". (Claire Selltitz and others, "research method in social science", 1962, P.50 as quoted in C.R KOTHARI quantitative technique, p.50 Vikas publishing house Pvt. Ltd, New Delhi, 1991".)

A research design details the procedure necessary for obtaining inputs and information. Research design is the plan, structure and strategy of investigation conceived so as to obtain answers to research questions and to control variance (Kerlinger, 2004). Thus a research design is a set of instruments to the investigator to gather and analyze data in certain ways. It is a control mechanism to answer the research question. "Specially, type of investigation, the extent to which the researcher would interface with the normal flows of the events, the setting for the study, what would be the unit of analysis, the time horizon for the study, what should be the unit of analysis,

the time horizon for the study, what sampling design should be used, how the variables are to be measured, how that data are to be collected and how they are to be analyzed". (Puspa Raj Sharma, "Research methodology with SPSS, 2007").

There are various types of research design such as historical research, descriptive research, developmental research, correlation research, causal, comparative research, experimental research, action research, survey research and other types of research.

The study is based on descriptive research design followed by analytical approach to achieve the objective of the study. Descriptive research seeks to find out the fact with help of sufficient data and information. Some financial and statistical tools have been applied to examine facts and descriptive techniques have been adopted to evaluate deposit collection and mobilization of Everest Co-operative limited, Pokhara.

3.3 Population and Sample

In Nepal there are three key actors in the field of Micro finance service delivery at client's level. They are: Microfinance development banks including Grameen replicators, financial intermediary NGOs and saving and credit co-operatives. There is 9400 co-operative organization in Nepal. According to co-operative training center and division office Kaski, there are 193 co-operative organizations are registered in Kaski districts. Out of these co-operative 91 saving and credit co-operative societies are registered. Only 26 are rural based saving and credit co-operative. Out of which 12 are mixed saving and credit co-operative (male & female) and 14 are women saving and credit co-operative organization. (Co-operative Training Center and Division Office Kaski, The Entry Book, 2064 BS P. 76-78) Total accumulated saving of the co-operatives is estimated to Rs 18 billion, outstanding loan is 24 billion. More than 16 thousand people are employed in the co-operative. The contribution of the co-operative sector to gross domestic product is estimated around 1% while their contribution in financial sector is 7%. (National Co-operative Federation of Nepal Ltd. office webpage <http://www.ncfnepal.com.np>)

It is the fact that, saving and credit co-operatives are being the key micro finance institution in Nepal. The actual performance played there is of

necessary to find out the gap with the application of deposit collection and mobilization. In addition to it, the data availability comes as a significant part. Among the saving and credit co-operative this study is an attempt to find out the critical deficiencies faced by the Everest co-operative limited and taking this institution as a study unit through numerous indicators under ratio analysis. A case of study of single unit of ESCL is taken as sample which has completed five fiscal years its operation.

3.4 Sources of Data

Collecting data is the connecting link to the world of reality for the researcher. The data collection activity consists of taking ordered information from reality and transferring it into some recording system so that it can later be examined and analyzed for pattern. It is from this pattern that social behavior can understand and predicted. Research as a media can be interpreted as having a content of data and a process a methodology. Without the data methodology cannot be utilized to bring us to the conclusion which hypotheses suggest. (P.R. Pant and H.K. Wolef "social science research and thesis writing," 2000, Buddha Academy Enterprises Pvt. Ltd. KTM, Nepal)

This study is mainly on the basis of secondary data. The sources of secondary information have been collected from annual reports, official reports and data extracted from the subsidiary books of ESCL, co-operative division office Kaski, Article and Report published in different publication and webpage, are also taken as a sources of secondary data. Supplementary information regarding the performance of the institution is collected by raising questions with the senior level of employees of the institutions.

3.5 Data Collection Procedure

Data required for this study are primarily collected from the annual reports and extracted from the ledger of ESCL, Kaski. However these are verified with the annual report of co-operative department and auditor in order to be assured regarding the reliability if the supplied data.

Additional information required for the study are collected from the co-operative development board, department of co-operative, NRB directives to the co- operative licensed for the limited banking services, journals, book and

other related study by various writers and publication available in the western regional library.

3.6 Data Processing

All the collected data and information from various sources have been properly, synthesized arranged, tabulated and calculated to serve the objective of the study by using appropriate computer software like Microsoft word, Excel etc. Data are processed in such a manner that makes clear picture about the position and situation o ESCL, keeping in mind to achieve the objective of the study.

3.7 Data Analysis Tools

Presentation and analysis of the collected data is the core of the research work. The collected raw data are first presented in systematic manner in tabular forms and then are analyzed by applying different financial and statistical (descriptive) tools to achieve the research objective. Besides, some graphs, chart and tables are presented to analyzed and interpret the finding of the study. The data analysis tools used are discussed below.

3.7.1 Financial Ratio Analysis Tools

Financial ratio analysis tools basically help to analyses the financial strength and weakness of a firm. Ratio analysis is one of the important financial tools that have been used in the study. Ratio is simply one number expressed in term of another and it expressed in term of another and it expresses the quantitative relationship between any two numbers. There are different ratios to analyses and interpret the financial statement of a co-operative however financial ratios related to subject matter of the research is used in the study which are as follows.

) Total liquid fund to Total Deposit Ratio

Total liquid funds to total deposit ratio is the expression of numerical relationship between total liquid fund and total deposits of a co-operative. It measures the proportion of total liquid funds in total deposit. Furthermore, it shows the overall short-term liquidity position. The higher ratio implies the liquidity position and lower ratio shows the

inefficient liquidity position of the co-operative. It is calculated by using the following model.

$$\text{Total Liquid fund to Total Deposit Ratio} = \frac{\text{Total liquid fund}}{\text{Total Deposit}}$$

Where, Total liquid fund = Cash + Bank balance

Total Deposit = Short term and long term deposit

Cash Reserve Ratio (CRR)

It is the minimum amount of reserve a co-operative must hold in the form account balance cash held in vault. This ratio ensures minimum level of the co-operative first line of defiance in meeting depositors' obligations.

Cash in Vault to Total Deposit Ratio

Cash in vault to total deposits ratio indicates the relationship between cash in vault to total deposits. It shows the percentage of total deposit maintained as vault. It is worked out by using the following model.

$$\text{Cash in Vault to Deposit Ratio} = \frac{\text{Cash in Vault}}{\text{Total Deposit}}$$

Where, Cash in Vault = Cash in hand

Loans and Advance to Total Deposit Ratio

Loan and advance to total deposit ratio measures the proportion of total deposits mobilized by granting loan and Advances. It shows the extent to which co-operative is capable of mobilizing its total deposits in loan and advances for the purpose of income generation. Higher ratio indicates better mobilization of total deposit collected and so vice versa. However, from liquidity view higher ratio is not preferable. It is calculated as below.

$$\text{Loan and Advance to Total Deposit Ratio} = \frac{\text{Loan and Advance}}{\text{Total Deposit}}$$

Where, Loan and Advance = All long-term and short term loan

Total Deposit = Short term and long term deposit.

Profitability Ratios

Profitability is the net result of a number of policies and decisions. The ratio examined thus for providing some information about the way the firm is operating, but the profitability ratio shows the combined effects of liquidity, assets management and debt. Management is an operating result. Maximization of profit is the main objectives of each and every business concern and for this kind of co-operative society as well. The profitability ratio is related to profit. Following ratios are shown under profitability ratio.

- a) Return on Total Deposit = $\frac{\text{Net Income}}{\text{Total Deposit}}$
- b) Return on loan and advance = $\frac{\text{Net Income}}{\text{Total Loan \& Advance}}$
- c) Return on Assets Ratio = $\frac{\text{Net Income}}{\text{Total Assets}}$
- d) Interest Earned to Total Assets = $\frac{\text{Interest Income}}{\text{Total Assets}}$

3.7.2 Statistical Tools

Average /Mean

A simple arithmetic mean is used to summarize the data as a representative mass data. A mean is the average value or the sum of all observations divided by the number of observations. Mean is expressed as

$$\begin{aligned}\text{Mean } (\bar{x}) &= \frac{\text{Sum of the Values}}{\text{No. of Values}} \\ &= \frac{X_1 + X_2 + X_3 + \dots + X_n}{n}\end{aligned}$$

Where,

x = Individual value

n = no. of observations

Standard Deviation (S.D.)

Standard deviation is the absolute measure of dispersion of the values and shows the deviation or dispersion in absolute term (Kothari, 1989). Here, the standard deviation is used to find out the deviation in absolute term, standard is determined in the following way:

$$\text{S.D.} = \sqrt{\frac{(\sum x - Z\bar{x})^2}{n}}$$

Where,

n = no. of observations

x = Individual Value

\bar{x} = Arithmetic Mean

Coefficient of Variation (CV)

Coefficient of variation is the relative measure of dispersion based on the standard deviation. It is most commonly used to measure the variation of data and is more useful for the comparative study of variability in two or more series or graphs or distribution. Symbolically, the coefficient of variation is defined as:

$$\text{C.V.} = \frac{\dagger}{\bar{x}} \times 100$$

Where,

† = Standard Deviation

\bar{x} = Mean

Coefficient of Correlation (r)

The study measures relationship between the two variables. The correlation between the different variables of cooperative is compared to measure the relationship between the individual variables. Correlation refers to the degree of relationship between two variables. If between two variables increase or decrease in one causes increase or decrease in another, then such variables are correlated variables. The reliability of the value of coefficient between two variables describes the degree of relationship between those two variables. It interprets whether two or more variables are correlated positively or negatively. This tool analyzes the relationship between those variables of the cooperative which are helpful to make appropriate investment policy regarding deposit collection, fund mobilization and profit maximization. The Karl Person coefficient of correlation (r) is given as below:

$$r = \frac{\sum xy}{\sqrt{\sum x^2 - (\sum x)^2} \sqrt{\sum y^2 - (\sum y)^2}}$$

Where,

$$x = (x - \bar{x})$$

$$y = (y - \bar{y})$$

σ_x = Standard deviation of series x

σ_y = Standard deviation of series y

N = No. of pairs of observation

$$\text{Problem Error of } r \text{ (P. Er.)} = 0.6745 \frac{1 - r^2}{\sqrt{N}}$$

The Karl Pearson coefficient of correlation r always falls between -1 to +1 the value of negative correlation signifies negative relation between the two variables and positive correlation signifies positive relation between the two variables signifies positive relation between the two variable. As the value of correlation coefficient reaches near to zero, it is said that there no significant relationship between the variables.

The coefficient of correlation has been interpreted based on problem error (P. Er.). If the value of correlation coefficient is greater than times the value of probable error, the correlation coefficient is deemed as significant and reliable. If the value of correlation coefficient is less than the value of probable error, the correlation coefficient is said to be insignificant and there is no evidence of correlation.

In the study, Karl Pearson's coefficient has been used to find out the relationship between the following variables.

- i) Correlation between Deposits and loan and advances.

Least Square Trend Analysis

Least square trend analysis has been used to find out the trend of total deposit, loan and advances. The general equation used for trend is given by

$$y = a + bx$$

Where,

y = Dependent variables

x = coded time in year (Independent variables)

a = y - intercept

b = slope of the trend line

In the above model

$$a = \bar{y} - b\bar{x} = \frac{\sum y - b\sum x}{N}$$

$$b = \frac{N\sum xy - \sum x \cdot \sum y}{N\sum x^2 - (\sum x)^2}$$

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

The present chapter deals with the presentation and analysis of collected data from the different sources. It includes the financial data of five years period 2060/061 to 2064/065 of ESCL and analysis of data using the indicators of financial ratio analysis tools. The collected data from different annual reports and office reports of ESCL have been analyze with the financial indicators of ratio analysis. The study is conducted with reference to deposit collection and mobilization of Everest Co-operative Society Limited.

4.1 Analysis of Deposit Position and its Composition

Deposit collection is one of the major functions of financial sectors as deposit is the primary source of fund. Co-operative society collects deposit of public in different from of deposit like normal saving, special saving, fixed deposit, monthly saving, daily saving etc. Deposits collected are to be well managed since it is the liability of the co-operative and there is involvement of cost in from of interest earned which is be paid to the depositors. The total deposits of the co-operative are sum of interest bearing deposits, which are given below.

Table 4.1
Deposit Composition of ESCL (Rs.000)

	Fiscal years				
	2060/061	2061/062	2062/063	2063/064	2064/065
Normal saving	337	252	348	234	196
Special saving	4993	10413	11378	11226	13479
Fixed saving	12600	12923	17334	29177	36429
Total Deposit	17930	23388	29060	40657	50104

Source: Annual Report of ESCL

As shown in table 4.1, the total deposit collection has been increasing all over the period. The deposit volume is minimum Rs.17930 thousand in the

year 2060/061 and maximum with Rs.50104 thousand in the year 2064/065. The deposits volume were almost increases from 2060 to 2064 as there were immerse of so many other financial institutions that diverted the customer deposit. But in the year 2064/065 and then after, it rose up as co-operative had launched new deposit scheme with comparatively higher rate of interest and other facilities. The deposits increased in the year 2060 to 2064 and later increased in 2065. This indicates that Everest Co-operative Society Limited has been successful in capturing the deposits from the market during the study period of five years.

Figure 4.1
Deposit Composition of ESCL (in Rs.000)

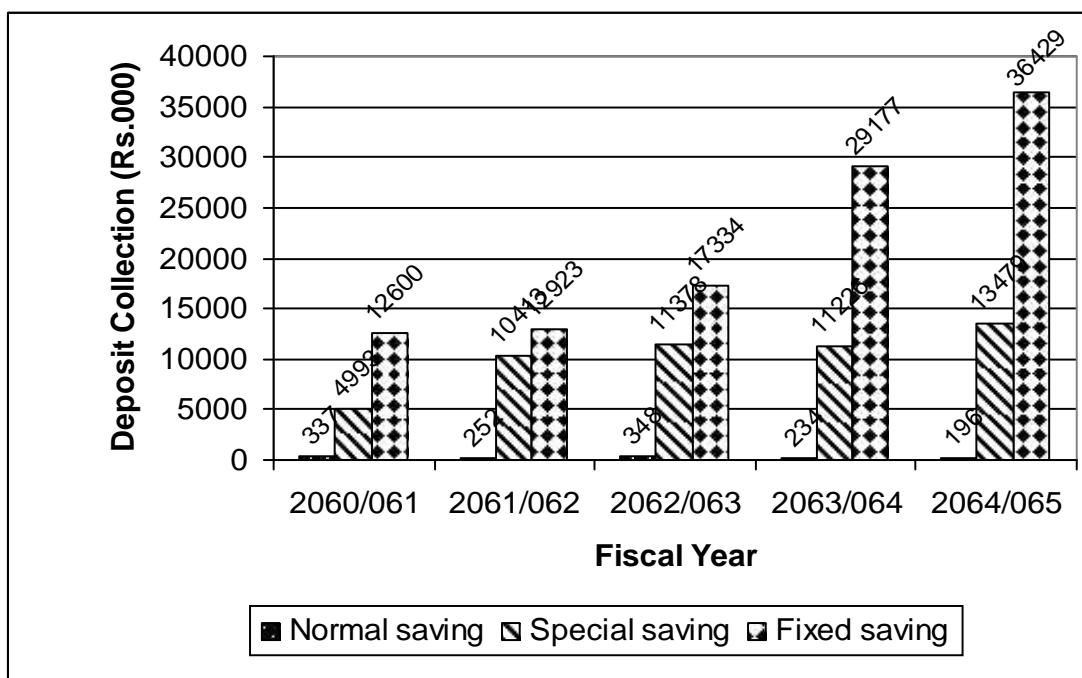


Figure 4.1 shows the observed total deposit of the ESCL within the period of last five years. In the chart, there are three types of deposit collection composition whereas the deposit is quite fluctuating over the study period. Overall it indicates deposit collection of ESCL capacity to collect maximum the deposit volume from the public.

4.1.1 Analysis of Cost of Deposit

The cost of deposits refers to the interest to be paid to depositors. Analysis of cost of deposit of ESCL has been done below.

4.1.1.1 Trend Analysis of Interest Expenses on Deposit to Total Operating Revenue.

The ratio of total interest expenses on total operating revenue measures the total cost involved for collection of deposits. This ratio is calculated by dividing the total interest expenses on deposits only by total revenues. A high level of interest expenses ultimately results from maximum deposits volume collected by the co-operative. Besides interest rate offered on deposits also affect the volume of interest expenses. A high or increasing ratio of expenses to total revenues may give indication of increase in cost and so is likely to affect profitability. Other interest expenses on financial institution etc. also have to be borne by the co-operative. Interest expenses on total deposit comprise to be paid to the depositors saving and fixed accounts.

Financial institutions earnings originate from interest on loans and advances, investments, commissions and discounts, service charge, entrance fee, application fee and other income. Conversely, it expend on depositors' interest, staff salary, provident fund, allowances and other operating expenses like rent, water, fuel, audit fee, management expenses, depreciation, miscellaneous expenses and all other expenses directly related to the operation of co-operative.

Table 4.2

Interest Expenses on Total Deposit to Total Operating Revenue (Rs.000)

	Fiscal Years				
	2060/061	2061/062	2062/063	2063/064	2064/065
Interest expenses on deposit	2180	2409	2960	3727	4874
Total operating revenue	5147	4896	5384	7075	8147
Total interest expenses on deposit to total operating revenue (%)	42.35	49.20	54.98	52.68	59.83

Source: Annual Report of ESCL

As shown in table 4.2 the total expenses on total deposit volume to total operating revenue is fluctuating over the study period. The ratio in 2060/061 stood at 42.34%, which is later increasing over three years i.e. to 54.97% in 2062/063 and decreasing by 52.68% in year 2063/064. The ratio of 59.83% in year 2064/065 is the maximum during the observed period and minimum ratio in year 2060/061 which was 42.34%

Figure 4.2

Interest Expenses on Total Deposit to Total Operating Revenue

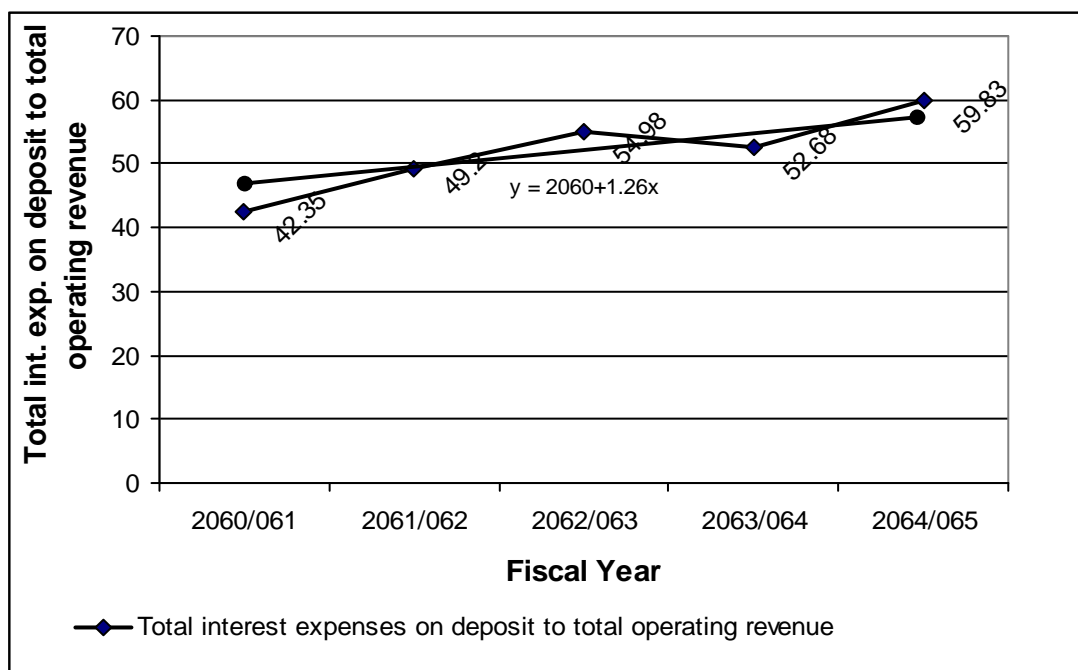


Figure 4.2 shows the observed total interest expenses on deposit to total operating revenue ratio of ESCL with least square trend line within the study period of last five years. As shown in the chart, the observed ratio increased 2060 to 2062 than after decreased 2062 to 2063 and so increased in year 2064. The slope of the trend line determined by the least square method is positive i.e. 1.26 which speaks the increasing trend of ratio. The positive slope thus indicates increasing interest expenses with respect to income, which is due to increase in deposit volume as well as increase in interest rate offered by the co-operative.

4.1.1.2 Trend Analysis of Net Interest Income of ESCL

The net interest income margin measure the net return on the co-operatives earning assets (investment securities and loan and leases). It is calculated by deducting the total interest expenses from the total interest income. Interest income is generated from loan, investments, and balances in other banks, service charge, entrance fee, application fee and other income. Interest expenses incur due to co-operatives deposit liability borrowings from NRB or other financial institutions and overhead expenses of co-operative.

Generally, the net interest margin ratio should be 3% to 4% with respect to earning assets and higher is better in banking industry (World Bank, 1996). However, it highlights the fact that looking at returns without looking at risk can be misleading and potentially dangerous in terms of financial institutions solvency and long run profitability (Sunders and Cornett, 2004).

Table 4.3
Net Interest Income (In Rs.000)

	Fiscal Years				
	2060/061	2061/062	2062/063	2063/064	2064/065
Total interest income	4425	4763	5295	6939	7512
Total interest expenses	2180	2409	2960	3727	4874
Net interest income	2245	2354	2335	3212	2638

Source: Annual Reports of ESCL

In the past five years, the net interest income of ESCL was distributed over Rs.2245 thousand of 2060/061. The minimum volume was observed in year 2060/061 with Rs.2245 thousand and maximum volume Rs.3212 thousand in year 2063/064. Net interest income is fluctuating all over the study period because interest rate different from loan amount. In the above table total interest income and total interest expenses is increased in all over the period.

Figure 4.3
Trend of Net Interest Income of BSCL

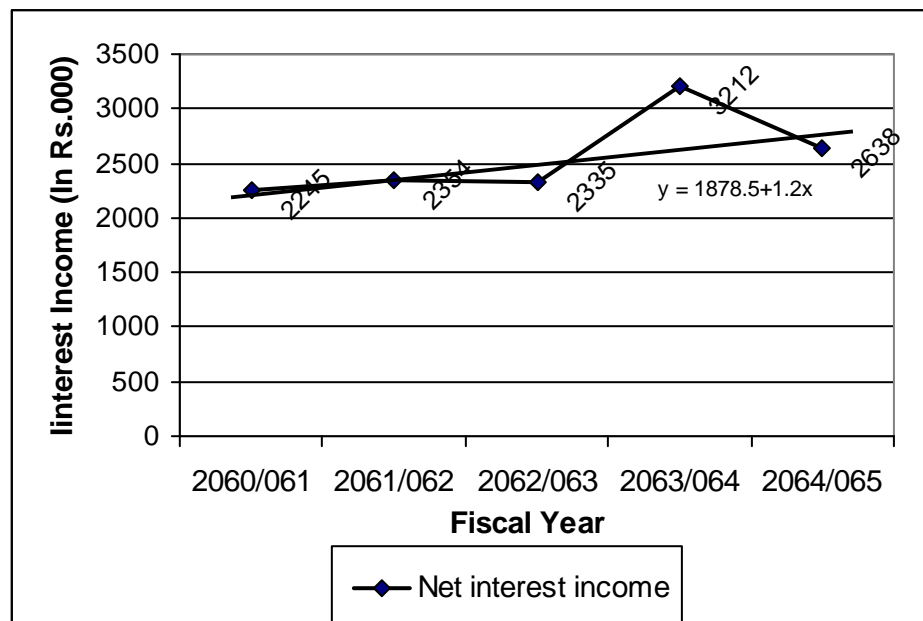


Figure 4.3 shows the trend of net interest income five fiscal years period. The slope of trend line obtained from least square trend line is positive which shows increasing trend of net interest income during the study period. It was found continuously increasing total interest income and total interest expenses but the net interest income is fluctuating all over the study period.

4.1.2 Analysis of Uses of Deposits

The main functions of this co-operative society are to collect deposits from the members and provide loan to them. Such kinds of savings and credit co-operative organizations have to pay interest to their members on their deposits. Out of sources of co-operatives collects deposits of public in different sources like savings and fixed. Deposit is the primary sources of fund for the financial institutions. Deposit collected is to be well the primary sources of fund for the financial institutions. Deposit collected is to be well managed since it is the liability of the co-operative and there is involvement of cost in from of interest earned to be paid to the depositors. Deposits collected are mobilized in different sectors. Thus, deposits collected are used for different purpose that makes up composition of assets.

The co-operative assets composition represents the varied nature and consequence of the co-operatives function and investment policies. Usually

co-operatives seem to arrange their assets appearing in balance sheet in descending order of liquidity. The capital and liabilities of co-operatives are invested in various assets in the form of cash and bank balance, placements, investments, loans and advances, fixed assets and other assets of these, loans usually make the largest portion of all the assets, as they are the least liquid form of assets and it falls under high-risk category of assets. Loans and advances contain the high proportion of potential risk to the co-operative capital. Management spends significant time, energy and resources on their assets portfolio, particularly portfolio can detract from their ability to successfully and profitably manage other areas of institution. Risks to the solvency of financial institutions most often derive from an important of assets, which in turn can arise from deterioration in the financial health and profitability of the institutions, borrowers, especially the non-financial corporations sector. Assets not only determine the soundness of a co-operative but also its capacity to earn profits.

Table 4.4
Uses of Deposit (In Percentage)

	Fiscal Year					Average mean (\bar{x})
	2060/061	2061/062	2062/063	2063/064	2064/065	
Cash	1.04	0.27	1.05	0.53	0.42	0.662
Bank balance	13.22	17.07	17.32	19.02	11.07	15.54
Loan Investment	78.57	81.74	80.98	79.72	83.96	80.994
Share investment	0.21	0.19	0.16	0.12	0.11	0.158
Fixed assets	0.63	0.65	0.45	0.38	4.06	1.234
Talchowk Branch	6.27	-	-	-	-	1.252
Other assets	0.06	0.08	0.04	0.23	0.38	0.138
Total assets	100	100	100	100	100	100

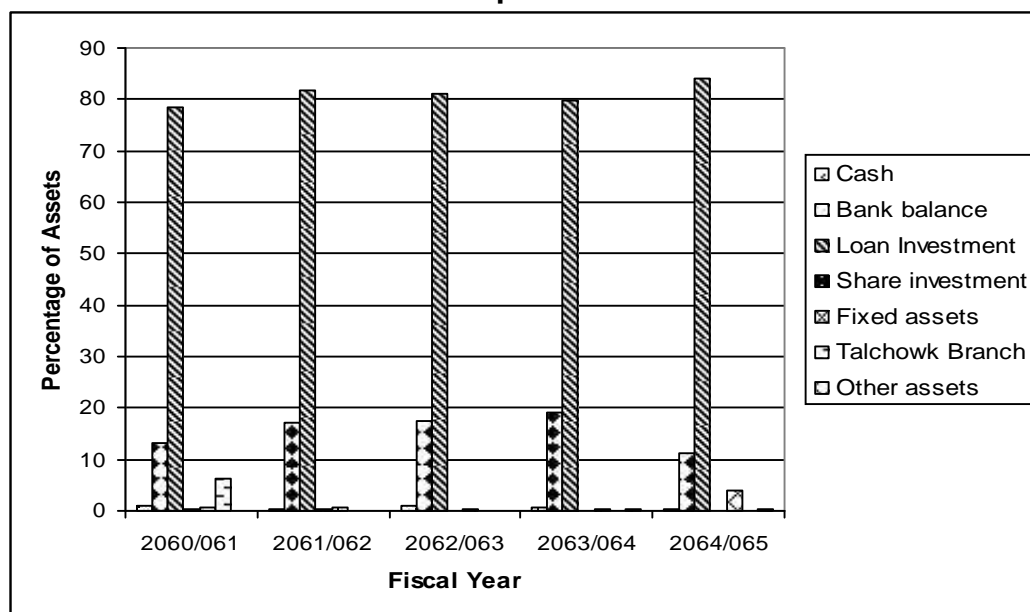
Source: Annual Report of ESCL

Table 4.4 shows assets composition of ESCL over the period 2060/061 to 2064/065. As shown in the table, percentage of cash and bank balance

(which form the most liquid of all assets) almost remained at the consistent level though it was in fluctuating in the last years. Cash and bank balance are increasing in years 2060/061 to 2063/064 and later decreasing in year 2064/065. The average cash and bank balance of 5 years was 16.202%. Loan investment composition is fluctuating all over the period. Higher the loan investment of total assets in years 2064/065 is 83.96%. Lower the loan investment in year 2060/061 is 78.57% with an average of loan investment is 80.994%. The share investment is constant all over the period but share investment under asset composition is different, because there is a different total asset. Fixed assets under assets composition is fluctuating over the study period. The highest fixed assets in year 2064/065 are 4.06% and lowest fixed assets in year 2063/064 are 0.38%. The average of fixed assets in five years is 1.234. At last other assets is increased in year 2060/061 to 2061/062 and slowly decreased in year 2062/063 and later increased. The highest other assets in year 2064/065 is 0.38% and lowest other assets in year 2062/063 which had 0.04%. The average mean of other asset in study period 0.138%.

Asset composition of the co-operative in last five financial years, as it can be seen from the table given above, major part of total assets was held in the form of loan investment and share investment, which falls under high risk category assets.

Figure 4.4
Uses of Deposits of ESCL



The figure 4.4 shows the areas where deposits collected by the co-operative have been mobilized during the study period. It can be also said as assets composition of the co-operative like in every co-operative organization or financial institutions remained largely in loans and Advance during the last five fiscal years.

Table 4.5
Composition of Loan and Advances (In Rs.000)

Fiscal Year	2060/061	%	2061/062	%	2062/063	%	2063/064	%	2064/065	%
Personal loan	-		-		-		9858	21.7	16603	28.62
Business loan	8142	31.83	6711	22.16	8870	25.39	9384	20.66	10626	21.77
Hire purchase	6999	27.36	5562	18.36	4027	11.53	5163	11.36	5688	9.8
Housing loan	3832	14.98	10505	34.68	14033	40.17	11708	25.77	10443	18.00
Agriculture loan	2058	8.00	4425	14.6	5141	14.72	6558	14.44	5029	8.67
Industrial loan	701	2.7	1000	3.3	1274	3.6	1292	2.8	1208	2.08
Short term loan	1076	4.2	824	2.4	788	2.2	870	1.9	1120	1.9
Third animals plan loan	2768	10.93	1262	4.5	799	2.39	593	1.37	5291	9.16
Total	25576	100	30289	100	34932	100	45426	100	58008	100

Sources: Annual Report of ESCL

Table 4.5 exhibits the loan and advances its major composition are business loan and consumer loan (Personal) loan. Business loan further includes clearing purchase, export loans, imports loans, short term loans, long term loans etc. Similarly, retail loan which been turned as personal lending in the past few years includes hire purchase loan, housing loan and other loan. At now co-operative organizations ESCL focusing to provide agriculture and third animals plan loan. Because, Nepal has a low per capita income and people are highly dependent upon agriculture. In case from 2060/061 to 2062/063 of the ESCL did not have high volume of personal loan and so it was not segregated as well. The major proportion of loan and advances is contributed by business loan and agriculture loan.

In fiscal years 2060/061 to 2062/063 there is no personal loan and then after increased in this loan. In business loan stood Rs.8142 thousand and was observed decreased to Rs.6711 thousand in year 2061/062. Again it increased and reached to Rs.12626 thousand in the final year of the study. Hire purchase loan decreased in fist three years and later increased. The maximum hire purchase loan in year 2060/061 and minimum hire purchase loan in year 2062/063. The housing loan increased in year 2062/063 and later decreased. Agriculture loan most of important part of our country because maximum people involved in this areas. Now this loan increased in year 2063/064 and later decreased. Industrial and short term also fluctuating all over the period. Third animals plan loan to provide ESCL after involved in year 2058 B.S. This loan stood at Rs.2768 thousand and was observed decreased to Rs.593 thousand in year 2063/064. Again it increased and reached to Rs.5291 in year 2064/065.

4.1.3 Analysis of Liquidity Position of the Co-operative

The level of liquidity influences the ability of a co-operative system to with stand stocks. Liquidity risk arises when an FI's liability holders like depositors demand immediate cash for the financial claims they hold with a financial institutions. The most liquid assets are cash, which FIs can use directly to meet liability holders' demands to withdraw funds. Day to day withdrawals by liability holders are generally predictable and large FIs can expect to borrow additional funds on the money and financial markets to meet

any sudden shortfalls of cash. At times FIs face of liability crisis due to either a lack of confidence on the FIs problem or some unexpected need for cash, the liability holders may demand larger with draws than usual. This turns the FIs liability problem into a solvency problem and cases it to fail (Saunders and Cornett, 2004).

Financial institutions must maintain satisfactory liquidity position to satisfy the credit needs of the community, to meet demands for deposits withdrawal, pay maturity obligation in time and convert non cash assets into cash to satisfy immediate needs without loss to the co-operative and without consequent impact on long run profitability of the co-operative. To measure the liquidity position of the co-operative, the following measures of liquidity ratio has been calculated and its analysis has been done below.

4.1.3.1 Liquid Assets to Total Deposit Ratio

The ratio of liquid assets to deposit measures the level of liquid assets variable with the co-operative to meet short term obligations. It measures overall liquidity position. Cash in hand and cash at bank balance are included in total liquid fund. This ratio is computed by dividing liquid assets by total deposits .The higher ratio implies the better liquidity position and lower ratio indicates the inefficient liquidity position of the co-operative.

Table 4.6
Liquid Funds to Total Deposit Ratio (In Rs.000)

	Fiscal Year				
	2060/061	2061/062	2062/063	2063/064	2064/065
Liquid funds	4643	6423	7925	11040	7940
Total deposit	17930	23590	29060	40658	50103
Liquid fund to total deposit ratio	25.89%	27.23%	27.27%	27.15%	15.85%

Source: Annual Report of ESCL

Table 4.6 shows that liquid funds to total deposit of ESCL during the period of fiscal years 2060/061 to 2064/065. The ratio is in increasing trend for the first three years, there after it continuously decreased for the next two

years. The liquid assets to deposit ratio was maximum in year 2062/063 was 27.27% when the deposit was maximum in year 2064/065 with Rs50103. Likewise ratio was minimum in year 2064/065 with 15.85%, when the deposit was minimum in year 2060/061 with Rs.17930 thousand. Its ratio indicates overall liquidity position of this organization. Higher ratio indicates higher level of liquidity position of the co-operative lower the ratio lower level of liquidity position of co-operative.

Figure 4.5
Liquid Funds to Total Deposit Ratio of ESCL

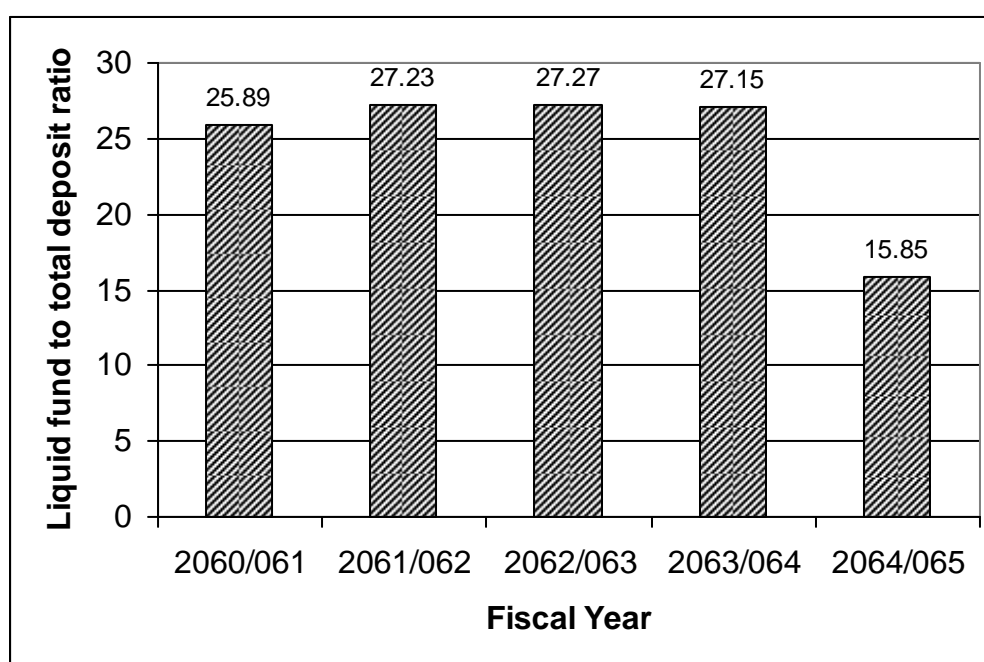


Figure 4.5 exhibits the liquid fund to total deposits ratios of the ESCL. In this figure the ratio is increasing in first three years, thereafter the ratio was decreased. It shows highest the liquidity position in year 2062/063 and lowest the liquidity position in year 2064/065. However the liquidity is in decreasing trend as the co-operative has switched to investing on more profitable assets.

4.1.3.2 Cash at Vault to Total Deposit Ratio

This ratio shows the percentage of total deposits held as cash in hand at vault. This ratio measures the percentage of most liquid with the co-operative to make immediate payment to the depositors. This ratio is computed by dividing cash in vault by total deposits. Cash in hand is included

as cash in vault. So, sufficient and appropriate case reserve in the vault should be maintained. Total deposit means saving and fixed deposit.

Table 4.7
Cash at Vault to Total Deposit Ratio (In Rs.000)

	Fiscal Year				
	2060/061	2061/062	2062/063	2063/064	2064/065
Cash in vault	340	98	452	295	293
Total Deposit	17930	23590	29060	40658	50103
Cash at vault total deposit (%)	1.9	0.42	1.56	0.73	0.58

Source: Annual Report of ESCL

Table 4.7 shows the cash at vault of total deposit ratio during the five fiscal years. This ratio is fluctuating all over the study period. The ratio is the maximum in year 2060/061 with 1.9% and lowest ratio in year 2061/062 with 0.42%. The ratios showed the rise and fall simultaneously for the first two years and later decreased over the last year period.

Figure 4.6
Cash at Vault to Total Deposit Ratio

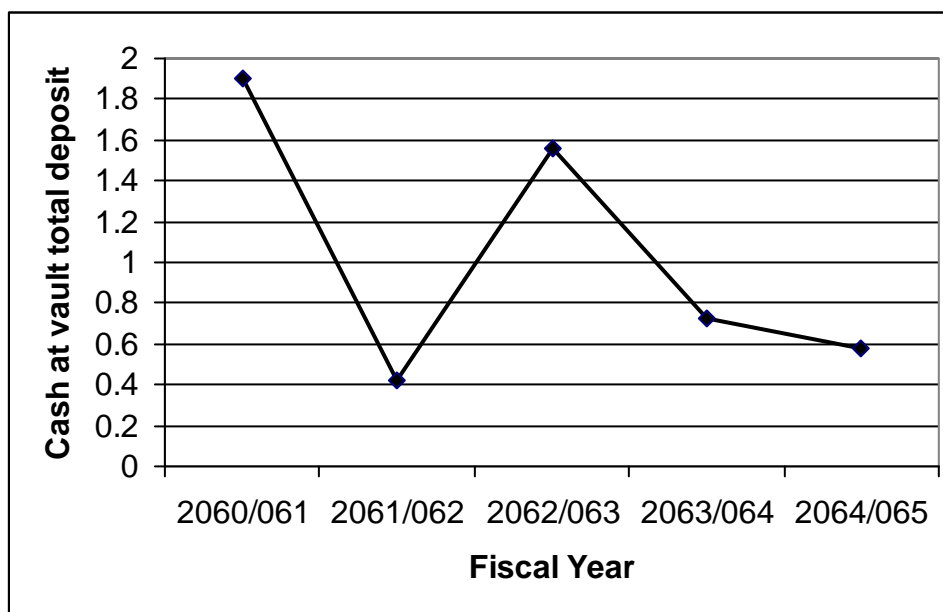


Figure 4.6 exhibits the observed cash in vault ratio of the ESCL. In this figure, the ratio curve indicates fluctuation of ratio in alternate years. The ratio

in 2060/061 stood at 1.9% which later decreasing in the year of 2061/062. After the year 2061/062 the ratio increasing trend and than after decreasing over the two year.

4.1.4 Analysis of Assets Management Position of the Co-operative

The inherent uncertainty of their cash flows, cost of funds and return on investments has prompted co-operative to seek out greater efficient in the management of their assets and liabilities. This need has led to studies concerned with how to structure a co-operative's assets and liabilities to make optimal trade offs among risk, return and liquidity.

Every financial institutions must be able to manage it's assets properly to earn high profit maintaining appropriate level of liquidity. Proper assets management of co-operative refers to the efficiency of the co-operative to manage it's assets in profitable way by mobilizing its funds in the best possible way. To measure the assets management position of the co-operative, the following measure of assets management ratios has been calculated and its analysis has been done below.

4.1.4.1 Loan and Advances to Total Deposit Ratio

Co-operative or financial institutions collect deposits from the member, individual and institutional depositors in from of different accounts offered. These funds collected are further extended inform of loan and advances to different borrowers inform of working capital loan, fixed capital loan, import loan, export loan, hire purchase loan, mortgage loan, housing loan etc. Co-operative in return makes earning from interest on loans and advances granted. However, it should also be noted that before lending co-operative should consider various aspects like risk analysis, diversification, co-operatives credit policy, NPB rules and regulation, customer's behavior etc.

The ratio of total loan and advances to total deposit it used as a proxy measure of the assets management quality. This ratio is calculated by dividing the total loans and advances by total deposits. This ratio measures the extent to which the co-operative is successful to mobilize its total deposit on loan and advances for the purpose of income generation. A high ratio indicates better mobilization of deposits collected and so vice versa. However it should also

be well noted that excessive high ratio might not be better from the liquidity view point and it may reflect inefficient assets management. This can be, but necessarily due to asset management deficiencies and is likely to negatively affect profitability.

Table 4.8
Loan and Advances to Total Deposit Ratio

	Fiscal Year				
	2060/061	2061/062	2062/063	2063/064	2064/065
Total loan	25576212	30287047	34932172	45025196	58008347
Total Deposit	17929582	23590564	29060163	40657953	50103421
Total loans and advance to total deposit ratio	1.42	1.28	1.2	1.11	1.16

Source: Annual Report of ESCL

As shown in table 4.8 the total loan and advances to total deposits ratio. In the above table total loan investment and total deposit is increasing trend but total loans and advances to total deposit ratio slightly decreasing trend. The ratio in the above table from 2060/061 to 2063/064 slightly decreasing and later the ratio increased in 2063/064 to 2064/065. The maximum ratio in year 2060/061 which has 1.42 and minimum ratio in year 2063/064 is 1.11. It can be concluded that as the ratios are satisfactorily consistent during the study period. ESCL is mobilizing is better mobilizing the collected deposits because ESCL is more provide loan than deposits collection.

Figure 4.7
Total Loans and Advances to Total Deposits Ratio

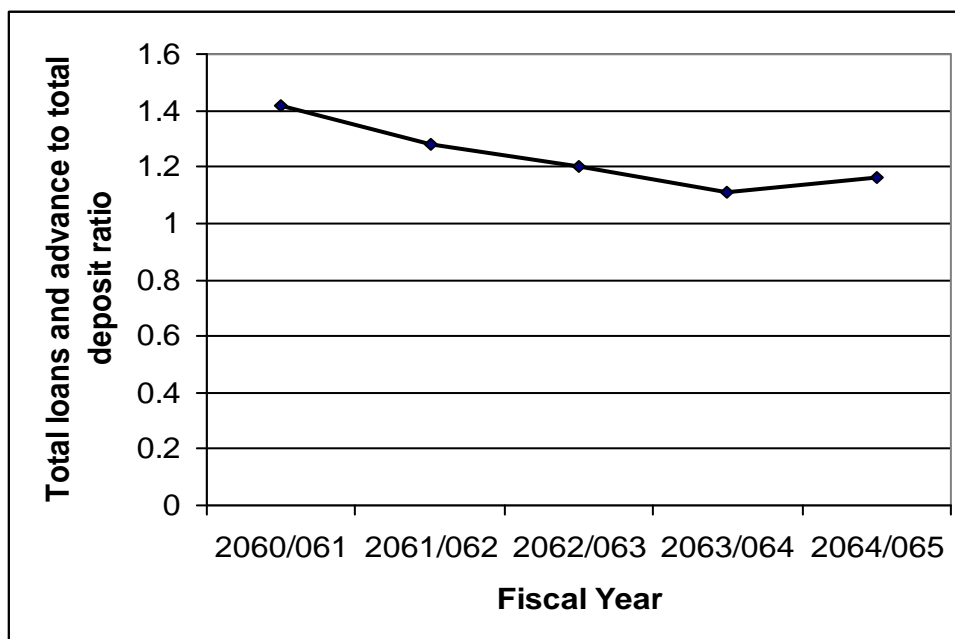


Figure 4.7 exhibits the observed total loan and advances to total deposit ratio of ESCL the study period of last five years. As shown in the chart, the observed ratio decreased down words from 2060/061 to 2063/064 with continuous decreasing trend and later increase in last years reached the 1.16. Overall it indicates co-operative capacity to maintain decreasing loan and advance to total deposit ratio but total loan and total deposit is increased, which is satisfactory assets management quality.

4.1.5 Profitability Ratio

Profitability is the result of a number of policies and decisions. Profit is a circulating blood of any financial organization. The ratio examine thus for provide some information about the way of firm is operating but the profitability ratio shows the combined of the liquidity, assets management and debt management on operating result. Co-operative has no future if they fail to make sufficient profit. Saving and credit co-operative have to generate surplus to pay dividend to bear all other obligations. Although co-operative are not profit oriented organizations, they can not survive without surplus. But co-operative organizations have high social responsibility. Therefore, they have

to generate necessary amount of profit. The profitability ratio related on profit of an organizations following ratio are given below.

4.1.5.1 Return on Total Deposits Ratio

This ratio indicates the condition of mobilization and utilization of deposits. It shows the overall performance of organization. The higher ratio indicates better mobilizations and utilization of deposits and lower level of ratio indicates lower level utilization of deposits. The ratio is shown below table and figure.

Table 4.9
Return on Total Deposit (In Rs.000)

	Fiscal Year					Mean (\bar{x})
	2060/061	2061/062	2062/063	2063/064	2064/065	
Net income	681	728	906	551	812	
Total deposit	17930	23590	29060	40656	50103	
Return on total deposit	3.8	3.09	3.12	1.35	1.62	2.59

Source: Annual Report of ESCL

In the above, table 4.9 shows the return on total deposit. The maximum ratio in year 2060/061 was 3.8% and lowest ratio in year 2063/064 with 1.35%. The ratio was fluctuating all over the study period. The ratio decreased in year 2060/061 to 2063/064 and later slightly increased in year 2064/065. The average mean of return on total deposit is 2.59.

Figure 4.8
Return on Total Deposit of ESCL

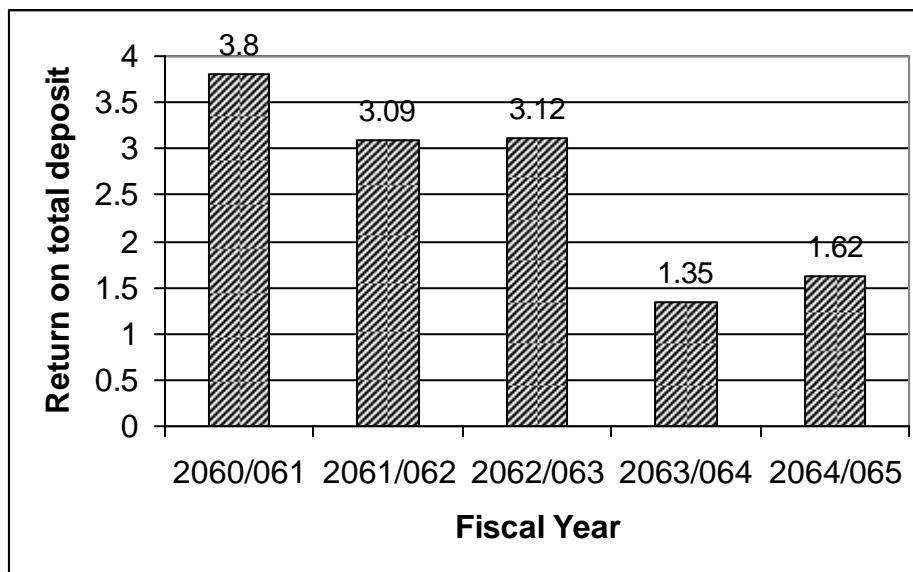


Figure 4.8 shows the return of total deposit of ESCL. The ratio in 2060/061 stood at 3.8%, which later decreased over the four years i.e. 1.35% in 2063/064 and later increased 1.62% in year 2064/065. In the above table the ratio was not satisfied after the study period because return on total deposit decreasing trend.

4.1.5.2 Return on Loan and Advance

This ratio indicates the overall effectiveness of management in generating profit and operation with its available sources of organization. The higher ratio indicates better level of mobilization or utilization of loan and advances. The lowest ratio indicates lower level of mobilization loan and advance. The ratio is shown below by the help of table and figure.

Table 4.10
Return on Loan and Advance (In Rs.000)

	Fiscal Year					Average mean
	2060/061	2061/062	2062/063	2063/064	2064/065	
Net income	681	728	906	551	812	
Total loan and advance	25576	30287	34932	45025	58008	
Return on loan and advance (%)	2.66	2.4	2.59	1.22	1.4	2.054

Source: Annual Return of ESCL

Table 4.10 shows the return on loan & advance. The ratio is fluctuating all over the period. The maximum ratio is in year 2060/061 and minimum ratio in year 2063/064. The mean ratio is 2.054 of the study period. The ratio slightly decreased in first four year and later increased in the last year.

Figure 4.9
Return on Loan and Advance of ESCL

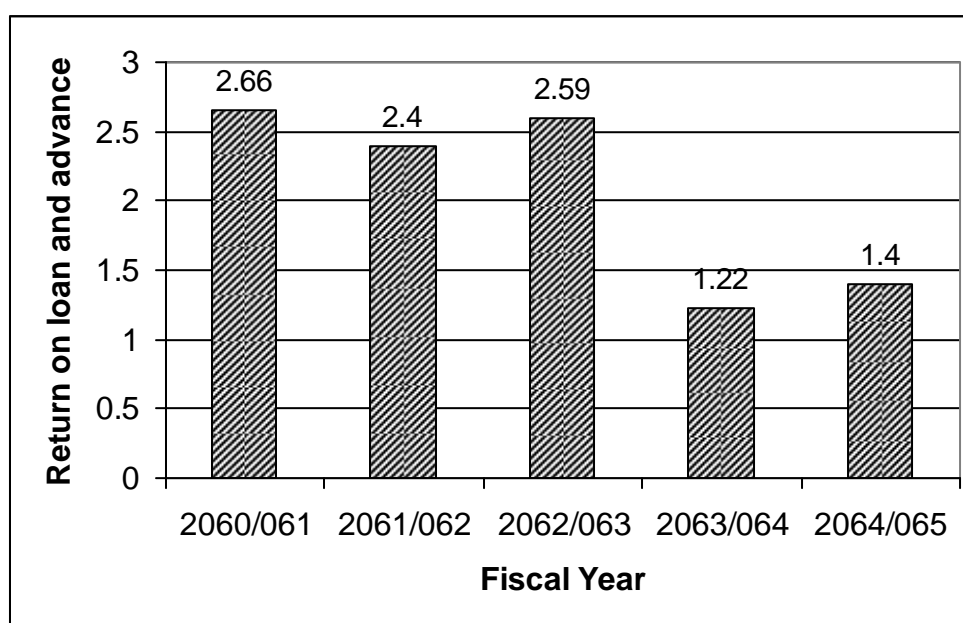


Figure 4.9 exhibits the return on loan and advance of ESCL in the study period from 2060/061 to 2064/065. The ratio stood at 2.66% in year 2060/061 and reached 1.4% in year 2064/065. The higher ratio indicates higher level of return on loan and advance which has 2.66% in first year. The

lower ratio indicates lower level of return on loan and advances lower level of return in year 2063/064 at 1.22%.

4.1.5.3 Return on Total Assets

This ratio is relationship between net income and total assets of the organization. It indicates the power of co-operative and shows how the assets are utilized. The higher ratio indicates better utilization of assets and lower ratios indicates poor utilization of assets. This ratio calculated by dividing the total net income only by total assets. The ratio is shown below table or graph.

Table 4.11
Return on Total Assets (In Rs.000)

	Fiscal Year					
	2060/061	2061/062	2062/063	2063/064	2064/065	Average mean
Net income	681	728	906	551	812	
Total assets	32551	37050	43137	56478	69092	
Return on total assets	2.09	1.96	2.1	0.96	1.17	1.656

Source: Annual Report of ESCL

Table 4.11 shows that return on total assets. Net income and total assets is increasing trend but return on total assets is fluctuating all over the study period. The maximum ratio is in the first year and minimum ratio in year 2063/064. The average mean ratio is 1.656.

Figure 4.10
Return on Total Assets of ESCL

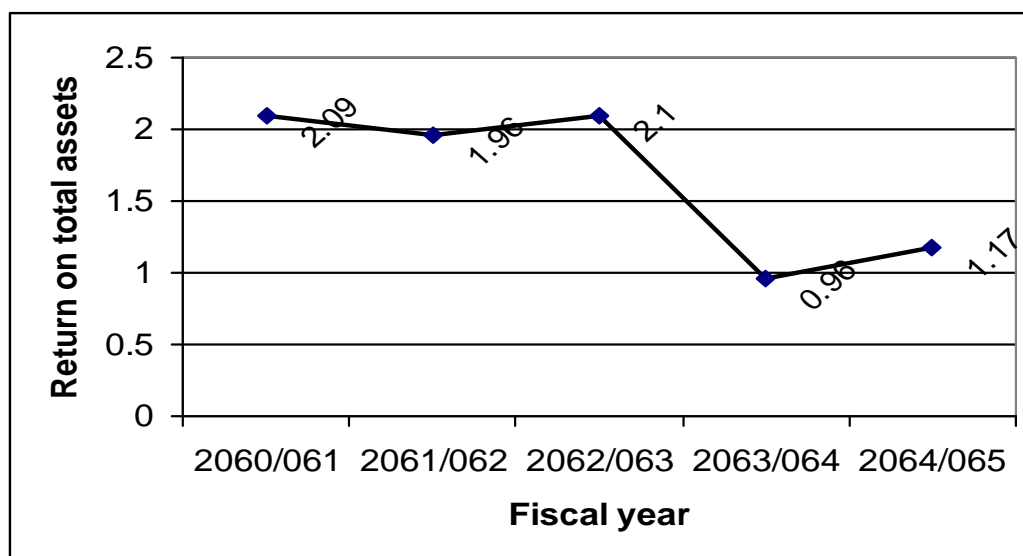


Figure 4.10 exhibits the return on total assets of ESCL. In the study period 2060/061 to 2064/065, the ratio ranged from 0.96 to 2.09%. Higher ratio indicates higher level of return on total assets and lower ratio indicates lower level of return on total assets.

4.1.5.4 Interest Earned to Total Assets Ratio

This ratio is dependent upon interest income and total assets. This ratio helps to find out how total assets are mobilized to generate interest of the organization. Interest is the main sources of the income for such of micro financial institution. Higher ratio indicates better mobilization of the assets and lowest ratio indicates poor/ no linkage mobilization of assets.

Table 4.12
Interest earned to total assets (In Rs.000)

	Fiscal Year					Mean
	2060/061	2061/062	2062/063	2063/064	2064/065	
Interest income	4425	4763	5295	6939	7512	
Total assets	32551	37050	43137	56478	69092	
Interest earned to total assets	13.59	12.86	12.27	12.29	10.87	12.38

Source: Annual Report of ESCL

Table 4.12 shows the interest earned to total assets of ESCL. In the above table interest income and total assets increased in all over the study period, but interest earned to total assets is decreasing trend. The ratio stood at 13.59% in year 2060/061 and reached 10.87 in year 2064/065. The ratio indicates interest earned to total assets of this co-operative is decreasing trend. The average mean ratio is 12.38%.

Figure 4.11
Interest Earned to Total Assets of ESCL

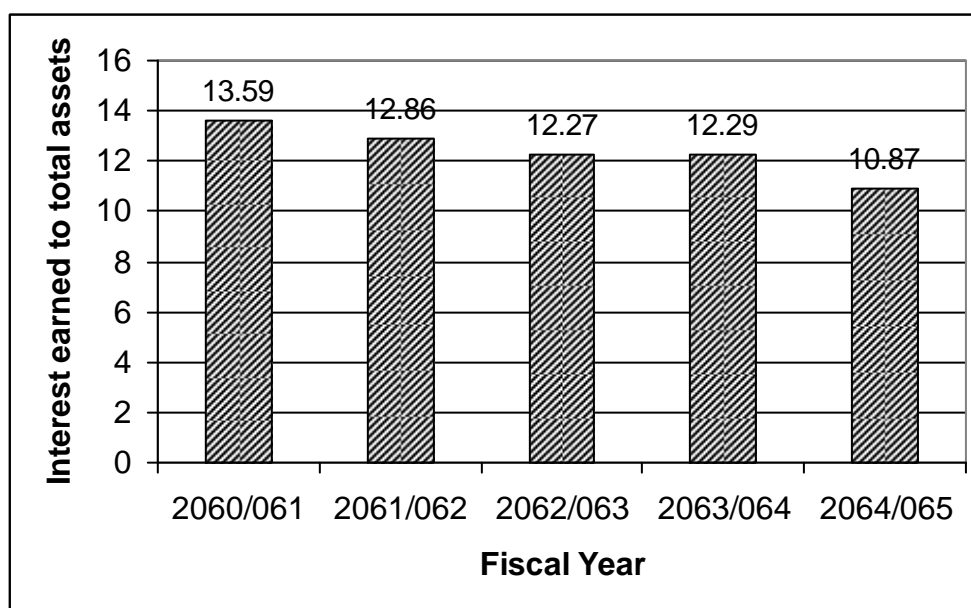


Figure 4.11 exhibits the interest earned to total assets of ESCL. In the study period from 2060/061 to 2064/065, ratio ranged from 10.87 to 13.59. The maximum ratio in year 2060/061 was 13.59. The minimum ratio in year 2064/065 was 10.87%. The ratio seems slightly decreasing all over the study period.

4.1.6 Correction Between Deposits and Loan & Advances

The correlation between and loan and advances measures the degree of relationship between these two. In financial institutions, deposits are the main sources of fund for lending. Similarly, loan and advance are very important for mobilization of collected deposits. So how increase in deposits of co-operative impact in the volume of loans and advance is measured by

correlation. Here deposit is considered as independent variable and loans and advance as dependent variable.

Table 4.13
Correlation between Deposits and Loan & Advances

Correlation coefficient (r)	P.E	$6 * P.Er$	Remarks
0.9942	0.03489	0.0209	$r > 6* P.E.$

As shown in table 4.13 the correlation (r) between deposit and loan & advances of ESCL is 0.9942 and probable error times 6 is found 0.0209. As $r > 6* P.E.$ and r is positive and near to 1, it clarifies that there is positive relationship between the deposits and loan and advances during the study period of five years.

4.2 Major Findings

The major findings of the study on deposit collection and mobilization of ESCL are as follows.

- 4.2.1** Total deposits volume of BSCL remained largely in fixed deposit volume last five financial years. The fixed deposit volume is increasing trend because it has higher interest rate. But normal saving is fluctuating all over the study period. It has lowest interest rate than special saving and fixed deposit. Special saving is also increasing trend last five years.
- 4.2.2** The cost of deposits i.e. the total interest expenses on total deposit to total operating revenue is in increasing trend. Total operating revenue (Net income) is increasing trend more than interest expenses on deposit. Therefore total interest expenses on deposit to total operating revenue are increasing trend.
- 4.2.3** In the past five years, the net income at ESCL continuously increased in 2060/061 to 2063/064 than after decreased in last year. The slope of the trend line obtained from least square trend line is positive which shows increasing trend of net income margin during the study period.

Throughout the review period, cooperative maintained higher interest margin.

- 4.2.4** Mobilization of deposits of ESCL like in every financial sector remained largely in the loan and advances in the last five financial years. In the study period of five years, the average composition of cash, bank balance, loan investment, share investment, fixed assets and other assets were 0.662, 15.54%, 80.994%, 0.158%, 1.252% and 0.158% respectively. The net investment loan and advances is fluctuating all over the study period.
- 4.2.5** Mobilization of loan and advances of ESCL is similar like in every financial sector. In the study period of five years, the composition of loan and advances are being distributed on personal loan, business loan, hire purchase loan, housing loan, agriculture loan, industrial loan, short term loan or third livestock plan loan. The main purpose of ESCL is now focusing on providing agriculture and third livestock plan development loan.
- 4.2.6** The liquid assets to total deposit ratio of ESCL during the period FY 2060/061 to FY 2064/065 are in fluctuating all over the study period. The liquid ratio was minimum in year 2064/065 when the deposit was maximum. Likewise the ratio was maximum in year 2062/063 when deposit was minimum in year 2060/061.
- 4.2.7** The volume of cash at vault is fluctuating alternately over the study years. The ratio measures the percentage of most liquid with co-operative to make immediate payment to the depositors. In the study period was maximum ratio in year 2060/061. Likewise the ratio was minimum in year 2061/062 when the cash at vault also minimum in this year. The slope of the trend line is negative which shows decreasing trend of cash vault to total deposit ratio during the study period.
- 4.2.8** The loan and advances to total deposit ratio is fluctuating over the study period. The ratio is fluctuating in downward trend. The slope of the trend line determined by the least square method is negative indicating the down ward trend in ratio during the period of five years. The decreasing trend of ratio implies that decreasing loan and advance

with respect to increasing deposits. This shows that co-operative has switch deposit mobilization from to other areas.

- 4.2.9** The return on total deposit ratio of fiscal year 2060/061 is 3.8% which is highest during the period and lowest ratio 1.35% in year 2063/064. This ratio is fluctuating all over the study period. The average mean ration is in this period 2.59%.
- 4.2.10** The return on loan and advance is fluctuating over the study period. In the study period maximum ratio in year 2060/061 which has lowest loan and advances. The minimum ratio is in year 2063/064 which has lowest net income. The average mean ratio is 2.054%.
- 4.2.11** The return on total assets of ESCL has fluctuating trend ranged from 0.96% to 2.10%. The lowest ratio is in year 2063/064 and highest ratio in year 2062/063. The average mean ratio is 1.656% over the study period.
- 4.2.12** The interest earned to total assets is slightly decreasing trend over the study period. The highest ratio is in year 2060/061 and lowest ratio in year 2064/065, which is ranged from 10.87% to 13.59%. The average mean ratio is 12.38%.
- 4.2.13** The correlation analysis shows that the correlation coefficient (r) between deposits and loan and advances of ESCL is 0.9942 and so it is found that there exists perfectly positive correlation between deposit and loan and advances during the study period. Likewise the value of $6P.E.$ is found to be 0.0209. Here $r > 6 P.E.$ so the correlation coefficient between deposits and loan and advances is significant. As r is positive and near to 1 and so it can be concluded that there is high degree of association between deposits and loan and advances and both of them are directly related. The measure of risk between them deposit and loan & advances. There is more risky of risk of deposit than loan and advance (i.e. 11.66 > 11.57). The covariance between deposit and loan and advance is 134.13. The coefficient of variance of deposit is 36.13 greater than coefficient of variance of loan and advances are 29.84. Lower the coefficient of variation represents better efficiency in management as well as the ratio is more consistent during the study period.

CHAPTER - V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

This chapter includes three aspects of the study summary, conclusion and recommendations. The first aspect summarizing the whole study, the second draws the conclusion, and the last one forwards the recommendations.

5.1 Summary

The study was carried out as academic requirements for master's degree of business studies on the topic of "Deposit Collection and Mobilization of ESCL". The study was started with the objective to find out the fact about deposit collection pattern and its mobilization of Everest Cooperative Society Limited. The analysis of deposit collection is done to obtain a better insight into a cooperative's deposits total aspects. Cooperative effectiveness in deposit collection and mobilization is judged on the basis of its liquidity position, assets management position, cost on deposit position and profitability position of the cooperative etc. There has been continuous increase in numbers of cooperative and provide them social responsibility and earning profit, but it has not become a challenge for these cooperative to attract customers for deposit and retain them for long periods. Thus, the interest was expressed to analyze the deposit collection and its mobilization of Everest Cooperative Society Limited.

The study was conducted with the general objective to analyze and evaluate effectiveness of ESCL in deposit collection and its mobilization. In addition with this specific objectives of the study were to analyze the trend in deposits, loan and advances, assets composition, assets management ratio, liquidity ratio, cost involved in deposit collection and correlation between deposit and loan and advances, profitability ratio of the cooperative in period of year 2060/061 to 2064/065 B.S.

Various materials were reviewed in order to build up the conceptual foundation and to find out the clear destination of research work. Meaning and definition of cooperative, principle of cooperative, historical background, organization structure, saving and credit cooperative of Nepal, current issue and challenges of cooperative, concept of deposit collection and mobilization were reviewed as conceptual review. On the other hand, review of articles and review of dissertation were included in theoretical review section of the report.

The research covers only five years period from 2060/061 to year 2064/065 B.S. It is concerned with the deposit collection and mobilization analysis of cooperatives. The study was designed within the framework of descriptive and analytical research design and the analysis has been made in the same way. The required data and information were collected from secondary sources. In addition with this, primary data also are used in this research work, which was collected, by using unstructured interview with concern staffs of the cooperative. Financial ratios, simple mathematical and statistical tools have been implied to get the meaningful result of the collected data in this research work.

The analysis has considered the cooperative's ratio using the statistical tools including correlation, coefficient of variation, least square method, average mean, standard deviation, ratio analysis and trend analysis. The position of deposits is in increasing trend in all the year despite the low interest rate offered and increasing numbers of cooperative or financial institutions. These shows that cooperative have been successful in studying the market need and tapping the potential deposit with best possible means. Similarly cooperative has been able to maintain continuous increase in net interest margin. The compositions of assets where deposits are mobilized are well managed and deposit is mobilized in every manners. However assets mainly composed of loan and advance and investments. The cash in vault to total deposits ratio, the liquid funds to total deposits ratio are above during the study period. This shows that the liquidity position, profitability position loan and advances position are slightly decreasing position of the cooperative. The relationship between deposits and loan and advances in found significant and also the correlation is directly and positively associated.

At last Nepal is landlocked, least developed and poor country in the world because it has low per capita income and high population growth rate. So many people lived in rural area. Therefore cooperatives are the most significant tools for mobilizing scattered saving and use in productive investment for the benefit of the entire investment for the benefit of the entire members and the society. The role of cooperative organization can be regarded as most important for socio-economic development of majority of people and their socio economic justice. In Nepal, out of thousand saving and credit cooperative only few of them are only under the jurisdiction of monitoring authority, Nepal Rastra Bank, other huge numbers of cooperative are under the supervision of Depart of Cooperative (DOC). The methodology applied by (DOC) for the analysis of financial position of saving and credit cooperative is quite old and unable to reflect the overall health of the institution. Since saving and credit co-operative provides access to microfinance services, application on appropriate financial tools is essential.

5.2 Conclusions

Based on the finding following conclusion have been drawn as a concluding framework of the study on deposit collections and mobilization of ESCL.

- 5.2.1** The deposit volume of ESCL has during the study period of five years from 2060/061 to 2064/065 shows that it has been increasing trend. This shows that the cooperative is better deposit collection policy but the cooperative is putting additional effort and is aggressively caught up in normal saving deposit collection.
- 5.2.2** The cost involved in deposit collection on the total interest expenses to total operating revenue is in increasing trend. The cost of deposits collection and volume of deposit is heading towards same direction. Deposit is increasing thought at higher rate where as interest expenses on deposits are in increasing.
- 5.2.3** The increasing trend of net interest margin for first four year and later decreased last year. The net interest income relationship between interest income and interest expenses has been achieved by close

control over the cooperative earning assets and the pursuit of the cheapest sources of funding.

- 5.2.4** The assets composition of the cooperative during the study period reveals that movement of investment was observed over into loan and advances during the study period. Loan and Advance is the major part of assets side, which falls under high risk category of assets.
- 5.2.5** The liquid funds to total deposit ratio shows that there is very high proportion of liquid funds, that the proportion of investment in income generating assets and shows lack of specific policy of invest of additional idle funds to high income generating assets in the firm of investment.
- 5.2.6** The cash in vault shows that ignoring the percentage of most liquid fund with the cooperative to make immediate payment to the depositors. It also indicates that the cooperative is running with the inadequate liquidity to meet its short term obligation.
- 5.2.7** The increasing trend of assets management ratio i.e. loan and advances to deposit shows that the capability of the management to deposits to loan and advances is increasing with the increase in deposit volume the loan and advances extended is also increasing. The loan and advances is the risky part of assets side. At now loan and advances is slightly decreasing in first four year and later increased in the last year of the study period. So the cooperative focusing to provide loan and advances.
- 5.2.8** Profit is circulation of blood of any organization. Profit is result of number of policy and decision making. In this cooperative profitability position is slightly decreasing trend. That means the profitability position is week.
- 5.2.9** The correlation analysis shows that there is positive correlation between deposit and loan and advances. So it found to be that correlation between deposit and loan and advances is significant.

5.3 Recommendations

The following recommendations are made based on the conclusions as regard to deposits aspects of ESCL.

- 5.3.1** The total deposit volume is in increasing trend. This means the cooperative has been able to accrete customers of competitive market for deposits. The cooperatives needs to update customers demand and average for special schemes, facilities and services in order to enhance the volume of deposit collection.
- 5.3.2** The cooperative has been mobilizing major portion of deposits in loan and advances compared to investment as it yield higher return contributing to increase in operating revenues being involved of high risk in loan and advances. The cooperative is diverting major deposits in loan and advances during the study period; there is high probability of profit in future. So, cooperative is advised to maintain up to increase in quality of assets. Besides cooperative management also has to form loan recovery committee for credit appraisals and follow up measures.
- 5.3.3** During the study period interest expenses on deposit to total operating revenue is increasing trend. Likewise, net interest income of the cooperative is increasing trend though by lower amount. The cooperative needs to focus more on interest income and other incomes leading to increase in total operating revenue and future control the operating expenses, which would in competitive environment.
- 5.3.4** As the liquidity position of the cooperative is found to be high especially in liquid funds, the cooperative is recommended to look upon new area of lending and investment that helps in minimizing the idle funds. Otherwise, this may impact the profitability negatively and cash of vault to measure the percentage of most liquid with the cooperative to make immediate payment to the depositors. So the cooperative to maintain to provide paid to cash for depositors.
- 5.3.5** The assets management ratio i.e. loan and advances to deposits is slightly decreasing in first four years and later increased in last year. So the cooperative more exercise to provide loan different sector. Better mobilization of deposit collection to operating revenue is increases. So, the profitability position is automatically high. Loan & advances is main part of the assets side and this is the risky assets. Financial intuitions are mostly depends upon the loan and Investment. Better utilizations of

deposit collection of the co-operative higher earning power capacity. So, the co-operative is main focusing to provide loan and investment in different productive sectors.

- 5.3.6** Profit is the result of a number of policies and decision making. Without profit not move the organization. So the profit is most needed of the organization. Now this co-operative has profit position is slightly decreasing trend. The co-operative utilization of deposit collection is not sufficiently. Therefore the co-operative manage to improve profitability position. The co-operative collected deposit to mobilize in safety and productive sector.
- 5.3.7** Correlation is measure of the relationship between two parts. The co-operative result of the correlation coefficient between deposit and loan & advances is it shows that there is positive relationship between the deposits and loan & advances during the study period. That means the co-operative to recover the deposit collection is average.

Appendix 1.1

Everest Co-operative Society Limited

Balance Sheet

Assets	Fiscal Years				
	2060/061	2061/062	2062/063	2063/064	2064/065
Cash	340223	98642	451589	294789	293412
Bank	4302628	6324828	7473789	10745075	7646795
Loan & Advance	25576212	30287047	34932172	45025196	58008347
Share Investment	70000	70000	70000	70000	75000
Fixed Assets	204025	241985	195265	214843	2805443
Talchowk Brach	2040188				
Other Assets	18154	28000	14021	128343	262855
Total Assets	32551430	37050502	43136836	56478246	69091853
Capital & Liabilities					
Share Capital	4725760	5456980	6111520	7918320	7646600
Loan from NRB	3338600	2506000	1250000		
Deposit Collection	17929582	23590564	29060163	40657953	50103421
Short Term Liab.	3002623	4208091	4566283	6982612	9912360
Profit/Loss Fund					
Reserve		357652	584165	152346	
Share Divided		122981	258899	73807	
Staff Bonus		117756	139660	109882	
Member Education		70995	138949	41403	
Co-operative Ed.		70995	138949	41403	
Loan Loss Provision		192496	260450	292904	
P & L Fund	1514677	1288867	2148870	919361	1429472
Total Capit. & Liab.	32551430	37050502	43136836	56478246	69091853

Source: Annual Report of ESCL

Appendix 1.2

Everest Co-operative Society Limited

Profit & Loss A/c

Income	Fiscal Year				
	2060/061	2061/062	2062/063	2063/064	2064/065
Interest Income					
Loan Interest	3986132	4272398	4468934	6108651	6928474
Bank Interest					
Penalty Interest	439200	490847	825615	829922	583256
Commission	16690	3900	2400		
Other Income					
Service Charge	602135	81255	50040	7700	
Entrance Fee	9400	8900	4800		8500
Application Fee	8000			3900	
Others	85872	39470	32671	133367	
Total Income	5147429	4896770	5384480	7075840	8147495
Expenses					
Saving Deposit					
Fixed & Recurring Deposit	2179701	2409152	2959772	3727104	4874446
Total Interest Expenses					
Staff Overhead Expenses	482826	530835	673436	716752	
Salary Allowance	561225		85275	142350	
Providence Fund					
Total Staff Overhead					
Office Operating Expenses	357964	454929	386062	422977	2461126
Provision for Risky Loan	885054	773327	373882	151518	
Total Expenses	4466775	4168244	4478427	6524601	7335572
Gross Profit					811923
Income/Loss from Py					
Net Profit & Loss					
Net Profit/Loss Before	680654	728526	906053	551239	811923
Tax Adjusted					
Tax Provision					156573
Net Income/Loss	680654	728526	906053	551239	
Adjusted of Net Income					655350
Institutional Reserve					
Bonus & Dividend Fund					

Source: Annual Report of ESCL

Appendix 1.3

Everest Co-operative Society Limited

Correlation between total deposit and loan & advances (In Rs.000000)

Fiscal Year	Deposit (x)	Loans & Advance (Y)	[(x - \bar{x})]	[(x - \bar{x}) ²]	[(y - \bar{y})]	[(y - \bar{y}) ²]	[(x - \bar{x}) (y - \bar{y})]
2060/061	17.93	25.58	-14.34	205.63	-13.19	173.98	189.14
2061/062	23.59	30.29	-8.68	75.34	-8.48	71.91	73.61
2062/063	29.06	34.93	-3.21	10.30	-3.84	14.75	12.33
2063/064	40.66	45.03	8.39	70.39	6.26	39.19	52.52
2064/065	50.10	58.01	17.83	317.91	19.24	370.18	343.05
	$\phi x=161.34$	$\phi y=193.84$		679.57		670.01	670.65

$$1. \text{ Mean } (\bar{x}) = \frac{\phi x}{n} = \frac{161.34}{5} = 32.27, \quad \bar{y} = \frac{\phi y}{n} = \frac{193.84}{5} = 38.77$$

$$2. \text{ Variance } (s^2_x) = \frac{1}{n} \phi (x-\bar{x})^2 = \frac{1}{5} \times 679.57, \quad s^2_y = \frac{1}{n} \phi (y-\bar{y})^2 = \frac{1}{5} \times 670.01$$

$$= 135.91 \quad = 134.002$$

$$3. \text{ S.D. } s_x = \sqrt{s^2_x} = \sqrt{135.91} = 11.66 \quad s_y = \sqrt{s^2_y} = \sqrt{134.002} = 11.57$$

$$4. \text{ Covariance } = \frac{1}{n} \phi (x-\bar{x}) (y-\bar{y})$$

$$= \frac{1}{5} \times 670.65 = 134.13$$

$$5. \text{ Correlation } (r) = \frac{\text{cov. } xy}{s_x \cdot s_y} = \frac{134.13}{11.66 \times 11.57} = 0.9942$$

$$6. \text{ C.V. } = \frac{s}{\bar{x}} \times 100$$

$$\text{C.V. } (x) = \frac{11.66}{32.27} \times 100 = 36.13$$

$$\text{C.V. } (y) = \frac{11.57}{38.77} \times 100 = 29.84$$

7. Calculation P.E.

$$\text{P.E.} = 0.6475 \times \frac{1 - r^2}{\sqrt{n}} = 0.6475 \times \frac{1 - 0.9942^2}{\sqrt{5}} = 0.03489$$

$$6 \text{ P.E.} = 6 \times 0.03489$$

$$= 0.0209$$

$$r > 6 \text{ PE}$$

Appendix 1.4

Everest Co-operative Society Limited

Tread Analysis Interest Expenses on Total Deposit to Total Operating
Provence

F.Y.	Int. Exp.(x) on Deposit	Total Operating (y) Revenue	x ²	xy
2060/061	2180	5147	4752400	11220460
2061/062	2409	4896	5803281	11794464
2062/063	2960	5384	8761600	15936640
2063/064	3727	7075	13890529	26368525
2064/065	4874	8147	23755876	39708478
	$\phi x = 16150$	$\phi y = 30649$	56963686	105028567

$$b = \frac{N\phi xy - \phi x \cdot \phi y}{N\phi x^2 - (\phi x)^2}$$

$$= \frac{30161485}{23995930} = 1.26$$

$$n = \frac{\phi y - b \phi x}{N} = 2060$$

$$y = a + bx$$

$$= 2060 + 1.26x$$

$$\bar{x} = \frac{16150}{5} = 3230$$

$$\bar{y} = \frac{30649}{5} = 6129.8$$

Appendix 1.5
Everest Co-operative Society Limited
 Net Interest Income

Fiscal Year	x (Exp.)	y (Income)	x^2	xy
2060/061	2180	4425	4752400	9646500
2061/062	2409	4763	5803281	11474067
2062/063	2960	5295	8761600	15673200
2063/064	3727	6939	13890529	25861653
2064/065	4874	7512	23755876	36613488
	$\phi x = 8150$	$\phi y = 28924$	$\phi x^2 = 56963686$	$\phi xy = 99218908$

$$b = \frac{N\phi x \cdot y - \phi x \cdot \phi y}{N\phi x^2 - (\phi x)^2} = \frac{29060440}{23995930} = 1.21$$

$$a = \frac{\phi y - b \phi x}{N} = 1878.5$$

$$y = a + bx = 1878.5 + 1.21 x$$

Appendix 1.6

Questionnaire

1. When was co-operative established?
2. What was the main objective to establish?
3. Where is head office of this branch and how many are the sub-branch?
4. Who is the founder of this ESCL?
5. How many shareholders are there in this organization?
6. How many staff is working in this organization?
7. How much is the authorized, issued and paid up capital of the organization?
8. How it collect its deposit?
9. How much interest rate is given to the people who want to deposit their amount?
10. How much amount is needed to open the account first?
11. How much amount is collected as deposit since 2060/061 to 2064/065 of the organization?
12. Where the investment is done?
13. If anybody wants to take the loan what process is need?
14. How many amount to provide loan and advance?
15. What is liquidity position of this cooperative?

BIBLIOGRAPHY

Books:

Bhandari, Dilli Raj (2003). ***Banking and Insurance***, Auyush Publication Ktm.

Claire Selltiz and Others. ***A Research Method in Social Science***, Rev. 1962, P. 50 as quoted in C.R. Kothari Vikas Publishing House Pvt. Ltd. New Delhi, 1991.

Das Banishree, Palai Nirod Kumar and Das Kumar, ***Problems and Prospects of the Co-operative Movement in Idea under the Globalization Regime***, International Economic History Congress, Helsinki 2006.

Dhungel, Kamal Raj, ***Co-operative Movement of Nepal***, The Basic Economic 2000.

Hajela, T.N. ***Co-operation, Principle, Problem and Practice***, Konark Publisher, 1989

Joshi, Shyam (2058). ***Introduction to Economic Theory***, Nabin Prakashan, Ktm. 2058.

Mail, Prahlad Man, ***Co-operative Movement in Nepal and its Role in Rural Development: Innovations and Challenges***, A Paper Presented in Program on Development of Rural Financing Institutions and Co-operative, Ktm. Nepal, August 16, 2005.

Shrestha B.P., ***An Introduction to Nepalese Economy***, 1974 P.115.

Shrestha, Durgesh Kumar & Govinda Prasad, ***Business Environment in Nepal***, 2nd ed. 2063 B.S.

Pant, P.R. and Wolef H.K., ***Social Science Research and Thesis Writing***, 2000 Buddha Academy Enterprises Pvt. Ltd. Ktm. Nepal

Thesis:

- Acharya, Basanta (2002). **A Comparative Analysis of Investment and Deposit Pattern of Nepal Bangladesh Bank Ltd. & Himalayan Bank Ltd.** M.B.S. T.U.
- Bajracharya, Bodhi B. (1990). **Monetary Policy and Deposit Mobilization in Nepal**, Rajat Jayanti Smarika of RBB.
- Bhattarai, Ramala (1978). **Lending Policy of Commercial Banks in Nepal**, Master's Thesis, Central Department of Mgmt. T.U.
- Giri, Yagya Raj, **A Case Study of Damak Co-operative Societies Ltd.**, Master Degree of M.A. Economics T.U. 1996.
- Lamsal, Toyanath, **Financial Performance Analysis of Nepalese Co-operative Societies with Reference to District Co-operative Ltd. Kaski District**, in 2000, Master Degree T.U.
- Pokhrel, Bihari Binod. **A Study of Co-operative Movement in Nepal**, Ph.D. thesis, Bihar University, 1998.
- Pradhan, S.B. (1996), **Deposit Mobilization, it's Problem and Prospects**, Nepal Bank Ltd.
- Sharma, Puspa Raj, **Microfinance Practices and there Sustainability in Nepal**, Ph. D. Dissertation Faculty of Mgmt. T.U. 2006.
- Shrestha, Shelina (2006). **A Case of Study on Investment Portfolio of Pokhara Finance Ltd.**, M.B.S. Central Department of Mgmt. T.U.

Journal:

Annual Report of ESCL from 2060/061 to 2064/065.

Brochure, National Co-operative, Bank Ltd. Nepal 2064.

Brochure, Everest Co-operative Society Limited, 2066

District Co-operative of Office Kaski, the Entry Book 2064.

His Majesty Government, Central Bureau of Statistical Pocket Book 2002.

International Co-operative Alliance, Seventh Annual General Meeting 1995.

National Co-operative Federation of Nepal Ltd. Ktm. Nepal 2064.

Nepal Rastra Bank, Economic Review 2007.

Official website:

www.deof.gov.np

www.enfscun.org.np/history.htm

www.helsinki.fi/iehc2006/papers2/Das72.pdf

www.ica.coop/coop/principles.html

www.ncfnepal.com.np/historicalevents.html

www.nrb.org.np