

CHAPTER 1

INTRODUCTION

1.1 Back Ground of Study

Nepal is a landlocked rectangular shaped country with an area of 147,181 square kilometers. Its 120 to 240 Kilometers length is wedged between the world's two most populous countries; China in the north and India in east, west and south. Nepal is one of the most diverse topographies in the world where the land rises from 67 meters above sea level to the top of Mount Everest at 8848 meters. It is famous for its natural beauty and cultural heritage. According to National Census of year 2003 A.D, the total population of Nepal is 23,151,423. Nepal is a country with very poor social and economic status. The present per capita income of an average Nepali is US \$ 240 and is ranked 142 out of 173 countries in terms of the Human Development Index. Poverty in Nepal is widespread, with an incidence close to 42 percent. Between 1976 A.D and 1996 A.D, the number of poor increased by approximately 3.5 million people. Many basic services are still underdeveloped. Only 6 percent of the population has access to sanitation (compared to 30 percent in Bangladesh and India); only 44 percent has access to safe drinking water (compared to an average of 77 percent for South Asia region); and the illiteracy rate is nearly 70 percent (compared to an average of 51 percent in South Asia region). Poverty is more widespread in the rural areas than in the urban areas. Since the early 1990s a large number of co-operatives with different specialties have been set up. Savings and Credit Co-operatives, other co-operatives with savings and credit business components and Dairy Co-operatives have been spread throughout the country. Following are the status of Co-operatives as of 2003/2004 A.D. Primary Level Co-operatives:

SN	Type of Co-operatives	No of Co-operatives	Share Capital ' 000
1	Multipurpose	3044	210,180
2	Savings and Credit	2350	177,670
3	Dairy Production	1362	11,713
4	Consumer Co-operatives	194	12408
5	Others	495	25,725
6	TOTAL	7445	459,332

Source: internet)

The co-operatives have to register under the Co-operative Act of Nepal at Department of Co-operatives. Although, the Registrar of the Co-operative Department is responsible to register the Savings and Credit Co-operatives he has delegated the authority to the District Co-operative Officer for credit union.

According to the present co-operative act of Nepal, the eligibility to register the savings and credit co-operatives is as follows:

- At Least 25 members
- Living within the specified common bond
- Purchase at least one share of the co-operative by each individual members
- Written bylaws of the credit union
- Action plan for the year
- Decision of the preliminary meeting of the individual members
- Financial Statement
- Citizenship certificate of members etc.

Although many programs have been implemented for poverty alleviation in Nepal, only micro-finance programs are seen as a poor targeted and rural based.

In Nepal agriculture based co-operatives were initiated in the 1950s as a first step in micro-finance. Poverty alleviation rural based programs were initiated through the small farmers development program (SFDP) on a pilot test basis in 1975 by the ADB/N. The success of the pilot tests in Dhanusa and Nuwakot districts encouraged policy makers to expand formal rural based micro-finance programs. In the past decade, micro-finance has been recognized as a particularly effective development intervention for three basic reasons:

1. The services provided can be targeted specifically at the poor and poorest of the poor.
2. These services can make a significant contribution to the socio-economic status of the targeted community.
3. The institutions that deliver these services can develop, within a few years, into sustainable organizations with steadily growing outreach.

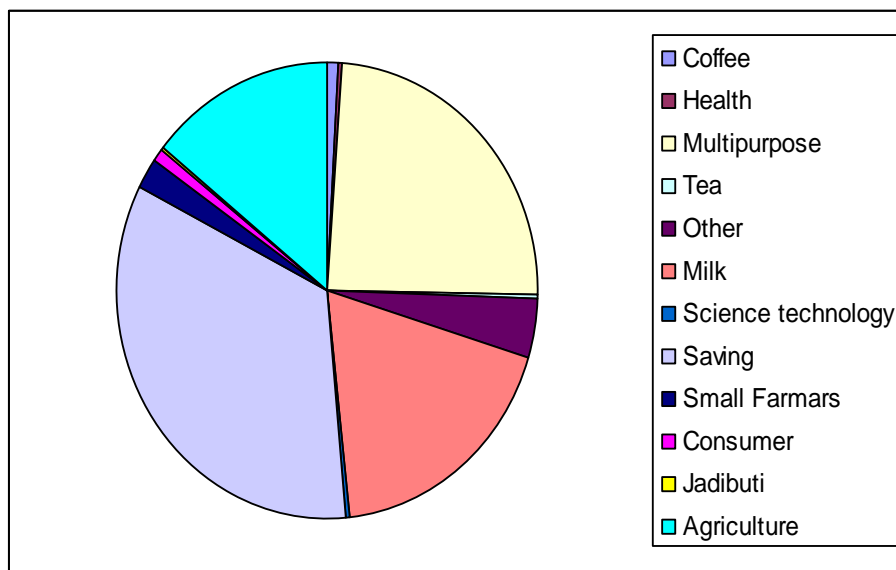
Within Nepal there are a wide range of institutions active in the micro-finance sector, each with its own way of going about the task of making financial services accessible to the poor. Some writers distinguish between the so-called informal and formal sectors, but given that many of the informal organizations are in fact registered societies, the preferred terms to use are community-based sector and institutional sector. Nepal has a long history in the operation of traditional savings and credit associations, often referred to in the literature as a ROSCAs,

but known locally as Dhukuti or similar terms. These tend to be non-registered, but quite formally structured in terms of membership rights and obligations, etc. SACCOS are member owned, controlled and capitalized organizations, which provide financial services to members. Among 8156 different cooperatives affiliated with the Department of Cooperative 2,775 SACCOS are registered with the Co-operative Department in Nepal till Chaitra 2062 (March 2005).* NEFSCUN an apex organization of saving and credit cooperatives in Nepal providing financial and other services enhancing sustainability of its members, guided by credit principles and values. At present NEFSCUN represents more than 350000 individual members from 597 affiliated District Union & SACCOS covering 56 districts in 14 zones^.

The following figure 1 shows more details:

Operating Cooperatives in Nepal till Chaitra 2062 (March 2005)

Figure 1



Source: From Department of Cooperative

*Source: Data from Nepal Cooperative Agriculture and Cooperative Ministry Cooperative Department.

^Source: Brochure of NEFSCUN as of Feb15 2009

As illustrated in Fig 1, there are 58 cooperatives of coffee, 24 health cooperatives, 1990 multipurpose cooperatives, 20 tea cooperatives, 343 other cooperatives, 1513 milk cooperatives, 17 science technology cooperatives, 2775 saving and credit cooperatives, 172 small farmer cooperatives, 65 consumer cooperatives, 14 Jadibuti cooperatives and 1165 agricultural cooperatives till Chaitra 2062 B.S (March 2005).

1.2. Fundamental elements of cooperative:

Elements are important for building any matter or thing. For example, hydrogen and oxygen made water. Here, hydrogen and oxygen are the elements of water. Thus it is necessary to provide short details of the elements of cooperative. They are as follows:

1.2.1. Community: “The community is the smallest territorial group that can embrace all aspect of social life”[^]. To form a cooperative it is essential to have people of similar goals, economy, social status and cultural status. Community is the first important element of cooperative.

1.2.2. Working Area: Physical working area is another important element of the cooperative. A cooperative is established to provide services to people within certain location which is its working area.

1.2.3. Members: A cooperative is meaningless without its members as it could not be established and operate without certain members. It is the most important element of cooperative. Members of cooperative mean who support to develop; takes and provide services in cooperative.

1.2.4. Share: A cooperative is a profit making organization so it also need capital or in other words it needs investment from each members so that they could realizes their own cooperative.

Every cooperative has definite share price which is necessarily should be bought by every person who wanted to be member of the cooperative. It is cooperative’s permanent capital.

1.2.5. Saving: Saving is the base of development which is achieved by contribution. Generally, being member of cooperative members started do regular saving, fixed saving, daily saving at the cooperative. One of the important roles of cooperative is to develop the habit of saving to people.

[^]Surya Ratna Sakya, Sahakari Smarika, 2063, District Saving Union, Accham).

1.2.6. Credit: Credit is needed to establish and operate small business or entrepreneurship. People are attracted towards cooperative and take its share membership due to credit facilities. So it is also an important element of cooperative that also support its members and not go to landlords for credit.

1.2.7. Account: A cooperative operates on joint investment so it is essential to keep correct and transparent account. Cooperative is accounted by a specific accounting system. It is important to keep transparent account as cooperative is a financial institution that is established for profit making to its members.

1.2.8. Management: It is essential to manage resources to develop believes of members and accelerate their life status. Management includes good accounting, office management, resource collection and its correct mobilization.

1.3 About cooperatives under study in Makwanpur District.

Micro finance service in Nepal started with the establishment of 13 credit cooperatives in Rapti Valley of Chitwan District in 1956 (2013 BS). Cooperative law was enacted in 1959 (2016 B.S), however cooperative bank established only in 2020 B.S. Saving and credit cooperatives, a community based micro finance institution has proved as a powerful instrument for income employment generation and poverty reduction. Rural people especially women and depressed low income people are taking benefit from its financial services to improve household, enterprise management, smooth income flows, consumption costs, enlarge and diversify their micro business and increase their incomes. It not only impacts on poverty but also aggregate welfare at village and local level.

Makwanpur is a hilly district of Nepal which consists of 43 village development committees (VDCs) with majority of Mongolians people. There are altogether 24 women's saving and credit cooperatives in Makwanpur District. Both poor as well as well off women are the members in these cooperatives. Among them 15 cooperatives are promoted by an INGO, Plan Nepal Makwanpur whereas 9 cooperatives are promoted by Government's Mahila Vikas Shakha Makwanpur. Most of the cooperatives are group based cooperatives. Small-small women groups were formed and the activities of saving and credit were started along with agricultural activities in some groups. The living status of the women who were involved in the groups rises slowly and steadily. After the groups get maturation they are streamlined in

district level organization that is cooperative. Yet, the fifteen SACCOS that are promoted by Plan Nepal were initially registered as Multipurpose Cooperative some 5-8 years ago but by the time their learning lead them to transfer in single purpose saving and credit cooperative in fiscal year 2004/05 (2061/2062). The cooperatives that are formed in support of Mahila Vikas Shakha are established few years ago.

Shree Mahila Jagriti Saving and Credit Cooperative is one of the old cooperatives that registered at Chaitra 15, 2055 (1995 A.D) in Makwanpur District Cooperative Office. It is located at Bhimphedi VDC, ward-2 and was promoted by Plan Nepal. There are altogether 56 women groups and about 765 members at present in this cooperative. It has 5 different types & about 19 lakhs of saving. Similarly, about 31 lakhs is mobilizing as loan among the members of this cooperative. There are 739 shareholders having Rs. 241300 amounts as share amount in this cooperative. This cooperative has to cover 18.51 percentages of households the working wards of Bhimphedi VDC.

Shree Mahila Janachetana Saving and Credit Cooperative was established at Chaitra 23, 2057 B.S (1998 A.D) and registered at Makwanpur District Cooperative Office as “Shree Mahila Janachetana Multipurpose Cooperative, Ltd” at Churiyamai-2. Later on they realize some difficulties being multipurpose cooperatives so at Magh, 2061 B.S they transform as single purpose, saving and credit cooperative. Now there are 56 women groups in the cooperative and about 1083 women are its members. Similarly 876 women are its shareholders and had a share amount of Rs. 299600. At present it has more than 16 lakhs savings and providing loan/ credit of about 23 lakhs to its members.

Shree Mahila Nibuwatar Saving and Credit Cooperative was established at Shrawan 3, 2056 (1997 A.D) and located at Nibuwatar-9. Initially it was formed by few local women but now there is the unity of more then 500 women. There are 39 women groups which is increment condition as it aims to expand the coverage and outreach. Altogether 520 local women are its shareholders and it has about Rs. 185900 as its share amount. The cooperative has about 17 lakh saving in 6 different types and approximately 18 lakh is mobilizing as loan among the members. There are two staffs and an executive board of 7 members. All the members are work very actively for the cooperative success.

Shree Mahila Milan Saving and Credit Cooperative was established at Baishak 4, 2058 B.S (1999 A.D) that is located at Padampokhari-1, Makwanpur. Though this VDC is near the

main city, the socio-economic condition of people living here is not so good. They work very hard to sustain their life. Majority of tamang women are involved in this cooperative and they do micro finance saving/credit activities along with social awareness program for gender equity. At present there are altogether 842 women members and Rs. 223600 amount as share-amount with an amount of about Rs. 25 lakh saving. There are more than 60 women groups along with 1040 group members. This cooperative has to cover more 45.36 percent of household in its working wards of Padampokhari VDC.

Shree Mahila Kalyan Saving and Credit Cooperative was established at Jestha 6, 2056 B.S (1997 A.D) and located at Ambhangyanj; ward no 3 of Makwanpur District. Both poor and well-off people are members of this cooperative. Altogether 843 women are united in 61 groups and have Rs.155200 as share-amount with 779 local women as its shareholders. It is mobilizing about 15 lakhs as loan to its members and has Rs.12 lakh approximately as it's saving. This cooperative has 59.07 percent household coverage in Ambhangyanj VDC.

1.4 Focus of the study.

The development of the country is mere a dream without Micro-financial Institutional. Micro finance and other services provided by the WSACCOS have not only had an impact on the livelihood of members at individual and household levels, but have also had a wider impact in the community in particular and all over the country in general. Involvement of women members in decision making regarding various issues like family planning, buying/selling assets, community development, community meetings voting taking loans and loan profits is higher than that of women non-members.

The study mainly aims to access the prevailing practices and evaluate the financial performance by the five SACCOS run by women regarding saving and credit activities within the VDCs of Makwanpur District. Higher financial transactions SACCOSs have been selected for the study, so the reference can be analysis and evaluate about the implication of saving and credit activities along with other financial performance. Analysis serves as simple, comprehensive signal of management's recent performance and its future prospects. It will make by using different financial performance measurement tools like activity ratio, profitability ratio, capital structure ratio invisibility ratio etc.

1.5. Statement of the problem

There are more than fifteen cooperatives in Makwanpur District that have their financial transaction above 15 lakh. But, however not a single SACCOS have self-evaluating system and analyzing process to its financial performance. There is no limit to the identification of the problem about the financial practice that is visible in Nepalese WSACCOS and other micro financial institutions. The following are the major problems that have been identified for the purpose of this study.

-) Identifying the liquidity, profitability, capital structure ratio and other ratio of these sampled cooperatives.
-) Identifying the loan delinquencies.
-) Identifying the operating efficiency measurement and policy measurement of these sampled cooperatives.
-) Identifying the relationship between organization and its stakeholders

Fact efficient financial performance is helped to measure the weakness and strength of the cooperatives. A strong financial performance of such women community based cooperatives can contribute to national economy and also attract foreign investor to invest his or her invest able fund in the financial sectors. This may be exemplary lesson to the newcomer cooperatives. Therefore statement of the cooperatives should be fully examined to find out whether the cooperatives are economically and financial strong or weakness.

1.6. Objectives of the study

Community based Women Saving and credit cooperatives are playing vital role towards socio-economic development of women as well as the development of the community. Thus financial performance of cooperative must be evaluated occasionally at regular intervals. The main objective of the study is to comparative analysis of the financial performance of these five community based women cooperatives.

The specific objectives are as follows:

-) To analyze the financial performance.
-) To find out the trend of shareholder number, share amount and deposit amount.

-) To compare the actual result with standard of 'A' PEARLS.
-) To suggest and recommend some measures on the basis of the study.

1.7. Significance of the study

The research is a conclusion oriented research. This study will be beneficial to different parties/ stakeholders concerned with these cooperatives as well as other interested parties.

Especially it will be beneficial to:

-) Management of the sampled cooperatives.
-) Lenders and borrowers of these cooperatives.
-) Policy maker of these cooperatives.
-) Concerned parties and general interested parties of the cooperatives.
-) Members/ shareholders of these cooperatives.

1.8. Limitation of the study

The study will have some limitation. Basically the study is done for the partial fulfillment of master's of business studies. This research explains and analysis the subject matter with the help of well-known or already established analytical method and techniques, there as a conclusion oriented research. It doesn't much concern with fundamental and decision research. Time constraints, financial problem and lack of research experience will be the primary limitation and other limitations are as follows:-

- 1 The study confines only to five community based women saving and credit cooperatives limited covering the period of last five fiscal years (i.e. 2002/03 to 2006/07) in Makwanpur District.
- 2 The study has to be done on the secondary data of selected five cooperatives of financial indicators, higher financial transactions.
- 3 This research study is mainly based on secondary data which has been collected from records, reports, financial statements obtained from Makwanpur District Saving and Credit Union, Hetauda.
- 4 Foreign information and rules affecting the financial performance of these cooperatives is ignored.

5 Studies and reference were also extremely limited in the prospective of women saving and credit cooperative in Makwanpur District.

6 The conclusion of this research study is basically depending upon these cooperatives.

1.9. Research Methodology

Research is a systematic and organized effort to investigate a specific problem that needs solution. And methodology refers the various steps that are generally adopted by a researcher in studying his research problem along with the logic behind it. Thus research methodology is a way to systematically solve the research problem. We can also define; research methodology is a process of arriving to the solution of the problem through planned and systematic dealing with collection analysis and interpretation of the facts. It refers to the various sequential step (along with a rationale of each step) to be adopted by a researcher in studying a problem with certain objects in view*. This chapter highlights the research methodology used for the study of financial performance evaluation of five of each WSACCOS's in Makwanpur District of Nepal.

1.9.1. Research Design

Research design is the organized way of research methods or techniques used through the entire study. It is an integrated system that guides the researcher in formulating, implementing and controlling the study. "Research design is the plan structure and strategy of investigation conceived so as to obtain answer to research questions and to control variance" according to Fred^.

It helps in the analysis of data related to study topic. It is a controlling media for the collection of data and it helps to collect the accurate information which is related to financial practices of related to financial practices of WSACCOS in Makwanpur district. The analytical as well as descriptive research design has therefore been included in the present study. For analytical purpose the annual reports and financial statements of five years period of these sampled community based women single purpose cooperatives are collected.

*C.R. Kothari (1994), Research Methodology, Method and Techniques(New Delhi, Vikas Publishing house ,Pvt ltd, p.19.

^Fred N. Kerlinger (1978), Foundation of Behavioral Research (New Delhi) Surjeet Publication, P.300.

1.9.2. Sample Selection

In Makwanpur District, currently there are 24 women single purpose i.e. saving and credit cooperatives which are all located at VDCs. Among them fifteen WSACCOS are promoted by an INGO, Plan Nepal Makwanpur and rest others by government's Mahila Vikas Shakha, Makwanpur. For this study five WSACCOS have been taken as sample. Financial statements of last five years from 2002/03 to 2006/07 A.D have been taken as sample data for analyzing and evaluating the financial performance of five community based WSACCOS namely;

-) Shree Mahila Jagriti Saving and Credit Cooperative, Bhimphedi-2.
-) Shree Mahila Milan Saving and Credit Cooperative, Padampokhari-1.
-) Shree Mahila Abhiyan Saving and Credit Cooperative, Nibuwatar-9.
-) Shree Mahila Janachetana Saving and Credit Cooperative, Churiyamai-2.
-) Shree Mahila Kalyan Saving and Credit Cooperative, Ambhanjyang-3.

These five communities based WSACCOS are chosen as they account for higher financial transactions and also had been established since 5-8 years ago.

1.9.3. Nature and Sources of Data

This study is mainly based on secondary data. Secondary data are used to analyze the financial performance of five WSACCOS and this analysis also examines the trend of financial transactions which help these community based WSACCOS to evaluate and compare themselves from beginning to the present status. The supplementary data and information are obtained from the annual audit reports of these WSACCOS that are recorded at Makwanpur District Saving and Credit Cooperative Union. Besides, the secondary data have been acquired from various sources like newspaper and magazines, reports of District Divisional Office Makwanpur, publication/document of concerned WSACCOS, Central Bureau of Statistic. Similarly, questioner is prepared and used to different stakeholders for the collections of primary data for effective research study.

1.9.4. Data Collection Procedure

The relevant data have been collected from Makwanpur District Saving and Credit Cooperative Union which is located at Hetauda, of concerned Women SACCOSs chosen as sample for this study. Similarly, the required data have also been acquired from District

Divisional Office Makwanpur and Mahila Vikas Shakha Makwanpur. Various articles, journals, documents of NEFSCUN, campus library, internet search are also been supported to achieve the information about Women SACCOSs. Apart from it formal and informal interviews, questioners are conducted to generate primary data required for this study. To achieve the predetermined objective of the research, certain tools are used. The tools are categorized as;

1. Financial Tools
2. 'A' of PEARLS analysis tools

1.9.5. Data Processing Technique

Collected data relevant facts and systematically figures tabulated under the different head for the purpose of analysis. So far as computation is concerns, it has been done with the help of scientific calculator and computer.

1.9.6. Data Analysis tools

Brief explanations of the statistical tools used in the study are as follows:

Performance measure

Performance measures reflect strategic, operating and financing decisions. A cooperative is evaluated mainly on the basis of this ratio in the market. The share holders and prospective committee of the cooperative look this ratio first. Profit is the difference between revenue and expenses. Profit is necessary for the survival of the cooperative and also to meet the expectation of stakeholders. Besides lending loans, cooperatives make interest providing advances, over drafts and even invest in securities.

The interest earned on total assets simply reflects how much interest has been generated by mobilizing the assets in the cooperatives. Interest occupies significant place of income for the SACCOS. Generally cooperatives earn interest through lending the collected fund to the needy persons through different scheme and charged a certain percent of interest on the loan amount. It can be calculated by this formula,

$$\text{Interest earned to total assets} = \frac{\text{Interest Earned}}{\text{Total Assets}} \times 100\%$$

Operating efficiency measures

The key for the success of cooperatives is their operating efficiency. Having sound management, reliable suppliers, attractive policy and customers/members becomes worthless if the cooperative could not operate its function perfectly. So it is stimulated to check the operating efficiency of the cooperatives.

Loan/advances to total deposit ratio shows the relationship of loan and advances to total deposit. It measures the extent to which the cooperative is successful to utilize the collected deposit from the depositors on loan and advances for making interest or, to make profit. High ratio of this kind reflects higher efficiency to utilizing the fund for profit making purpose and lower the ratio is the indication of inefficiency to use it properly or, the lack of attractive investment opportunities.

$$\text{Loan and Advances to Total Deposit Ratio} = \frac{\text{Loan and Advances}}{\text{Total Deposit}} \times 100\%$$

Fixed deposit is regarded as the main source and permanent capital for the cooperative which the cooperative can use for long run because such deposit is not to be paid on prompt demand. Fixed deposit is high interest bearing obligation and loan and advances is the major source to generate income for the cooperative. Loan/advances to saving deposit ratio shows the relationship between loan and advances to saving deposit. Deposit is the most use type of deposit and second highest interest bearing deposit type.

$$\text{Loan and Advances to Fixed Deposit Ratio} = \frac{\text{Loan and Advances}}{\text{Fixed Deposit}} \times 100\%$$

Loan and Advances to Saving Deposit Ratio shows the relationship between loan and advances to saving deposit. Saving deposit is the most use type of deposit and second highest interest bearing deposit type. It shows the times of loan and advances lend to the lenders with respect to the deposit amount. It is calculated by using the following formula,

$$\text{Loan and Advances to Saving Deposit Ratio} = \frac{\text{Loan and Advances}}{\text{Saving Deposit}} \times 100\%$$

Liquidity Ratio

Liquidity of a cooperative refers to the sound solvency position of a cooperative to meet its obligations. Liquidity ratio measures the ability of a cooperative to meet its short-term obligations. Liquidity of a cooperative should be considered as the most important factor for its existence. Any cooperative perceived as illiquid cannot attract deposit firm public. Moreover, inadequate liquidity leads to runs in the cooperatives and probably bankruptcy thereof.

Cash and Bank Balance to Total Deposit (Cash Reserve Ratio) shows the comparative cash and bank balance to deposit ratio (Excluding Fixed deposit). Cash and Bank balance to total deposit measures the percentage of Cash and Bank balance maintained by the cooperatives' in order to honor the cheque presented by its depositors excluding fixed deposit. A high ratio represents the greater ability to meet their all type of prompt demand of cash payment. But too high ratio of cash and bank balance to total deposits may be unsuitable and harmful because it affects their profitability position and also too low ratio is unfavorable as capital will be tied up and opportunity cost will be higher. Cooperatives will have to maintain enough cash and bank balance to gain and retain confidence of their customers/members. This is computed by using the following formula.

$$\text{Cash and Bank Balance to Total Deposit} = \frac{\text{Cash \& Bank Banance}}{\text{Total Deposit}} \times 100\%$$

Income and Expenditure Analysis

This sort of ratio analyzes the income and expenditure pattern of the cooperatives. This ratio basically highlights the dominant sources of income and expenditure of the firm. Under this title mainly two types of analysis are carried out. They are as follows, Income Analysis & Expenses Analysis. Income analysis consists of ratio which measures the income pattern of the cooperative. A cooperative earns the incomes form different functions. This ratio shows the proportion of the income under different headings in respect to total earnings.

Interest is the main and major source of income for the cooperative. Cooperatives generate income by lending the collected deposits from different account to the needy person, business enterprises and other sectors through different schemes. Cooperatives lend the fund as loans and advances, overdrafts, investment on government securities and inter cooperatives loans. This ratio of cooperatives reflects the operational efficiency. So, higher the ratio indicates higher efficiency and vice-versa.

$$\text{Interest Income to Total Income Ratio} = \frac{\text{Interest Income}}{\text{Total Income}} \times 100\%$$

Similarly expenses analysis of course in the process of operation, a cooperative has to insure several kind of cost termed as expenses. In this context, a cooperative has different types of expenses for the smooth run of operation. The types of expenses vary as per nature and types of business of the firm. As per the types of expenses the total expenses are classified into the major four different groups which are as follows and the ratios of these title expenses are calculated thoroughly. Interest expenses are the major expenses of the cooperative institutions. These expenses generally occupy the highest proportion in the total expenses.

$$\text{Interest Expenses to Total Expenses Ratio} = \frac{\text{Interest Expenses}}{\text{Total Expenses}} \times 100\%$$

Staff expenses are also the major source of expenses for the cooperative. Staff expenses occupy the third highest proportion in the expenses pattern. Human resources of any firm are the key factor for the success of the firm and satisfied and self-motivated employee are the ornaments for the firm. Therefore, to retain satisfied employee in the cooperative, the cooperative has to pay reasonable remunerations and other facilities to the employee of the cooperative.

$$\text{Staff Expense to Total Expenses Ratio} = \frac{\text{Staff Expenses}}{\text{Total Expenses}} \times 100\%$$

Trend/Growth Analysis

A line fit to set a set of data points to estimate the change between two similar indicators of different time duration is called trend line. Generally this analysis compares the change that comes this year in comparison of last year in percentage. The two formulas given below are used to calculate the trend.

$$1. T = \frac{\text{This year amount} - \text{Last year amount}}{\text{Last year amount}} \times 100 \%$$

OR,

$$2. T = \frac{\text{This year amount}}{\text{Last year amount}} - 1 \times 100 \%$$

PEARLS Analysis:

PEARLS analyze income statement and balance sheet. The P, E, A, L and S of PEARLS measure balance sheet and off balance sheet accounts. The 'R' of PEARLS measures income statement. Each letter of PEARLS has certain meaning shown as follows:

P = Protection

E = Effective Financial Structure

A = Asset Quality

R = Rate of Return and Cost

L = Liquidity

S = Signs of Growth

Each word of PEARLS consists of ratios such as protection consists of 7 different ratios, effective financial structure consists of 8 different ratios, asset quality have 3 different ratios, rate of return and cost have 12 different ratios, liquidity has 4 different ratios and signs of growth have 7 different ratios. Among these all ratios 'Asset Quality' is only briefly analyzed here due to time constraint.

Protection gives importance to assets security. Saving and Credit Cooperatives as a micro finance institution consider its credit/loan as its main asset. The cooperative would only be

secure if the credit/loan would be secure. A cooperative should be careful from its loan delinquency amount more than 12 months.

$$P1 = \frac{\text{Allowance for Loan Loss}}{\text{Delinquency } \Psi 12 \text{ month}} \times 100 \% \text{ (Goal: 100\%)}$$

$$P2 = \frac{\text{Net Allowance for Loan Loss}}{\text{Delinquency } 1 Z 12 \text{ month}} \times 100 \% \text{ (Goal: 35\%)}$$

$$P3 = \frac{\text{Write off of delinquent loans}}{\text{Delinquency } \Psi 12 \text{ month}} \times 100 \% \text{ (Goal: 100\%)}$$

$$P4 = \frac{\text{Annual bad debt write offs}}{\text{Average loan portfolio}} \times 100 \% \text{ (Goal: Minimum)}$$

$$P5 = \frac{\text{Accumulated loan recovered write offs}}{\text{Accumulated loan write offs}} \times 100 \% \text{ (Goal: Minimum 100\%)}$$

$$P6 = \frac{\text{Solvency (Net value of assets)}}{\text{Total shares and deposits}} \times 100 \% \text{ (Goal: > 100\%)}$$

$$P7 = \frac{\text{Net Capital}}{\text{Total Assets}} \times 100 \% \text{ (Goal: Minimum 10\%)}$$

Effective Financial Structure

Each saving and credit cooperative should have good financial structure and for that it is necessary to find out the ratios of effective financial structure of PEARLS analysis. Assets and capital of cooperative is needed to find out the ratios for effective financial structure that could be obtained from the balance sheet of cooperative. As mentioned above 'E' has nine different numbers of ratios. They are as follows:

1. $E = \frac{\text{Net Loans}}{\text{Total Assets}} \times 100 \% \text{ (Goal: 70 - 80\%)}$

2. $E = \frac{\text{Liquid Assets}}{\text{Total Assets}} \times 100 \% \text{ (Goal: max 20\%)}$

3. $E = \frac{\text{Financial Investment}}{\text{Total Assets}} \times 100 \% \text{ (Goal: max 10\%)}$
4. $E = \frac{\text{Non Financial Investment}}{\text{Total Assets}} \times 100 \% \text{ (Goal: 0\%)}$
5. $E = \frac{\text{Member savings deposits}}{\text{Total Assets}} \times 100 \% \text{ (Goal: 70 - 80\%)}$
6. $E = \frac{\text{External Credit}}{\text{Total Assets}} \times 100 \% \text{ (Goal: 0 or max 5\%)}$
7. $E = \frac{\text{Member shares capital}}{\text{Total Assets}} \times 100 \% \text{ (Goal: 10 - 20\%)}$
8. $E = \frac{\text{Total institutional capital}}{\text{Total Assets}} \times 100 \% \text{ (Goal: min 10\%)}$
9. $E = \frac{\text{Net institutional capital}}{\text{Total Assets}} \times 100 \% \text{ (Goal: E5 = E9)}$

Assets quality:

Each saving and credit cooperative has two different types of assets i.e. Earning Assets and Non Earning Assets. Earning assets includes loan portfolio, liquid investments, financial investments and non financial investment. Similarly, non-earning assets includes cash in hand, account receivable and fixed assets. We could calculate assets quality by following three formulas:

$$A1 = \frac{\text{Total loan delinquency}}{\text{Gross loan portfolio}} \times 100 \% \text{ (Goal: < or equal to 5\%)}$$

$$A2 = \frac{\text{Total non earning assets}}{\text{Total Assets}} \times 100 \% \text{ (Goal: < 5\% of total assets)}$$

$$A3 = \frac{\text{Net zero cost capital}}{\text{Non earning assets}} \times 100 \% \text{ (Goal: > or equal to 100\%)}$$

Rate of return and cost:

SACCOS usually do two businesses i.e. expenses for managing capital and another income from investment. 'R' of PEARLS calculates the good appropriate rate loan rate comparing the income and expenses rate. This includes 12 ratios as follows:

$$R1 = \frac{\text{Net Loan Income}}{\text{Average net loan portfolio}} \times 100 \% \text{ (Goal: } > \text{ operating loan)}$$

$$R2 = \frac{\text{Liquid investment income}}{\text{Average liquid}} \times 100 \% \text{ (Goal: } > \text{ R1)}$$

$$R3 = \frac{\text{Total financial investment income}}{\text{Average financial investments}} \times 100 \% \text{ (Goal: market rate)}$$

$$R4 = \frac{\text{Non financial investment income}}{\text{Average financial investments}} \times 100 \% \text{ (Goal: } > \text{ R1)}$$

$$R5 = \frac{\text{Interest cost on saving deposits}}{\text{Average saving deposits}} \times 100 \% \text{ (Goal: } > \text{ rate inflation)}$$

$$R6 = \frac{\text{Interest cost on external credits}}{\text{Average external credits}} \times 100 \% \text{ (Goal: = market rate)}$$

$$R7 = \frac{\text{Dividend on shares}}{\text{Average member shares}} \times 100 \% \text{ (Goal: } > \text{ R5)}$$

$$R8 = \frac{\text{Gross income margin}}{\text{Average total assets}} \times 100 \% \text{ (Goal: depend on R9, R11 \& R12)}$$

$$R9 = \frac{\text{Operating costs}}{\text{Average total assets}} \times 100 \% \text{ (Goal: 3 – 10 \%)}$$

$$R10 = \frac{\text{Non recurring income or expenses}}{\text{Average total assets}} \times 100 \% \text{ (Goal: minimal)}$$

$$R11 = \frac{\text{Loan loss provision expenses}}{\text{Average total assets}} \times 100 \% \text{ (Goal: = to delinquency)}$$

$$R12 = \frac{\text{Net income}}{\text{Average total assets}} \times 100 \% \text{ (Goal: depend on E8)}$$

Liquidity

It refers to the sound solvency position of a cooperative to meet its obligations of a cooperative. Liquidity ratio measures the ability of a cooperative to meet its short-term obligations. Liquidity of a cooperative should be considered as the most important factor for its existence. Any cooperative perceived as illiquid cannot attract deposit firm public. Moreover, inadequate liquidity leads to runs in the cooperatives and probably bankruptcy thereof. PEARLS explain liquidity as necessary for the cooperative growth and smooth operation. It could be measure by four different ratios that are follows:

$$1. L = \frac{\text{Total liquid assets - short term payables}}{\text{Total saving deposits}} \times 100 \% \text{ (Goal: min 15 \%)}$$

$$2. L = \frac{\text{Liquidity fund(reserve)}}{\text{Total savings}} \times 100 \% \text{ (Goal: 10 \%)}$$

$$3. L = \frac{\text{Non earning liquid assets}}{\text{Total assets}} \times 100 \% \text{ (Goal: < 1 \%)}$$

$$4. L = \frac{\text{Total cash account}}{\text{Total assets}} \times 100 \% \text{ (Goal: <3 \%)}$$

Sign of Growth:

Cooperative should have increment in its financial transaction. Sign of growth is also known as trend analysis and can calculate by the two different ratios as mentioned above in Growth/Trend analysis. We could use the ratios for total assets, loan, members deposit, liquid investment, financial investment, non financial investment, net institutional capital and institutional capital etc.

1.10. Organization of the study

The whole study will be divided into following five chapters:

Chapter 1: Introduction

Chapter 2: Review of Literature

Chapter 3: Research Methodology.

Chapter 4: Presentation and Analysis of Data.

Chapter 5: Summary, Conclusion & Recommendation.

The rationale behind this kind of cooperative is to follow a simple research methodology approach. The contents of each of the chapters of this study are briefly mentioned below.

Chapter-1 Contains the introductory part of the study. As already mentioned, this chapter describes the major issues to be investigated along with the general background and objective of the study.

Chapter-2 Confines the review of literature of related studies in journals (literature) and review of related studies in Nepal with reference to previous thesis and policies of the government.

Chapter-3 Describes the research methodology employed in the study. It includes research design, nature and sources of data, selection of enterprises, method of analysis, statistical and financial tools used.

Chapter-4 Deals with the presentation and analysis of the data. It consists of analysis of relevant ratios to evaluate the financial position of sampled cooperatives followed by their interpretation. The cash flow analysis, hypothesis testing of different ratios used in the study and trend analysis of different measures are calculated and interpreted. This chapter also presents the major findings of the research.

Chapter-5 Contains summary and conclusions of the study. It also offers recommendations on the basis of findings.

CHAPTER 2

REVIEW OF LITERATURE

The preceding chapter presented the background with growth of SAVING AND CREDIT COOPERATIVES handled by women with specific reference of 5 Women SACCOS of Makwanpur District as the financial intermediates in rural areas of Nepal. It also introduces about the statement of problem, objective of study, importance of study, limitation of study etc.

Review of literature means reviewing research studies or other relevant proposition in related area of the study so that all past studies, their conclusions and deficiencies may be known and further research can be conducted.

This chapter basically is dividend into two sections. The first section is conceptual review which covers the topics such as concept of financial performances, meaning, objectives, and limitations of financial analysis. Along with this meaning, history, and functions of saving and credit cooperatives in Nepal, in Makwanpur District, evolutions of these women cooperatives and their functions are also presented. The second section is related about the books articles and the pre done thesis related to the subject matter. This chapter highlights upon the literature that have been already conducted by some thesis researchers in this particular topic of saving and credit cooperatives. Some of them, as are supposed to be relevant for this research purpose. The review of literature is arranged in the following order.

2.1 Conceptual Review

A financial analysis is identifying the major strength and weakness of cooperatives run by women especially rural women, it indicates whether the cooperative has enough cash to meet its obligations utilizing of resources, investing opportunity, profitability, and capital structure etc. Financial analysis can also be used to assets a cooperative's viability as an ongoing enterprise and determine whether a satisfactory return is being earned for the risks taken.

“The single ratio like absolute figures fails to reveal the financial position of an organization. Therefore, they should be compared with some standard to know the favorable and unfavorable condition. Certain ratios have been developed as rules of thump by which we can judge the cooperative's financial condition.

PEARLS analyze income statement and balance sheet. The P, E, A, L and S of PEARLS measure balance sheet and off balance sheet accounts. The 'R' of PEARLS measures income statement.

2.1.1. Saving and Credit Co-operatives

The word Co-operative is formed from Co + Operative. Here, 'co' means support and 'operative' means work i.e. work supporting each other. SACCOS are member owned, controlled and capitalized organizations, which provide financial services to members. SACCOS are member owned, controlled and capitalized organizations, which provide financial services to members. Among 8156 different cooperatives affiliated with the Department of Cooperative 2,775 SACCOS are registered with the Co-operative Department in Nepal till Chaitra 2062 (2005 A.D).

2.1.2. Savings and Credit Groups

There are tens of thousands of unregistered SCGs in Nepal's, some of which are quite large even though they are not registered either as NGOs or co-operatives. The vast majority of these SCGS grew out of assorted development initiatives (literacy programs, water and forestry user groups, mother and child programs, etc.) into which a savings component had been introduced, if only to strengthen the likelihood that the group would continue to meet and be active, after the specific program intervention had been completed. There are given the limited prospects of such smaller groups, and the problems that promoting agencies face in maintaining outreach to large numbers of scattered, small groups, considerable attention is being paid nowadays to mechanisms for federating and institutionalizing these groups.

2.1.3. Traditional Savings and Credit Groups

Nepal has a long history in the operation of traditional savings and credit associations, often referred to in the literature as a rotating savings and credit associations (ROSCAs), but known locally as Dhukuti or similar terms. These tend to be non-registered, but quite formally structured in terms of membership rights and obligations, etc.

2.2. Saving and Credit Cooperatives (SACCOS) in Nepal

Nepal has a long-standing history of informal community based cooperatives. Traditionally, these groups were based on kinship ethnic and religious bonds. Parma related to wage savings and exchange. Gumba related to cultural protection in Buddhism. Dharmabhakari related to protect social welfare activities and natural calamities. Guthi is related to savings and making rotating credit available to businesses especially in Thakali Community. Although there is limited documented history of these informal savings and credit they have been running for generations. The first formal credit cooperative in Nepal was started in 1954 by HMGN as a pilot project in Chitwan district. The Government then formed separate department to promote cooperative philosophy in the nation. The first Cooperative Act was promulgated by HMGN in 1960 A.D followed by the Agricultural Cooperative Act (Sajha Sahakari). In 1962 amendments were made to Cooperative Act to improve the cooperatives operations. The capital of savings and credit cooperative societies were converted into a Cooperative Bank in 1963, and in 1968 it was converted into ADBN. After 5 years ADBN returned management back to HMGN and in 1975 the Cooperative Act was amended again. Beginning in the 1980's a new generation of community based savings and credit groups began to emerge in Nepal. Most of these groups were promoted by local and INGOs & NGOs as part of their community development activities.

Numerous models were introduced, but most adopted the credit union model in which local savings and credit groups grew into viable single purpose financial cooperatives. These efforts were continuously supported by the ACCU as well as HMGN and many NGOs / INGOs. In 1985 A.D, Cooperative Act was amended the third time to give HMGN more control instead of a facilitating role. By this time the Savings and Credit movement spread throughout the country and the need for an apex coordinating body was evident. In 1988 August 16, the NAFSCUN was formed. This name was subsequently changed to the NEFSCUN. In 1990, a new Cooperative Act was promulgated in the spirit of cooperative norms and values. As provision under the act for SACCOS, it became necessary for NAFSCUN to register under Cooperative Act. On September 4, 1993 at a membership meeting in Kathmandu representatives of forty-nine primary SACCOS decided to proceed with the registration. The Department of Cooperatives granted registration under the present name of the Nepal Federation of Savings and Credit Cooperative Unions Ltd. (NEFSCUN) on September 14, 1993. There are more than 2300 savings and credit co-operatives are

registered under co-operative act of Nepal. Out of which, 439 credit unions are affiliated with NEFSCUN.

The Cooperative Act 1991 has permitted to establish three-tier system as follows:

- The primary society/level cooperative organization shall be formed by minimum twenty-five like minded community people with the approval of Department of Cooperatives.
- District union is the second tier federation of primary cooperatives. According to Cooperative Act, five or more single purpose primary cooperatives of the same district shall form one district union with the approval of District Cooperative Office/ Department of Cooperatives.
- Central federation is the national organization for single purpose cooperatives. The 25 registered primary societies or 5 district unions shall form central federation.

2.3. Role of SACCOS in Nepal

Community development provides community members with opportunities to bring about changes in their social, economic and cultural environment. Communities join hands to form cooperatives with a view to fulfill their need. Currently, cooperatives which are commonly defined as "an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations" play key role in the poverty reduction of a nation.

Saving and credit cooperatives are, therefore, the shortest possible means of accumulating saving and extending loan to the low income groups where established commercial banks are limited in number and far behind the reach of the society.

a) Develop saving habit

People develop the habit of saving with the existence of women groups and cooperatives by different GOs, NGOs and INGOs especially in the rural areas of Nepal. Usually rural people depend on daily wage doing labour and agricultural works. They spent their income for daily food and rest money in unnecessary things such as alcohol, cigarette, tobacco etc. But with the establishment of women's saving groups and cooperatives, they have realised the importance of saving money and started developing saving habit cutting to buy unnecessary items that also helped them to increase their social status.

b) Creation of competitive environment

Members are beneficial either by higher rate of interest in their deposition or by lower rate of interest on credit. It is possible only under competitive environment. After the arrival of different international non-government organizations investing and contributing to develop micro-credit in rural areas of Nepal for poverty reduction, cooperatives in rural areas involving women in great numbers have also been competitive. Fair competition among cooperatives not only beneficial for women themselves to become self relevant in their economic status but also develop the community's social environment. Fair personnel management efficient financial performance, quality services and research oriented development is possible only in the competitive environment.

c) Introducing practical method and new technology in services

Modern managerial principles and practices in cooperative sector have been introducing by different development donor organizations in Nepal. Women were involved actively providing opportunities to learn new techniques for effective management of these cooperatives such as group management trainings, cooperative management trainings, and book and account keepings trainings with refresher workshop in regular intervals. Various techniques follow by international cooperatives in deposition, lending, exchange and they have been introducing by NEFSCUN and international donor organization in Nepal. Being practical some of these cooperatives began to computerize the cooperative financial system.

d) Providing resource for investment

The women cooperatives have played a significant in canalizing the additional resources for investment for the development of the rural areas in our country. It is argued by many that resources raised to locally in the prevailing market those resources would have been mobilized by other domestic institution, local people are benefited the local market. It provides opportunities to women in starting small domestic business.

e) Information to international cooperatives.

The role of cooperative is significant in collecting fund and mobilizing rural community. Different international donor organization support the cooperatives in smooth running and effective management providing them regular feedbacks, backstopping support, trainings and

exposures that enhance their knowledge and made ideas wide. The various type of publications to be acquainting with Nepalese rules, regulations and practices of concerned sector.

f) Contribution to National Economy:-

Now days the cooperatives play a significant role in micro finance sector and support especially rural areas of Nepal in economic development. More people are engaged in small domestic works and increased their income and social status. Women are directly benefited in achieving opportunities and develop their skills along with socio economic status. Thus there is no doubt that these cooperatives are contributing to rural village areas, the region and National Economy as well.

2.4. Problems, Challenges and Opportunities of SACCOS:

2.4.1. Problems:

-) Lack of long term cooperative planning with a clear vision and inadequate legal provision, rules, regulations and standards to regulate and monitor co-operatives.
-) Inadequate and ineffective structural and institutional arrangements for the co-operatives sector.
-) Lack of formal cooperative education, trainings and systematic cooperative information system and dissemination of information.
-) Lack of business leadership development, business competence and capital and inadequate co-operation among co-operatives and their associations.
-) Lack of provision of appropriate institutional arrangements to regulate and supervise savings and credit co-operatives.

2.4.2. Challenges:

-) To strengthen the structure, human resources, economic and physical condition of public and the co-operative sector this manages the activities of co-operatives sector.
-) To orient the leadership of the co-operative sector towards business entrepreneurship for balancing self discipline, regulation and self governance by developing the system of institutional good governance in the co-operatives.

-) To develop capable human resources with practical knowledge in the co-operative sector.
-) To manage and operate co-operatives production marketing system in the economic and social sector of the country.
-) To make co-operative member centered and to increase their participation in the activities of the co-operatives.

2.4.3. Opportunities:

-) Importance accorded by the Interim Constitution towards the role of the co-operative sector in adopting the policy of public welfare oriented economic development.
-) Existence of institutional networking of the Ministry of Agriculture and the Department of Co-operatives.
-) Development of networking of the co-operative federations from district to national levels.
-) Establishment of the National Co-operative Development Board and the National Co-operative Bank.
-) Existence of the possibility of mobilizing small savings in rural and urban areas and adequate demand for micro credit and micro enterprises credit.

2.5. Financial Statements

Financial statements are annual report prepared by the organization. They are prepared for period review on the progress made and results achieved during the period under review. They generally refer the income statements, Profit and Loss Account and Statements of Affairs I.E. Balance Sheet, drawn at the end of each financial year. Financial Statements provides the information pertaining,

- The adequacy of earning to be able to attract potential members/investors,
- The profitability of the cooperative, firm, company or institution,
- Liquidity position of the cooperative, firm, company or institution.

Financial statements are prepared from the accounting records maintained by the firm. The generally accepted accounting principles and procedures are followed to prepare these

statements. The basic objectives of financial statements are to assist in decision making process.

The definition of financial statements by American Institute of Public Accounts will be worthwhile to quote here: “Financial statements are prepared for the purpose presenting a periodical review or report on the progress by the management. They deal with the status of investment in the business as also with the results achieved during the period. They reflect a combination of recorded facts, accounting conventions and personal judgments. And the judgments and conventions applied affect them materially. The soundness of the judgment necessarily depends upon their competence and integrity of those makes them and on their adherence to generally accepted accounting principle and conventions”.

The definition presented above briefly explains the key contain and important feathers of the financial statements.

2.5.1. Financial Statements Analysis

Financial statements analysis involves a comparison of a firm’s performance with that of other firms in the same line or business which often is identified by the firm’s industry classification. Generally speaking, the analysis is used to determine the firm’s financial position in order to identify its current strength and weakness and to suggest actions that might enable the firm to take advantages of its strengths and correct its weaknesses. Business enterprises communicate financial information to the users through financial statements and reports. The financial statements contain systematically organized summarized information of the enterprise’s financial affairs. They reflect the firm’s financial situation. Financial statements are prepared with the help of financial transaction undergone during the financial year to provide the financial information. However, the information provided in financial statements doesn’t say anything itself. It needs to be analyzed thoroughly and interpreted carefully to get any meaning. Thus, financial analysis is the process of identifying the financial strength and weaknesses of the firm by properly establishing relationship between the items of financial statements. Financial Statements analysis is important not only for the cooperative’s managers but also for the cooperative’s members/investors and creditors. Internally, financial managers use the information provided by financial analysis to help make financing and investment decisions to maximize the cooperative’s value. Externally, stockholders and creditors use financial statements analysis to evaluate the attractiveness of the cooperative as an investment by examining its ability to meet its current and expected

financial obligations. As investors and financial analysts examine the cooperative's performance in order to make investment decisions based on these statements, they should be carefully prepared and should be as much informative as possible.

Surendra pradhan urged "Financial analysis is to analyze the achieved statements to see if the results meet the objectives of the firm, to identify problems if any, in the past or presents and/ of likely to be in the future, and to provide recommendations to solve the problems." (Pradhan, S. *Basics of Financial Management Educational Enterprises (P) Ltd. Ktm. 2nd edition. 2000, p.120*). According to Hampton "Financial analysis is used primarily to gain insight in to operating and financial problems confirm the firms, with respect to theses problems, we must be careful to distinguish between the cause of problems and symptom of it." It is thus an attempt to direct the financial statements in to their components on the basis of purpose in hand and establish relationship as between these components on the one hand as between individual components and total of these items on the other. Along with this, a study of various important factors over the past several years is also undertaken to have clear understanding of changing profitability and financial condition of the business organization. (Hamptomn, J.J, *Op. Cit, p.99*)

2.5.2. Importance of Financial Analysis

The importance of analysis of financial statement can be generally outlined as below;

-) Financial statement analysis measures the cooperative's liquidity and solvency position.
-) Financial statement analysis illustrates the profitability position of the firm/cooperative.
-) Financial analysis provides sufficient information to the management in order to organize objectives, device plans, formulate policies and implement them effectively.
-) Financial statement analysis furnishes necessary information to fulfil the needs of current as well as potential investors and regulatory authorities.
-) Financial statement analysis shows the true and fair picture of the cooperative/firm.

2.5.3. Process of Financial Analysis

Financial analysis is the technique to answering the question about the performance of financial institutions. It answers the questions on the basis of the analysis carried out on

historical data and the future prospective performance of the cooperative/firm. This analysis is useful to all the stakeholders of the cooperative to know about the performance of the cooperative and to take corrective actions if any fault is found.

Financial analysis answers the problem in a systematic pattern. First the problem is to be found out before answering the problem. For this analysis of financial statements are to be carried out to diagnose the problem using appropriate tools and techniques. In the second step the identified problem is analyzed and a way is looked for the correction of the problem. Appropriate recommendations are made and then to project the expected results and examine them if there are improvements before implementing such recommendations.

The following chart clarifies the financial analysis process.

Figure 2

Process of the Analysis of Financial Statement

2.6. What is PEARLS?

PEARLS analysis income statement and balance sheet. It is true monitoring system and a management and supervisory tool. PEARLS use only quantitative indicators.

Why *PEARLS*?

-) It is universal applicable.
-) It is product that is integrated with the model credit union.
-) It is tool that can be used to compare and rank credit unions.

The advantages of this analysis are:

-) All indicators are quantitative.
-) Each indicator has a prudential norm or goal associated with it.
-) All of the indicators are integrated and facilitate a quick, precise and complete analysis of financial strengths and weaknesses of and credit union

2.7. Review of Books:

Various books are written in joint venture bank and here we will be reviewing few of them,

Cooperative Information Book, 2062 B.S published by Department of Cooperative has recommended *PEARLS* analysis as the base of monitoring and evaluation and focuses that each SACCOS should be follow these tools.

Shanker Raj Joshi, Nefscun 2004 says “Cooperative is community based financial institution that should have transparent financial system” in his book named Internal Management and Skills of Cooperative.

Three Year Interim Plan (co-operative sector) 2064/065 – 066/067 published by Department of Cooperative explain its long term vision as – “The long term vision is to develop cooperatives as the lead sector for poverty reduction through public welfare oriented economic development.”

The book was written by Bhuman\Sharita Dahal (2056) in their ‘A hand of Banking’ highlights in function of credit creation, accepting various types of deposits and advancing loan in different field. According to the authors, the vary marketing concept by bank, commercial bank and cooperative started knocking the doors of customer. They have focused on the customer-oriented concept of commercial bank following Nepal Rastra Bank directives.

2.8. Review of Unpublished Thesis

There is very few studies have been conducted on the financial performance of cooperatives or women SACCOS in Nepal till the time period. But there are many unpublished thesis research work on Financial Performance of different organization like banks, companies etc.

Acharya Gyanendra (1997) in his study, “A comparative study of financial of micro finance companies in Nepal” concludes that the liquidity position of cooperatives in below the normal standard of 2:1. He said that the saving and credit cooperatives are to be efficient in utilizing most of their total assets.

Bhoj Raj Bohara, (1992) in his thesis entitled “A comparative study of financial performance of micro finance companies Nepal” has define that the aim of the study is to highlight on the functions and policies of finance organization and to evaluate the comparative financial performance finance companies and cooperatives for liquidity, activities and profitability of along with other various indicator including some suggestive frame work. With regard to the finding of the study cooperative is better in case of liquidity, regarding the turnover and capital adequacy position. (*Bhoj Raj Bohara, “A comparative study of financial performance of micro finance companies in Nepal”, an unpublished Master Degree’s Dissertation, T.U. 1992*)

Bishnu Dev Pandya, (2000) in his thesis entitled, “A study of financial analysis on Nepal Grindlays Bank Limited” has conducted and analysis the financial position of Himalayan Bank Limited. In the study, Mr Pandya has tried to examine the growth of sampled bank. In his research, he concluded that overall liquidity and capital structure position of the bank is not satisfactory. Overall profitability condition was highly appreciable profit generating capability through loans and advances appeared satisfactory. Trend of deposit collection shows that the bank was in a higher risk with respect to saving deposits against the fixed deposits (*Bishnu Dev Pandya, , “ A study of financial analysis on Nepal Grindlays Bank Limited,” an unpublished Master Degree’s Thesis, T.U. 2000*)

Leka Nath Ghimire performed a research in entitle “A comparative study of financial performance of Himalayan Bank Limited and Nepal SBI Bank Limited” with the objective of analyzing and interpreting the financial Performance. The major uncovers facts of this research was that the allover liquidity, earning and growth position of Himalayan Bank

Limited was stranger than Nepal SBI Bank Limited's capital adequacy, quality of assets as well as turnover position was found to be superior to that Himalayan Bank Limited. Himalayan Bank Limited was more efficient in creating credit in comparison to Nepal SBI Bank Limited. Income and operating expenses were in increasing trend and were dominated by interest in case of both the banks. (*Leka Nath Ghimire, "A comparative study of financial performance of Himalayan Bank Limited and Nepal SBI Bank Limited," an unpublished Master Degree's Thesis, T.U. 2000*)

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Pramod Dhugana has conducted another study to analyze the profits trend of Nabil Bank Limited, Nepal Indosuez Bank Limited and Nepal Grindlays Bank Limited (Renamed Standard Chartered Bank Nepal Limited) since their establishment from 1991A.D. The study revealed that profitability ratio of all the joint venture banks i.e. Nabil Bank Limited, Nepal Indosuez Bank Limited and Nepal Grindlays Bank Limited have been satisfactory over the study period exhibiting their better efficiency in utilizing their deposits. However, they have been unable to mobilize savings from different parts of country. Profit as indicated in their financial statements is an inflated one, fluctuation the foreign currency being the main reason. He recommended that joint venture bank are earning more profit from non operational sources so these banks try to earn profit from operational sources by increasing their operational efficiency. He has concentrated only the profitability aspects of joint venture banks. So, he has calculated profit related ratios and analyzed on the basis of these ratios.

Sangita Shakya, (2000) in his thesis entitled, “A comparative analysis of financial performance of selected joint venture banks, a study of Himalayan Bank Limited and Nepal Grindlays Bank Limited” with the view of being familiar with comparative strength and weakness and their ability through the analysis of liquidity ratios. The major findings drawn from the study are Himalayan Bank Limited is more efficient in the case of liquidity as well as it is more levered than Nepal Grindlays Bank Limited where as, Himalayan bank is in better condition from the aspect of capital adequacy, activity, and profitability ratios. Study showed positive correlation between loans and advances to total debts of both banks according to trend analysis, profit before tax of Nepal Grindlays Bank Limited has been increasing at the higher rate than that Himalayan Bank (*Sangita Shakya, “A comparative analysis of financial performance of selected joint venture banks, a study of Himalayan Bank Limited and Nepal Grindlays Bank Limited,” an unpublished Master Degree’s Thesis, T.U. 2000*)

2.9. Review of Articles:

Ms. Sulochana Syangtan, the chairperson of Makwanpur District Saving and Credit Cooperative Union, Hetauda emphasizes that women saving and credit cooperatives plays a vital role in the economic development of women in the villages of Makwanpur District.

Mr. Ghanshyam Khatiwoda of Morang wrote in his article that all Nepalese should support in the development of cooperatives as it helps in economic development of rural community.

Ms. Bhagwati Pudasaini says in her article of quarterly magazine named ‘Safalta’ that - with the movement of cooperative in Makwanpur District, women have become self reliance and her socio-economic is much better now.

Another study conducted by Dr. Manohar Krishna Shrestha in his article “Commercial Banks Comparative performance evaluation” clarify that joint venture banks in Nepal are new and comparatively more efficient in operation and having superior performance amongst local banks. Due to theirs new and qualify technology, modern banking and skill, joint venture banks are performing better comparison to local banks. Their better performance is also due to the burden of local banks, which are facing the burden of government’s branching policy in rural areas and financing public enterprises and priority sector. Local banks are efficient and expertise in rural sector. However, having number of deficiencies, they have to face

growing constrains of socio-economic political system on hand spectrum that of issue and challenges of joint venture banks commanding significant banking in other hard spectrum. (Dr. Manohar Krishna Shrestha, “Commercial Banks Comparative performance evaluation,” *Karmachari Sanchaya Kosh, kathmandu, 2047*)

R.L. Shrestha in his article “Capital Adequacy of Bank, the Nepalese context” has suggested the banks that deal in highly risky transactions to maintain strong capital base. He concluded that the capital base should neither be too much leading to inefficient allocation of scarce resources nor so weak to expose to extreme risk. The study accepts that the operations of banks and the degree of risk associated with them are subject to changes country wish, bank wish and time period wise. (R.L. Shrestha, “Capital Adequacy of Bank, the Nepalese context”, *NBR Samachar, 34th anniversary 2046, pp 24-27*)

2.10. Research Gap:

This thesis is different from other research thesis work as this thesis work is on Saving and Credit Cooperatives formed and lead by women of a particular district i.e. Makwanpur District. These sampled cooperatives are all located in Village Development Council (VDC) of Makwanpur District. The village women who did not able to talk in front of other person, could not come out of their house generally feel fear to move single now their status is changed. The women could work together with men in village. They are working hard to improve their social economic status and this changes is because they are involves in cooperative movement. This also attracts our attention that the village women are more active than the urban women in development sector works. This may be happened due to different organizations NGOs, INGOs and GOs have interventions effort for poverty reduction and empowerment of women.

CHAPTER 3

RESEARCH METHODOLOGY

Research Methodology

The research Methodology is systematic way of solving research problem. Research Methodology refers to the overall research process, which a researcher conducts during their study. Research can be conducted on the basis of primary and secondary data. Here in the study all the data and observed data are analyzed with using appropriate financial and statistical tools.

In this research, the research design, source of data collection, population and sample and method of data analysis are serially described.

3.1 Research Design

“A research design is the arrangement of conditions for collection analysis of data in a manner that aims to combine relevance to the research purchase with economy in procedure”. It is also said that research design is the plan structure and strategy of investigations conceived so as to obtain answer of research question and control variance. In other to make any types of research a well set of research design is necessary, which fulfills the objective of the research study. The research design of this study is descriptive as well as analytical.

This research design is an examination of evaluation of efficiency of five women saving and credit cooperatives for providing services and finding strength and weakness at VDC level. This study is closely related with the various functional and accounting statements as well actual result of these cooperatives. This study covers the five years period from the fiscal year 2002/03 to 2006/07.

3.2 Source of Data Collection

This study heavily depends upon secondary sources of data. The main sources of data are annual audit reports of related cooperatives obtained from related WSACCOS, Makwanpur District Saving and Credit Cooperative Union. Besides, the secondary data have been acquired from various sources like newspaper and magazines, reports of District Divisional Office, Hetauda Makwanpur, and publication/document of concerned WSACCOS. Similarly,

questioner is prepared and used to different stakeholders for the collections of primary data for effective research study.

Along with different websites are frequently searched and visited for the purpose of data collection. The data and information are used for ratio analysis. All these data were collected personally.

3.3 Population and Sample

This thesis entitled “Financial Performance Analysis of Five Community Based Women Saving and Credit Cooperatives in Makwanpur District”. Therefore, all the community based women saving and credit cooperatives operating in Makwanpur District of Nepal have been considered as a population and five cooperatives at Bhimphedi, Padampokhari, Nibuwatar, Churiyamai and Ambhanjyang VDCs have been considered as a sample. There are altogether 24 Women SACCOS in Makwanpur districts all located in Village Development Councils (VDC). Higher financial transactions SACCOSs have been selected for the study, so the reference can be analysis and evaluate about the implication of saving and credit activities along with other financial performance.

S.N	Name	Location	Remarks
1	Shree Mahila Kalyan SACCOS	Tistung	
2	Shree Mahila Shakti SACCOS	Bhimphedi	
3	Shree Mahila SACCOS	Tistung	
4	Shree Mahila Janashakti SACCOS	Churiyamai	
5	Shree Mahila Milan SACCOS	Padampokhari	
6	Shree Mahila Kalyan SACCOS	Ambhanjyang	
7	Shree Mahila Awaj SACCOS	Gadi	
8	Shree Mahila Sewa SACCOS	Padampokhari	
9	Shree Shramjivi Mahila SACCOS	Sisnery	
10	Shree Mahila Abhiyan SACCOS	Nibuwatar	
11	Shree Mahila Ekta SACCOS	Bhainse	
12	Shree Mahila Jagaran SACCOS	Makwanpur Gadi	
13	Shree Mahila Janachetna SACCOS	Churiyamai 2	

14	Shree Mahila Samaj SACCOS	Kulekhani	
15	Shree Palung Mahila SACCOS	Palung	
16	Shree Mahila Srijana SACCOS	Fakhel	
17	Shree Mahila Sahayogi SACCOS	Raigaoun	
18	Shree Mahila Sevi SACCOS	kogate	
19	Shree Mahila Jagriti SACCOS	Bhimphedi	
20	Shree Mahila Bachat SACCOS	Manahari	
21	Shree Mahila Upyogi SACCOS	Raksirang	
22	Shree Janakalyan SACCOS	Bahinse	
23	Shree Sramjivi Mahila SACCOS	Kulekhani	
24	Shree Mahila Samaj SACCOS	Ipa	

Name of sampled Community Based Women Saving and Credit Cooperative are:

1. Shree Mahila Kalyan SACOS, Abhanjyang
2. Shree Mahila Milan SACOS, Padampokhari
3. Shree Mahila Abhiyan SACOS, Nibuwatar
4. Shree Mahila Janchetana SACOS, Churiyamai
5. Shree Mahila Jagriti SACOS, Bhimphedi

3.4 Method of Data Analysis

“The term data analysis refers to the computation of certain measures along with searching for patterns of relationship that exist among data group. Thus in the process of analysis, relationship of different supporting or conflicting with original or new hypothesis and should be subjected to statistical test of significant to determine with what validity can be said to indicate any conclusion.” (Kothari, 2000, p. 51)

The first step of data analysis was the processing of the data in which classification and tabulation of data are carried out. Classification and tabulation of data has prepared for further analysis. Analysis means computation of certain indicator or measures along with searching for patterns of relationship that exist among the data group. Analysis may be categorized as descriptive analysis and inferential analysis. To achieve the predetermined objective of the research, certain tools are used.

The tools are categorized as;

1. Financial Tools
2. 'A' of PEARLS Tools

3.4.1 Financial Tools

Out of various tools, following ratios have been used in this study,

Performance measure

Performance measures reflect strategic, operating and financing decisions. A cooperative is evaluated mainly on the basis of this ratio in the market. The share holders and prospective committee of the cooperative look this ratio first. Profit is the difference between revenue and expenses. Profit is necessary for the survival of the cooperative and also to meet the expectation of stakeholders. The interest earned on total assets simply reflects how much interest has been generated by mobilizing the assets in the cooperatives. Interest occupies significant place of income for the cooperatives. Generally cooperatives earn interest through lending the collected fund to the needy persons or business enterprises through different scheme and charged a certain percent of interest on the loan amount. Besides lending loans, cooperatives make interest providing advances, over drafts and even invest in securities. Interest earned to total assets ratio has been calculated in this measures.

The interest earned on total assets simply reflects how much interest has been generated by mobilizing the assets in the cooperatives. Interest occupies significant place of income for the SACCOS. Generally cooperatives earn interest through lending the collected fund to the needy persons through different scheme and charged a certain percent of interest on the loan amount. It can be calculated by this formula,

$$\text{Interest earned to total assets} = \frac{\text{Interest Earned}}{\text{Total Assets}} \times 100\%$$

Operating efficiency measures

The key for the success of a cooperative is their operating efficiency. Having sound management, reliable suppliers, attractive policy and customers/members becomes worthless

if the cooperative could not operate its function perfectly. So it is stimulated to check the operating efficiency of the cooperatives. Three ratios have been analysis under this measure.

1. Loan and Advances to Total Deposit Ratio shows the relationship of loan and advances to total deposit. It measures the extent to which the cooperative is successful to utilize the collected deposit from the depositors on loan and advances for making interest or, to make profit. High ratio of this kind reflects higher efficiency to utilizing the fund for profit making purpose and lower the ratio is the indication of inefficiency to use it properly or, the lack of attractive investment opportunities. This can be computed from the following formula,

$$\text{Loan and Advances to Total Deposit Ratio} = \frac{\text{Loan and Advances}}{\text{Total Deposit}} \times 100\%$$

2. Under Loan and Advances to Fixed Deposit Ratio, fixed deposit is regarded as the main source and permanent capital for the cooperative which the cooperative can use for long run because such deposit is not to be paid on prompt demand. Fixed deposit is high interest bearing obligation and loan and advances is the major source to generate income for the cooperative. This ratio is calculated by dividing loan and advances by fixed deposit,

$$\text{Loan and Advances to Fixed Deposit Ratio} = \frac{\text{Loan and Advances}}{\text{Fixed Deposit}} \times 100\%$$

3. Loan and Advances to Saving Deposit Ratio shows the relationship between loan and advances to saving deposit. Saving deposit is the most use type of deposit and second highest interest bearing deposit type. It shows the times of loan and advances lend to the lenders with respect to the deposit amount. It is calculated by using the following formula,

$$\text{Loan and Advances to Saving Deposit Ratio} = \frac{\text{Loan and Advances}}{\text{Saving Deposit}} \times 100\%$$

Liquidity Ratio

Liquidity of a cooperative refers to the sound solvency position of a cooperative to meet its obligations. Liquidity ratio measures the ability of a cooperative to meet its short-term obligations. Liquidity of a cooperative should be considered as the most important factor for its existence. Any cooperative perceived as illiquid cannot attract deposit firm public. Moreover, inadequate liquidity leads to runs in the cooperatives and probably bankruptcy thereof. Cash and Bank Balance to Total Deposit (Cash Reserve Ratio) has been calculated here.

1. Under Cash and Bank Balance to Total Deposit (Cash Reserve Ratio), a high ratio represents the greater ability to meet their all type of prompt demand of cash payment. But too high ratio of cash and bank balance to total deposits may be unsuitable and harmful because it affects their profitability position and also too low ratio is unfavorable as capital will be tied up and opportunity cost will be higher. Cooperatives will have to maintain enough cash and bank balance to gain and retain confidence of their customers/members. This is computed by using the following formula,

$$\text{Cash and Bank Balance to Total Deposit} = \frac{\text{Cash \& Bank Banance}}{\text{Total Deposit}} \times 100\%$$

Income & Expenditure Analysis

This sort of ratio analyzes the income and expenditure pattern of the cooperatives. This ratio basically highlights the dominant sources of income and expenditure of the cooperative. Under this the following ratios are calculated:

1. Interest is the main and major source of income for the cooperative. Cooperatives generate income by lending the collected deposits from different account to the needy person, business enterprises and other sectors through different schemes. Cooperatives lend the fund as loans and advances, overdrafts, investment on government securities and inter cooperatives loans. This ratio of cooperatives reflects the operational efficiency. So, higher the ratio indicates higher efficiency and vice-versa.

$$\text{Interest Income to Total Income Ratio} = \frac{\text{Interest Income}}{\text{Total Income}} \times 100\%$$

2. Interest expenses are the major expenses of the cooperative institutions. These expenses generally occupy the highest proportion in the total expenses. The cooperative has to pay interest on different shareholders, deposits accounts, inter cooperative transactions, loan and borrowings. The ratio of interest expenses is calculated as follows,

$$\text{Interest Expenses to Total Expenses Ratio} = \frac{\text{Interest Expenses}}{\text{Total Expenses}} \times 100\%$$

3. Staff expenses are also the major source of expenses for the cooperative. Staff expenses occupy the third highest proportion in the expenses pattern. Human resources of any firm are the key factor for the success of the firm and satisfied and self-motivated employee are the ornaments for the firm. Therefore, to retain satisfied employee in the cooperative, the cooperative has to pay reasonable remunerations and other facilities to the employee of the cooperative. These expenses involve all those expenses which are incurred upon the staff of the cooperative such as salaries, allowances, bonus, and other facilities. The ratio of staff expenses is calculated as follows,

$$\text{Staff Expense to Total Expenses Ratio} = \frac{\text{Staff Expenses}}{\text{Total Expenses}} \times 100\%$$

Trend/Growth Analysis

A line fit to set a set of data points to estimate the change between two similar indicators of different time duration is called trend line. Generally this analysis compares the change that comes this year in comparison of last year in percentage. The two formulas given below are used to calculate the trend.

$$\frac{\text{This year amount} - \text{Last year amount}}{\text{Last year amount}} \times 100 \%$$

OR,

$$2. T = \frac{\text{This year amount}}{\text{Last year amount}} \times 100 \%$$

3.4.2. Analysis of PEARLS monitoring system:

PEARLS monitoring system as an effective management tools was developed to monitor saving and credit cooperatives by Dve Richardson of Woccu-world council of credit unions in 1980 AD. It was practiced since 1990s and regarded as financial discipline and control system of cooperatives. Cooperatives should be evaluated on the basis of PEARLS analysis rather than its total capital.

The advantages of this analysis are:

-) All indicators are quantitative.
-) Each indicator has a prudential norm or goal associated with it.
-) All of the indicators are integrated and facilitate a quick, precise and complete analysis of financial strengths and weaknesses of and credit union.

Each letter of PEARLS has certain meaning and numbers shown as follows:

P = Protection has 7 different ratios

E = Effective Financial Structure has 8 different ratios.

A = Asset Quality has 3 different ratios.

R = Rate of Return and Cost has 12 different ratios.

L = Liquidity has 4 different ratios.

S = Signs of Growth has 7 different ratios in addition to 5 ratios more.

Protection

Protection gives importance to assets security. Saving and Credit Cooperatives as a micro finance institution consider its credit/loan as its main asset. The cooperative would only be secure if the credit/loan would be secure. A cooperative should be careful from its loan delinquency amount more than 12 months.

$$P1 = \frac{\text{Allowance for Loan Loss}}{\text{Delinquency } \Psi 12 \text{ month}} \times 100 \% \text{ (Goal: 100\%)}$$

$$P2 = \frac{\text{Net Allowance for Loan Loss}}{\text{Delinquency 1 Z12 month}} \times 100 \% \text{ (Goal: 35\%)}$$

$$P3 = \frac{\text{Write off of delinquent loans}}{\text{Delinquency } \Psi 12 \text{ month}} \times 100 \% \text{ (Goal: 100\%)}$$

$$P4 = \frac{\text{Annual bad debt write offs}}{\text{Average loan portfolio}} \times 100 \% \text{ (Goal: Minimum)}$$

$$P5 = \frac{\text{Accumulated loan recovered write offs}}{\text{Accumulated loan write offs}} \times 100 \% \text{ (Goal: Minimum 100\%)}$$

$$P6 = \frac{\text{Solvency (Net value of assets)}}{\text{Total shares and deposits}} \times 100 \% \text{ (Goal: > 100\%)}$$

$$P7 = \frac{\text{Net Capital}}{\text{Total Assets}} \times 100 \% \text{ (Goal: Minimum 10\%)}$$

Effective Financial Structure:

Each saving and credit cooperative should have good financial structure and for that it is necessary to find out the ratios of effective financial structure of PEARLS analysis. Assets and capital of cooperative is needed to find out the ratios for effective financial structure that could be obtained from the balance sheet of cooperative. As mentioned above 'E' has nine different numbers of ratios. They are as follows:

$$10. E = \frac{\text{Net Loans}}{\text{Total Assets}} \times 100 \% \text{ (Goal: 70 - 80\%)}$$

$$11. E = \frac{\text{Liquid Assets}}{\text{Total Assets}} \times 100 \% \text{ (Goal: max 20\%)}$$

$$12. E = \frac{\text{Financial Investment}}{\text{Total Assets}} \times 100 \% \text{ (Goal: max 10\%)}$$

$$13. E = \frac{\text{Non Financial Investment}}{\text{Total Assets}} \times 100 \% \text{ (Goal: 0\%)}$$

$$14. E = \frac{\text{Member savings deposits}}{\text{Total Assets}} \times 100 \% \text{ (Goal: 70 - 80\%)}$$

$$15. E = \frac{\text{External Credit}}{\text{Total Assets}} \times 100 \% \text{ (Goal: 0 or max 5\%)}$$

$$16. E = \frac{\text{Member shares capital}}{\text{Total Assets}} \times 100 \% \text{ (Goal: 10 - 20\%)}$$

$$17. E = \frac{\text{Total institutional capital}}{\text{Total Assets}} \times 100 \% \text{ (Goal: min 10\%)}$$

$$18. E = \frac{\text{Net institutional capital}}{\text{Total Assets}} \times 100 \% \text{ (Goal: E5 = E9)}$$

Assets quality:

Each saving and credit cooperative has two different types of assets i.e. Earning Assets and Non Earning Assets. Earning assets includes loan portfolio, liquid investments, financial investments and non financial investment. Similarly, non-earning assets includes cash in hand, account receivable and fixed assets. We could calculate assets quality by following three formulas:

$$1. A1 = \frac{\text{Total loan delinquency}}{\text{Gross loan portfolio}} \times 100 \% \text{ (Goal: < or equal to 5\%)}$$

$$2. A2 = \frac{\text{Total non earning assets}}{\text{Total Assets}} \times 100 \% \text{ (Goal: < 5\% of total assets)}$$

$$3. A3 = \frac{\text{Net zero cost capital}}{\text{Non earning assets}} \times 100 \% \text{ (Goal: > or equal to 100\%)}$$

Rate of return and cost:

SACCOS usually do two businesses i.e. expenses for managing capital and another income from investment. 'R' of PEARLS calculates the good appropriate rate loan rate comparing the income and expenses rate. This includes 12 ratios as follows:

$$R1 = \frac{\text{Net Loan Income}}{\text{Average net loan portfolio}} \times 100 \% \text{ (Goal: > operating loan)}$$

$$R2 = \frac{\text{Liquid investment income}}{\text{Average liquid}} \times 100 \% \text{ (Goal: } > \mathbf{R1})$$

$$R3 = \frac{\text{Total financial investment income}}{\text{Average financial investments}} \times 100 \% \text{ (Goal: market rate)}$$

$$R4 = \frac{\text{Non financial investment income}}{\text{Average financial investments}} \times 100 \% \text{ (Goal: } > \mathbf{R1})$$

$$R5 = \frac{\text{Interest cost on saving deposits}}{\text{Average saving deposits}} \times 100 \% \text{ (Goal: } > \text{rate inflation)}$$

$$R6 = \frac{\text{Interest cost on external credits}}{\text{Average external credits}} \times 100 \% \text{ (Goal: = market rate)}$$

$$R7 = \frac{\text{Dividend on shares}}{\text{Average member shares}} \times 100 \% \text{ (Goal: } > \mathbf{R5})$$

$$R8 = \frac{\text{Gross income margin}}{\text{Average total assets}} \times 100 \% \text{ (Goal: depend on } \mathbf{R9, R11 \& R12})$$

$$R9 = \frac{\text{Operating costs}}{\text{Average total assets}} \times 100 \% \text{ (Goal: } \mathbf{3 - 10 \%})$$

$$R10 = \frac{\text{Non recurring income or expenses}}{\text{Average total assets}} \times 100 \% \text{ (Goal: minimal)}$$

$$R11 = \frac{\text{Loan loss provision expenses}}{\text{Average total assets}} \times 100 \% \text{ (Goal: = to delinquency)}$$

$$R12 = \frac{\text{Net income}}{\text{Average total assets}} \times 100 \% \text{ (Goal: depend on } \mathbf{E8})$$

Liquidity

Liquidity of a cooperative refers to the sound solvency position of a cooperative to meet its obligations. Liquidity ratio measures the ability of a cooperative to meet its short-term obligations. Liquidity of a cooperative should be considered as the most important factor for its existence. Any cooperative perceived as illiquid cannot attract deposit firm public.

Moreover, inadequate liquidity leads to runs in the cooperatives and probably bankruptcy thereof. PEARLS explain liquidity as necessary for the cooperative growth and smooth operation. It could be measure by four different ratios that are follows:

$$5. L = \frac{\text{Total liquid assets - short term payables}}{\text{Total saving deposits}} \times 100 \% \text{ (Goal: min 15 \%)}$$

$$6. L = \frac{\text{Liquidity fund(reserve)}}{\text{Total savings}} \times 100 \% \text{ (Goal: 10 \%)}$$

$$7. L = \frac{\text{Non earning liquid assets}}{\text{Total assets}} \times 100 \% \text{ (Goal: < 1 \%)}$$

$$8. L = \frac{\text{Total cash account}}{\text{Total assets}} \times 100 \% \text{ (Goal: <3 \%)}$$

Sign of Growth

Cooperative should have increment in its financial transaction. Sign of growth is also known as trend analysis and can calculate by the two different ratios as mentioned above in Growth/Trend analysis. We could use the ratios for total assets, loan, members deposit, liquid investment, financial investment, non financial investment, net institutional capital and institutional capital etc.

CHAPTER 4

Presentation and Analysis

This chapter of thesis work presents the data, facts, figures and their interpretation. This thesis work is based on the secondary data. Basically financial performance of any cooperative is carried out on financial statements of the concerned organization. Financial statements include balance sheet, income statement etc. The information contained on these financial statements of the cooperative is used by any special group to form qualitative judgment about cooperative's financial performance and position. The financial performance of any organization or cooperative is to be analyzed by several view point because there are a number of stakeholders connected to the firm in different means, concerned the performance of the firm in the market, looking and analyzing the performance of the firm. The relevant data collected from secondary sources are presented and analyzed by using very common cooperative's PEARLS monitoring system and financial tools and techniques. Basically PEARLS is the base of the monitoring and evaluation of saving and credit cooperatives. It is also financial discipline and control system. This principle is developed by Dve Richardson of Woccu-world council of credit unions in 1980 AD and was effectively practiced since 1990s by Woccu*. Cooperatives should be evaluated on the basis of PEARLS analysis rather than its total capital. However, according the requirement of the various interest groups, we have classified ratio analysis into major four categories, which are analyzed below one by one. For easy tabulated calculation the cooperative names are indicated by the short form of located places of these sampled cooperatives as table 1 given below.

Shortly Indicated Name of Cooperatives
Table 1

S.N	Cooperative name	Location	Indicated as
1	Shree Mahila Kalyan SACCOS	Ambhanjyang	AB
2	Shree Mahila Jagrity SACCOS	Bhimpheedi	BP
3	Shree Mahila Janachetna SACCOS	Churiyamai	CM
4	Shree Mahila Abhiyan SACCOS	Nibuwatar	NT
5	Shree Churiyamai SACCOS	Padampokhari	PP

*Shanker Raj Joshi, Nefscun 2004, Internal Management and Skills of Cooperative.

4.1. Performance measure

Performance measures reflect strategic, operating and financing decisions. A cooperative is evaluated mainly on the basis of this ratio in the market. The share holders and prospective committee of the cooperative look this ratio first. Thus, this ratio is very important to evaluate the cooperative before making any perspective upon the cooperatives. Profit is the difference between revenue and expenses. Profit is necessary for the survival of the cooperative and also to meet the expectation of stakeholders. It is the measure of the performance of any business/activity, whether it is doing well or not. It is calculated to measure the operating efficiency of the cooperatives. Profitability ratio shows the combined effects of liquidity management and debt management on operating result.

4.1.1. Interest earned to total Assets Ratio

This is the major type of profitability ratio. Table 1 presents the interest earned to total assets of five sampled cooperatives over the study period of three years from FY 2004/05 to FY 2006/07 A.D. The interest earned on total assets simply reflects how much interest has been generated by mobilizing the assets in the cooperatives. Interest occupies significant place of income for the SACCOS. Generally cooperatives earn interest through lending the collected fund to the needy persons through different scheme and charged a certain percent of interest on the loan amount. It can be calculated by this formula,

$$\text{Interest earned to total assets} = \frac{\text{Interest Earned}}{\text{Total Assets}} \times 100\%$$

Interest earned to total Assets Ratio
Table 2

Year	2002/2003			2003/2004		
	Interest Earned	Total Assets	Ratio (%)	Interest Earned	Total Assets	Ratio (%)
AB	49940	828090	06.03	69010	923010	07.48
BP	157525	1277555	12.33	191130	1711615	11.17
CM	6110	186350	03.28	38360	671545	05.71
NT	49160	561370	08.76	51725	809535	06.39
PP	54870	720030	07.62	70970	867320	08.18

Year	2004/2005			2005/2006			2006/2007		
Cooperative	Interest Earned	Total Assets	Ratio (%)	Interest Earned	Total Assets	Ratio (%)	Interest Earned	Total Assets	Ratio (%)
AB	112945	1327115	8.51	195320	2465790	7.92	297375	3267907	9.09
BP	288155	2421525	1.19	390630	3563780	10.96	552820	4864545	11.36
CM	133980	1441715	9.20	250360	2512595	9.96	411580	4528770	9.08
NT	119760	1435504	8.30	217200	2446030	8.87	348900	3533755	9.87
PP	185195	1921920	9.62	226590	2876905	7.87	474385	3856420	12.30

(Source: Annual report)

The interest earned ratio to total assets ratio of Shree Mahila Abhiyan, Ambhanjyang is accounted for the highest in FY 2006/07 due to high loan investment and it is accounted for the lowest in FY 2005/06 due to low loan taken by the women members. The trend of the ratio of Bhimphedi and Nibuwater SACCOS is on the way of graduation as the management of the cooperative is good. The trend of Churiyamai SACCOS is higher in 2005/06 which is good sign then other. The trend of Padampokhari SACCOS is higher in 2006/07 and lowest in 2005/06 may be because during these years the loan frequency is very much different with each other. Similarly Churiyamai SACCOS has highest ratio in 2005/06 due to high loan frequency and lowest in 2006/07 due to less loan frequency. While comparing the entire SACCOS trends, we could consider Bhimphedi and Nibuwater SACCOS have good position in profitability.

4.2 Operating efficiency measures

The key for the success of a cooperative is their operating efficiency. Having sound management, reliable suppliers, attractive policy and customers/members becomes worthless if the cooperative could not operate its function perfectly. So it is stimulated to check the operating efficiency of the cooperatives.

4.2.1. Loan and Advances to Total Deposit Ratio

It shows the relationship of loan and advances to total deposit. It measures the extent to which the cooperative is successful to utilize the collected deposit from the depositors on loan and advances for making interest or, to make profit. High ratio of this kind reflects higher efficiency to utilizing the fund for profit making purpose and lower the ratio is the indication of inefficiency to use it properly or, the lack of attractive investment opportunities. This can be computed from the following formula,

$$\text{Loan and Advances to Total Deposit Ratio} = \frac{\text{Loan and Advances}}{\text{Total Deposit}} \times 100\%$$

Loan and Advances to Total Deposit Ratio
Table 3

Year	2002/2003			2003/2004		
	Loan & Advance	Total Deposit	Ratio (%)	Loan & Advance	Total Deposit	Ratio (%)
AB	331480	34325	65.71	589815	203025	290.51
BP	1011330	135725	745.13	1224720	321015	381.51
CM	116500	41000	284.14	515270	390000	132.12
NT	277350	150210	184.64	416360	367080	113.42
PP	687305	359850	190.99	817070	476325	171.54

Year	2004/2005			2005/2006			2006/2007		
	Loan & Advance	Total Deposit	Ratio (%)	Loan & Advance	Total Deposit	Ratio (%)	Loan & Advance	Total Deposit	Ratio (%)
AB	791575	540602	146	982573	678305	144	2422890	3267905	74.14
BP	1723915	1056675	163	2768595	1864085	149	3581780	4864545	73.63
CM	1219950	995030	123	2197525	1579740	139	3745215	2477390	151
NT	962255	932460	103	1854825	1742020	106	3127570	2236265	139
PP	1449640	1105105	132	2765490	1763985	156	4576423	2911065	157

(Source: Annual report)

All WSACCOS have good loan to total deposit ratios. Ambhanjang and Bhimphedi Women SACCOS have low percentage in 2006/07 comparing as the result behind having lower ratio despite carrying higher amount of loan and advances is that its higher amount of total deposits. Churiyamai, Nibuwatar and Padampokhari Women SACCOSs have good position in this case as they have increasing ratio trend. The women SACCOS should increase the deposit amount for getting more credit benefit to its members.

4.2.2. Loan and Advances to Fixed Deposit Ratio

Fixed deposit is regarded as the main source and permanent capital for the cooperative which the cooperative can use for long run because such deposit is not to be paid on prompt demand. Fixed deposit is high interest bearing obligation and loan and advances is the major source to generate income for the cooperative. This ratio is calculated by dividing loan and advances by fixed deposit,

$$\text{Loan and Advances to Fixed Deposit Ratio} = \frac{\text{Loan and Advances}}{\text{Fixed Deposit}} \times 100\%$$

Loan Advances to Fixed Deposit Ratio
Table 4

Year	2002/2003			2003/2004		
Cooperative	Loan & Advance	Fixed Deposit	Ratio (%)	Loan & Advance	Fixed Deposit	Ratio (%)
AB	331480	9850	3365	589815	15780	3737
BP	1011330	15250	6631	1224720	29500	4151
CM	116500	12000	970.3	515270	50200	1026
NT	277350	24000	1155	416360	38615	1078
PP	725500	450520	161.1	817070	554970	147.2

Year	2004/2005			2005/2006			2005/2006		
Cooperative	Loan & Advance	Fixed Deposit	Ratio %	Loan & Advance	Fixed Deposit	Ratio %	Loan & Advance	Fixed Deposit	Ratio %
AB	791575	34155	2317	982573	74155	1325	2422890	183660	1319
BP	1723915	67600	2550	2768595	225000	1230	3581780	188815	1896
CM	1219950	114700	1063	2197525	237505	925	3745215	62365	6005
NT	962255	116580	825	1854825	299435	619	3127570	351975	889
PP	1449640	15000	9664	2765490	80260	3445	4576423	100865	4537

(Source: Annual report)

The loan and advances to fixed deposit ratio of WSACCOS ranged from 619 percentage of Nibuwatar in 2005/06 to 9664 percentage of Padampokhari in 2004/05. This trend shows that all these women SACCOS have less fixed deposit amount in comparison due to unknown about the facilities from depositing fixed amount in the cooperative. The cooperatives should role to increase the fixed deposit amount.

4.2.3. Loan and Advances to Saving Deposit Ratio

It shows the relationship between loan and advances to saving deposit. Saving deposit is the most use type of deposit and second highest interest bearing deposit type. It shows the times of loan and advances lend to the lenders with respect to the deposit amount. It is calculated by using the following formula,

$$\text{Loan and Advances to Saving Deposit Ratio} = \frac{\text{Loan and Advances}}{\text{Saving Deposit}} \times 100\%$$

**Loan and Advances to Saving Deposit
Table 5**

Year	2002/2003			2003/2004		
Cooperative	Loan & Advance	Saving Deposit	Ratio (%)	Loan & Advance	Saving Deposit	Ratio (%)
AB	331480	18780	1765.07	589815	52350	1126.7
BP	1011330	95250	1061.76	1224720	175300	698.64
CM	116500	41000	284.14	515270	239800	214.87
NT	277350	110800	250.31	416360	172500	241.37
PP	735065	359800	204.29	817070	594505	137.43

Year	2004/2005			2005/2006			2006/2007		
Cooperative	Loan & Advance	Saving Deposit	Ratio (%)	Loan & Advance	Saving Deposit	Ratio (%)	Loan & Advance	Saving Deposit	Ratio (%)
AB	791575	67660	1169	982573	246560	398	2422890	1277214	189
BP	1723915	258700	666	2768595	985000	281	3581780	810565	441
CM	1219950	695000	175	2197525	875970	250	3745215	1574654	237
NT	962255	352180	273	1854825	588160	315	3127570	11092445	28.19
PP	1449640	703350	206	2765490	1207650	229	4576423	1751855	261

(Source: Annual report)

The loan/advance to saving deposit ratio of Shree Mahila Kalayan, Ambhanjyang SACCOS is accounted for the highest in FY 2004/05 and the lowest ratio is accounted for Shree Mahila Abhiyan, Nibuwatar in FY 2006/07. This is because of lower saving deposit in comparison to loan and advance issued to different members. The trend of the ratio of Churiyamai and Padampokhari SACCOSs are on the way of gradation due to increment in saving deposit amount then loan and advance issued.

4.4 Liquidity Ratio

Liquidity ratio measures the ability of a cooperative to meet its short-term obligations. Liquidity of a cooperative should be considered as the most important factor for its existence. Moreover, inadequate liquidity leads to runs in the cooperatives and probably bankruptcy thereof.

Cooperative's liquidity constitutes cash and bank balance as the private reserve. Cash and bank balance are idle assets, which can be placed and invested, thereby earning some interest but not to the extent of loans and advance. Liquidity ratio is the relationship between current assets and current liabilities. In fact, analysis of liquidity needs the preparation of cash and cash budgets and cash and fund; but liquidity ratios, by establishing a relationship between cash and other current assets to current obligation, provide a guide measure of liquidity. (Panday I. M.' "Financial Analysis", Financial Management)

4.4.1. Cash and Bank Balance to Total Deposit (Cash Reserve Ratio)

The table shows the comparative cash and bank balance to deposit ratio (Excluding Fixed deposit). A high ratio represents the greater ability to meet their all type of prompt demand of cash payment. But too high ratio of cash and bank balance to total deposits may be unsuitable and harmful because it affects their profitability position and also too low ratio is unfavorable as capital will be tied up and opportunity cost will be higher. Cooperatives will have to maintain enough cash and bank balance to gain and retain confidence of their customers/members. This is computed by using the following formula,

$$\text{Cash and Bank Balance to Total Deposit} = \frac{\text{Cash \& Bank Banance}}{\text{Total Deposit}} \times 100\%$$

Cash and Bank Balance to Total Deposit Ratio
Table 7

Year	2002/2003			2003/2004		
	Cash/bank balance	Total Deposit	Ratio (%)	Cash/bank balance	Total Deposit	Ratio
AB	294850	343250	85.89	98180	203025	48.35
BP	210600	1035725	20.33	425900	321015	32.67
CM	46000	410000	11.21	102000	390000	26.15
NT	110975	150210	73.88	131550	367080	35.83
PP	18540	387580	4.78	22200	476325	04.66

Year	2004/2005			2005/2006			2006/2007		
Cooperative	Cash/bank balance	Total Deposit	Ratio (%)	Cash/bank balance	Total Deposit	Ratio (%)	Cash/bank balance	Total Deposit	Ratio (%)
AB	270300	540602	49.99	265250	678305	39.10	261110	3267905	7.99
BP	637800	1056675	60.35	565000	1864085	30.31	525602	4864545	10.80
CM	170000	995030	17.08	219500	1579740	13.89	106620	2477390	4.30
NT	231425	932460	24.81	349410	1742020	20.05	84957	2236265	3.79
PP	115130	1105105	10.41	80540	1763985	4.56	45530	2911065	1.56

(Source: Annual report)

The cash and bank balance to total deposit ratio is accounted highest ratio 60.35 percent of Bhimphedi SACCOS in year 2004/05 and lowest ratio 10.41 percentage of Padampokhari SACCOS in the year 2004/05. Similarly in the year 2005/06 it is accounted highest ratio 39.10 percentages of Ambhangyanj and lowest ratio 4.56 percent of Padampokhari SACCOS. The highest ratio in the year 2006/07 is 10.80 percentage of Bhimphedi SACCOS and lowest ratio 1.56 percentage of Padampokhari SACCOS. Although, the cash/bank to total deposit ratio should not be very low or very high but here due to geophysical condition of these women cooperatives there is large gap in the ratio findings.

4.5 Income & Expenditure Analysis

This sort of ratio analyzes the income and expenditure pattern of the cooperatives. This ratio basically highlights the dominant sources of income and expenditure of the cooperative. Under this title mainly two types of analysis are carried out. They are as follows,

This group of ratio includes such ratio which measures the income pattern of the cooperative. A cooperative earns the incomes form different functions. This ratio shows the proportion of the income under different headings in respect to total earnings. To compute this ratio, the sources of income under different headings are divided by the total income.

For the purpose of earnings ratio computation, the earnings are split under these headings,

4.5.1. Income analysis:

Interest is the main and major source of income for the cooperative. Cooperatives generate income by lending the collected deposits from different account to the needy person, business enterprises and other sectors through different schemes. Cooperatives lend the fund as loans and advances, overdrafts, investment on government securities and inter cooperatives loans.

This ratio of cooperatives reflects the operational efficiency. So, higher the ratio indicates higher efficiency and vice-versa.

$$\text{Interest Income to Total Income Ratio} = \frac{\text{Interest Income}}{\text{Total Income}} \times 100\%$$

**Interest Income to Total Income Ratio
Table 8**

Year	2002/2003			2003/2004		
	Interest Income	Total Income	Ratio (%)	Interest Income	Total Income	Ratio (%)
AB	44415	79135	56.13	65065	129280	50.33
BP	151830	418220	36.30	191130	376900	50.71
CM	6100	10500	58.10	37700	81980	45.99
NT	39485	66620	59.27	51725	124850	41.43
PP	62450	86530	72.17	70970	94170	75.36

Year	2004/2005			2005/2006			2006/2007		
	Interest Income	Total Income	Ratio (%)	Interest Income	Total Income	Ratio (%)	Interest Income	Total Income	Ratio (%)
AB	109260	143610	76.08	206740	258730	79.90	297375	332858	89.33
BP	288150	299300	96.27	388600	403400	96.33	552820	576340	95.91
CM	133980	162355	82.52	250350	289280	86.54	411580	442508	93.01
NT	119755	182320	65.68	255115	301105	84.73	348905	383498	90.97
PP	185195	200165	92.52	257485	497650	51.74	474386	513905	92.31

(Source: Annual report)

The interest income to total income ratio is accounted highest ratio 96.27 percentage of Bhimphedi SACCOS and lowest ratio 76.08 percentage of Ambhangyanj SACCOS in the year 2004/05, similarly in the year 2005/06 it is accounted highest ratio 96.33 percentage of Bhimphedi cooperative and lowest ratio 51.74 percent of Padampokhari SACCOS. Again it is highest ratio 95.91 percentages of Bhimphedi SACCOS and lowest ratio 89.33 percentage of Ambhangyanj SACCOS in the year 2006/07. Bhimphedi SACCOS has the highest interest income to total income ratio within these three year then other SACCOSs although it is slightly lower in 2006/07 then previous years. This can be concluded that all this women SACCOS have good interest income from loan/credit. Churiyamai, Ambhangyanj and Nibuwatar SACCOSs have increasing ratio trend which is good for the growth of cooperatives.

4.5.2. Expenses Analysis

Of course in the process of operation, a cooperative has to incurred several kind of cost termed as expenses. In this context, a cooperative has different types of expenses for the smooth run of operation. The types of expenses vary as per nature and types of business of the firm. As per the types of expenses the total expenses are classified into the major four different groups which are as follows and the ratios of these title expenses are calculated thoroughly

4.5.3. Interest Expenses

Interest expenses are the major expenses of the cooperative institutions. These expenses generally occupy the highest proportion in the total expenses. The cooperative has to pay interest on different shareholders, deposits accounts, inter cooperative transactions, loan and borrowings. The ratio of interest expenses is calculated as follows,

$$\text{Interest Expenses to Total Expenses Ratio} = \frac{\text{Interest Expenses}}{\text{Total Expenses}} \times 100\%$$

Interest Expenses to Total Expenses Ratio

Table 9

Year	2002/2003			2003/2004		
	Interest Expenses	Total Expenses	Ratio (%)	Interest Expenses	Total Expenses	Ratio (%)
Cooperative						
AB	610	50350	01.21	7700	52500	14.67
BP	16870	217870	07.74	31550	240750	13.10
CM	700	20600	03.41	12225	56770	21.53
NT	8020	44650	17.96	17940	112515	15.94
PP	8950	45870	19.51	12920	56800	22.75

Year	2004/2005			2005/2006			2006/2007		
	Interest Expenses	Total Expenses	Ratio (%)	Interest Expenses	Total Expenses	Ratio (%)	Interest Expenses	Total Expenses	Ratio (%)
Cooperative									
AB	30205	93425	32.33	42360	112755	37.56	51825	136125	38.07
BP	53330	146435	36.42	98700	115800	85.23	157390	281665	55.87
CM	48250	161400	29.89	76380	108500	70.40	61166	194175	31.50
NT	46075	182305	25.27	118830	213370	55.69	113720	248680	45.73
PP	52300	85035	61.50	73425	93405	78.60	97876	105648	82.64

(Source: Annual report)

The interest expenses to total expenses ratio is accounted highest ratio 61.50 percentage of Padampokhari SACCOS as there is good income during the year and lowest ratio 25.27 percentage of Nibuwatar SACCOS in the year 2004/05 due to low total income from loan/credit to the members. Similarly in the year 2005/06 it is accounted highest ratio 85.23 percentages of Bhimphedi and lowest ratio 37.56 percentages of Ambhangyanj SACCOS. The income of these cooperatives is accounted depending on the location and its seasonal loan taken by the members. In year 2006/07, the highest ratio is 82.64 percentage of Padampokhari SACCOS and lowest ratio 31.50 percentage of Churiyamai SACCOS. This may be because Padampokhari is much good area for agriculture then Churiyamai and most members are interested in doing agriculture.

4.5.4. Staff Expenses

Staff expenses are also the major source of expenses for the cooperative. Staff expenses occupy the third highest proportion in the expenses pattern. Human resources of any firm are the key factor for the success of the firm and satisfied and self-motivated employee are the ornaments for the firm. Therefore, to retain satisfied employee in the cooperative, the cooperative has to pay reasonable remunerations and other facilities to the employee of the cooperative. These expenses involve all those expenses which are incurred upon the staff of the cooperative such as salaries, allowances, bonus, and other facilities. The ratio of staff expenses is calculated as follows,

$$\text{Staff Expense to Total Expenses Ratio} = \frac{\text{Staff Expenses}}{\text{Total Expenses}} \times 100\%$$

Staff Expenses to Total Expenses Ratio
Table 10

Year	2002/2003			2003/2004		
	Staff Expenses	Total Expenses	Ratio (%)	Staff Expenses	Total Expenses	Ratio (%)
Cooperative						
AB	24500	50350	48.66	17970	52500	34.23
BP	54635	217870	25.08	57000	240750	23.68
CM	7000	20600	33.98	15000	56770	26.42
NT	11635	44650	26.06	29250	112515	26.10
PP	16580	45380	36.53	18830	56800	33.15

Year	2004/2005			2005/2006			2006/2007		
Cooperative	Staff Expenses	Total Expenses	Ratio (%)	Staff Expenses	Total Expenses	Ratio (%)	Staff Expenses	Total Expenses	Ratio (%)
AB	30685	93425	32.84	47430	112755	42.06	63700	136125	46.79
BP	43000	146435	29.36	59800	115800	51.64	56000	281665	19.88
CM	25000	161400	15.49	58000	108500	53.46	57500	194175	29.61
NT	36400	182305	19.97	53700	213370	25.17	58450	248680	23.50
PP	41250	85035	48.51	51860	93405	55.52	63500	105648	60.10

(Source: Annual report)

The personnel expenses to total income ratio of WSACCOSs ranged from 8.99 percentage of Nibuwatar to 53.45 percentages of Churiyamai SACCOS. In year 2002/03 Padampokhari and Ambhanjyanj SACCOS are satisfactory staff expenses comparing total expenses and other SACCOSs are providing lower staff salary expenses. In year 2003/04 all the women cooperatives have favorable staff expenses but in year 2004/05 Churiyamai and Nibuwatar SACCOS have lower staff expenses as the old staff left the cooperative and the cooperatives are in recruitment process of staff selection. Year 2005/06 has good staff to total expenses ratio as they all cooperatives providing good salary to their staffs. Again in the year 2006/07, all the other cooperatives except Nibuwatar cooperative are good ratio findings. Nibuwatar SACCOS has lower ratio as the field staff has left the position at this year.

4.6 Trend/Growth Analysis

A line fit to set a set of data points to estimate the change between two similar indicators of different time duration is called trend line. Generally this analysis compares the change that comes this year in comparison of last year in percentage. The two formulas given below are used to calculate the trend.

$$1. T = \frac{\text{This year amount} - \text{Last year amount}}{\text{Last year amount}} \times 100 \%$$

OR,

$$2. T = \frac{\text{This year amount}}{\text{Last year amount}} - 1 \times 100 \%$$

4.6.1. Trend of Shareholders

Table 10 shows the ratio trend of shareholders in three years of the sampled Women SACCOS from FY 2004/05 to 2006/07 and trend line is illustrated in figure 2.

**Trend of Shareholders
Table 11**

Year	2002/2003			2003/2004		
	This Year	Last Year	Ratio (%)	This Year	Last Year	Ratio (%)
Cooperative						
AB	362	235	54.04	474	362	30.93
BP	548	482	13.69	666	548	21.53
CM	399	225	77.33	574	399	43.85
NT	317	215	47.44	442	317	39.43
PP	542	480	12.91	655	542	20.84

Year	2004/2005			2005/2006			2006/2007		
	This Year	Last Year	Ratio (%)	This Year	Last Year	Ratio (%)	This Year	Last Year	Ratio (%)
Cooperative									
AB	561	474	18.35	685	561	22.10	769	685	12.26
BP	689	666	3.45	733	689	6.38	812	733	10.77
CM	702	574	22.30	870	702	23.93	934	870	7.36
NT	343	442	-22.39	522	442	18.09	595	522	13.98
PP	670	655	2.29	702	670	4.77	786	702	11.96

(Source: Audit reports)

All the Women SACCOSs have increasing shareholders trend as the entire cooperatives move as their strategic plan except Nibuwatar SACCOS which decreases by 99 numbers in the year 2004/05 A.D due to misunderstanding of shareholders with cooperatives. Later on the cooperative management committee overcome the problem and operates the cooperative smoothly. The trend of shareholders could be illustrated in the line diagram as in figure 3 below.

Trend of Shareholders
Figure 3



4.6.2. Trend of Share Amount

Table 11 shows the ratio trend of share amount in three years of the sampled Women SACCOS of five years from FY 2004/05 to 2006/07 and trend line is illustrated in figure 3.

Trend of Share Amount
Table 12

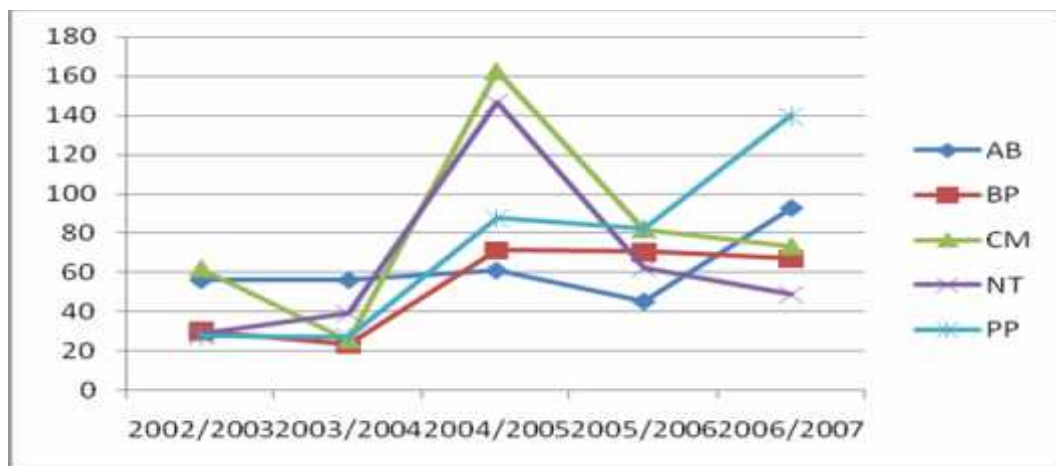
Year	2002/2003			2003/2004		
	This Year	Last Year	Ratio (%)	This Year	Last Year	Ratio (%)
Cooperative						
AB	35075	22450	56.23	54800	35075	56.23
BP	62940	48355	30.16	77600	62940	23.29
CM	47840	29530	62.01	60100	47840	25.62
NT	32950	25560	28.91	45800	32950	38.99
PP	51590	40380	27.76	65500	51590	26.96

Year	2004/2005			2005/2006			2006/2007		
	This Year	Last Year	Ratio (%)	This Year	Last Year	Ratio (%)	This Year	Last Year	Ratio (%)
Cooperative									
AB	88300	54800	61.13	128400	88300	45.41	247500	128400	92.75
BP	132900	77600	71.26	226600	132900	70.50	379000	226600	67.25
CM	157700	60100	162.39	287100	157700	82.05	497500	287100	73.28
NT	112900	45800	146.50	183100	112900	62.17	272700	183100	48.93
PP	122900	65500	87.63	223600	122900	81.93	536300	223600	139.84

(Source: Annual report)

All the Women SACCOSs have increasing share amount trend. This is because all the women cooperatives are very active to increase the share amount. They advertise to take more shares as law approves one member to take shares to 20%. The share amount trend ranges from 45.41 percentages of Ambhanjganj SACCOS in 2005/06 to 162.39 percentages of Churiyamai SACCOS in 2004/05. The trend is also illustrated in fig.4.

Trend of Share Amount
Figure 4



4.6.3. Trend of total deposits:

The table below is listed total deposit amount of the sampled cooperatives over five year.

Total Deposit Amount
Table 13

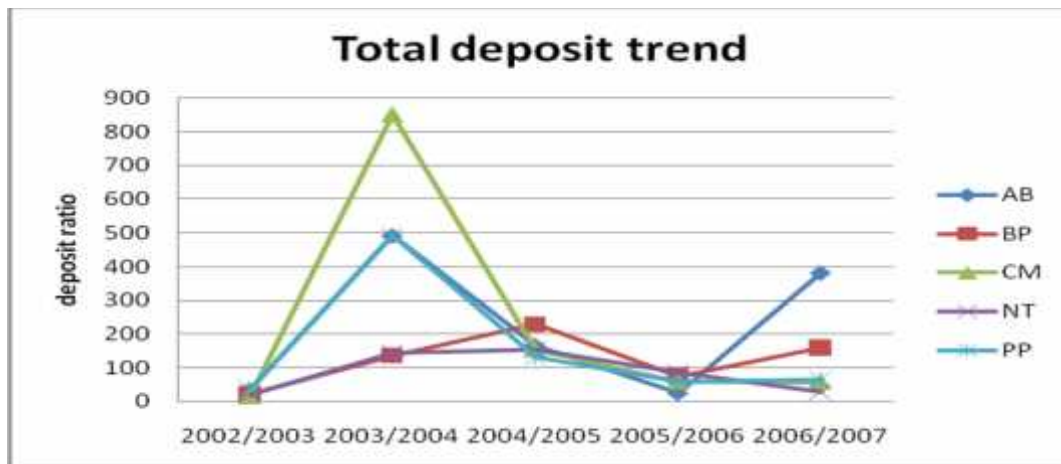
Year	2002/2003			2003/2004		
	This Year	Last Year	Ratio (%)	This Year	Last Year	Ratio (%)
AB	34325	25750	33.30	203025	34325	491.47
BP	135725	109850	23.55	321015	135725	136.51
CM	41000	35830	14.42	390000	41000	851.21
NT	150210	126545	18.70	367080	150210	144.37
PP	387580	284875	36.05	476325	387580	491.47

Year	2004/2005			2005/2006			2006/2007		
Cooperative	This Year	Last Year	Ratio (%)	This Year	Last Year	Ratio (%)	This Year	Last Year	Ratio (%)
AB	540602	203025	166.27	678305	540602	25.47	3267905	678305	381.77
BP	1056675	321015	229.16	1864085	1056675	76.41	4864545	1864085	160.96
CM	995030	390000	155.13	1579740	995030	58.76	2477390	1579740	56.82
NT	932460	367080	154.02	1742020	932460	86.81	2236265	1742020	28.37
PP	1105105	476325	132.01	1763985	1105105	59.62	2911065	1763985	65.02

(Source: Annual report)

The total deposit amount of Ambhanjyanj SACCOS is lower in 2002/03 and 2005/06 fiscal year than in other fiscal years due to fewer amounts deposited by members. Similar situation is for other cooperatives too in this fiscal year. This is because of loose monitoring system by the management committee as per the strategic plan. The trend of total deposit is illustrated as in figure 4 below. All the cooperatives have good record of deposits in 2004/2005 fiscal year. By the findings there is very much fluctuation frequency regarding the deposit amount from one year to another fiscal year. These SACCOS should be careful to increase the constant level of deposit amount from the members/shareholders.

Trend of Total Deposit Amount
Figure 4



4.7 Analysis of PEARLS monitoring system:

PEARLS monitoring system as an effective management tools was developed to monitor saving and credit cooperatives by Dve Richardson of Woccu-world council of credit unions in 1980 AD. It was practiced since 1990s and regarded as financial discipline and control

system of cooperatives. Cooperatives should be evaluated on the basis of PEARLS analysis rather than its total capital.

It is believed that PEARLS should be followed to develop cooperatives as community base financial institution. It is just as the doctor examine and find out the problem or disease of the patient. It not only supports the cooperatives to manage the obstacles but also support to run smoothly in the correct direction and reach the goal. It plays an important role to grow the newly born cooperative to be a matured one.

The advantages of this analysis are:

-) All indicators are quantitative.
-) Each indicator has a prudential norm or goal associated with it.
-) All of the indicators are integrated and facilitate a quick, precise and complete analysis of financial strengths and weaknesses of and credit union.

4.7.1. What is PEARLS?

PEARLS analyze income statement and balance sheet. The P, E, A, L and S of PEARLS measure balance sheet and off balance sheet accounts. The 'R' of PEARLS measures income statement. Each letter of PEARLS has certain meaning and numbers shown as follows:

P = Protection has 7 different ratios.

E = Effective Financial Structure has 8 different ratios.

A = Asset Quality has 3 different ratios.

R = Rate of Return and Cost has 12 different ratios.

L = Liquidity has 4 different ratios.

S = Signs of Growth has 7 different ratios in addition to 5 ratios more.

'P' calculates the loan situation and shows the way to protect and manage the loan. 'E' shows the structure of capital and assets. 'A' shows the way to make the asset qualitative. 'R' indicates the income rate, expenses rate and condition of deposits. 'L' indicates the situation of liquidity for a good cooperative that increases believes of stakeholders. 'S' shows what should be the increasing rate of any figure. All these indicators have definite goals or own standard which are inter-related. PEARLS analysis Income Statement and Balance Sheet. It also analysis off balance sheet accounts. 'R' measures Income Statement.

4.7.1.1. Protection

Protection gives importance to assets security. Saving and Credit Cooperatives as a micro finance institution consider its credit/loan as its main asset. The cooperative would only be secure if the credit/loan would be secure. A cooperative should be careful from its loan delinquency amount more than 12 months.

There are 7 protection ratios. P1 represents allowance for loan loss to delinquency more than 12 months ratio that has 100 percentages standard goal. P2 represents net allowance for loan loss to delinquency 1-12 months and its standard goal is 35 percentages. P3 represents write off of delinquent loans to delinquency less than 12 months ratio. It has 100 percentages standard goal. P4 represents annual bad debt write offs to average loan portfolio which have minimal ratio as its standard. P5 is the ratio of accumulated loan recovered write offs to accumulated loan write offs that has minimum 100 percentages standard goals. P6 stands for solvency i.e. net value of assets to total shares and deposits that should have more than 100 percentages standard goal. P7 ratio stands for net capital to total assets that have minimum 10 percentages standard goal.

This can be illustrated as the following formulas:

$$P1 = \frac{\text{Allowance for Loan Loss}}{\text{Delinquency } \Psi 12 \text{ month}} \times 100 \% \text{ (Goal: 100\%)}$$

$$P2 = \frac{\text{Net Allowance for Loan Loss}}{\text{Delinquency 1 Z12 month}} \times 100 \% \text{ (Goal: 35\%)}$$

$$P3 = \frac{\text{Write off of delinquent loans}}{\text{Delinquency } \Psi 12 \text{ month}} \times 100 \% \text{ (Goal: 100\%)}$$

$$P4 = \frac{\text{Annual bad debt write offs}}{\text{Average loan portfolio}} \times 100 \% \text{ (Goal: Minimum)}$$

$$P5 = \frac{\text{Accumulated loan recovered write offs}}{\text{Accumulated loan write offs}} \times 100 \% \text{ (Goal: Minimum 100\%)}$$

$$P6 = \frac{\text{Solvency (Net value of assets)}}{\text{Total shares and deposits}} \times 100 \% \text{ (Goal: > 100\%)}$$

$$P7 = \frac{\text{Net Capital}}{\text{Total Assets}} \times 100 \% \text{ (Goal: Minimum 10\%)}$$

There should be good management to control the delinquency amount. Protection measures are for monitoring and control over delinquency amount. Following these measures' ratio for five fiscal years, the findings are listed below in no. 14 table and for further more details topic amount could be seen in the annex:

Protection Measures
Table 14

Year	2002/2003						
Cooperative	P1	P2	P3	P4	P5	P6	P7
AB	90.64	59.17	87.02	1.76	88.65	110.30	4.03
BP	98.70	44.17	91.09	0.70	97.14	106.46	3.92
CM	75.93	52.41	91.70	7.93	90.77	142.39	25.67
NT	81.72	54.61	91.88	2.13	90.84	126.14	5.06
PP	83.73	30.96	83.30	1.11	92.96	133.12	7.16

Year	2003/2004						
Cooperative	P1	P2	P3	P4	P5	P6	P7
AB	84.13	85.13	90.44	1.21	74.34	310.94	4.23
BP	88.67	92.01	87.95	0.65	60.60	396.81	4.92
CM	71.89	76.70	89.21	2.01	66.14	121.66	25.37
NT	85.51	86.90	94.91	1.65	74.77	163.04	5.86
PP	77.28	84.38	85.56	1.13	89.09	136.52	7.16

Year	2004/2005						
Cooperative	P1	P2	P3	P4	P5	P6	P7
AB	86.18	67.64	94.39	1.04	83.92	166.71	6.65
BP	80.74	59.84	95.01	0.56	84.90	182.81	5.48
CM	77.48	42.29	96.57	0.94	89.57	110.68	10.93
NT	81.19	58.48	87.61	0.81	95.02	124.80	7.86
PP	82.07	40.03	83.55	0.75	92.34	144.08	6.39

Year	2005/2006						
Cooperative	P1	P2	P3	P4	P5	P6	P7
AB	83.19	65.43	94.13	1.28	80.64	252.51	5.2
BP	101.58	53.31	93.37	0.98	87.11	141.50	6.35
CM	93.51	46.78	84.08	0.44	89.31	116.13	11.42
NT	93.41	54.35	87.55	0.92	73.97	103.09	7.48
PP	83.84	62.57	95.44	0.59	91.04	123.76	7.77

Year	2006/2007						
Cooperative	P1	P2	P3	P4	P5	P6	P7
AB	88.28	63.19	89.46	0.66	89.93	85.26	7.57
BP	90.53	66.19	91.52	0.35	79.34	80.28	7.79
CM	87.57	65.96	87.30	0.36	85.55	109.50	10.98
NT	81.28	64.44	84.47	0.38	93.54	121.84	7.71
PP	85.53	53.10	78.66	0.22	93.18	99.62	13.9

In the fiscal year 2002/2003, P1 i.e. allowance for loan losses to loan delinquency > 12 months ratio is good maintained by Bhimphedi cooperative than other cooperatives which is 98.70 percentages as it is very near to the standard goal that is 100 percentages. Similarly in year 2003/2004 the ratio frequency is slightly decreased than the previous year by all the SACCOSs. In year 2004/05 it ranges from 77.48 percentages to 86.18 percentages. In year 2005/06 Bhimphedi SACCOS has meet the targeted goal and reaches to 101.58 percentages as it has managed its loan delinquency > 12 months this year. Again in the fiscal year 2006/07 all the cooperatives need to manage loan delinquency > than 12 months to maintain the standard goal.

P2 stands for net allowance for loan losses to loan delinquency 1-12 months ratio that has standard 35 percentages goal. In all the five years duration from 2002/03 to 2006/07 the cooperatives have more percentages achieved than the target except only Padampokhari cooperative in the year 2002/03 that is 30.96 percentages.

The standard goal for P3 is 100 percentages. In 2002/03 this ratio ranges from 83.30 percentages to 91.88 percentages that is because write off of delinquency loans is good maintained by the cooperatives. Similarly from the fiscal year 2003/04 to 2006/07 the ratio ranges from 83.55 percentages to 96.57 percentages that all are very near to the standard goals.

P4 ratio should be minimal as the standard goal. The ratio ranges from 0.22 percentages of Padampokhari cooperative in the year 2006/07 from 7.93 percentages of Churiyamai cooperative in 2002/03. This is due to annual bad debt write offs amount in comparison to average loan portfolio amount. Higher percentages ratio should be managed to make less as possible by managing annual bad debt write offs amount.

P5 has minimum 100 percentages standard goal. The trend of P5 ratio of these five years ranges from 60.60 percentages of Bhimphedi SACCOS in 2003/04 to 97.14 percentages of Bhimphedi in the year 2002/03 year. This is due to low accumulated loan recovered write offs than accumulated loan write offs. The cooperatives should manage to increase their accumulated loan recovered write offs amount.

The standard goal of P6 is > 100 percentages. The solvency amount to total shares and deposits amount is good maintained by these cooperatives as all the cooperatives ratio are above 100 percentages except than Ambhanjyanj and Bhimphedi cooperatives which are 85.26 and 80.28 percentages respectively in the year 2006/07 much lower than other due to less solvency amount in this year by the cooperatives.

Similarly, P7 has minimum 10 percentages as its standard goal. Within this five year, P7 ratio ranges from 3.92 percentages belongs to Bhimphedi cooperative in 2002/03 to 25.67 percentages belongs to Churiyamai cooperative in year 2002/03. The SACCOS having lower percentages should increase their net capital.

4.7.1.2. Effective Financial Structure:

Each saving and credit cooperative should have good financial structure and for that it is necessary to find out the ratios of effective financial structure of PEARLS analysis. Assets and capital of cooperative is needed to find out the ratios for effective financial structure that could be obtained from the balance sheet of cooperative.

As mentioned above 'E' has nine different numbers of ratios. E1 stands for finding the net loans to total assets ratio that has 70-80 percentages standard ratio. E2 represents liquid assets to total assets ratio which has is the maximum 20 percentages goal. E3 is the ratio of financial investment to total assets ratio that has maximum 10 percentages standard goal. E4 is the ratio for non-financial investment to total assets ratio that has 0 percentages standard ratio. E5 stands for member saving deposits to total assets that has 70-80 percentages ratio as its standard goal. E6 is the ratio of external credit to total assets ratio which is 0-maximum 5 percentages ratio as its standard goal. E7 has member shares capital to total assets ratio which has 10-20 percentages standard ratio. E8 is the ratio of total institutional capital to total assets and its standard goal is minimum 10 percentages. E9 is the ratio of net institutional capital to total assets which should be $E9=E8$ as its standard goal.

They are as follows:

$$19. E = \frac{\text{Net Loans}}{\text{Total Assets}} \times 100 \% \text{ (Goal: 70 - 80\%)}$$

$$20. E = \frac{\text{Liquid Assets}}{\text{Total Assets}} \times 100 \% \text{ (Goal: max 20\%)}$$

$$21. E = \frac{\text{Financial Investment}}{\text{Total Assets}} \times 100 \% \text{ (Goal: max 10\%)}$$

$$22. E = \frac{\text{Non Financial Investment}}{\text{Total Assets}} \times 100 \% \text{ (Goal: 0\%)}$$

$$23. E = \frac{\text{Member savings deposits}}{\text{Total Assets}} \times 100 \% \text{ (Goal: 70 - 80\%)}$$

$$24. E = \frac{\text{External Credit}}{\text{Total Assets}} \times 100 \% \text{ (Goal: 0 or max 5\%)}$$

$$25. E = \frac{\text{Member shares capital}}{\text{Total Assets}} \times 100 \% \text{ (Goal: 10 - 20\%)}$$

$$26. E = \frac{\text{Total institutional capital}}{\text{Total Assets}} \times 100 \% \text{ (Goal: min 10\%)}$$

$$27. E = \frac{\text{Net institutional capital}}{\text{Total Assets}} \times 100 \% \text{ (Goal: E5 = E9)}$$

These measures are for effective financial structure of the cooperative. Following these measures' ratio, the findings are listed in no. 15 table below for the five fiscal years. (For further more details topic amount could be seen in the annex)

Effective Measures
Table 15

Year	2002/2003								
	E1	E2	E3	E4	E5	E6	E7	E8	E9
Cooperative									
AB	40.02	35.60	40.02	0	2.26	0	4.23	4.92	4.23
BP	79.16	16.48	79.16	0	7.45	0	4.92	5.28	4.92
CM	62.51	24.68	62.51	0	22.00	0	25.67	27.76	25.67
NT	49.40	19.76	49.40	0	19.73	0	5.86	7.08	5.86
PP	95.45	2.57	95.45	0	49.97	0	7.16	8.14	7.16

Year	2003/2004								
Cooperative	E1	E2	E3	E4	E5	E6	E7	E8	E9
AB	63.90	10.63	6.37	0	5.67	0	5.93	6.36	5.93
BP	71.55	24.88	7.28	0	10.24	0	4.53	4.64	4.53
CM	76.72	15.18	8.23	0	35.70	0	8.94	9.79	8.94
NT	51.43	16.25	5.10	0	21.30	0	5.65	6.19	5.65
PP	94.20	2.55	9.34	0	68.54	0	7.55	7.96	7.55

Year	2004/2005								
Cooperative	E1	E2	E3	E4	E5	E6	E7	E8	E9
AB	59.64	20.36	5.39	0	5.09	0	6.65	6.96	6.65
BP	71.19	26.33	5.11	0	10.68	0	5.48	6.37	5.48
CM	84.61	11.79	9.01	0	48.20	0	10.93	13.70	10.93
NT	67.03	16.12	6.42	0	24.53	0	7.86	8.83	7.86
PP	75.42	5.99	7.78	0	36.59	0	6.39	7.57	6.39

Year	2005/2006								
Cooperative	E1	E2	E3	E4	E5	E6	E7	E8	E9
AB	39.84	10.75	39.84	0	5.20	0	5.20	6.27	5.2
BP	77.68	15.85	77.68	0	27.63	1.40	6.35	8.01	6.35
CM	87.46	8.73	87.46	0	34.86	0	11.42	12.24	11.42
NT	75.83	14.28	75.83	0	24.04	0	7.48	8.81	7.48
PP	75.27	2.79	96.21	0	7.77	0	7.77	9.01	7.77

Year	2006/2007								
Cooperative	E1	E2	E3	E4	E5	E6	E7	E8	E9
AB	74.18	7.99	74.18	0	52.71	0	7.57	9.10	7.57
BP	73.63	10.80	73.63	0	22.63	0.00	7.79	7.96	7.79
CM	82.69	2.35	82.69	0	34.77	0	10.98	11.09	10.98
NT	88.50	2.40	88.5	0	87.56	1.41	7.71	8.51	7.71
PP	94.23	0.93	94.23	0	36.07	0	11.04	11.93	11.04

E1 i.e. net loans to total assets ratio has its standard 70-80 percentages goal. In 2002/03 fiscal year, only Bhimphedi SACCOS has standard goal percentages i.e. 79.16 because of good maintained net loan amount than total assets. Other ranges from 40.02 percentages to 95.45 percentages that need to manage the net loan amount. Similarly in year 2003/2004, Bhimphedi and Churiyamai SACCOS have 71.55 and 76.72 percentages respectively within the standard goal range. In year 2004/05, again Bhimphedi has 71.19 percentages and Padampokhari has 75.42 percentages in goal ranges. Other SACCOS are slightly more or less than the standard goal so need to manage more at this area. Bhimphedi SACCOS has good

net loan management as it has 77.68 percentages in 2005/06 and 73.63 percentages in 2006/07 that are within the goal range.

Similarly, E2 has maximum 20 percentages as its standard goal. In year 2002/03, Padampokhari, Bhimphedi and Nibuwatar SACCOS have maintained the standard goal. Similarly in 2003/04 except Bhimphedi which has 24.88 percentages, all the other SACCOS are within the standard goal ranges. Churiyamai has 11.79 percentages, Nibuwatar has 16.12 percentages and Padampokhari has 5.99 percentages during the year 2004/05 that are in standard ranges. In year 2005/06 and 2006/07 all the percentages of all five cooperatives are within the standard goal as they have good liquid assets position to total assets.

The standard for E3 is maximum 10 percentages. In year 2002/03, the ratio ranges from 40.02 percentages of Ambhanjyanj to 95.45 percentages of Padampokhari SACCOS which are greater than the standard goal. All SACCOS have to improve financial investment of their cooperatives. In 2003/04 and 2004/05 it can be analysis by the data listed above that the SACCOS has improved their financial investment as the ratios in these years are within the standard goal ratio. But again in year 2005/06 and 2006/07 the financial investment to total assets ratio are more than the standard one.

E4 belongs to non-financial investment to total assets ratio that has 0 percentages as its standard. All SACCOS have 0 percentages non-financial ratio which is very good financial structure. The standard goal for E5 is 70-80 percentages. None of the five cooperatives have met the standard goal in the five year time duration. This is because of not maintained saving deposits in comparison to total assets. E6 represents the external credit to total assets ratio that have 0 or maximum 5 percentages standard goal. All the SACCOS are good position in external credit as only Bhimphedi SACCOS has 1.40 percentages in 2005/06 and Nibuwatar has 1.41 percentages in 2006/07 external credit to total assets ratio, other all SACCOS have 0 percentages ratio as they have not taken external credit yet.

The standard of E7 is 10-20 percentages. Churiyamai SACCOS has 10.93 percentages in 2004/05, 11.42 percentages in 2005/06 and 10.98 percentages in 2006/07. Padampokhari SACCOS has 11.04 percentages in 2006/07 other all SACCOS are under or above the standard ranges due to unmanaged member shares capital than total assets. Similarly,

E8 has minimum 10 percentages standard goal. Churiyamai has 27.76 percentages in 2002/03, 13.70 percentages in 2004/05, 12.24 percentages in 2005/06 and 11.09 percentages in 2006/07 along with Padampokhari that has 11.93 percentages in 2006/07. These all are within the standard goal, other all SACCOS rather than this are below the standard goal due to less total institutional capital than total assets.

4.7.1.3. Assets quality:

Each saving and credit cooperative has two different types of assets i.e. Earning Assets and Non Earning Assets. Earning assets includes loan portfolio, liquid investments, financial investments and non financial investment. Similarly, non-earning assets includes cash in hand, account receivable and fixed assets. We could calculate assets quality by following three formulas:

Total Loan Delinquency to Gross Loan Portfolio:

Here, Gross loan portfolio means total loan delinquency with other loan amount. Loan is an important main asset of every saving and credit cooperatives. It is challenge to each and every SACCOS to face the problem of loan delinquency and bring it to 0%. Table 12 shows fact analysis of this ratio of the sampled cooperatives.

$$A1 = \frac{\text{Total loan delinquency}}{\text{Gross loan portfolio}} \times 100 \% \text{ (Goal: < or equal to 5\%)}$$

Total Loan Delinquency to Gross Loan Portfolio
Table 16

Year	2002/2003			2003/2004		
	T.L.D	G.L.P	Ratio (%)	T.L.D	G.L.P	Ratio (%)
AB	3860	331480	1.16	4295	589815	0.72
BP	95870	1011330	9.47	126400	1224720	10.29
CM	68450	366500	18.67	74905	515270	14.56
NT	37955	277350	13.68	41870	416360	10.05
PP	15820	735065	2.15	17560	817070	2.19

Year	2004/2005			2005/2006			2006/2007		
Cooperative	T.L.D	G.L.P	Ratio (%)	T.L.D	G.L.P	Ratio (%)	T.L.D	G.L.P	Ratio (%)
AB	5862	791577	0.74	8250	982573	0.83	10670	2400504	0.44
BP	157400	1723914	9.13	198650	2768595	7.17	217812	3581781	6.08
CM	82655	1294947	6.38	106450	2171525	4.90	149401	10834700	1.37
NT	53904	963258	5.59	66350	1849824	3.58	158286	2127572	7.43
PP	19780	1449639	1.36	25675	2765490	0.92	30340	4576423	0.66

The standard of total loan delinquency to gross loan portfolio ratio ranges from 0.44 percentages of Ambhangyanj in 2006/07 to 9.13 percentages of Bhimphedi SACCOS in 2004/05. Ambhangyanj and Padampokhari Women SACCOS have met the standard goal that is less than 5% so they have good trend. Other SACCOS have more loan delinquency than the standard one so the cooperatives need to manage their delinquency amount. Churiyamai SACCOS has improved its ratio in 2006/07 along with Ambhanjyanj and Padampokhari SACCOS.

Total non-earning to total assets ratio:

This ratio shows that a cooperative should not buy any fixed assets if it is not good for the cooperative. This can be calculated as:

$$A2 = \frac{\text{Total non earning assets}}{\text{Total Assets}} \times 100 \% \text{ (Goal: } < 5\% \text{ of total assets)}$$

Total non-earning to total assets

Table 17

Year	2002/2003			2003/2004		
Cooperative	N.E.A	T. A	Ratio (%)	N.E.A	T. A	Ratio (%)
AB	17490	828090	2.11	26590	923010	2.88
BP	49870	1277555	3.90	25980	1711615	1.51
CM	13980	186350	7.50	56280	671545	8.38
NT	44800	561370	7.98	128790	809535	15.05
PP	35750	720030	4.96	16430	867320	1.89

Year	2004/2005			2005/2006			2006/2007		
Cooperative	N.E.A	T. A	Ratio (%)	N.E.A	T. A	Ratio (%)	N.E.A	T. A	Ratio (%)
AB	248274	1327115	18.70	276580	2465790	11.21	307334	3260412	9.42
BP	59748	2421525	2.46	118332	3563780	3.32	108188	5346316	2.02
CM	34756	1441717	2.41	85481	2512595	3.40	584186	4528771	12.89
NT	241817	1435504	16.84	241791	2446030	9.88	295778	3533754	8.37
PP	341518	1921922	17.76	486320	2876905	16.90	631512	5399098	11.69

A2 has less than 5 percentages as its standard goal. Total Non Earning to Total Assets ratio ranges from 2.11 percentages of Ambhanjyanj in 2002/03 to 7.98 percentages of Nibuwater SACCOS. Churiyamai and Nibuwater SACCOS have more ratio percentages than the standard in 2002/03 and 2003/04. In the year 2004/05, Ambhanjyanj, Nibuwater and Padampokhari SACCOSs have over ratio. In 2004/2005 and 2005/06, Bhimphedi and Churiyamai SACCOS have met the standard goal. The SACCOS that have over ratios than standard should not buy any fixed assets in such condition.

Net zero cost capital to non earning assets

Net zero cost capital includes institutional capital, transitory capital and liabilities without interest. According to PEARLS analysis it should have equal to full percentage. It can be calculated as follows:-

$$A3 = \frac{\text{Net zero cost capital}}{\text{Non earning assets}} \times 100 \% \text{ (Goal: } > \text{ or equal to } 100\%)$$

Net zero cost capital to non earning assets
Table 18

Year	2002/2003			2003/2004		
Cooperative	N.Z.C	N.E.A	Ratio (%)	N.Z.C	N.E.A	Ratio (%)
AB	20750	17490	118.16	52970	26590	199.21
BP	36545	49870	73.28	38650	25980	148.76
CM	18560	13980	132.72	25985	56280	81.76
NT	59560	44800	132.94	165460	128790	104.97
PP	28670	35750	80.19	12480	16430	75.93

Year	2004/2005			2005/2006			2006/2007		
	N.Z.C	N.E.A	Ratio (%)	N.Z.C	N.E.A	Ratio (%)	N.Z.C	N.E.A	Ratio (%)
Cooperative									
AB	198570	248270	79.98	258710	276580	93.53	289670	307330	94.25
BP	52862	59745	88.47	109570	118332	92.59	98485	108188	91.03
CM	29686	34755	85.41	75980	85481	88.88	567240	584185	97.09
NT	227650	241815	94.14	216740	241791	89.63	258100	295778	87.26
PP	327380	341515	95.86	458790	486320	94.33	591875	631510	93.73

The standard of A3 is greater than or equal to 100 percentages. Net zero cost capital to non earning assets ratio ranges from 73.28 percentages to 132.94 percentages in 2002/03. Again in the year 2003/04, the ratio ranges from 75.93 percentages to 199.21 percentages. The ratio ranges from 85.41 percentages to 95.86 percentages in 2004/05. All SACCOS have satisfactory net zero cost capital to non earning assets ratio as these all cooperatives are near to the standard goal.

4.7.1.4. Rate of return and cost:

SACCOS usually do two businesses i.e. expenses for managing capital and another income from investment. 'R' of PEARLS calculates the good appropriate rate loan rate comparing the income and expenses rate.

This includes 12 ratios. R1 represents ratio of net loan income to average net loan portfolio and its standard goal is less than operating cost. R2 is the ratio of liquid investment income to average liquid that has greater than R1 percentages as its standard goal. R3 has total financial investment income to average financial investment that has market rate as its standard goal. R4 stands for non-financial investment income to average non financial investments that has greater than R1 standard goal. R5 is the ratio of interest cost on saving deposit to average saving deposit that has more than rate inflation as the standard goal. R6 stands for interest cost on external credits to average external credits ratio that is equal to market rate standard goal.

R7 stands for dividend on shares to average member shares ratio that has more than R5 percentages as standard goal. R8 stands for gross income margin to average total assets ratio that has depending R9,11,12 ratio as the standard goal. Similarly R9 stands for operating cost to average total assets ratio that has 5 percentages its standard goal. R10 stands for loan loss

provision expenses to average total assets that has equal to delinquency as the standard goal. R11 has non-recurring income or expenses to average total assets ratio that has minimal standard goal. R12 represents for net income to average total assets ratio which has standard depend on E8.

The formulas are as follows:

$$R1 = \frac{\text{Net Loan Income}}{\text{Average net loan portfolio}} \times 100 \% \text{ (Goal: } > \text{ operating loan)}$$

$$R2 = \frac{\text{Liquid investment income}}{\text{Average liquid}} \times 100 \% \text{ (Goal: } > \text{ R1)}$$

$$R3 = \frac{\text{Total financial investment income}}{\text{Average financial investments}} \times 100 \% \text{ (Goal: market rate)}$$

$$R4 = \frac{\text{Non financial investment income}}{\text{Average financial investments}} \times 100 \% \text{ (Goal: } > \text{ R1)}$$

$$R5 = \frac{\text{Interest cost on saving deposits}}{\text{Average saving deposits}} \times 100 \% \text{ (Goal: } > \text{ rate inflation)}$$

$$R6 = \frac{\text{Interest cost on external credits}}{\text{Average external credits}} \times 100 \% \text{ (Goal: = market rate)}$$

$$R7 = \frac{\text{Dividend on shares}}{\text{Average member shares}} \times 100 \% \text{ (Goal: } > \text{ R5)}$$

$$R8 = \frac{\text{Gross income margin}}{\text{Average total assets}} \times 100 \% \text{ (Goal: depend on R9, R11 \& R12)}$$

$$R9 = \frac{\text{Operating costs}}{\text{Average total assets}} \times 100 \% \text{ (Goal: 3 – 10 \%)}$$

$$R10 = \frac{\text{Non recurring income or expenses}}{\text{Average total assets}} \times 100 \% \text{ (Goal: minimal)}$$

$$R11 = \frac{\text{Loan loss provision expenses}}{\text{Average total assets}} \times 100 \% \text{ (Goal: = to delinquency)}$$

$$R12 = \frac{\text{Net income}}{\text{Average total assets}} \times 100 \% \text{ (Goal: depend on E8)}$$

Following these measures' ratio, the findings are listed in no. 19 table below for the five fiscal years. (For further more details topic amount could be seen in the annex)

Rate of return and cost measures
Table 19

Year	2002/2003						
Cooperative	R1	R2	R3	R4	R5	R6	R7
AB	66.99	26.21	25.00	0	17.97	0	85.33
BP	75.06	28.70	29.99	0	9.68	0	77.27
CM	26.18	30.03	20.00	0	11.70	0	90.00
NT	71.18	27.13	29.99	0	9.29	0	90.76
PP	45.43	29.55	29.27	0	4.50	0	82.72
Year	2002/2003						
Cooperative	R8	R9	R10	R11	R12		
AB	2.76	4.99	33.85	7.27	47.78		
BP	2.21	6.12	33.45	8.08	38.83		
CM	10.35	17.49	54.95	38.90	28.17		
NT	3.81	6.71	71.93	17.59	59.33		
PP	2.12	5.51	60.78	12.25	60.08		

Year	2003/2004						
Cooperative	R1	R2	R3	R4	R5	R6	R7
AB	76.97	28.51	35.02	0	14.27	0	55.93
BP	78.16	52.80	36.79	0	10.50	0	77.28
CM	40.88	49.73	25.80	0	15.78	0	85.60
NT	64.78	36.13	24.97	0	12.29	0	79.93
PP	69.43	47.65	46.29	0	9.90	0	88.70
Year	2003/2004						
Cooperative	R8	R9	R10	R11	R12		
AB	3.68	5.49	34.70	8.27	40.08		
BP	2.19	6.32	36.42	9.12	58.73		
CM	9.34	13.09	65.80	19.49	18.97		
NT	5.28	7.61	63.53	12.90	72.83		
PP	8.32	8.54	86.08	10.82	82.18		

Year	2004/2005						
Cooperative	R1	R2	R3	R4	R5	R6	R7
AB	89.07	38.51	32.86	0	20.37	0	59.90
BP	67.26	45.82	49.73	0	12.81	0	78.28
CM	65.45	51.63	35.75	0	13.78	0	65.90
NT	78.62	29.89	44.67	0	15.29	0	75.83
PP	82.83	62.67	34.29	0	10.70	0	83.70
Year	2004/2005						
Cooperative	R8	R9	R10	R11	R12		
AB	4.57	9.45	54.71	9.17	59.68		
BP	3.90	7.38	38.49	7.92	59.83		
CM	8.34	10.59	46.80	15.99	54.97		
NT	4.68	9.51	65.93	16.92	74.83		
PP	7.42	8.74	62.18	11.68	81.18		

Year	2005/2006						
Cooperative	R1	R2	R3	R4	R5	R6	R7
AB	74.87	48.52	42.06	0	18.67	0	69.90
BP	71.36	35.72	59.83	0	21.01	0	73.28
CM	75.45	58.73	57.95	0	19.48	0	59.96
NT	72.62	49.39	43.47	0	17.89	0	85.84
PP	88.93	69.07	61.09	0	16.74	0	69.71
Year	2005/2006						
Cooperative	R8	R9	R10	R11	R12		
AB	4.58	8.75	44.91	8.57	74.60		
BP	3.99	9.98	39.59	9.72	56.88		
CM	8.04	5.57	52.81	13.39	84.27		
NT	4.68	7.59	63.90	15.72	75.13		
PP	7.52	8.04	74.08	14.48	91.08		

Year	2006/2007						
Cooperative	R1	R2	R3	R4	R5	R6	R7
AB	85.17	48.51	42.86	0	26.37	0	89.90
BP	87.26	35.82	46.73	0	18.85	0	72.22
CM	63.05	56.63	33.75	0	15.68	0	59.95
NT	79.62	80.89	48.67	0	19.89	0	83.83
PP	85.53	29.67	35.29	0	16.70	0	90.10
Year	2006/2007						
Cooperative	R8	R9	R10	R11	R12		
AB	4.58	5.40	46.71	10.17	69.98		
BP	3.99	8.58	35.45	9.52	54.63		
CM	8.04	9.09	36.84	14.69	56.97		
NT	4.68	4.51	67.93	13.92	84.83		
PP	7.52	7.79	52.68	12.60	67.18		

The ratio of R1 ranges from 26.18 percentages in 2002/03 of Churiyamai SACCOS to 89.07 percentages of Ambhanjyanj SACCOS in the year 2004/05. The standard goal for R1 is that it should be greater than the operational or investment cost. R2 belongs to liquid investment income to average liquid that has greater than R1 as its standard. None of the cooperatives have greater ratio than R1 in the year 2002/03 as the liquid investment is not good. In year 2003/04 only Churiyamai SACCOS has met the standard which is 49.73 percentages. All cooperatives in 2004/05 and 2005/06 have less than the standard ratio due to less liquid investment than average liquid. Nibuwatar SACCOS has met the standard in 2006/07 and improved its liquid investment income. Similarly the standard of R3 is equal to market rate. In 2002/03 Churiyamai SACCOS has the lowest ratio i.e. 20.00 percentages whereas in 2005/06 Bhimphedi SACCOS has the greatest ratio i.e. 59.83 percentages.

Again R4 has greater than ratio to R1 as its standard goal. But during these five years time period, all SACCOS has 0 percentages ratio due to no non-financial investment income by cooperatives. The standard of R5 is > inflation rate. Padampokhari SACCOS has 4.50 percentages in 2002/03 to Ambhanjyanj SACCOS that has 26.37 percentages in 2006/07. R6 again has its standard equal to market rate. Unfortunately all the SACCOS have 0 percentages due to no external credit investment by these cooperatives during the five years time period. R7 has greater to R5 as its standard goal. All the SACCOS are greater percentages than R5 within the years as these cooperatives have good dividend on shares than average member shares. It ranges from 55.93 percentages of Ambhanjyanj SACCOS in 2003/04 to 90.76 percentages of Nibuwatar SACCOS in 2002/03.

The standard of R8 depends on R9, R11 and R12. It ranges from 2.12 percentages of Padampokhari SACCOS in 2002/03 to 10.35 percentages of Churiyamai SACCOS in 2002/03. R9 has 5 percentages as its standard goal or 3-10 percentages. Churiyamai SACCOS has 17.49 percentages in 2002/03, 13.09 percentages in 2003/04 and 10.59 percentages in 2004/05 which is greater than the standard goal because its operating cost is higher. All other SACCOS are within the standard goal ratio. Similarly R10 has equal delinquency as standard goal. The ratio of R10 ranges from 33.45 percentages of Bhimphedi SACCOS in 2002/03 to 86.08 percentages of Padampokhari SACCOS in 2003/04. R11 has minimal standard goal. The ratio ranges from 7.27 percentages of Ambhanjyanj SACCOS in 2002/03 to 38.90 percentages of Churiyamai SACCOS in 2002/03. The standard of R12 depends on E8. The ratio ranges from 18.97 percentages of Churiyamai SACCOS in 2003/04 to 91.08 percentages of Padampokhari SACCOS in year 2005/06. This percentage differs due to different net income to average total assets.

4.7.1.5. Liquidity

Liquidity of a cooperative refers to the sound solvency position of a cooperative to meet its obligations. Liquidity ratio measures the ability of a cooperative to meet its short-term obligations. Liquidity of a cooperative should be considered as the most important factor for its existence. Any cooperative perceived as illiquid cannot attract deposit firm public. Moreover, inadequate liquidity leads to runs in the cooperatives and probably bankruptcy thereof. PEARLS explain liquidity as necessary for the cooperative growth and smooth operation.

It could be measure by four different ratios. L1 represents total liquid assets-short term payables to total saving deposits account to that has total saving deposits and has minimum 15 percentages as its standard goal. L2 stands for liquidity fund (reserves) to total savings that has 10 percentages as its standard goal. L3 stands for non earning liquid assets to total assets ratio that has less than 1 percentages standard goal. L4 has total cash account to total assets ratio that has less than 3 percentages ratio as the standard goal.

The formulas can be shows as follows:

$$1. L = \frac{\text{Total liquid assets - short term payables}}{\text{Total saving deposits}} \times 100 \% \text{ (Goal: min 15 \%)}$$

$$2. L = \frac{\text{Liquidity fund(reserve)}}{\text{Total savings}} \times 100 \% \text{ (Goal: } 10 \% \text{)}$$

$$3. L = \frac{\text{Non earning liquid assets}}{\text{Total assets}} \times 100 \% \text{ (Goal: } < 1 \% \text{)}$$

$$4. L = \frac{\text{Total cash account}}{\text{Total assets}} \times 100 \% \text{ (Goal: } < 3 \% \text{)}$$

Following these measures' ratio, the findings are listed in no. 20 table below for the five fiscal years. (For further more details topic amount could be seen in the annex)

Liquidity measures
Table 20

Cooperative	2002/2003			
	L1	L2	L3	L4
AB	58.36	9.45	0.65	4.75
BP	62.49	4.86	0.95	3.29
CM	72.33	6.72	1.74	0.99
NT	81.25	8.37	0.83	2.78
PP	49.83	10.47	0.55	1.84

Cooperative	2003/2004			
	L1	L2	L3	L4
AB	81.56	8.87	0.85	3.86
BP	66.96	6.96	1.74	4.68
CM	91.83	8.70	0.95	3.80
NT	78.65	7.61	0.97	2.99
PP	59.23	19.47	1.84	3.75

Cooperative	2004/2005			
	L1	L2	L3	L4
AB	78.59	8.05	1.65	5.75
BP	72.87	6.82	0.45	2.25
CM	69.35	9.42	0.79	5.79
NT	80.85	10.70	1.53	3.95
PP	58.70	9.43	0.88	4.30

Cooperative	2005/2006			
	L1	L2	L3	L4
AB	87.30	9.25	0.61	3.67
BP	64.97	8.92	1.85	5.49
CM	79.65	4.82	2.61	1.86
NT	68.44	6.25	0.85	4.72
PP	49.63	7.83	1.48	5.64

Cooperative	2006/2007			
	L1	L2	L3	L4
AB	71.99	5.95	0.74	3.77
BP	64.25	7.78	0.86	4.48
CM	73.95	8.42	1.63	2.96
NT	82.54	9.29	0.64	4.75
PP	81.33	5.73	2.65	5.58

The standard goal for L1 is minimum 15 percentages. The ratio of L1 ranges from 49.63 percentages in 2005/06 of Padampokhari SACCOS to 91.83 percentages of Churiyamai SACCOS in the year 2003/04 which is quite more than the standard ratio. L2 belongs to liquid fund to total savings that has 10% as its standard. It ranges from 4.82 percentages of Churiyamai SACCOS in 2005/06 to 19.47 percentages of Padampokhari SACCOS in 2003/04. L3 belongs to Non-earning liquid assets to total assets that have < 1 percentages standard ratio. This ratio ranges from 0.45 percentages of Bhimphedi SACCOS in 2004/05 to 2.61 percentages of Churiyamai SACCOS 2005/06. The standard of L4 is <3 percentages which stands for total cash account to total assets. It ranges from 0.99 percentages of Churiyamai SACCOS in 2002/03 to 5.58 percentages of Padampokhari in 2006/07.

Sign of Growth

Cooperative should have increment in its financial transaction. Sign of growth is also known as trend analysis and can calculate by the two different ratios as mentioned above in Growth/Trend analysis. We could use the ratios for total assets, loan, members deposit, liquid investment, financial investment, non financial investment, net institutional capital and institutional capital etc.

4.8. Major Findings:

) It can be analysis that the interest amount earned by the cooperatives is not sufficient during the five years time. These cooperatives should increase their interest amount in comparison to total assets amount. Except two Cooperative i.e. Bhimphedi and Nibuwatar SACCOS other cooperatives have not increasing trend of interest earned.

) The cooperatives have good operating efficiency as the loan/advances to total deposits ratio is good. It seems that these cooperatives should initiate in increasing the fixed deposit amount as there is good expanding market of loan among their members and shareholders.

) There cash and bank balance frequency is not constant and lies very high and some time low in comparison to total deposit amount. The cooperative should be careful on keeping the cash and bank reserves.

) Both interest income to total income trend and income expenses to total expenses trend are satisfactory following the five cooperatives. These SACCOS could hire good and enough human resources as they are able to hold staff expenses to some more extent.

) The trend of shareholder of these cooperatives has no good frequency. It goes on decreasing. The SACCOS should initiate in taking good strategies for constant shareholders increasing trend.

) SACCOS like Ambhanjyanj and Padampokhari have some improvement than other SACCOSs. The cooperative should be careful to have good shareholder's amount and for that it should increase believes among the members and stakeholders.

) Total deposit trend is found much better than later on trend. There is some improvement which is not satisfactory. Therefore the cooperative must think to create some new strategies to increase the constant deposit trend.

) Most SACCOS have started to follow the PEARLS analysis since very few years' time.

) Protection of PEARLS analysis gives importance to assets security. The ratio measures from P1 to P7 explain satisfactory analysis within these cooperatives. But there should be good net allowance for loan losses in each cooperative and the SACCOS should try hard to meet the standard goal.

) It can be concluded that all the cooperatives have satisfactory financial structure but they must be careful in terms of keeping liquid assets.

) The measures of assets quality are at satisfactory level along with rate of return and cost measurements.

) Unfortunately the SACCOS are not streamlined as the standard goals. These women cooperatives should generalize the importance of following PEARLS to move and competition forward.

CHAPTER 5

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

SACCOS plays a great role in the development of a country. Basically, financial system is the channel through which mobilization and allocation of savings is carried out in the economy. As such, the financial system facilitates the transfer of financial resources from savers to borrowers. Especially rural women in Makwanpur District are benefited with these objectives; Women SACCOS play a vital role in their socio economic development.. It helps to mobilize small savings collectively to the huge capital investment. In this sense, systematic collection of idle funds and the subsequent mobilization or canalization has supplemented not only the financial needs of women, the community and small entrepreneur, but also provided the necessary finances for the poor and under marginalized people. Though, the bank and other financial firm is considered as the platform of money market and capital markets, SACCOS help to promote the money market as well as support the community development.

Since the early 1990s a large number of co-operatives with different specialties have been set up. Savings and Credit Co-operatives, other co-operatives with savings and credit business components and Diary Co-operatives have been spread throughout the country. In Nepal agriculture based co-operatives were initiated in the 1950s as a first step in micro-finance. Poverty alleviation rural based programs were initiated through the small farmers development program (SFDP) on a pilot test basis in 1975 by the ADB/N. Cooperative law was enacted in 2016 B.S; however cooperative bank established only in 2020 B.S.

Makwanpur is a hilly district of Nepal which consists of 43 village development committees (VDCs) with majority of Mongolians people. There are altogether 24 women's saving and credit cooperatives in Makwanpur District. Both poor as well as well off women are the members in these cooperatives and all of these cooperatives are located in VDC of Makwanpur District.

For the study, the five years' data of the women SACCOS have been pooled starting from FY 2002/03 to 2006/07. The collected data of the cooperatives for the study purpose are thoroughly processed, tabulated for the required format; different measures of the data have been calculated using different financial tools and PEARLS analysis with the best effort.

The entire thesis has been classified into five chapters namely, (I) introduction chapter, (II) review of literature, (III) research methodology, (IV) data presentation and analysis and finally (V) summary, conclusion and recommendations.

In the first chapter, background, focuses, objectives, limitations, statement of problems are briefly discussed. In second chapter the relevant literature of the topic, articles, books, and journals are studied and reviewed. The unpublished thesis relating to the subject matter has been reviewed. In third chapter the financial tools and PEARLS system, the recommended monitoring tool by Department of Cooperative have been studied for the study. The brief explanation of the tools and the logic for the using the tools also have been presented. The methodology, research design to be followed, types of data, data collection process, method of data collection process, sample and population are presented. The fourth chapter is about the presentation and the analysis of the data; the major findings of the study are presented on the basis of the analysis carried out in the thesis.

The last chapter is about the summary, conclusion and the recommendations to the concern parties are presented. The conclusion and recommendations are extracted from the data analysis and computation of different financial and PEARLS analysis; are very useful to the women SACOOS of Makwanpur especially. Thus to follow the recommendation of this work would a mile stone to improve their weak points in future performance and to strengthen their financial presence in the market.

This thesis is very much differ from other thesis work as it the thesis work on Women Saving and Credit Cooperatives of a particular district i.e. Makwanpur District. These sampled cooperatives are all located in Village Development Council (VDC) of Makwanpur District. This attracts our attention that the village women are more active than the urban women in development sector works. This may be happened due to different organizations NGOs, INGOs and GOs have interventions effort for poverty reduction and empowerment of women.

5.2 CONCLUSION

The main conclusion of the study are presented as below,

) **Unsatisfactory Profit**

The main objective of SACCOS is to earn profit so that they could serve all the stakeholders of the cooperative and gain beliefs. Therefore, the profit is the main measure of financial performance of the cooperative. All of the sampled Women SACCOS have been earning positive amount of profit but it is unsatisfactory. These cooperatives have strategic plan but they are not following their plan. There should be regular monitoring and follow up activity to the strategic plan by the management of the cooperatives.

) **Satisfactory No. of Shareholders**

Form the findings of PEARLS trend analysis; it can be concluded that all of the WSACCOS have been able to increase the no. of shareholders successfully over the study period. While comparing the cooperatives it is found that Shree Mahila Kalyan SACCOS, Ambhangyanj and Shree Mahila Janachetna SACCOS, Churiyamai are more successful in this connection than other cooperatives.

) **High Interest Income Coverage**

While analyzing the income and expenditure of all the sampled Women SACCOS it is found that all cooperatives' interest income covers about 76.78% to 96.33% of total income except Padampokhari SACCOS in 2005/06 i.e. 51.74%. This shows that although, interest is the dominant income source of SACCOS, all SACCOS depends mostly on interest income and depending into a single source of income is not a good practice for the health of the cooperatives. The cooperatives should think for other sources of income and raise fund by searching other alternatives for fund raising.

) **Unsatisfactory Assets Quality**

Using PEARLS Assets Quality measures we could conclude that all the sampled Women SACCOS have not good assets quality. Total loan delinquency to gross loan portfolio ratio and total non-earning to total assets ratio both ranges generally more than 5% whereas the

standard goal is less than 5% that should be decrease to 0%. The management of all SACCOS should be careful to improve its assets quality.

) **Satisfactory ‘Protection’ of PEARLS**

Protection gives importance to assets security. Saving and Credit Cooperatives as a micro finance institution consider its credit/loan as its main asset. The cooperative would only be secure if the credit/loan would be secure. Observing PEARLS ‘Protection’ measures and audit reports of the SACCOS of three fiscal years we could conclude that all the sampled Women SACCOS have satisfactory loan security as there is no any amount of bad debt. While interviewing the manager and members of these SACCOS, they said that being women members of the cooperative are very honest to pay back the loan.

) **Unsatisfactory Liquidity position**

As the conclusion, the liquidity positions of these SACCOS are unsatisfactory. The cash reserve ratios of the cooperatives ranges from 1.56% to 49.99%. This shows that there is no certainty in SACCOS’s liquidity position within these five recently years. Some are very low and some have high cash reserve ratio which is not fruitful for the healthy growth of cooperative. There should be some good system for cash and bank liquid positions.

5.3 RECOMMENDATIONS

Based on the analysis conducted on previous chapters, some shorts are found. Thus, following recommendations could be possibly helpful to improve their future financial performance.

) Profit is essential for the survival and growth of cooperatives. As per the findings, profits of both of the sampled cooperatives are not at satisfactory level. Therefore, these women cooperatives are suggested to generate higher profit for the survival and growth of the cooperative.

) PEARLS monitoring system is an effective management tools that was developed to monitor saving and credit cooperatives. But by the interaction and interview with the women representatives it is concluded that still the WSACCOS of Makwanpur District are not using this tools. It is strongly recommended to all the WSACCOS of

Makwanpur District to use the tools for effective and smooth development of the cooperatives.

-) By the findings, there is no proper record of loan delinquency of regular intervals with each of these five cooperatives. Loan delinquency of different period such as three months, six months and more than twelve months should be recorded and reviewed by all WSACCOS once at each month or once on every two months time.
-) By the measurements, the deposits of SACCOS are on the way of gradation. Low volume of deposits adversely affects in investment, which ultimately decreases the profitability of the cooperatives. Although saving deposit is better than fixed deposit trend, the management should start the fixed deposit promotion programs to increase the deposit level of the cooperatives.
-) It is highly recommended that the management of the sampled WSACCOS should be careful to keep either very high neither too low cash reserves with them. High cash reserve may cause misuse of fund whereas low cash reserve may cause disorder in smooth operation of cooperative.
-) The WSACCOS of Makwanpur District have not sufficient/capable human resources at present. Therefore these cooperatives are highly recommended to build the capacity of present human resource and hire capable human resource in need as they are the assets of the cooperatives and can lead the cooperatives forward.

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