CHAPTER I
INTRODUCTION

1.1 Background of the Study

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

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

The proper mobilization and utilization of domestic resources is one of the key factors in the economic development of a country. Similarly, integrated and speedy development of the country is only possible when competitive and reliable financial institution services are reached and operated to every corner

of the country. Financial institutions have vital role in the process of economic development. Financial performance, especially co-operative has long-term impact not only on their growth and sustainability but also on the economic development of the country.

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

Co-operatives follow democratic, participatory and transparent decision making process and organizational structures so that their members and users i.e. owners, workers and consumers) may to directly responsible for benefiting themselves and the society in general.

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

According to the definition of international Co-operative Alliance (ICA)" A co-operative is an autonomous association of people vented voluntary to meet their common economic social and cultural needs and aspiration through out a jointly owned and democratically controlled enterprise"[1]

Co-operative organization is developed to remove defects of Capitalism, to lesser competence, to prevent exploitation over people and to help the weak class people. It ideology is tried to use in different possible area. In the beginning a success achieved as consumer store, where as a now it is found in the field of vegetable production, seed production, tea and coffee production, sales and distribution, health education, wood carving, metal carving, furniture, cottage industry, carpet industry, housing and other. Due to its nature Co-operative with limited banking service, saving and credit Co-operative is also called credit union (CU) and recognized as micro finance institutions (MFIS).

1 *International Co-operative Alliance*, 1995, Seventh Annual General meeting.

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

Everest Co-operative Society Limited (ECSL) is one of the credits and saving co-operative limited, which is situated in Talchowk, Leknatha was established in 2057 B.S. It has one branch in Pokhara. ECSL is established under the provision of the section 26 of co-operative act 2048. It celebrated its 8th annual general meeting. The objective of the establishment of ECSL is to enhance economic and social status of its members by providing easy financial services. The mission of ECSL is to generate self-employment by financing member for the establishment of the income generation business and motivating them for developing the saving habit in the co-operative.

1.2 Focus of Study

In the history of co-operative it is an organization established by the people who are economically weak. For common benefit, co-operative refers to work together. It gradually developed from social institutions like Dharma Bhakari, Dhikuri, Parma, Guthi and so on that are indigenous form of the co-operatives.

Dhikuri is a traditional rotating credit association of Nepal. The Dhikuri system was initiated with the management of food grains for the community people who had not enough grains and who had more grains in stock. Though, Dhikuri originated with the collection of food grains but today it is turned into a mechanism to raise Capital for investment in trade and business. Dhikuri has been a prime example of voluntary credit association that has sustained for centuries and still continues to expand to other different communities. One may

compare Dhikuri with the western credit card system, where the former is informal and group trust based while the latter is formal and legal based.

In modern Dhikuri system, the coordinator invites members, call meetings, keep record collect installment, distribute the fund, collect fines, settle disputes and make the Dhikuri a success. Close relatives, friends and acquaintances are invited for membership. The size and amount of Dhikuri differs from one Dhikuri to another but in each Dhikuri both the member and the amount are fixed. The first recipient of the fund is usually the coordinator himself/ herself and subsequent fund is given to other members turn by turn as per rule of the Dhikuri either by lucky draw or open bidding or close bidding systems on the tender basis. Those who get the fund need to pay interest on periodic basis as long as Dhikuri continues. Finally, after all the members get a chance and the association collapses.

However, co-operative movement in Nepal, in an organized form, started in 2010 B.S., the co-operative department was established under the Ministry of Plan Development and Agriculture for the promotion to co-operative society through organization and registration of them. As a result, a number of co-operative societies have been formed.

Co-operative has been accepted all over the world as a vehicle for mobilizing the scattered saving and putting them in productive use for the benefit of the poorer people of the society. Co-operative helps to distribute wealth and profit equally to all. It has distinct character in comparison to other organization due to its own co-operative values and principles. The values and principle are the foundation of co-operative development as well as its success. The main challenge of co-operative organization is that it is a business organization as well as this sense, profit is the essential part of every organization which measures the position of business but we should keep in mind that Co-operative also base on service motive. Financial performance measures the strengths and weakness of the organization.

Initially, WOCCU staff tried to adapt the US CAMEL ranking system to the credit unions on Guatemala, but fund that several modification were

needed. CAMEL is a supervisory tool, in the US, its ratio intend to protect the solvency of institution and the safety of member deposits. Beyond supervision, WOCCU was looking for a tool that would evaluate the financial structure of the balance sheet, critical to Guatemalan Credit unions undergoing major restructuring of assets, liabilities and Capital. In addition, credit union managers needed to monitor growth of total assets, seen as key to addressing the problems resulting from monetary devaluation and runaway inflation. In essence, PEARLS was designed first as a management tool, and later became an effective supervisory mechanism.

Many countries are applying new monitoring tools like CAMEL, which provide a supervisory control in the Micro Finance Institution operation and help to find the critical deficiencies faced by the organization. Such tool gives the manager a clear dimension in operating smoothly and promptly. The PEARLS; is a new tools that performs both the management and supervisory tools developed by world councils of Credit Unions. The tools under PEARLS are applied to examine financial performance of Everest co-operative Society Limited.

1.3 Statement of the Problem

Very low per capita income, high population growth rate, lack of adequate infrastructure development and low economic growth rate characterize Nepalese economy. The obscene of employee opportunities in the non-agricultural sector and high underemployment in agricultural sector are the major factors responsible for poverty. To uplift of socio-economic condition of poor people mainly the rural area, co-operative organizations are working continuously. Even though, saving and credit co-operative organizations are found useful to help generate saving and provide credit when needed. Nowadays, several Co-operative Societies have been established with various aims. Likewise saving and loan co-operatives multipurpose co-operative, dairy co-operatives, publishing Co-operative, consumer co-operation vegetable co-operative, and Agriculture seeds production co-operative etc.

Most of the saving and credit co-operates are urban based, especially concerned in Kathmandu, Birgunj, Pokhara, Biratnagar, Nepalganj, Butwal, Narayanghat etc. ECSL is concerned about to provide saving and credit program. For the development of economic level of people it plans that to utilized local Resources & skill.

The major fundamental objective of the study is to examine the financial performance of ECSL in the framework of PEARLS. Based on this framework the following specific problems are raised.

a. How to measure level of protection of the assets?
b. What is the level of effective financial structure?
c. What is the condition of assets quality?
d. What are the rate of return on various investments and costs on savings deposits?
e. What is the level of liquidity and non-earning liquid assets?
f. What is the sign of Growth in Portfolio of loan, Saving Deposit, Capital and Total assets?

1.4 Objectives of the Study

This study is directed towards analyzing about financial performance of ECSL in the framework of PEARLS analytical tool. The objective of the study is to examine the financial variability and to make the suggestion for improving the financial efficiency of the organization; it also highlights the concept, historical background current issues, challenges and weakness of Co-operative organizations. The following specific objectives have been set based on its fundamental objectives.

a) To measurement the level of protection of assets.
b) To analyze the level of effective financial structure.
c) To analyze the condition of assets quality.
d) To evaluate rates of return on various investments and cost on savings deposit.
e) To find out the level of liquidity and non-earning liquid assets.

f) To evaluate the sign of growth in portfolio of loan, saving deposit, Capital and total assets.

1.5 Significance of the Study

This study will be more helpful to the management level of co-operative organization to make plan and policies to better handling to organization and this study will be valuable in knowing the financial performance of organization using the new tools, PEARLS. There are various problems to make effective financial level, which affect their performance to a greater extent. Performance of co-operative does not seem so satisfactory in terms of utilizing its resource efficiently in productive sectors. Hence the main significance of this study of financial performance of co-operatives is to help how to minimize risk on investment and maximize return through PEARLS analysis.

1.6 Limitation of the Study

This study is simply a partial study for the fulfillment of MBS degree, which has to be finished within limited period. Hence, this study is not far from several limitations of its own kind, which weaken the scope of the study to some extent. Some of such limitations are as follows:

a) The study is mainly focus financial data analysis of ECSL, is the case study of this research.
b) Due to the nature of study, the study is based on secondary data.
c) As far as practicable all available recourses are utilized for the study, but the study covers especially financial information of the fiscal year 2058-2064.
e) Due to wide range of data deficiencies only under the PEARLS theory have been used for the analysis of the data.

1.7 Organization of the Report

This report has been divided into five chapters.

First chapter contains the background of the study, statement of the

problem, signification of the study, objectives of the study and limitations of the study.

Second chapter deals with the review of available literatures in the field of the study being conducted. This includes review of the theories of the concerned topic, review of supportive text, review of books, review of bulletins and annual reports published by organization, review of related articles and review of previous thesis.

Third chapter deals with research methodology. It includes research design, justification for the selection of the study unit, sources and procedure of data collection data processing procedure, tools and techniques and limitation of the methodology.

Fourth chapter is devoted to the presentation and analysis of data through definite course of research methodology. The main working of this chapter is to analyze different financial performance in the framework of PEARLS. Major findings of the study are also included in this chapter.

Fifth is the last chapter of the study, which provides summary and conclusions, suggestions and recommendations for improving the future performance of the co-operative. Besides these, bibliography and appendices will also present at the end of the thesis.

CHAPTER II
REVIEW OF LITERATURE

This chapter is basically concerned with review of literature relevant to the topic "Financial Performance Analysis in the Framework of PEARLS." The previous study cannot be ignored because they provide the foundation to the present study. There must be continuity in research. This continuity in research is ensured by linking the present study with past research studies.

This chapter is divided into two sections.

1 Conceptual Reviews

2 Theoretical Reviews

2.1 Conceptual Review

This chapter reviews existing literature and researches related to the present study for the purpose of finding out what had already been explained and how the present research adds to this dimension. In this regard review of literature on conceptual aspects of co-operatives, pertinent issues and growth of co-operatives in Nepal and review of related thesis works on the subject is also presented. The selected cases are also introduced at the end of the chapter.

2.1.1 Meaning and Definition of Co-operative

Generally speaking, Co-operation means living, thinking and working together. In its technical sense, it denotes a special method of doing business. The terminology "Co-operation" has been derived from the Latin word "co-operari". Co means together and operari means to work.[2] Thus in ordinary sense co-operation means working together for a common goal or objective. In broader perspective, it means self-help, mutual help and assistance. The motto behind co-operation is "each for all and all for each". It is a system of people

[2] P.C. Dhal, ***A Text Book of Co-operative Management***, (New Delhi: Konark Publishers, 2007), p. 7.

voluntarily associated working together on terms of equality to get rid of their economic exploitation by intermediaries.

Thus co-operative is associated with human being in all walks of life. It may be compared with birds, beasts and insects etc. It teaches us to maintain disciplined life and Co-ordination among each other. From Ant Community we get the indication of instinctive co-operation. The story" Doves and the Hunter" teaches us that life can be saved when we are united. The age-old story of "old father and three sons" teaches us united we stand, divided we fall. In this sense, co-operation means unity, strength and coordination. Community life and social life is fragmented in the lack of co-operation. Co-operation brings unity among nations, creates good will and strengthens understanding in the national and international sphere.

The term co-operation has several meanings and it difficult to convey the correct meaning of co-operation. It's meaning has varied from thinker to thinker and from one sphere of human activity to the other. To the sociologists, it is a socio-economic movement: for the socialists, it is a social order in which man is free from class struggle. According to economists, it is a form of business organization in which there is no scope of being exploited by middlemen, and lawyers take it to be an organization in whose membership one enjoys "the special privileges and concession conferred by law."[3]'Bhide' has defined "co-operative represents itself as a happy means between the forces of extreme individualism on one hand and socialism and communism on the other. It stands for individual rights tampered by consideration of justice, equity and fair dealing between man and man, and its one great aims is to prevent the exploitation the weakens by the stronger party;"[4]

'H. Calvert' defined co-operative as "A co-operative from organization wherein persons voluntarily associate together as human beings on a basis of

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[3] T.N. Hajela, ***Co-operation Principle, Problems and Practice***, (New Delhi: Konark Publishers, 1994), p. 14.

[4] V.S. Bhide, ***The place of Co-operative in national***, (Bombay: Bombay Publishers, 2005), p.29.

equality for the promotion of economic interest of themselves"[5] The definition given by international Labor organizations covered most of the principles of co-operation so it can be considered to be the most comprehensive one. Co-operative society is "An Association of the economically weak who voluntarily associates on the basis of equal rights functions, corresponding to one or other economic needs which are common to them all, but which each of them is unable fully to satisfy by his/her own individual efforts and mange and use such undertakings in mutual collaboration to their common material and moral advantage"[6] The progress of co-operative movement has been slow and in some countries it is exceedingly slow. In the constitution of Nepal, it has been resolved to secure to all the citizens of Nepal justice, social economic and political. As such, co-operative societies have been given an important place in the constitution. Economic development and social change are equally vital elements in the reconstruction of Nepal's socio-economic structure. Co-operation is one of the principal means for bringing about changes of a fundamental nature in the country. As such co-operative development has got priorities and various have been made by the government through various economic plans to propagate the idea of co-operation in the country.

Thus, on the basis of foregoing explanation, the characteristics of co-operation can be listed as: a) It is an association of individuals for the achievement of a common objective, b) It embodies in itself certain ideologies such as self help, mutual assistance and team spirit, c) It aims at common welfare, d) It clearly indicates that there are certain task which cannot be performed at individual level, e) It teaches us Unity is Strength, f) It involves a spirit of dedication and honest service, and g) It is a business organization.

2.1.2 Principles of Co-operatives

Generally, principles refer to the code of conduct that governs the life and activity of human beings. Similarly, co-operative principles are the set of

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[5] P.C. Dhal, ***A Text Book of Co-operative Management***, (New Delhi: Konark Publishers, 2007), p.49.

[6] B.P. Shrestha, An ***Introduction to Nepalese Economy***, (Kathmandu: Buddha Academy Enterprise, 2000), p. 115.

rules and regulations to regulate and govern the activities of co-operative enterprise. All the co-operatives are guided by its principles. Co-operative principles are the set of rules and regulations to regulate and govern the activities of co-operative enterprise. Every economic system is based on certain fundamental principles. Co-operation as an economic system is not an exception to these principles. Broadly speaking, there have been three types of co-operative systems, which are based, more or less, on the same principles, but differ from each other in the mode of operation. The three systems are:[7] 1) Rochadale System, 2) Raiffeisen System and 3) schulze - Delizsch System.

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

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

I) Voluntary and open membership
II) Democratic Member Control
III) Member Economic Participation
IV) Autonomy and Independency
V) Education, Trading and Information
VI) Co-operation among Co-operatives
VII) Concern to Society

The International Co-operative Alliance Prescribed the following seven principles of Co-operation.[8]

I) Voluntary and open membership

The first of the Rochadale Principles states that co-operative societies

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[7] T.N. Hajela, ***Co-operation Principles, Problems and Practice,*** (New Delhi: Konark Publishers, 1994), P.55.
[8] ***Brochure, Kaski district Training Center***.

must have an open and voluntary membership. According to ICA's statement on the co-operative identity, co-operatives are voluntary organizations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination. A co-operative society does not discrimination anyone on the basis of caste, creed, and religious beliefs. All members are treated equal as a principle of equality.

II) Democratic Member Control

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

III) Member Economic Participation

Member economic participation is one of the defining of co-operative societies, and constitutes the third Rochadale Principle in the ICA's statement on the co-operative identity. According to the ICA, co-operatives are enterprises in which "members contribute equitably to, and democratically control, the capital of their co-operative. At least part of that capital is usually the common property of the co-operative. Members usually receive limited compensation, if any, on capita subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes; developing their co-operative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their

transactions with the co-operative; and supporting other activities approved by the membership.”

IV) Autonomy and Independence

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

V) Education, training and information

The fifth of the Rochadale Principles states that co-operative societies must provide education and training to their members and the public. According to the ICA's statement on the co-operative identity, “Co-operative provides education and training for their members, elected representatives, managers and employees so they can contribute effectively to the development of their co-operatives. They inform the general public- particularly young people and opinion leaders- about the mature and benefits of co-operation.

VI) Co-operation Among Co-operatives

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

VII) Concern for Community

The seventh of the Rochadale Principles states that co-operative societies must have concern for their communities. According to the ICA's

statement on the co-operative Identity, "Co-operatives work for the sustainable development of their communities through policies approved by their members.

2.1.3 Global Prospective

In the early day in Great Britain, co-operative movement contributed for the economic development. At the beginning of the 19th century, Robert Owen gave the idea of co-operative, but it was practically developed by a group of Rochadale pioneers called the "Consumers Society". This was a successful co-operative society, which was started all over Great Britain, this society sold goods only for its members in the beginning, but later it started to sell goods to non-members also.

Rochadale Principles of co-operative discussed in co-operative literature through out the world are open membership, democratic control, distribution of surplus in proportion to purchase-limited interest on capital, religious and political neutrality cash trading, promotion and education. Although there have in extend hundreds of societies but the truth is that it was the Rochadale pioneers society that achieved tremendous success and put economic and social life to Britain on the read of continuous progress.

In 1919, the first co-operative collage in the world was established in Manchester. It is administered by the education committed of the co-operative union and open for the students from all parts of world. After the achievement of co-operative society, it was recognized in 1944. The government of the Great Britain decided that boys and girls must attend a country collage after learning school. The main motto was to produce good co-operative citizens with in the Great Britain.

Likewise, the idea of co-operative was suggested by two German at the time Rochadale Pioneers and they stared their co-operative work in Germany after few years for improving the coordination of the poor peasants. Friedrich Raiffeisen successfully tried to help those poor peasants through agriculture credit co-operative societies by the other Germany co-operation was Freiz Schulze Delizsch who opened the Co-operative bank to help the Germany

people. There was little difference between these two Germany co-operative societies in 1849 and both ran successfully.

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

Denmark is the homeland of agriculture co-operation in the world. A local Pasteur, Rev. Hans Christian, started the co-operative movement in 1861 at thirsted in Juland. After the visit of England they established co-operative stores in 1868. In 1882, the first co-operative diary was established and in 1887 the first balloon factory was established in Denmark. Today, the co-operative dairies occupy the front position in the Co-operative of Denmark.

In Israel, the first consumers, workers, producers and service of co-operative in Palestine were established in the year 1910 as a part of the Jewish labors movement.

In Switzerland, 'Daisies' started the co-operative movement. The various co-operative stores organize Swiss agriculture and numbers of food societies were also formed in 1851 other contributions of co-operatives to young people of Switzerland in 1934. By all this people of Switzerland realized that co-operatives provides many things to them.

In Canada, co-operative movement was stated by 'Lancashire' Iron and steel workers. The government of Canada organized co-operative butter and cheese factories in 1891 and united Fruit company also established. But there was no progress until 1937, due to build of warehouse by the co-operative who checked the fruits from the destroyed. One of the remarkable and successful contributions of Canadian co-operative is the British Canadian co-operative Society of 'Nova Scatia'.

In India, during the British rule, Nicholson a British Officer in India suggested to introduce Raifferisen model of German agricultural credit co-operatives in India. As a follow-up of the recommendation, the first co-

operative Society Act of 1904 was enacted to enable formation of "agricultural credit co-operatives" in villages in India under government sponsorship. With the enactment of 1904 Act, Co-operatives were to get a direct legal identity as every agricultural co-operative were to get a direct legal identity as every agricultural co-operative was repealed by 1912 co-operative societies Act, which provided formation of co-operatives societies. Under 1919, Administrative Reforms Act, co-operatives was made a provincial subject making each province responsible for co-operative development. In 1942, the British Government enacted the Multi-unit Co-operative Societies Act, 1942 with an object to cover Societies whose operations are extended to more than one state. The impulses of the Indian freedom movement gave birth to many initiatives and institutions in the post independence ere in India and armed with an experience of 42 years in the working of Multi Unit co-operative Societies and the Multi-unit co-operative Societies Act, 1942, the central Government enacted a comprehensive Act known as Multi State Co-operative Societies Act, 1984, repealing the Act of 1942. Co-operatives have extended across the entire country and there are currently an estimated 230 million members nationwide. The co-operative credit system of India has the largest network in the world and co-operatives have advanced more credit in the Indian agricultural sector than commercial banks.[9]

It is assumed that agricultural Co-operative started in China in 1917 A.D. when the country was dependent on agriculture without proper utilization of its resources. Flood, Famine, Poverty, Suppression and exploitation of the Landlords were common. After Dr. San Yat Sen had taken the authority of the government he applied co-operative to improve its economy, which later started in modern method.

The central committee of the Chinese Communist Party managed three different types of organization for more production.

A. Mutual Aid Teams.

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[9] Gokul Raj Sharma," A Comparative Study on the Financial Performance of Co-operative with reference to Samjhana Multiple and Naba-kshitij Co-operative Society Limited, (Master diss., Tribhuvan University, 1999).

B. Agricultural Producers Co-operative.

C. Advance Producers Co-operative or People's Commune

In Japan, after the second half of the 19th century co-operative movement was started. This movement seems to have been influenced by the European Co-operative movement. The Credit (loan) Co-operative in modeled on the British co-operative. The Japan Agricultural Multi co-operative organization takes an important position in co-operative movement, through in low level; we find a vital role of the government. In the movement the government invests funds and grants, which directs the organizations.

As the co-operative movement took place in different countries, the International co-operative congress established International Co-operative Alliance (ICA) in London on August 1895, ICA is an independent worldwide international association of Co-operative organizations of all types. ICA has the affiliation in 102 countries with 256 national and 4 international level organizations as members serving well over 800 million individual members worldwide. ICA collaborates with several United Nations agencies, including the International Labor Organization (ILO), Food and Agriculture Organization (FAO) and the Council for Trade and Development (UNCTAD). ICA enjoys Category-1 Consultative Status within the United Nations Economic and Social Council (UNECOSOC).

Similarly, in the early 1970s, World Council of Credit Unions, Inc. (WOCCU) was established. WOCCU has become the world's leading advocate, platform for knowledge exchange, and development agency for credit unions on an international level, delivers the "Sound and Safe" credit unions on an international level, legislators, regulators, donors, credit union projects with proven, tangible results.[10] The PEARLS system was originally designed and implemented with Guatemalan CUs in the late 1980s.[11] WOCCU has been

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[10] Official Web Site, DVA Federal Credit Union, Washington DC, USA, 25 July 2008. <http://www.dvafcu.org/asp/history.asp>

[11] Anna Cora Evns,"PEARLS- A tool for financial Stabilization, Monitoring and Evaluation", ***Nexus Magazine***, no.37 (June 1997),1 August 2008 <http:// www.caledonia.org.uk/nexus-37.htm>

using it worldwide to monitor the performance of CUs. The target goal, or standard of excellence for each indicator is put forth by the WOCCU based on its field experience working to strengthen and modernize credit unions and promote savings-based growth.

Statistical Information on the Co-operative Movement

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

Large Segments of the population are members of Co-operatives

a) In Argentina, there are over 17,941 COS with 9.1 million members.
b) In Belgium, there were 29,933 COS in 2001.
c) In Canada, 1 in 3 individuals is a member of a CPS (33%). The Desjardins Co-operative movement in Quebec has over 5 million members.
d) In Colombia over 3.3 million people are members of COS.
e) Costa Rica count over 10% of its populations as members of COS.
f) Finland S-Group has a membership of 1468572 individuals which Represents 62% of Finnish households. (Source: SOK Corporation Annual Report 2004).
g) In the United States, 4 in 10 individuals is a members of COS. (25%)
h) In Singapore, 50% of the population (1.6 million people) is members of a Co-operative.

Co-operative is a significant economic actor in national economies

a) In Belgium, Co-operative pharmacies have a market share of 19.5%.

b) In Benin, FECECAM, a savings and credit Co-operative federation provided USD 16 million in rural loans in 2002.

c) In Brazil, Co-operatives are responsible for 72% of the wheat production, 44% of barely, 43% of Soya, 39% of milk, 38% of cotton, 21% of coffee and 16% of maize. Agricultural co-operatives exported over USD 1.3 billion.

d) In Cyprus, the co-operative movement held 30% of the market in banking services, and handled 35% of all marketing of agricultural produce.

e) In Denmark, the co-operatives in 2004 held 37% of the market. (Source: Coop Norden AB annual report 2004.)

f) In Poland, dairy co-operative is responsible for 75% of dairy production.

g) In the UK, the largest independent travel agency is a Co-operative.

h) In Vietnam, co-operatives Contribute 8.6% of the gross domestic Product.[12]

2.1.4 Nepalese Perspective

In Nepal, co-operation is not a new concept. We are already familiar with the main theme of co-operative Principle. Self-help, mutual help, co-operation among people is very old theme. It is developed with the development or along with development of human civilization.

"Getting together with a view to helping each other or social occasions, like marriage, Shraddha and in performing agricultural operations such as ploughing, Sowing, Co-protection, harvesting is traditional way of doing things in the rural mountainous and even the growing urban areas of Nepal."[13]

In Nepal, We have found our own type of co-operative principle in earlier period. The different types of traditional co-operative organization

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[12] Official Web site, International Co-operative Alliance, Geneva Switzerland, 20 August 2008. <http:// www.ica.com/statistical information>

[13] B.K. Sinha, ***Co-operative Development in Nepal,*** (Kathmandu: Buddha Academy, 2004), P.29.

include[14] "Dharma Bhakari", "Dhikuti" and "Parma". They still exist in the mountain Villages. These forms of mutual co-operation and self-help show that voluntary effort in respect of economic activities is not a foreign element to the Nepalese economic context. Similarly "Manka Jaya", or "Manka", "Guthi" are also ancient forms of co-operation. However, the co-operative in a modern concept in Nepal is of a recent concept. Thus, various forms of informal co-operation (i.e. Dharma Bhakari, Parma and Hurt) were used in different parts of the country. We cannot say the actual time of its origin in Nepal.

The history of organized co-operative in Nepal is of recent origin. Its history can only be traced back to about 55 years old. Formally, the history of co-operative movement in Nepal was developed after the establishment of co-operative department in the year 1953 under the Ministry of Agriculture for the promotion, supervision and evaluation of co-operative societies.

In the beginning co-operative movement in the real sense was greed up with the establishment of "Bakhan Saving and Credit Co-operative Ltd." in Rapti Valley, Chitawan in 1956 as part of the resettlement program for the flood stricken people in Rapti dun basis under the active support of united states agency for International Development (USAID) on experimental basic. These co-operatives were previously registered under an executive order of Government of Nepal.

Considering the importance of necessary rules and regulations for managing and guiding Co-operatives effectively and efficiently, the first co-operative Act was promulgated in 1959, which provide legal entity among things, to all co-operatives registered under the executive order.

Consequently co-operative society rules, 1961 were promulgated which prompted the Co-operative Act numerical growth of the co-operatives boomed up. In the mean time, the co-operative activities were tied up with the so-called revolutionary many land reforms program. In later dates, the guided co-operative program was introduced which followed a rapid merging process. In 1969, the management of co-operative was entreated to the agricultural

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[14]S.R. Shrestha, ***Increasing Agricultural Production Through Co-operative Action,*** (Ekata Publication, 2008), P.16.

development Bank of Nepal. The number of co-operative registered with the concerned department increased gradually and by the end with the concerned department increased gradually and by the end of F.Y. 1970/071 reached to be about 1500.

During the period, a Co-operative Development Fund (CDF) was established to finance co-operative for leading to their members. In order to provide broader spectrum of supervision, guidance and leading to co-operatives a Co-operative Bank was established in 1963. Within a short period of establishment, the co-operative bank suffered heavy financial losses because of misuse and fraud in the operation of its member co-operatives. This led to the establishment of Agriculture Development Bank and dissolution of Co-operative Bank in 1970 with all the assets and liabilities under the formal control. In 1976, the co-operatives were redesigned as 'Sajha'. The Co-operative Societies were also subjected to various agencies regarding management and control. In the early seventies they were brought under the ADB/N for financial and administrative control. This did not last long. They were handed over back to the co-operative development.

Obviously, the reason for failure of co-operatives was the nature of organization Government took initiatives to organize mange and control them. Co-operatives were used as tools for the extension of the government services designed to serve the interest the government, not of the members.

After the restoration of democracy in the country in 1990, it paved the way for new changes in the co-operative movement, consequently new co-operatives as people's organization with an autonomous body. On the basis of Act long a waited National Co-operative Federation came into existence in June 20, 1993[15].

Soon after the reinstatement of democracy in 1990, the interim government formed a National level Co-operative Confederation Advisory Committee. The Committee made on an in depth analysis of the problems teaches by the co-operative movement and which emphasis on the need for promoting co-operatives in the line with co-operative principles and democratic

[15] Official Web site, National Co-operative Federation of Nepal Ltd, Katmandu, Nepal, 29 August 2008 <http://www, ncfnepal.com.np/historicalevents.html>

values. The government and subsequently 11 members National Co-operative Development Board (NCDB) was formed by government of Nepal in August 1991 studied the committee's report. The board was formed with initial task of formulated co-operative policies and new legislation, to set up the structure of co-operatives in different sectors and for creating the necessary foundation for facilitating the process of co-operative development. There have been several Commissions and Task Forces formed for studies in the field of co-operatives. Such Commissions and Task Forces include Consultative Committee for National Co-operative Federation, 1990; Study on Improvement on Organizational Structure of Co-operative Development 2000; and High Level Co-operative Sector Improvement Committee, 2004: Legal frame work and institutional development study of saving and credit co-operative society and National Co-operative Bank by Ministry of Finance, 2004[16]

Co-operative Bank was established in 9th July, 2003 with the aim to provide financial services to all the co-operatives issuing share and making member to co-operatives[17]. With in the four-year period of establishment it is not capable to include most of the co-operatives of Nepal and facing problem in including all the co-operatives and extension of branch office in major parts of Nepal. For the supervision of co-operative, training office combining with division co-operative office in Kailali, surkhet, Kaski and Chitwan in 2005 and 2006, being the 50 years of formal establishment of Co-operative in Nepal, co-operative golden jubilee was celebrated all over the country. The major events of co-operative movement in Nepal have been summarized as under.

Table 2.1

Major Events of Co-operative Movement in Nepal

Year	Events
2010 B.S 1953 A.D	Establishment of Co-operative Division under the Ministry of plans Development and Agriculture.
2013 B.S	Issue of executive order for the legal variety of Co-operative Societies by the government.

[16] Prahlad Man Mail, "***Co-operative Movement in Nepal and its Role Development: Innovations and Challenges***" A paper presented in the Program on Development of Rural Financing Institutions and Co-operatives", Kathmandu, Nepal, 2005.
[17] Brochure, National Co-operative Bank Ltd, Nepal.

1956 A.D	Government incorporated Bakhan Saving and Credit Co-operative Ltd in Rapti valley, Chitawan by issusing executing order for its legal validity.
2018 B.S 1961 A.D	Issue of Co-operative Regulation 2018.First amendment of Co-operative Act 2016.Establishment of Co-operative Development Fund. Establishment of Sajha Santha Ltd.
2019 B.S 1962 A.D	Establishment of Co-operative Training Center. Establishment of Co-operative Exchange and loan Association. Issue of Co-operative Bank Act 2019.
2020 B.S 1963 A.D	Establishment of Co-operative Bank. Co-operative Section had kept under the Districti Panchayat.
2021 B.S 1964 A.D	Being of Agriculture Reorganization Program. Co-operative Division Staffs Transferred to Land Reform Program.
2023 B.S 1966 A.D	Co-operative Division had been transferred under the ministry of land reform Agriculture and Food.
2024 B.S 1967 A.D	Formation of Central Investigation Committee. Co-operative Bank transferred into Agriculture Development Bank.
2026 B.S 1969 A.D	Co-operative Division transferred under the Ministry of Land Reform. Operation of Co-operative Agriculture Development. At first compulsory saving (Abuvarya Bachat) has converted into Share of Co-operative societies, Bhaktapur. Co-operative Exchange and Loan Association changed into District Co-operative Association.
2027 B.S 1970 A.D	Second Amendment in Co-operative Act 2016. Arrangement of Central and District Co-operative Improvement Committee. The management of Co-operative Societies has Transferred to ADB/N.
2028 B.S 1971 A.D	First Amendment in Co-operative regulation 2018.
2029 B.S 1972 A.D	Operational of regular Co-operative Education Program.
2033 B.S 1976 A.D	Beginning of Population Education through Co-operative. Occurrence of Central Sajha Development Committee. Second amendment on Co-operative Regulation 2018. Compulsory Saving converted into the Share of Sajha.
2034 B.S 1977 A.D	Fiscal Regulation 2034 issued for the Sajha Society Management.
2035 B.S 1978 A.D	Management of Co-operative Transferred to Operating Committee from ADB/N. Issue of fiscal and Administrative Regulation for Co-operative.
2041 B.S 1984 A.D	Sajha Society Act. 2041 was issued.
2043 B.S 1986 A.D	National Co-operative seminar conducted. Issue of Sajha Society Regulation 2043.
2044 B.S 1987 A.D	Members high level central Co-ordination committee formed for the effective development of Sajha movement.
2045 B.S 1988 A.D	Announcement to return of compulsory saving to the savers.
2046 B.S 1990 A.D	Formation of Adhoc Committee for the formation of central Sajha Society.
2047 B .S 1991 A.D	Formation of 7 members Central Co-operative General Association Consulting Committee.
2048 B.S 1991 A.D	Sajha Central office dissolved. 11 Member National Co-operative Development Board established. Sajha Development transferred into Co-operative Department. Sajha Training center transferred into Co-operative Training Center.
2049 B.S 1992 A.D	Co-operative Act 2048 issued. District Co-operation Committee and Co-operatives Adhoc Committee formed.
2050 B.S 1993 A.D	Co-operative Society Regulation 2049 issued. Formation of National Co-operative Federation. Establishment of National Saving and Credit Co-operative Federation. Establishment of National Federation of Saving & Co-operative union Ltd. Consumer and

	Saving and Credit Co-operative Societies are established the large scale all over the country.
2052 B.S 1995 A.D	Formation of high-level Committee for Co-operative improvement and Proposal submitted.
2057 B.S 2000 A.D	Conversion of Ministry of Agriculture into the Ministry of Agriculture and Co-operatives. Formation of the National Co-operative Department Advisory Working Team and submission of report. The first Amendment in the Section 26 of the Co-operative Act, 1992.
2058 B.S 2001 A.D	Announcement of observance of International Co-operative Day by the Government.
2060 B.S 2003 A.D	Establishment of National Co-operative Bank Ltd.
2061 B.S 2004 A.D	National Co-operative Federation of Nepal established "National Co-operative Development Fund, NCDF. Nepal Government constituted a high level Co-operative sector improvement consultative committee under governorship of the Minister of Agriculture and Co-operatives submitted its report to the Government of Nepal. Ministry of Finance constituted to study the legal framework and institutional development of the savings and credit Co-operative Society and National Co-operative Bank under the Governorship of then Member of Ghanashayam Khatiwada submitted its report to the Ministry of Finance. Government of announced the policy of GAU-GAUMA MA SAHAKRI GHAR ROJGARI through its budget Fiscal year 2061/062.
2062 B.S 2005 A.D	Change of name of District Co-operative Office into Division Co-operative Office. Establishment of Regional Level Co-operative Training Office combining with Division Co-operative Office in Kailali, Surkhet, Kaski and Chitawan.
2063 B.S 2006 A.D	Celebration of Co-operative Golden Jubilee 2006/007 throughout the country.
2064 B.S 2007 A.D	Completion of Co-operative Golden Jubilee 20036/007 with four special Co-operative publications.

2.1.5 Rules Regarding to Co-operative in Nepal

Most of the countries in the world had already issued proper law for smooth operation of Co-operative organization. Britain had issued industrials and provident societies Act in 1952 A.D. This is the first co-operative Act in the world. In 1904 A.D. Co-operative has given legal framework in India. The modern co-operative movement was begun form since 2010 B.S. in Nepal. The first Co-operative Society Act came in effect in 2016 B.S. Development process of Co-operative law in Nepal is given as follows.

A) Co-operative organization Act, 2016

To develop mutual co-operative, economic development, self -reliance and elimination of poverty, Co-operative Act 2016 was come in effect. It was published in Gazette on 3rd Ashar of 2016 B.S. and began from 9th Kartik of 2016 B.S. This is the first Co-operative Act of Co-operative movement in Nepal. People above 16 years, having more than 25 members could register co-operative organization. For saving and credit Co-operative) members had been

same place or same aim and profession could register organization. After the issuance of Co-operative Rules 2018, Formation, Operation and Control of Co-operative organization became very easy.

B) Co-operative Bank Act, 2019

Co-operative Bank Act 2019 has issued to provide easily loan to co-operative organization. After issuance of Co-operative Bank Act in 2024 B.S. Co-operative Bank was established in 18th Bhadra 2020 B.S. After in 2024 B.S., Co-operative Bank was merged in Agriculture Development Bank.

C) Constitution of Nepal, 2019

Third amendment of constitution of Nepal had given legal acceptance to Co-operative. It has emphasized co-operative as a formation to Development of Industry and Commerce.

D) Sajha Sanstha Act 2041

Sajha Sansta Act had come in effect in 2041 B.S. This Act has managed the following provision.

1. Industrial Sajha having 15 or more than 15 members.
2. Others Sasjha organization having 24 or more members.
3. District Sajha union organization having 25 or more members.
4. National Sajha union having 15 or more districts Sajha Union.

E) Co-operative Act, 2048

After the restoration of democracy in 2046 B.S. Co-operative Act 2048 has come in effect. The new legislation recognized the democratic character of co-operative movement. Based on this Act Co-operative rules 2049 has come in effect. This Act has given the independence of co-operatives organization on their members. According to this Act, co-operative must have at least 25 members and should be follow co-operative rules and regulation.

Apart from above mentioned these Acts National Co-operative Development Board Act, 2049 and Privatization Act, 2049 also has been come in effect.

2.1.5 Saving and Credit Co-operative in Nepal

Nepal hasn't able to make separate saving and Co-operative Act till now. After the political change in Nepal in 1990 A.D. Co-operative Act 1992 came in effect. According to section 26 of Co-operative Act 1992, saving and credit co-operative movement has been exercising in Nepal. There are four kinds of saving and credit organization in Nepal. They are as follows.

A) Traditional Saving and Credit Co-operatives

These kinds of saving and credit Co-operatives encouraged to members to save and collect saving from them. It provides debt to members for production and consumption functions. The main purpose to establish these kinds of co-operative is to develop socio economic condition of members.

B) Multipurpose saving and Credit Co-operative

These kinds of co-operatives have different kinds of function. In addition to other function, this kind of Co-operatives provide saving and credit facility to their members.

C) Banking Co-operative

These kinds of co-operatives are established according to section 26 of Co-operative Act 1992. This type of co-operatives can conduct limited banking activities after obtaining approval from NRB. Nepal Rastra Bank has given them only to saving and credits facilities. NRB has issued following provisions for these types of co-operatives.

i) These type of co-operative can collect saving and provide debt to both members and other general people.
ii) These co-operatives can provide limited banking facilities.
iii) Co-operatives can't accept overdraft and foreign currency.
iv) Co-operatives can't give current account facilities.
v) Co-operatives are able to accept saving land credit to tem times of paid up Capital and one person can issue debt only 10% of total paid up Capital.

vi) Co-operatives have to manage 10% liquidity fund of total collection. The difference between interest in saving and credit are not more than 6%.

vii) To conduct banking facilities, Co-operatives have already provided saving and credit facilities in rural area.

D) Financial Co-operatives

These co-operatives have established according to sub section No. 1 and section 26 of Co-operative Act 1992. The organization which can accept saving from general and provide loan to agriculture, industry or specific economic provision is call financial instruction. These types of co-operatives have limited right to provide financial Activities.

2.1.7 Current Issues and Challenges of Co-operative

There have been several Commissions and Task Forces formed for studies in the field of co-operatives. Such Commissions and Task forces include Consultative committee for National Co-operative Federation, 1990; Study on Improvement of Organizational Structure of Co-operative Sectors, 1999; Task force for Suggestions for Co-operative Development, 2000; and High Level Co-operative Sector Improvement Committee, 2004.

All of the above Committees have identified challenges of the co-operative sector and provide their recommendations to overcome them. The challenges identified are mostly too general and focused on what the government should do. The Challenges identified in these reports include but limited to:

a) Confusion in National vision of co-operative sectors.
b) Lack of identity of co-operatives.
c) Lack of professionalism.
d) Too small membership to gain economy of scale.
e) Lack of creditability.
f) Lack of capacity of government to monitor

They are all true. But there are different Challenges within the different types of Co-operatives. To quote an example, savings and credit Co-operative societies are not registered by the Department of Co-operative since last few years. Other types of Co-operatives are not facing these Challenges. There are number of Challenges that the Co-operatives of Nepal are facing. Among them here are some of them.

A) Structural Reforms

In order to make Co-operatives competitive and free from government control, some of the cooperators have started for advocating conversion Co-operatives into Co-operative companies just on the lines of the joint stock companies. The question is whether change of Co-operatives into a Co-operative company would be in a position to achieve the objectives and philosophy of Co-operatives. As an experience in other countries shows, such steps had subsequently placed Co-operatives in the hands of private sector who bought them over. More in corporation of principles of Co-operation in the Articles of association and memorandum of association as prescribed under company law would not be a guarantee to maintain Co-operative character, There is every possibility that over a period of time, these so called Co-operative companies would be totally divested of Co-operative character and would lose their identity in the vast multitude of private sector enterprises. Therefore it is strongly felt while discussing structural reforms, Co-operative content should be focus of our attention.

B) Membership and Leadership

The success of Co-operative enterprise depends on loyalty of their membership based on commercial benefits and harmonious relationship between members and elected leaders. The changed scenario would call for complete restructuring of co-operative unions if they want to play a very effective role to safe guard the interests of Co-operatives.

C) Lack of adequate Monitoring

There is very limited institutional capacity of co-operatives to self

regulate. At the same time the capacity of Department of Co-operatives to monitor also is almost non-existent. NEFSCUN too has limited capacity to monitor and cannot monitor those co-operative that are not its member because of the above the qualities of financial services are negatively affected. In few instances there have been cases where some officials of urban-based credit co-operatives misused the funds of co-operatives and ran away.

D) Resources Mobilization

The co-operative broadly raises their funds from the following sources as; a) members, b) Capital Market operation, c) Money market operations, d) Borrowings from government, e) Borrowings from banks and financial institutions, f) Share capital and reserves and g) deposit. However, major sources of their funds are equity contributed by the government and the members; borrowings from the members and resources raised from the money market. The shares of Co-operatives are not tradable and listed in stock exchange.

E) Diversifying Financial Services

Most of the savings and credit co-operatives have not been able to diversify their financial services. They remain in providing savings and credit services within limited numbers of savings and loan products. Other competitors of savings and credit co-operatives have started providing micro insurance and even money transfer services. This may, in long run, stat membership dropouts in Co-operatives.

F) Trade and Technology

In the changed scenario benefit of trade and technology are generally going to private sector. Neither Co-operatives are enthusiastic and responsive towards mobilization of benefits of trade nor does technology flow nor government pay any attention toward this aspect. Most of the foreign collaborations in different fields are in the private sector.

G) Government Support

It should create an environment by providing level playing field to co-operative to operate in market economy. Therefore, the co-operative legislative framework should be immediately reshaped and readapted. Secondly, the benefits of the specific public and private sector's enterprises should also go to Co-operative enterprises.

H) Lack of clear vision of promoters of saving and credit programs

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

2.1.8 Introduction of Everest Co-operative Society Limited

More than half-century history of establishment of co-operative in Nepal, Ksaki district reserves its important position. Co-operative societies of Kaski district contribute much in the field of economy, agriculture, dairy production and other field. Several co-operative societies have been established with various aims, In Kaski, the numbers of Co-operatives are 189. Out of 189, 90 saving and Credit Co-operatives, 29 Agriculture Co-operatives, 28 Dairy Co-operatives, 22 Multipurpose Co-operatives and 20 other Co-operatives functioning at present. Saving and credit Co-operatives of Kaski holds 47.62% out of total 189 co-operative societies. Total number of members involved in co-operative societies of Kaski is 29,104, out of which 15,403 are the member of saving and Credit Co-operative, which holds 52.92%[18]. These figures indicate the involvement of saving and credit Co-operative societies of Kaski is more than 50%.

[18]Official website, Department of Co-operatives, Government of Nepal, http://www.deof.gov.np/?q=node/9>.

Everest Co-operative society limited has been established in 12 Jestha 2058 (25th May, 2001) according to the Co-operative Act 2048 on article no.112/055/56[19]. Its head office is locating in Talchowk, Lekhnath and its Branch office is locating in Chipledhunga, Pokhara. The objective of the establishment of ECSL is to enhance economic and social status of its members by providing easy financial services.

ECSL has altogether 857 members. The savings schemes include the door to door saving from its members in recurring and general saving. Fixed deposit also consist the major portion of the source of fund. Apart of these, ECSL has also lunched the special saving account based for its members having business or daily income, which the institution provide 6% interest rate on daily balance. Being the co-operative, ECSL has introduce easy accessibility of banking service to its members, by providing the scheme of door to door collection, developing saving habit of member by collecting even minimum amount, Lending even Rs. 10000 to its members which they could not get from other Commercial Banks, Development Banks and Finance Company.

2.2 THEORETICAL REVIEW

2.2.1 PEARLS Monitoring System

'PEARLS' is a financial performance monitoring system designed to offer management guidance for credit unions and other savings institutions. PEARLS is also a supervisory tool for regulators. PEARLS can be used to compare and rank institutions; it can provide comparisons among peer financial and saving and credit institutions; the comparisons may also be done through the different fiscal year of only one institution. PEARLS is a financial performance monitoring system designed to offer management guidance to CU and other Saving institutions. It's a set of financial indicators and management tool that help to standardize terminology between the institutions.[20] The

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[19] Brochure, ECSL

[20] Anna Core Evas and Brian Branch, " A Performance Monitoring System", ***A Technical Guide to PEARLS***, (Madison: World Council of Credit Unions, March 2002),1 August 2008 <http://www.woccu.org/development/guide/PEARLS_technique.pdf>.

PEARLS system was originally designed and implemented with Guatemalan CUs in the late 1980s.[21] WOCCU has been using it worldwide to monitor the performance of CUs that balance the needs of savers, borrowers, shareholders and staff. It has proved a key tool in achieving CU growth and self-sustainability. The purpose for including a myriad of indicators is to illustrate how a change in one ratio has upshot for numerous other indicators. Each indicator has a prudential norm or associated goal. The target goal, or standard of excellence for each indicator is put forth by the WOCCU based on its field experience working to strengthen and modernize credit unions and promote savings based growth.

There are many sets of financial ratio that can be employed to evaluate the performance and check up the financial analysis of FIs. Among them, CAMELS framework- developed by regulatory authority of the U.S banks is the common method for evaluating the soundness of FIs. A round table round comprising of Micro Rate- a rating agency specializing in micro finance, Inter-American Development Bank, the consultative group to assist the poorest, the United States Agency for International Development, and two other rating agencies- MCRIL and Planet rating, developed a set of commonly used performance indicators for micro finance indicators for micro finance institutions (MFIs). This set of performance indicators fall into four main categories- Profitability, Efficiency and productivity, Asset quality/portfolio quality, financial management (Stauffenberg and other 2003). This set of indicators is commonly known by PEAF. PEARLS does away the deficiencies of both CAMELS and PEAF by incorporation the growth and financial structure related indicators. This is the reason why the WOCCU and its member countries since 1990 are using this to monitor, supervise and financial analyze of MFIs like credit unions and Co-operatives. In addition, MFIs also are using PEARLS as a managerial tool to monitor and improve their

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[21] Anna Core Evans, "PEARLS- A Tool for Financial Stabilization, Monitoring and Evaluation," ***Nexus Magazine***, no. 37, (June 1997), 2 August 2008. <http://www.caledonia.org.uk/nexus-37.htm>.

performance. Each letter of the world PEARLS measures key areas of CU operations;

P= Protection

E= Effective Financial Structure

A= Asset Quality

R= Rate of Return and Cost

L= Liquidity

S= Sings of Growth

2.2.2 Objectives of PEARLS

The use of PEARLS evaluation System accomplishes the following objectives.[22]

a) Executive Management Tool

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

b) Standardized Evaluation Rations and Formulas

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

c) Objective, Comparative Rankings

The combined use of the standardized accounting system and the PEARLS performance indicators produce a completely new type of

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[22] David C. Richardson, ***PEARLS Monitoring System,*** no. 4, (Madison: World Council of Credit Unions, October 2002), 10 August 2008 < http://www. woccu.org/pdf/pearls.pdf>.

information: comparative rankings of the MFIs.

Historically, it was impossible to compare one MFI with another due to the diverse criteria and reporting formats that existed. The standardization of financial information eliminates the diversity and provides an effective tool for comparing MFIs performance on a national basis.

d) Facilitate Supervisory Control

In addition to its usefulness as a management tool, the PEARLS system provides the framework for a monitoring authority. Monitoring authority can use the financial ratios generated by PEARLS to conduct quarterly or monthly analyses of all key areas of MFIs operations. These evaluations are invaluable for spotting trends and detecting areas of concern among the affiliates. With the standardization of the key financial ratios, all interested parties are looking at the same thing what is important to the examiner is also important to the MFIs manger.

2.2.3 Component of PEARLS

'PEARLS' is a set of financial ratios or indicators that help to standardize terminology between institutions, in total; there are 44 quantitative financial indicators that facilitate an integral analysis of the financial condition of any financial institution. The purpose for including a myriad of indicators is to illustrate how change in one ration has ramifications for numerous other indicators.

Each indicator has a prudential norm or associated goal. The target goal, or standard of excellence for each indicator is put forth by the World Council of Credit Unions, Inc (WOCCU) based on its field experience working too strengthen and modernize credit unions and promote savings-based growth, Depositors can have confidence that savings institutions that meet the standards of excellence are safe and sound. PEARLS, primarily a management tool for institutions, can also be used as a supervisory tool by regulators. As a management tool, PEARLS signals problem to managers before the problems

become detrimental. For boards of directors, PEARLS provides a tool to monitor management's progress toward financial goals. For regulators, PEARLS offers indicators and standards to super-vise the performance of savings institutions. Each latter of the name 'PEARLS' looks at a different, but critical aspect of the credit union.

A) Protection (P)

The first component- Protection is very crucial component. Here, protection refers to the safe of money of the member- client of MFIs. In co-operative, It is remarkable that every client should be member. Anybody else can open the saving account and borrow the money only after receiving membership of the co-operative. So, every member is the client and every client is the member of a co-operative. Unless and until potential member clients do not feel safe to deposit their money in a co-operative, they do not deposit their saving. There may be co-operative run if member- clients feel unsafe to their saving. Protection to the saving of member- clients can be done by providing adequate protection to assets. So, the basic principle of the new credit union model is adequate protection of assets. Protection can be provided by making adequate allowances for loan losses.

The standard of WOCCU model protection against loan losses is supposed adequate if a Co-operative has sufficient provision to cover 100 percent of all loans delinquent for more than one year and 35 percent of all loans delinquent for 1-12 months. According to the NRB directives for Co-operatives licensed for limited banking services- In Nepal, the loan, which becomes delinquent from its due date, should be protected by provisioning allowances against its risk. NRB has allocated the amount to provision for loan loss on the basis of its time period of delinquency.

Table: 2.2

NRB Directives for Protection of Assets for Co-operatives

Classification of Loan	Loan Type	Provision for Loss (%)
Pass	Loans & advances not past due and past due for maximum 3 months only.	1
Re-schedule	Past due Loan & Advances re-schedule.	12.5
Sub-schedule	Loans advance past due 3 months to 9 months.	25
Doubtful	Loans & advances past due 9 months to 1 year.	50
Bad	Loans & advances past due more than 1 year.	100

Source: Nepal Rastra Bank

Thousand of saving and credit Co-operatives are out of the jurisdiction On NRB. They are under the supervision of Department of Co-operative (DOC); DOC does not have any clear vision and guideline about the loan loss provision. So, most of the co-operative do not have loan provision as per above directive.

Loan loss provision is deducted from gross loan portfolio for accounting reporting. So, inadequate loan provision means deduction of less loan loss provision expense from gross loan portfolio and overstatement of the value of assets in the balance sheet. Loan loss provision expense is charged off to profit and loss account. Less loan loss provision expense charged to profit and loss account means the reported net income is overstated. Thus, inadequate loan loss provision inflates the asset value, overstates the earnings and risks the savings of members. In brief, saving is inadequately protected if loan provision is inadequate. The PEARLS system evaluates the adequacy of protection afforded to the Co-operative by comparing the loan loss provision to amount of loan at risk. In this system, loan loss provision is considered as the first line of defense against non-performing assets. The degree of protection is measured by six different ratios- P_1, P_2, P_3, P_4, P_5, and P_6 (for detail see Appendix).

CU Model for protection of PEARLS

According to CU model, the loan delinquency has been classified into two parts on the basis of its time frame. The first one is the balance of loan delinquent greater than 12 months and other one is the balance of loan

delinquent from 1 month to 12 months. CU suggest that institution should maintain its standard by 100 percent provision of allowances for the loan delinquency greater than 12 months and 35 percent provision of allowances for the loan delinquency from 1 month to 12 months.

Solvency

An adequate capital base acts as a safety net for the risks to which an institution is exposed, absorbing possible losses and providing a basis for maintaining confidence among investors, lending institutions and depositors. Capital is the ultimate determinant of the institutions lending capacity because assets are funded by deposits, borrowings and capital.

It measures the degree of protection that the credit union does have for member savings and shares in the event of liquidation of the credit union's assets and liabilities. P6 measures solvency and checks that each member's one rupees is worth at least that amount, after other liabilities are covered.

Risk to Solvency

Situation or a problem, which is not serious enough to present an immediate threat to financial viability or solvency, it could deteriorate into serious problems if not addressed promptly. In the event of risk adherence, the value of assets is deteriorated or hindered in the profit making of the institution. It indicates the level of accessibility of liquidity becomes low or poor for liquidity management in the context of the institution's situation.

B) Effective Financial Structure (E)

Financial structure refers to the composition of different sources of resources. Unhealthy financial structure hinders the growth, and weakens the earnings capacity and financial strength of FIs. It may lead MFIs to the verge of liquidation or force the management to run away and cause the management to lose the confidence of member-clients. Healthy financial structure is one facet of the financial structure and effective use of the resources is another one. So, PEARLS system measures the effective financial structure in both

financing of resources and effective use of the resources of MFIs. So, the ratios of different types of assets to total assets and different types of liabilities to total assets are worked out to measure the effective financial structure of MFIs (see Appendix). The financial structure of the credit union is the single most important factor in determining growth potential, earning capacity, and overall financial strength. The PEARLS system measures assets, liabilities and Capital, and recommends and "ideal" structure for credit unions. The following ideal targets are promoted:

i) Assets

A commercial bank's assets comprise of mainly four major categories cash and balances due from other depository institutions, investment securities, loans and leases and other assets.[23] The assets of MFI represents heavily in the form of member deposits and borrowing funds. MFI assets are grouped into four major sub categories namely; cash and balance due from other depository institutions, investment securities, loan portfolios, fixed assets and other assets. Short maturity investments or liquid investments include interest bearing deposits at other FIs, T-bills, agency securities and repurchase agreement. Returns on these investments vary directly with changes in market interest rates. Although financial institutions with excess cash reserve invest some of its portion in interest bearing liquid assets such as T-bills and short term securities.

According to PEARLS, institution asset is the largest portion and distributes among the productive assets. Productive assets refer in CU's model, which generates the earnings. These assets are net loan, liquid investments, financial investments and non-financial investment. In CUs, the loan portfolio of institution affects the growth of assets as the institution is able to invest them in productive areas.

ii. Liabilities

Liabilities represent the left hand side of balance sheet. A financial institution's liabilities consist of various types of deposit accounts and other

[23] Anthony Saunders and Marcia M. Cornet, Financial Markets and Institutions: A Modern Perspective (New York: McGraw-Hill companies, 2005), P.56

borrowings used to fund the investments and loans on the asset side of balance sheet. Saving deposits are the cornerstones of CU growth. Saving deposit growth largely governs the change in total assets.

iii) Institutional Capital

Institutional Capital is defined as all legal and non-distributable reserves, capital donations and the portion of the current year's surplus that will be retained as legal or non- distributable reserves. This reserve is not expended and no member may present an individual claim.[24] The institutional capital should be apportioned so as to provide a base for future growth, enable the institutional capital should be apportioned so as to provide a base for future growth, enable the institutions to meet competitive pressures as they arise, provide protection against operating losses and ensure the institution remains an on-going concern.

C) Asset Quality (A)

A non-productive or non-earning asset is one that does not generate income. An excess of non-earning assets affects financial institutions and co-operatives earnings in a negative way. The following PEARLS indicators are used to identify the impact of non-earning assets:

i) Delinquency Ratio

Of all the PERALS ratios, the delinquency ratio is the most important measurement of institutional weakness. If delinquency is high, it usually affects all other key areas of financial institutions and co-operatives operation. By using the PEARLS formula to accurately measure delinquency, financial institutional and co-operatives are properly measure delinquency, financial institutional and co-operatives are properly informed of the severity of the situation before a crisis develops. The ideal goal is to maintain the delinquency rate below 5% of total loans outstanding.

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[24] David C. Richardson, ***PEARLS Monitoring System,*** no.4, (Wisconsin: World Council of Credit Unions 2002), 2 Aug 2008. <http://www.woccu.org/pdf/ pearls.pdf.>.

Delinquencies arise due to the business failure for which loan is used. changes in the perceive norms of the market may subject to fail the undertaking. Appraising the stream of income at the time of preparing the project should comply with perceived manner. Delinquency also can occur when there will be corrupt and willful act at the time of approving loan and transaction between the both parties i.e. the loanee and the institution that provides debt services.

At the event of failure in the prompt repayment of principal amount and interest the institution is debarred from further investments of funds out of its income. Since the assets of the institution emanates from the savings as made by the depositors, the delinquency seriously affects the savings as it has to owe the interest on it. Delinquency is directly linked to the growth of institutional capital and total assets. The higher the ratio of delinquencies, more the institution has to experience the non-earnings.

ii) Percentage of Non- Earning Assets

A second key is the percentage of non-earning assets owned by the financial institutions and co-operatives. The higher the ratio, the more difficult it is to generate sufficient earnings. The goal also limits non-earning assets to a maximum of 5% of the total financial institutions and co-operatives assets.

Where financial institutions and co-operatives are in dire need of improving their poor physical image, the non-earning assets ratio can increase in the short run. An improved image is more important to the success of aggressive marketing programs than it is to keep a ratio within its limits. As new members join and deposit their saving with the financial institutions and co-operatives, the non-earning asset their saving with the financial institutions and co-operatives, the non-earning asset ratio begins to decrease as a result of increased public confidence.

iii) Financial of Non-Earning Assets

While reducing the percentage of non-earning assets is important the financing of those assets is just as important. Traditionally, financial

institutions and co-operatives use member share capital to finance the purchases of fixed assets. Under the WOCCU model, the objective is to finance 100% of all non-earning assets with the financial institutions and co-operatives institutional capital, or with other liabilities that have no explicit financial cost. By using non-cost capital to finance those assets, financial institutions and co-operatives earnings are not unduly affected. This is one of the strong arguments supporting the capitalization of all net earnings to upgrade old buildings and worn-out equipment.

D) Rate of Return and Cost (R)

The PEARLS system sergeants all of the essential components of net earning to help management calculate investment yields and evaluate operating expenses. In this way, PEARLS demonstrates its value as a management tool. Unlike other systems that calculated yields on the basis of average assets, PEARLS calculates yield on the basis of actual investments outstanding. This methodology assists management in determining which investments are the most profitable. It is also permits the MFIs to be ranked according to the best and worst yields. By comparing financial structure with yields, it is possible to determine how effectively the MFIs are able to place its productive resources into investments that produce the highest yield. These powerful analysis techniques help management stay side by side of the financial performance of the MFIs. Yield information is computed on four main areas of investments.

i) Loan portfolio

Diversification in the loan portfolio is an important step to generate sufficient income for institution. If institutions do not see various investment opportunities, the loan thus invested could pose considerable risk to earnings and capital. The institution should be aware of credit risk management while delivering such loans in different sectors.

ii) Liquid Investment

Liquid investments are the deposit made on bank savings accounts and liquidity reserves in either the National Association or regulatory body. These investments yield income as a result of the market rate offered therein. All income from such investments is divided by the amounts invested in those areas.

iii) Financial Investment

Many MFIs invest liquidity into financial investments (e.g. government securities) that pay higher than bank savings accounts. This investment income is also divided by the outstanding Capital invested in those instruments.

iv) Other Non-financial Investments

Any investment that does not fit into the previous categories us classified as "other" non-financial investments. For many MFIs, this includes investment in product oriented industry, Agriculture, Diary, Schools and residential development projects etc. All income from these different sources is likewise divided by the original Capital investments.

Operational costs are also important. They are broken down into three main areas:

a) Financial Intermediation Costs

This area evaluates the financial costs paid on deposit savings, member shares and external loans. In many instances, a poor growth rate for deposit savings is linked to non-competitive interest rates. Likewise, dividends on member share capital are closely monitored to ensure that MFIs are not taking advantage of their members by paying substandard dividend yields on their share Capital.

b) Administrative Costs

Another critical area requiring close analysis is administrative costs. Many MFIs are highly competitive with commercial banks on interest rates for deposits and loans, but their administrative costs are much higher on a per unit

basis. Costs are higher because of the smaller loan size. Fixed administrative costs are much higher on a per unit basis. Costs are higher because of the smaller loan size. Fixed administrative expenses could not be spread over a larger loan amount. For example, the fixed costs to make Rs.50, 000 loan are almost identical to those of a Rs. 5000,000 and Rs. 50,00,000 loan. High administrative costs are one of the main reasons why many MFIs are not profitable. The "ideal" target recommended by the PEARLS system is to maintain administrative costs at 5% of average total assets.

c) Provisions for Loans Losses

The final cost area evaluated by PEARLS separates the costs of creating provisions for loan losses from other administrative costs. This can be facilitated by the use of clear accounting categorization. traditional accounting standards usually include loan loss provisions as part of the overall administrative costs. In reality, the creation of adequate provisions represents a completely different type of expense from the other administrative costs; it is possible to get a much clearer picture of weak credit administration practices in the MFIs.

By segregating income and expenses into the previously mentioned areas, the PEARLS ratios can accurately pinpoint the reasons why MFIs are not producing sufficient net income.

E) Liquidity (L)

Effective liquidity management becomes a much more important skill as the MFIs shifts its financial structure from member shares to more unstable deposit savings. In many movements following the traditional model, member shares are very illiquid and most external loans have a long payback period, therefore there is little incentive to maintain liquidity reserves. Liquidity is traditionally viewed in terms of cash available to lend a variable exclusively controlled by the MFIs. With the introduction of withdrawal savings deposits,

the concept of liquidity is radically changed. Liquidity now refers to the cash needed for withdrawals a variable the MFIs can no longer control.

The maintenance of adequate liquidity reserves is essential to sound, financial management in the WOCCU credit union model. The PEARLS system analyzes liquidity from two perspectives:

i) Total Liquidity Reserves

This indicator measures the percentage of savings deposits invested as liquid assets in either a National Association or a Commercial bank. The "ideal" target is to maintain a minimum of 15% after paying all short-term obligations (30 days and under).

ii) Idle Liquid funds

Liquidity reserves are important but they also imply a lost opportunity cost. Funds in checking accounts and simple savings accounts earn negligible returns, in comparison with other investment alternatives. Consequently, it is important to keep idle liquidity reserves to a minimum. The "ideal" target of this PEARLS ratio is to reduce the percentage of idle liquidity to as close to zero as was possible.

F) Signs of Growth (S)

The only successful way to maintain asset values is through strong, accelerated growth of assets, accompanied by sustained profitability. Growth by itself is insufficient. The advantage of the PEARLS system is that it links growth to profitability, as well as to the other key areas by evaluating the strength of the system as a whole. Growth is measured in five areas:

i) Total assets

Growth of assets accompanied with sustained profitability is the key to the successful MFIs. Many of the formulas used in the PEAELS ratios include total assets as the key denominator. Strong, consistent growth in total assets improves many of the PEARLS ratios. By comparing the growth in total assets to other key areas, it is possible to detect changes in the balance sheet structure

that could have a positive or negative impact on earnings. The ideal goal for MFIs is to achieve real growth (i.e. net growth after subtracting for inflation) each year.

ii) Loans

The loan portfolio is a most important and profitable MFIs asset. If growth in total loans keeps pace with growth in total assets, there is a good likelihood that profitability will be maintained. Conversely, if loan growth rates drop, this suggests that other, less profitable areas growing more quickly.

iii) Savings Deposits

With the new emphasis on savings mobilization, savings deposits are the new cornerstones of growth. The growth of total assets is dependent on the growth of savings. The rationale for maintaining aggressive marketing programs is that it stimulates growth in new savings deposits that in turn, affect the growth of other key areas.

iv) Shares

Although member share savings are de-emphasized under the WOCCU model, some MFIs may maintain a dependence on shares for growth. If growth rates in this area are excessive, it usually signals an inability of the MFIs to adapt to the new system of promoting deposits over shares.

v) Institutional Capital

Institutional capital growth is the best indicator of profitability within MFIs. Static or declining growth trends in institutional capital usually indicate a problem with earnings. If earnings are low, the MFIs will have great difficult in adding to institutional capital reserves. One of the indisputable sings of success of healthy MFIs in transition is a sustained growth of institutional capital.

The following table shows the 44 indicators of 6 components of PEARLS system and the standard set by the World Council of Credit Union inc. (WOCCU) for each indicator.

Table: 2.3
The "PEARLS" Monitoring System Goals
Quick Key to “PEARLS"

Area	PEARLS	DESCRIPTION	GOAL
P= PROTECTION	P1	Allowance for Loan Losses/ Allowance Required for loans Delinquent> 12 months	100%
	P2	Net Allowance for Loan Losses/ Allowances Required for Loans Delinquent less than 12 months	35%
	P3	Total Charge-off of Delinquent Loans>12 months	100%
	P4	Annual Loan Charge-offs	Minimum
	P5	Accumulated Loan Recoveries/ Accumulated Loan Chare-offs	100%
	P6	Solvency	>=100%
E=EFFECTIVE FINANCIAL STRUCTURE	E1	Net Loans/ Total Assets	70%-80%
	E2	Liquid Investment/ Total assets	Max 20%
	E3	Financial Investment/ Total assets	Max 10%
	E4	Non-financial Investment/ Total assets	0%
	E5	Saving Deposit/ Total assets	70%-80%
	E6	External Credit/ Total assets	Max 5%
	E7	Member Share Capital/ Total assets	10%-20%
	E8	Institutional Capital/ Total assets	Min 10%
	E9	Net Institutional Capital/ Total asset s	Min 10%
A=ASSET QUALITY	A1	Total Loan Delinquency/ Gross Loan Portfolio	<=5%
	A2	Non-Earning Assets/ Total assets	<=5%
	A3	Net Institutional & Transitory Capital + Non Interest-Bearing Liabilities/ Non-Earning Assets	>200%
R=RATE OF RETURN & COSTS	R1	Net Loan Income/ Average Net Loan Portfolio	Entrepreneurial Rate
	R2	Total Liquid Investment Income/ Average Liquid Investment	Market Rates
	R3	Total Financial Investment Income/ Average Financial Investments	Market Rates
	R4	Total Non-Financial Investment Income/ Average Non-Financial Investment	Greater than R1
	R5	Total Interest Cost on Savings Deposits/ Average Saving Deposits	Market Rates> Inflation
	R6	Total Interest Cost on External Credit/ Average External Credit	Market Rates
	R7	Total Interest (Dividend) Cost on Shares/ Average member Shares	Market Rates
	R8	Total Gross Income Margin/ Average Total Assets	Variables-Linked to R9, R11 & R12
	R9	Total Operating Expenses/ Avg. Total Assets	5%
	R10	Total Loan Loss Provision or Expense/ Average Total Assets	Dependent on Delinquent Loans
	R11	Non-Recurring Income or Expense/ Average Total Assets	Minimum
	R12	Net Income/ Average Total Assets	Linked to E9

L= LIQUIDITY	L1	S.T. Investment+ Liquid Assets- S.T. Payables/ Saving Deposit	Min 15%
	L2	Liquidity Reserves/ Saving Deposit	10%
	L3	Non-Earning Liquid Assets/ Total Assets	<1%

S= SINGS OF GROWTH	S1	Growth in Loans to Member	Dependent on E1
	S2	Growth in Liquid Investment	Dependent on E2
	S3	Growth in Financial Investment	Dependent on E3
	S4	Growth in Non-Financial Investment	Dependent on E4
	S5	Growth in Saving Deposit	Dependent on E5
	S6	Growth in External Credit	Dependent on E6
	S7	Growth in Share Capital	Dependent on E7
	S8	Growth in Institutional Capital	Dependent on E8
	S9	Growth in Net Institutional Capital	Dependent on E9
	S10	Growth in Membership	>12%
	S11	Growth in Total Assets	> Inflation

Source: World Council of Credit Union (WOCCU)

2.2.4 Review of Dissertations

Various studies have been carried out regarding the evaluation of co-operative societies and MFIs. Some of the leading and available studies have been reviewed in the study. The present study concerns the Financial Analysis of Everest Co-operative Society Limited in the framework of PEARLS. A Financial Performance Analysis of Nepalese Co-operative Societies with the reference to District Co-operative Association Ltd. Banepa, was conducted by Man Bahadur B.k[25] in 1994. The objective carried by this study was to analyze the strengths and weakness of the association by analyzing the financial statements and their behavior. The study concluded that the organization's Liquidity position was satisfactory but invested its fund in not satisfactory due to its loose and inefficient debtor's management. The association has not maintained its appropriate leverage position due to its improper management of funds and sundry creditors. The Financial Performance of the association is fund in very weak position. The main problem is whether it is comes the political plate form. So, the study suggested that co-operative should maintain the political neutrality. If managed and utilized properly, Co-operative can be

[25] Man Bahadur B.K, "Financial Performance of Nepalese Co-operative Societies with Reference to District Co-operative Association Ltd. Banepa District", (Master diss., Tribhuvan University, 1994).

the backbone of the economic development of our country. It is the best way to mobilize the scattered saving of the small farmers and labors. Our country can go the wards a golden tomorrow walking in the way of Co-operative pavement. The Co-operative training is a must for the development of the Co-operative Societies in the country.

Study was conducted in the year 1998 by Sushil Dahal[26] on Financial Performance of Co-operative Society Ltd. Inaruwa, Sunsari. The basic findings of this study was that high cost of goods sold, heavy interest expenses, heavy operating expenses, heavy debt Capital, low owner's capital, inability to employ funds in profitable sectors, low sales revenue, traditional inventory management system, traditional concept of Financial Management and traditional pricing polices etc. are the main variables which reflect the poor Financial Performance of the Co-operative Society Ltd. Inaruwa, Sunsari. Therefore, Shushil Dahal suggested that the Society must try to remove all these variables and improve its Financial Performance significantly.

Similarly, a study conducted by Bihari Binod Pokharel on “Co-operative Movement in Nepal"[27]the study aimed at reviewing the overall situation of co-operative movement in Nepal. By the year 1988 almost all the villages of 30 memberships increased from 8.02 lakhs in 1976-77 to about 16 lakhs in 1988. In accordance with the research study 43% Societies were of Terai region and 58.8% in hill areas. The similar position has faced by the co-operative movement such as a) Lack of co-operative education and training. b) Lack of Fund. c) Lack of spontaneity towards co-operation. d) Lack of loyalty. e) Absence of lonely services. f) Lack of efficient management. g) Lack of central level organization. h) Absence of good publicity. The study stressed the role of the Sajha societies in rural development in Nepal.

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[26] Sushil Dahal, ”Financial Performance of Co-operative Society Ltd, Inaruwa, Sunsari", (Master diss., Tribhuvan University, 1988).

[27] Bihari Binod Pokharel, "A Study of the Co-operative Movement in Nepal”, (Ph.D. Thesis, Bihar University, Bihar, 1988).

"Lamsal, Toya Nath"[28] has conducted a study on “Financial Performance Analysis of Nepalese Co-operative Societies with special reference to District Co-operative Association Ltd. Kaski District in 2000." His findings were; Association had invested must of its funds in current assets unnecessarily, problem of over inventory, assets utilization position is not satisfactory having unnecessary fund accumulated in the current assets, which the association is not able to manage. He has also concluded that Capital structure of the Association is not sound; there is heavy debt Capital as compared to ownership Capital. The main source of external Capital were bank loan and gratuity fund of the employees of the association. He further concluded that the association is unable to mobilize its fund in profitable sector. Therefore the association has been suffering from loss all over 5 years study period.

"Sachi Shrestha"[29] has conducted a study on "Financial Analysis of Suvechha Saving and Credit Co-operative Limited in the Framework of PEARL in 2007. The basic objective of the study was to analyze the Financial Health of Suvechha Saving and Credit Limited remaining confined within the Framework of PEARLS. The analysis was made after the comparison of specific ratio obtained from SSCCL with the PEARLS standard. It was found that the institution had adequately protected the loan loss with the provision of allowances. The allowance of loan losses to allowance required for loan losses ratio showed that the institution was able to maintain the PEARLS standard since last three years. There was high level of delinquency resulting from the provision of allowance for the loan losses and the institution invested its fund in more productive assets.

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[28] Toya Nath Lamsal," Financial Performance Analysis of Nepalese Co-operative Societies with reference to District Co-operative Association Ltd. Kaski", (Master diss., Tribhuvan University, 2000).

[29] Sachi Shrestha,"Financial Analysis of Suvechha Saving and Credit Co-operative Limited in the Framework of PEARLS", (Master diss., Tribhuvan University, 2007).

"Keshar j. Baral"[30] has concluded that the study on " Financial Health Check-up of Pokhara Royal Co-operative Society Limited in the Framework of PEARLS in 2006." has made sufficient loan loss provision for bad debt loan it has not made adequate provision to cover the possible loan losses from doubtful and sub-standard loan. It has invested most of its funds in more productive assets and less in non-earning and less productive assets and managed the source of funds effectively from saving deposits. But, it has a weak institutional Capital base as a second line of defense against non-performing assets. Percentages of delinquent loan ratio and non-earning assets are greater than the standard set be the WOCCU model. Similarly, percent of net zero cost funds are less than the set benchmark. Operation and administration expenses of PEARLS are within the set limit but the yield on loan is not enough to contribute institutional Capital and pay the returns on member share Capital. The decreasing percent of liquid cash reserves to satisfy deposit withdrawal request show the deterioration liquidity position. The highly fluctuation growth rates in key Financial variables imply that PEARLS does not have sound strategy for sustainable growth in its business. But the sign of growth of key variables except to institutional Capital show that it has achieved desirable growth during the study period.

"Hum Bahadur Ale"[31] has conducted the study on "Diagnosis of Financial Health of Paschimanchal Grameen Bikas Bank Limited in the Framework of PEARLS" in 2007 with the objective of diagnoses the Financial Health of PasGBB Ltd. in the Framework of PEARLS. He concluded in his study that the institution has adequate earnings to defend any future losses by provisioning for loan loss. The solvency of the institution is not adequate due to speedily increase of delinquency and low institution is not adequate due to speedily increase of delinquency and low increase of total saving. The ratio of net loans to total assets falling below the PEARLS standard is due poor quality

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[30] Keshar j. Baral, "Financial Health Check-up of Pokhara Royal Co-operative Society Limited in the Framework of PEARLS" ***The Journal of Nepalese Business Studies***, Vol. iii, (Pokhara: Pritivi Narayan Campus)

[31] Hum Bahadur Ale, "Diagnosis of Health of Paschimanchal Grameen Bikas Limited in the Framework of PEARLS", (Master diss., Tribhuvan University, 2007).

of assets and provision of allowances for the loans losses. PasGBB Ltd. has maintained the ratio of financial investment of total assets high above the maximum 10%. It has the fluctuation trend of total loan portfolio ratio due to the poor asset quality. The decreasing trend of financial cost of savings deposits is that the institution is relying less accumulation the savings deposits. The institution has maintained a high amount of liquidity reserves with respect to total deposits. He further concluded that the growth in loans ratio is not true with increase in total assets due to poor quality assets resulted from delinquency. The growth in liquid investment and financial investments are high above PEARLS standard. The growth in shows, that PasGBB has unable to attract more deposits. The growth in total assets has decreasing trend over the years; it indicates that the institution has not relied on to increase the saving deposits so as to augment the total asset

CHAPTER III
RESEARCH METHODOLOGY

3.1 Introduction:

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

The main objective of this study is financial analysis of ECSL in the Framework of PEARLS during the FY 2058/059 to 2064/065. It is an attempt to analyze the financial data of ECSL using the tools of PEARLS.

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

3.2 Research Design

This study is an examination and evaluation of financial performance of ECSL in the framework of PEARLS and traces out the basic practices of the institution. Suggestions are made for the improvement in Financial Performance. This study's research design is descriptive and analytical in nature.

3.3 Justification for the Selection of Study Unit

After the liberalization of financial sector the number of financial co-operative has been increasing in most of the regions of Nepal over the last few decades and this situation also prevails in Pokhara. In many instances quite a significant number of saving and credit co-operatives collapsed prior to full maturation. This enhances the significance of the study of financial health of those co-operatives.

Financial co-operatives play significant role in mobilizing the local economy and other resources for the benefit of the people and institutions involved. Yet the financial health or security of many co-operatives is still to be checked and analyzed.

The Everest Co-operative Society Limited boasts to occupy the leading position in the field of local financial co-operatives. The prime motto of the co-operative stresses on door-to-door banking service. The financial co-operative is expanding its areas of transaction and possesses enormous potential for it. The financial status of the Co-operatives is still to be carried out academically and the study to be carried out is set to find out critical deficiencies faced by ECSL using various indicators under PEARLS as a tool for financial stabilization, monitoring and evaluation.

3.4 Nature and Sources of Data

Collecting data is the connecting link to the world of reality for the researcher. For the purpose of the study, annual report of the co-operative through Co-operative Department, Co-operative Training Center and National Co-operative Development Board, brochure, documents, related journals and related available publications are the basic sources of data. As such secondary sources of information have been consulted as per the need of the situation. Various published and unpublished periodicals magazines and master degree's dissertations and Ph.D. thesis and all available reports or material are other source.

Likewise, for the purpose of the study, primary data has been collected wherever possible. The primary data was collected through discussion among the personnel of concerned Co-operatives.

3.5 Data Collection Procedure

Data required for this study was primarily collected from the annual reports and extracted from the ledger of ECSL, Kaski. However, these are verified with the annual report of Co-operative Department and Auditor in order to be assured regarding the reliability of the supplied data.

Additional information required for the study was collected from the Co-operative Development Board, Department of Co-operatives, Journals, Books, Booklet and other related research studies.

3.6 Data Processing

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

3.7 Tools and Technique of Analysis

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

3.8 Limitation of the Methodology

It is bounded by its own methodology; because this study is carried out within the framework of case study. So, it cannot be said it is free from any limitation. The PEARLS tools have been applied as developed for CUs which is slightly, through developed for micro finance institution, different in its working pattern. In addition to it, the different tools and working methodologies in different institutions of countries differ as they have their own norms and standard. Accordingly, the tools under PEARLS may not be appropriate in every aspect of this case study. The financial tools, which have been applied to analyze the collected data, are based on the CUs standards through its past experiences, which might have adhered with several assumptions. So, the reliability of the analysis depends upon the circumstances on which the tools are base.

CHAPTER IV
DATA PRESENTATION & ANALYSIS

This chapter deals with the presentation and analysis of data collected from the different sources. It includes the financial data of six years period FY 2058/2059 to 2063/2064 of ECSL and analysis of data using the indicators of six components of PEARLS: Protection, Effective Financial Structure, Assets Quality, Rate of Returns and Costs, Liquidity and Sing of Growth. The major findings have been drive from analysis of data.

4.1 Data Presentation and Analysis

4.1.1 Protection (P)

Protection, a very crucial component is measured by evaluating the adequacy of the provisions for loan losses against the amount of delinquent loans. The protection category also includes loan charge-offs and loan recovery rates. Here, protection refers to the safety of money of the member-client of micro finance institutions. It is remarkable that each and every client needs to be a member. Any body else can open the saving account and borrow the money only after obtaining a membership of the co-operative. So, every member is the client and every client is the member in a co-operative organization. If the member-clients do not feel safe to deposit their money in co-operative, they do not show interest in depositing their savings. When they feel that it is safe to deposit their savings, they put up their money in a co-operative and do not withdraw it. Providing adequate protection to assets can do protection to the savings of member-clients. So, the new Credit Union Model is focused on adequate protection of assets. Having provisions of adequate allowances for loan losses can ensure protection.

The degree of protection can be measured by six different ratios- $P_{1,}$ $P_{2,}$ $P_{3,}$ $P_{4,}$ $P_{5,}$ and P_6. As stated in research methodology, only P_1, P_2 and P_6 have been calculated and analyzed under protection. Other tools are not calculated

and analyzed as the data related to charge-offs. Of delinquent loans, quarterly charge-offs and accumulated recovered charge-offs were not available for the indicators. The calculation and analysis of P_1, P_2 and P_6 are carried out under protection.

4.1.1.1 Allowances for Loan Losses to Allowances Required for Loans Delinquent > 12 Months (P_1)

The PEARLS model prescribed that any credit union should provide 100 percent allowances for loan past due for more than one year. P_1 measures the adequacy of the allowances for loan losses when compared to the allowances required for covering all loans delinquent more than 12 months.

Table 4.1
Allowances for Loan Losses to Allowances Required for Loans Delinquent >12 Months (P_1)

P_1	2058/059	2059/60	2060/61	2061/62	2062/63	2063/64
a. Allowance for Loan Losses	28,408	86,806	1,37,856	1,92,495	2,60,449	2,92,904
b. Loan Balances of all loan Delinquent more than 12 Month	0.00	52,292	76,586	98,715	1,27,048	1,36,234
$P_{1\%}$	0	166%	180%	195%	205%	215%
PEARLS Standard (%)	100%	100%	100%	100%	100%	100%

Source: Annual Report ECSL

Figure 4.1
Allowances for Loan Losses to Allowances Required for Loans Delinquent>12Months (P_1)

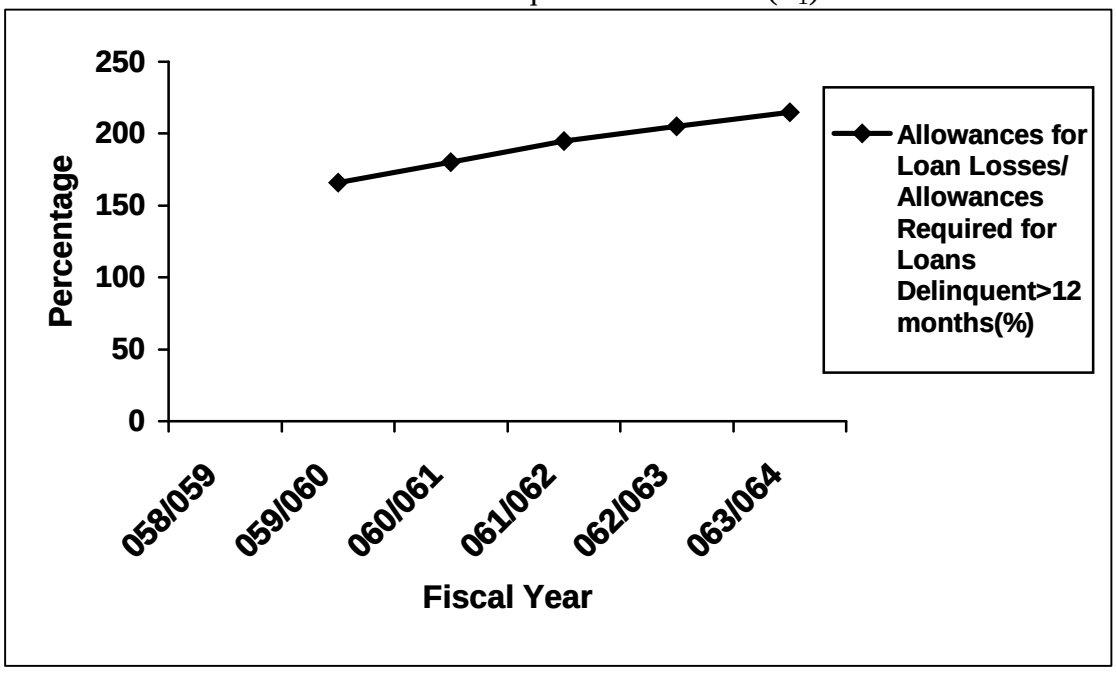

Table 4.1 and Figure 4.1 shows that allowance for loan losses to allowances required for loans delinquent greater than 12 months is 166 percent, 180 percent, 195 percent, 205 percent and 215 percent in FY 2059/060, 2060/061, 2061/062, 2062/063 and 2063/064 respectively. It is above the PEARLS standard 100 percent in all the study period when the provision for loan loss has been maintained. ECSL has adequate provision to cover the delinquent loan more than 1 year.

4.1.1.2 Net Allowances for Loan Losses to Allowances Required for Loans Delinquent less than 12 Month (P_2)

The PEARLS model prescribed that any credit union should provide 35 percent allowances for loan past due from 1 month to 12 months. P_2 measures the adequacy of the net allowances for loan losses when compared to the allowances required for covering all loans delinquent from 1-12 months. The net allowance for loan losses to allowances required for loans delinquent 1-12 month has been shown in table 4.2 and figure 4.2.

Table 4.2
Net Allowances for Loan Losses to Allowances Required for Loans Delinquent less than 12 Month (P_2)

P_2	2058/059	2059/60	2060/61	2061/62	2062/63	2063/64
a. Allowance for Loan Losses	28,408	86,806	1,37,856	1,92,495	2,60,449	2,92,904
b. Loan Allowance for Loan Delinquent> 1 year	0.00	52,292	76,586	98,715	1,27,048	1,36,234
c. Delinquency 1-12 Months	0.00	86,285	1,45,880	1,64,526	2,18,690	2,74,860
$P_{2\%}$	0	40	42	57	61	57
PEARLS Standard (%)	35	35	35	35	35	35

Source: Annual Report ECSL

Figure 4.2
Net Allowances for Loan Losses to Allowances Required for Loans Delinquent less than 12 Month (P_2)

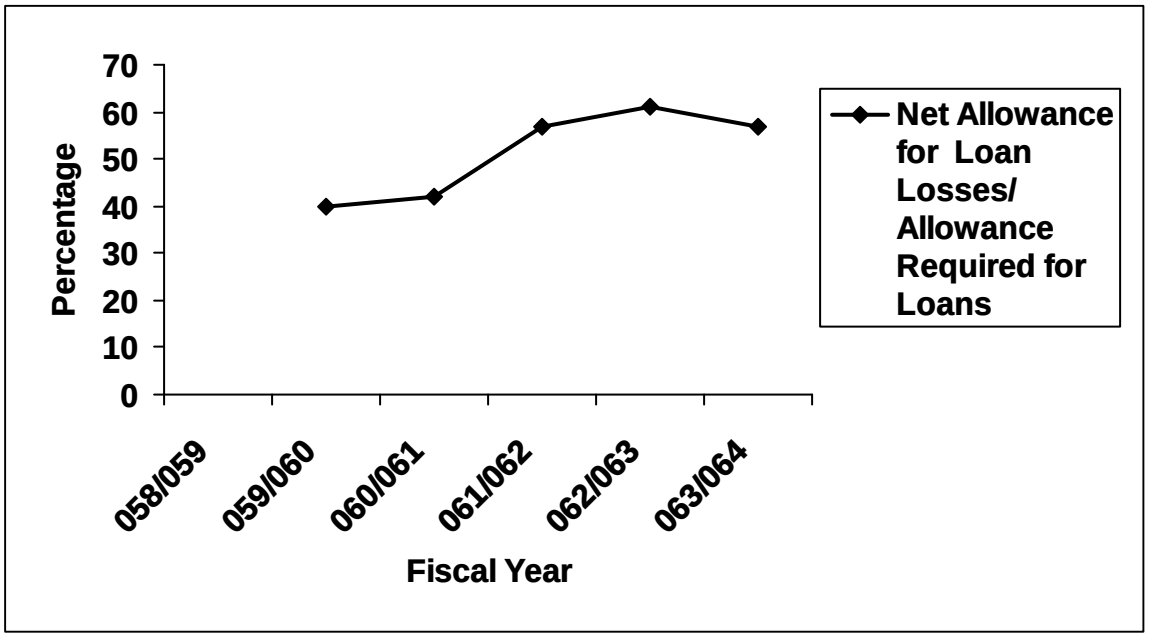

Table 4.2 and Figure 4.2 shows that net allowance for loan losses to allowances required for loans delinquent 1-12 month are 40%, 42%, 57%, 61% and 57% in the FY 2059/060, 2060/061, 2061/062, 2062/063 and 2063/064 respectively. In the fiscal years the ratios are above PEARLS standards, which mean that loan loss provision is adequate to cover the possible loan loss on doubtful loans.

4.1.1.3 Solvency (P_6)

The PEARLS model prescribed that any credit union should maintain their solvency ratio greater than or equal to 100 percent. P6 measures solvency and checks that each member's one rupee is worth as least that amount, after other liabilities are covered. It is also the net value of assets to total shares and deposits. The net value of assets is calculated by deducting the total delinquency loans, liabilities and problem assets from the sum of total assets and allowances for loan loss provision and savings deposits with the adjustments of problem assets to be liquidated in the respective periods.

Table 4.3

Solvency or Net Value of Assets to Total Shares & Deposits (P_6)

P_6	2058/59	2059/60	2060/61	2061/62	2062/63	2063/64
$P_{6\%}$	74.83	77.54	79.18	81.34	82.78	83.83
PEARLS STANDARD	>=100	>=100	>=100	>=100	>=100	>=100

Source: Annual Report ECSL (Ratio Calculation in Appendix)

Figure 4.3: Solvency or Net Value of Assets to Total Shares & Deposits (P_6)

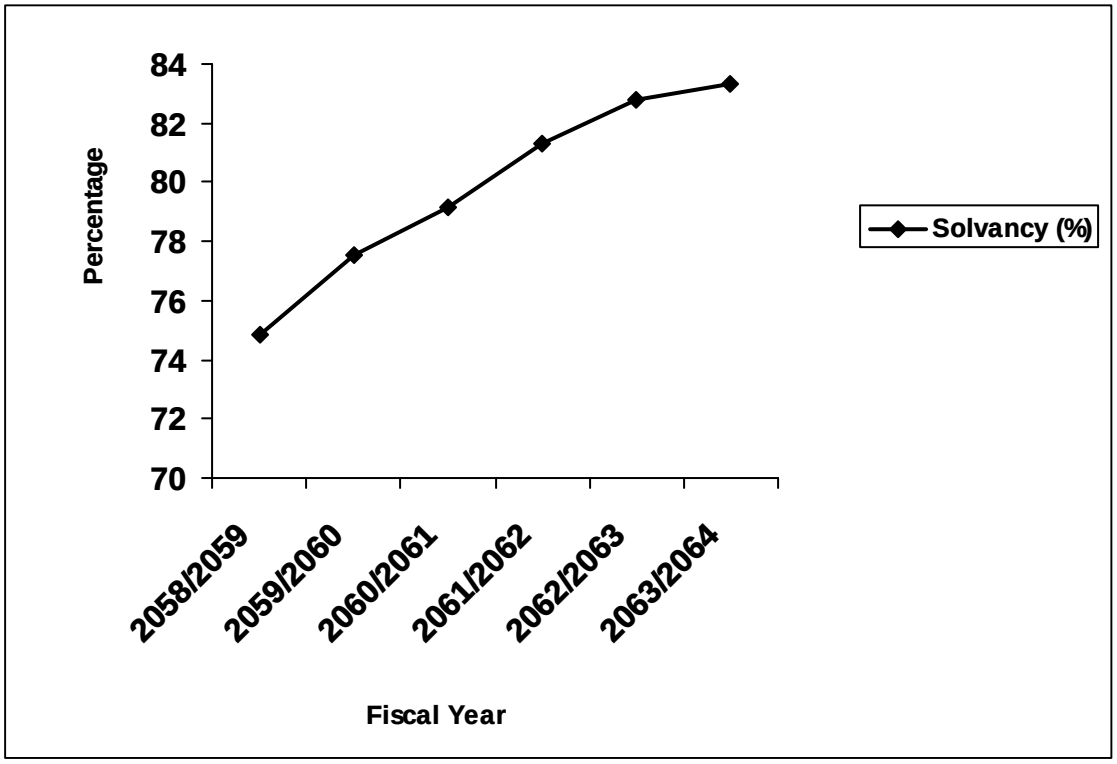

Table 4.3 and Figure 4.3 shows that solvency or net value of assets to total shares and saving ratio are 74.83%, 77.54%, 79.18%, 81.34%, 82.78% and 83.83% in FY 2058/059, 2059/060, 2060/061, 2061/062, 2062/063 and 2063/064 respectively. It has not allotted the problem assets. All the ratios are below the PEARLS standards but it is in increasing pattern. This implies that its assets are inflated; member one rupee worth is less than that.

4.1.2 Effective Financial Structure (E)

The effective financial structure of the credit union is one of the most important factors in determining growth potential, earning capacity and overall financial strength. The effective financial structure area of PEARLS focuses on an institution's sources of funds (saving shares, external credit and institutional capital) and its uses of funds (loans, liquid investments, financial investments and non- earning assets). Ratios in this category measure asset, liabilities and Capital and their associated targets constitute an ideal structure for credit unions. The Capital ratio that measures the relationship of Capital to assets should govern the institution's growth- when its gets too low, management should change its pricing to slow growth and protect its reserves. In the saving-led credit union movement, where demand for loans should be made through savings mobilization, fuelling growth with borrowed Capital is discouraged; hence a target of zero percent for borrowed Capital to asset ratio in Minimum Standards.

As stated earlier in research methods, the tools, E_1, E_2, E_3, E_5, E_7 and E_8 have been calculated but E_4 , E_6 and E_9 is not calculate because of unavailable of data and analyzed under effective financial structure.

4.1.2.1Net Loan to Total Assets (E_1)

The net loan is the loan after deduction of total allowance for loan losses from the gross loan portfolio of the institution. The allowance is the certain amount provisioned against the delinquency. It measures the percentage of total assets invested in the loan portfolio. According to CU model, setting different interest rates on loans with respect to its purpose amounts and terms and condition is of crucial need that institutions should strongly stand for the risk associated with the loans should be meticulously analyzed so as to prevent the loan from falling in the delinquency. The income to institution is largely dependent upon the level of loans transaction and its quality. In case of the loan delinquency, an aggressive collection programs, in the event of initiation, helps to minimize the level of delinquency. In a high level of delinquency, an

institution has to allocate the adequate allowances for it, which in turn reduces the income stream of institution. Productive assets should be encouraged to lead to achieve sufficient earnings.

Table 4.4: Net Loan to Total Assets (E_1)

E_1	2058/59	2059/60	2060/61	2061/62	2062/63	2063/64
a. Total Gross Loan Portfolio Outstanding	1,79,33,512	2,26,58,498	2,55,76,212	3,02,87,045	3,49,32,172	4,50,25,196
b. Total Allowances for loan Losses	28,408	86,806	1,37,856	1,92,495	2,60,449	2,92,904
c. Total Assets	2,09,53,234	2,65,43,507	3,05,11,242	3,70,50,505	4,31,36,837	5,64,78,248
Net Loan/Total Assets	85.45%	85.04%	83.37%	81.23%	80.38%	73.20%
PEARLS Standard	70-80%	70-80%	70-80%	70-80%	70-80%	70-80%

Source: Annual Report ECSL

Figure 4.4Net Loan to Total Assets (E_1)

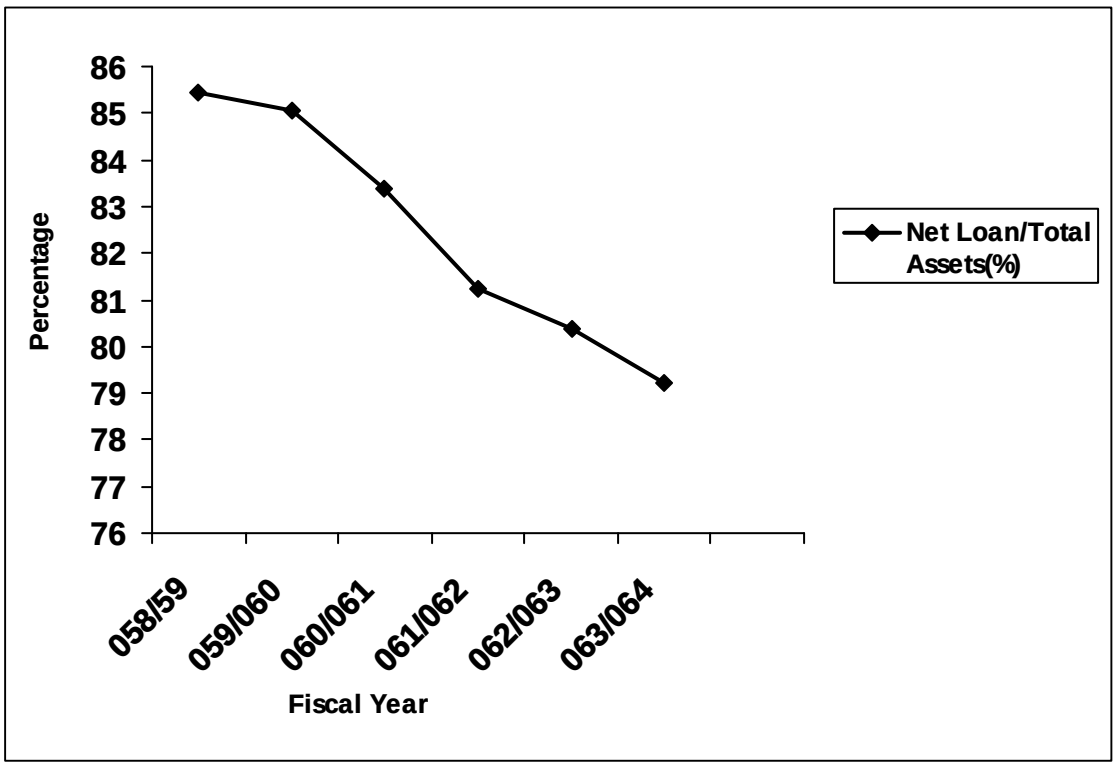

Table 4.4 and Figure 4.4 shows that the ratio of Net Loan total assets are 85.45%, 85.04%, 83.37%, 81.23%, 80.38% and 79.20% in the FY 2058/059, 2059/60, 2060/61, 2061/62, 2062/63 and 2063/64 respectively. The ratio in the FY 2063/064 is within the PEARLS standard but in the FY 2058/059, 2059/060, 2060/061, 2061/062, and 2062/063 above the PEARLS standard. It does not maintain the PEARLS standard.

4.1.2.2 Liquid Investments to Total Assets (E_2)

It measures the percentage of total assets invested in short-term investments. Excess liquidity is discouraged because the margins on liquid investments are significantly lower than those earned on the loan portfolio. In the event of high investments in this category, it invariably affects the gross spread and indirectly affects the loan portfolio and the institutional Capital. Institution should have an effective analysis on member-client withdrawal. The level of investments in short-term assets should be in relation to the member's withdrawal.

Table: 4.5
Liquid Investments to Total Assets (E_2)

E_2	**2058/59**	**059/60**	**2060/61**	**061/062**	**2062/63**	**2063/64**
a. Total Liquid Investments	25,54,766	33,09,320	43,02,628	63,24,828	74,73,790	1,07,45,075
b. Total Assets	2,09,53,234	2,65,43,507	3,02,11,242	3,70,50,505	4,31,36,837	5,64,78,248
Liquid Investments/ Total Assets (%)	12.19%	12.47%	14.10%	17.07%	17.32%	19.02%
PEARLS Standard (%)	max 20	max 20	max 20	max 20	max 20	max 20

Source: Annual Reports, ECSL

Figure 4.5
Liquid Investments to Total Assets (E_2)

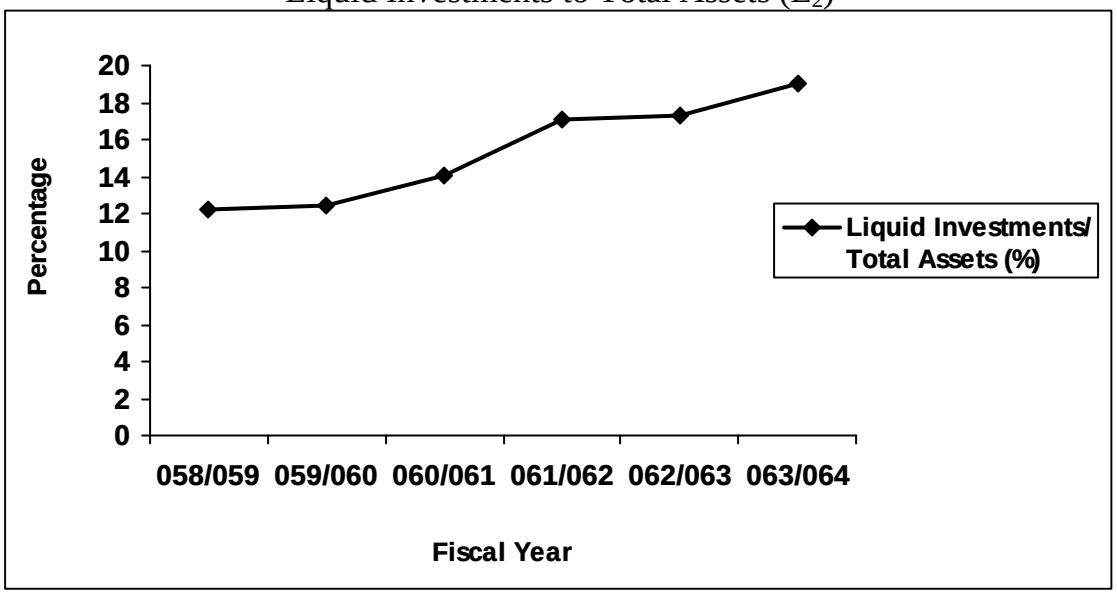

Table 4.5 and Figure 4.5 indicates that the liquid investments to total assets are 12.19 percent, 12.47 percent, 14.10 percent, 17.07 percent, 17.32 percent and 19.02 percent in FY 2058/059, 2059/60, 2060/61, 2061/62, 2062/63 and 2063/64 respectively. It showed slowly increasing trend ratios within the PEARLS standard with maximum 19.02 percent in FY 2063/064 and minimum 12.19 percent. It does not maintain the liquid investment.

4.1.2.3Total Financial Investments to Total Assets (E_3)

E_3 Measures the percentage of total assets invested in long-term investments. Financial investments yield some income but have certain risk. At the situation when an institution does not find investment opportunities in a productive sectors or the interest earned from such areas is significantly low, the institution seems investing in financial segments. But in the case of ECSL it has minimum investment in the share of National Saving and Finance Co-operation just to be a member of those institutions

Table: 4.6

Total Financial Investments to Total Assets (E_3)

E_3	**2058/2059**	**2059/2060**	**2060/2061**	**2061/2062**	**2062/2063**	**2063/2064**
a. Total Financial Investments	70,000	70,000	70,000	70,000	70,000	70,000
b. Total Assets	2,09,53,234	2,65,43,507	3,02,11,242	3,70,50,505	4,31,36,837	5,64,78,248
Financial Investments / Total Assets (%)	0.34%	0.26%	0.023%	0.019%	0.16%	0.12%
PEARLS Standard %	Max10	Max10	Max10	Max10	Max10	Max10

Source: Annual Reports, ECSL

Figure 4.6

Total Financial Investments to Total Assets (E_3)

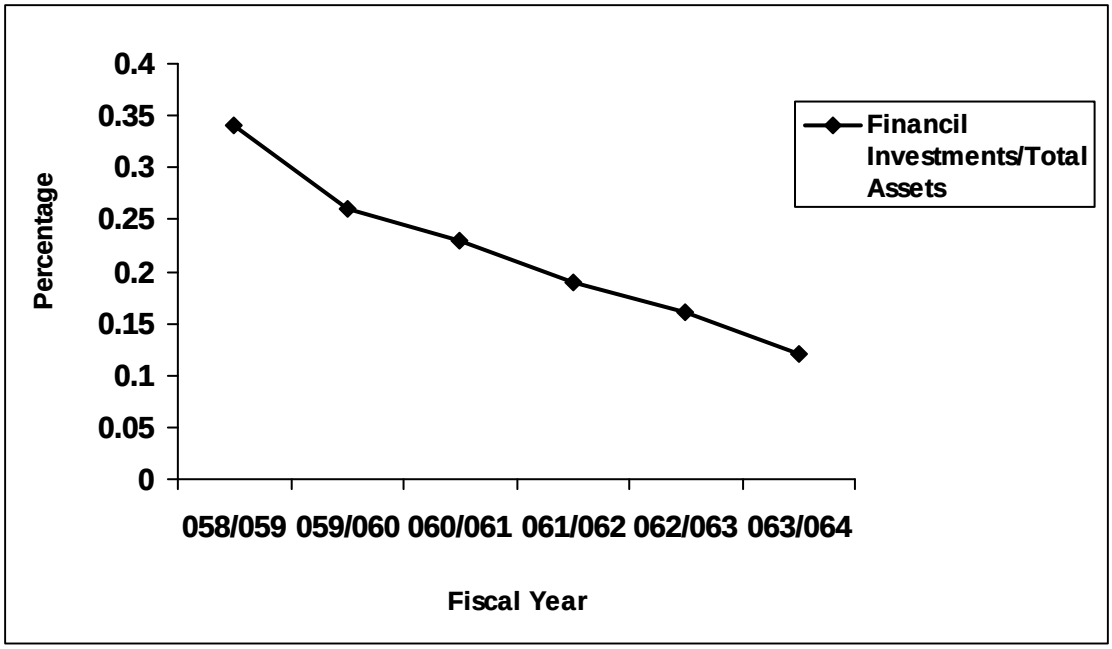

Table 4.6 and Figure 4.6 indicates that the total financial investments to total assets are 0.34 percent, 0.26 percent, 0.023 percent, 0.019 percent, 0.16 percent and 0.12 percent in FY 2058/059, 2059/60, 2060/61, 2061/62, 2062/63 and 2063/64 respectively. From the study of other financial data of ECSL, it is not crucial to be invested in financial sector.

4.1.2.4 Saving Deposits to Total Assets (E_5)

E_5 measures the percentage of total assets finance by savings deposits. The heavy deposit savings indicate that institutions have developed effective marketing programs and achieved financial independence. Saving deposit is affected by the interest rates the institution offers to the depositors.

According to CU model, setting savings rates within the market average is a compulsory. But, attempting to pay more than the market rate may hinder a problem. Such interest charges should be below the loans rates charged. Adequate provision of allowances for loan loss is another consideration that institution should choose that safeguard to depositors. An institution working professionally develops its image that helps to attract more new depositors.

Table: 4.7
Saving Deposit to Total Assets E_5 (%)

E_5	2058/2059	2059/2060	2060/2061	2061/2062	2062/2063	2063/64
a. Saving deposit	1,22,53,020	1,53,23,850	1,79,29,582	2,35,90,564	2,90,60,164	4,06,77,953
b. Total Assets	2,09,53,234	2,65,43,507	3,02,11,242	3,70,50,505	4,31,36,837	5,64,78,248
Saving deposit / Total Assets (%)	58.48%	57.73%	59.34%	63.67%	67.36%	72%
PEARLS Standard	70-80%	70-80%	70-80%	70-80%	70-80%	70-80%

Source: Annual Reports, ECSL

Table: 4.7
Saving Deposit to Total Assets E_5 (%)

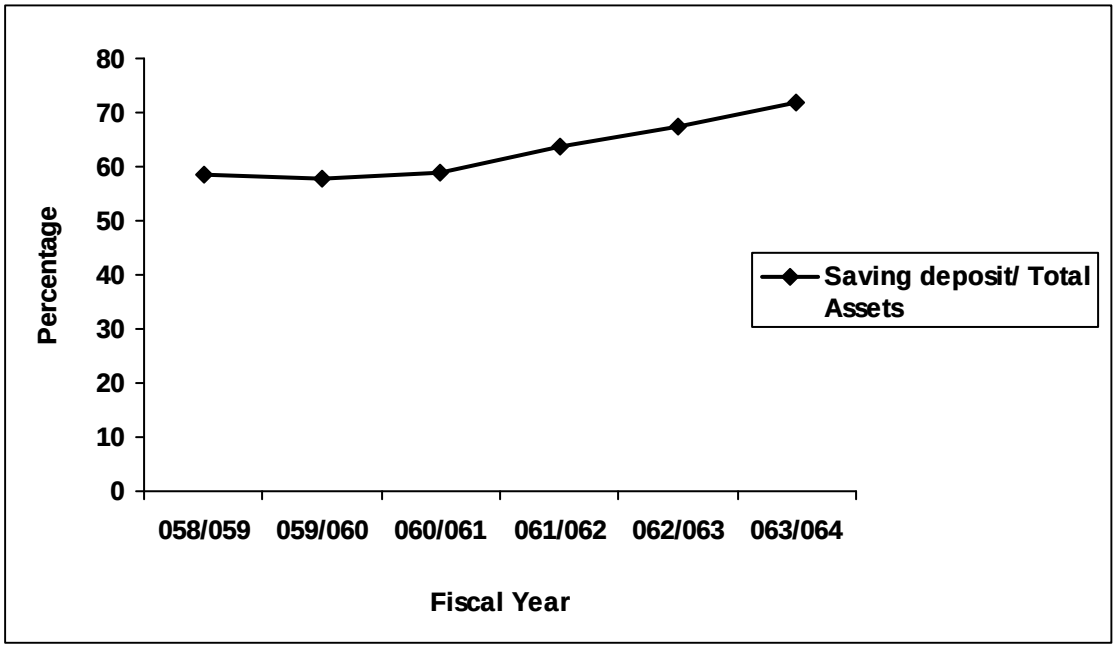

Table 4.7 and Figure 4.7 indicates that the saving deposits to total assets are 58.48 percent, 57.73 percent, 59.34 percent, 63.67 percent, 67.36 percent and 72 percent in FY 2058/059, 2059/60, 2060/61, 2061/62, 2062/63 and 2063/64 respectively. In the first five year study period the ratio is increasing trend but below the PEARLS standard where as in the FY 2063/064 within the PEARLS standard.

4.1.2.5Member Share Capital to Total Assets (E_7)

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

Table 4.8
Member Share Capital to Total Assets (E_7)

E_7	2058/059	2059/060	2060/061	2061/062	2062/063	2063/064
a. Member Share Capital	41,61,500	44,44,160	47,25,760	54,56,980	61,11,520	79,18,320
b. Total Assets	2,09,53,234	2,65,43,507	3,02,11,242	3,70,50,505	4,31,36,837	5,64,78,248
E_7 %	19.86%	16.74%	15.49%`	14.73%	14.17%	14.02%
PEARLS Standard	10-20%	10-20%	10-20%	10-20%	10-20%	10-20%

Source: Annual Reports, ECS

Figure: 4.8
Member Share Capital to Total Assets (E_7)

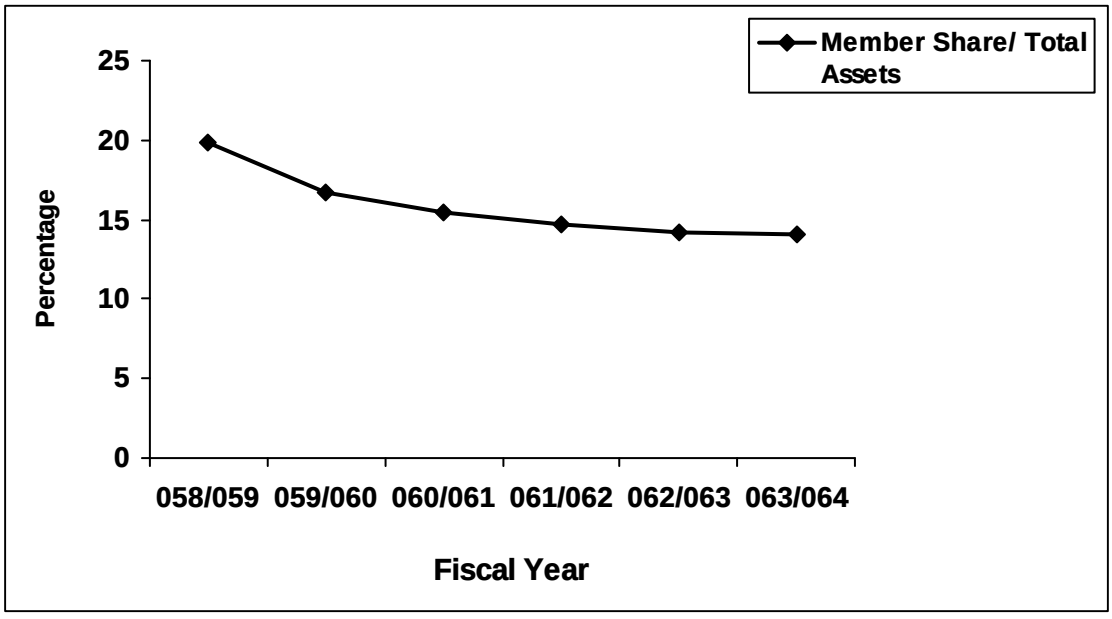

Table 4.8 and Figure 4.8 indicates that the member share capital to total assets are 19.86 percent, 16.74 percent, 15.49 percent, 14.73 percent, 14.17 percent and 14.02 percent in FY 2058/059, 2059/60, 2060/61, 2061/62, 2062/63 and 2063/64 respectively. All the ratios show that the total assets financed by member share capital are greater than the standard set by WOCCU in PEARLS model.

4.1.2.6 Institutional Capital to Total Assets (E_8)

It measures the percentage of total assets finance by institutional capital. Since institutional capital has no explicit interest cost, it will generate 100% return to the institutions investing to the productive assets. Under the new capitalization system, member shares are de-emphasized and replaced with institutional capital. If sufficient capital is available institution expensive deposit can be minimized. If the institution has adequate amount of fund in the institutional capital it can be used to finance in non-income generating assets as well as it can be used to absorb losses from loan delinquency and or operational deficits.

Table: 4.9

Institutional Capitals to Total Assets (E_8)

E_8	2058/059	2059/060	2060/061	2061/062	2062/063	2063/064
a Total Institutional Capital	94,696	2,89,356	4,59,520	3,57,652	5,84,166	1,52,346
b. Total Assets	2,09,53,234	2,65,43,507	3,05,11,242	3,70,50,505	4,31,36,837	5,64,78,248
E_8 %	0.045%	1.09%	1.05%	0.96%	1.35%	0.26%
PEARLS Standard	Min 10%	Min 10%	Min 10%	Min 10%	Min 10%	Min 10%

Source: Annual Reports, ECSL

Figure: 4.9

Institutional Capitals to Total Assets (E_8)

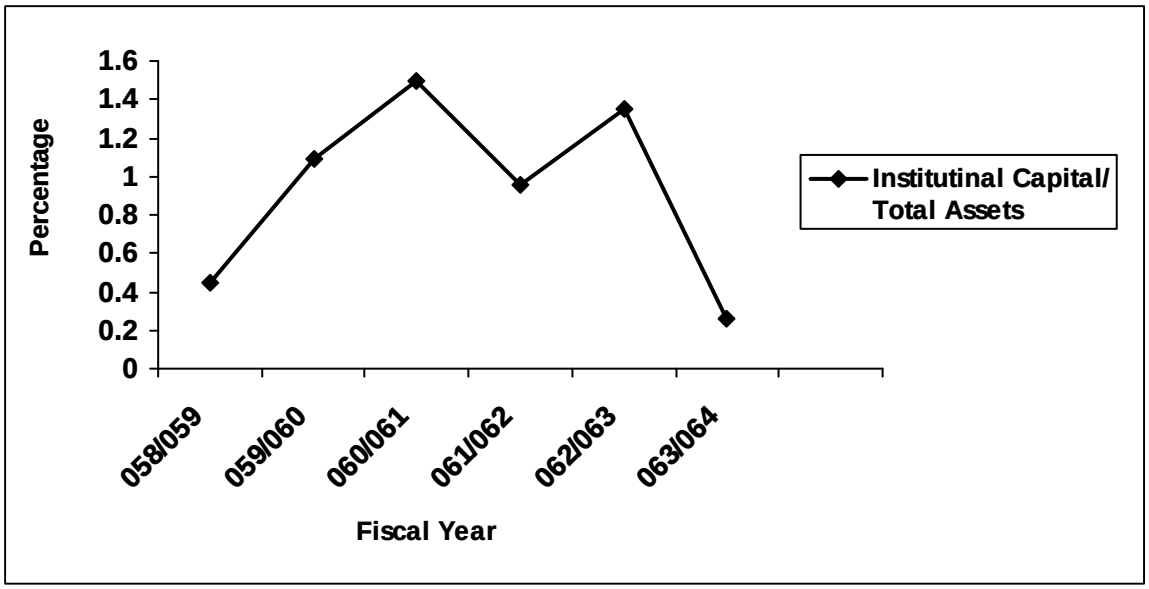

Table 4.9 and Figure 4.9 indicates that the institutional capitals to total assets are 0.045 percent, 1.09 percent, 1.5 percent, 0.96 percent, 1.35 percent and 0.26 percent in FY 2058/059, 2059/60, 2060/61, 2061/62, 2062/63 and 2063/64 respectively. This is far below than the standard set by the PEARLS model. This occurred, as the institution could not allocate sufficient capital due to failure in earning.

4.1.3 Asset Quality (A)

Asset quality indicators measure the impact of assets which do not generate income such as loan delinquency and non-earning assets. The delinquency ratio is the most important measurement of institutional weakness. Delinquency is measured using the portfolio at risk method, which defines as delinquent the entire outstanding balance of any loan affected by arrears. The higher the ratio of non-earning assets, the more difficult it is to generate sufficient earnings.

Under Assets Quality (A), the tools A_1 and A_2 have been calculated and analyzed.

4.1.3.1Total Loan Delinquency to Total Loan Portfolio (A_1)

It measures the total percentage of delinquency in the loan portfolio using the criterion of outstanding delinquent loan balances instead of accumulated delinquent loan payments. The poor credit analysis put the institution into a serious problem in collection of loans on timely fashion. The institution in the event of the loan delinquency should establish surcharge charges of certain percent a month to mitigate the problem that might arise in its operation. This challenge is largely due to the wider and adverse macro economic factors.

Table: 4.10: Total Loan Delinquency to Total Loan Portfolio (A_1)

A_1	2058/59	2059/60	2060/61	2061/62	2062/63	2063/64
a. Total Loan Delinquency	0	0	4,85,948	3,93731	4,12,200	6,75,378
b. Total Loan Portfolio	1,79,33,512	2,26,58,498	2,55,76,212	3,02,87,047	3,49,32,172	4,50,25,196
A_1 %	0	0	1.90	1.30	1.18	1.50
PEARLS Standard of Excellence (%)	<=5	<=5	<=5	<=5	<=5	<=5

Source: Annual Report, ECSL

Figure: 4.10

Total Loan Delinquency to Total Loan Portfolio (A_1)

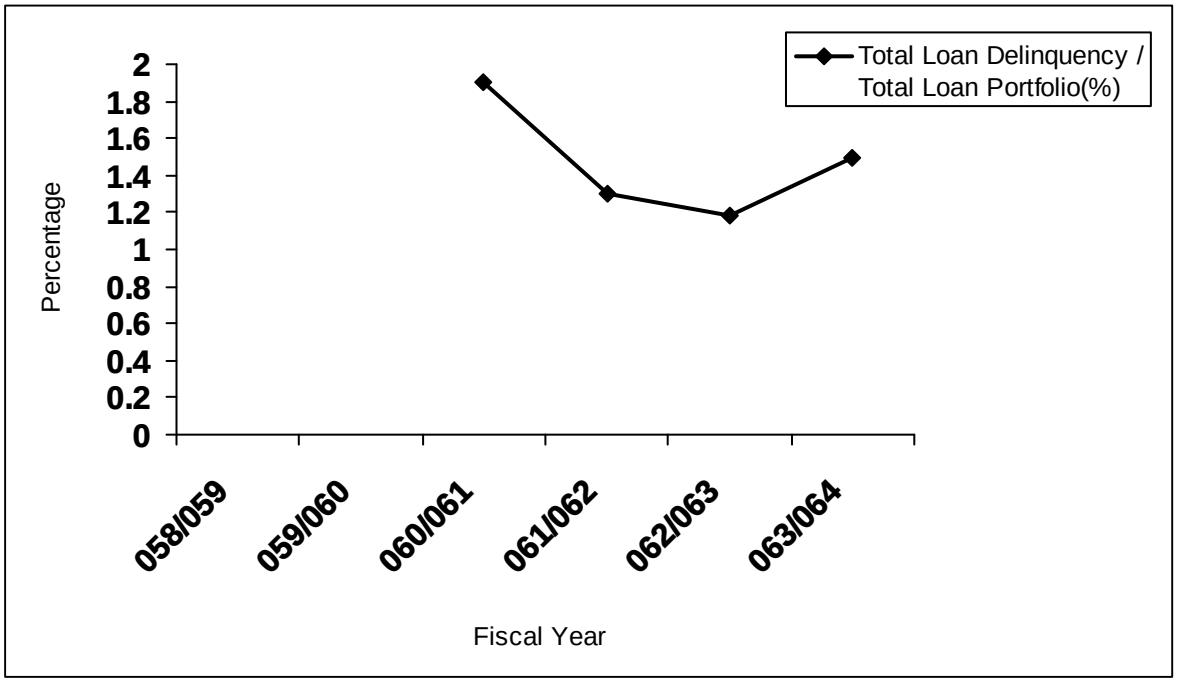

Table 4.10 and Figure 4.10 reveals the ratio of loan delinquency to total loan portfolio is 1.19 percent, 1.3 percent and 1.18 percent and 1.5 percent in FY 2060/61, 2061/62, 2062/63 and 2063/064 respectively. In FY 2058/059 and 2059/60 data were not available, as the institution has not categorized the delinquent loan on the basis of its time period. The ratio is in fluctuating trend with the highest ratio 1.9 percent in FY 2060/061 and the lowest 1.18 percent in FY 2062/063. All the ratios are not within the PEARLS standard.

4.1.3.2 Non-earning Assets to Total Assets (A_2)

It measures the percentage of the total assets-, which does not produce income. Monitoring the ratio of non-earning assets to total assets-comes at hand and is ensured savings deposits or member shares do not finance these non-earnings assets. The non-earning assets include cash at hand, fixed assets, inter-office advances and dues, other assets and total delinquent loans.

Table: 4.11

Non-earning Assets to Total Assets (A_2)

A_2	2058/59	2059/60	2060/61	2061/62	2062/63	2063/64
Non-earning Assets (a)	3,81,956	4,92,689	5,49,402	3,55,630	6,47,875	10,37,977
Total Assets (b)	2,09,53,234	2,65,43,507	3,02,11,242	3,70,50,505	4,31,36,837	5,64,78,248
A_2 %	1.82%	1.86%	1.80%	0.96%	1.50%	1.83%
PEARLS Standard	<=5%	<=5%	<=5%	<=5%	<=5%	<=5%

Source: Annual Reports, ECSL

Figure: 4.11

Non-earning Assets to Total Assets (A_2)

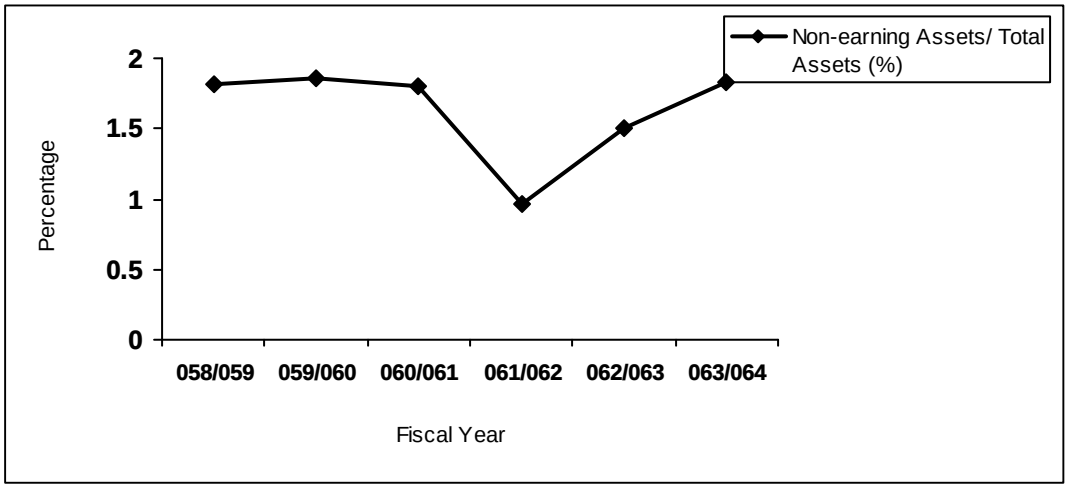

Table 4.11 & Figure 4.11 illustrates that the ratio of non-earning assets to total assets is 1.82 percent, 1.86 percent, 1.80 percent, 0.96 percent, 1.50 percent and 1.83 percent in FY 2058/059 2059/060, 2060/061, 2061/062, 2062/063, 20630/64 and 2063/064 respectively. The ratio is in fluctuating trend with the highest ratio 1.86 percent in FY 2059/060. All the FY is within the PEARLS standard of excellence.

4.1.4 Rate of Return and Cost (R)

Earnings and costs are determined by dividing all interest income delinquent interest penalties and commissions from lending operations by the total loan portfolio to give the return on loans. This is compared to the return on financial investments, income from bank savings accounts, and liquidity reserves divided by the amounts invested in those areas.

This indicators measure the average income yield for each of the most productive assets of the Balance Sheet. In addition, they measure the average yield for each of the most important liability and capital accounts. The indicators of return and costs monitor the return earned on each type of assets and costs on each type of liabilities.

Under the PEARLS component of Rate of Returns and Cost (R), the following indicators tools R_1, R_2, R_3, R_5, R_9, R_{10}, have been calculated and analyzed and other R_3, R_4, R_6, R_7, R_8, R_{11} and R_{12} were not calculated due the unavailability of relevant data.

4.1.4.1 Total Loan Income to Average Loan Portfolio (R_1)

R_1 measures the yield on the loan portfolio during the year. The goal of R_1 net loan income divided by the average net loan portfolio is the loan prices to be set at entrepreneurial rates. The entrepreneurial rate needs to cover interest expenses, cost of operations and administration, cost of provisions and the cost of contributions to increase capital at least 10 percent. The loan income includes the interest income plus commissions, fees and delinquent interest penalties. High loan delinquency of the institution encounters a problem in earning that cover all the cost.

Table: 4.12

Total Loan Income to Average Loan Portfolio (R_1)

R_1	2058/59	2059/60	2060/61	2061/62	2062/63	2063/64
a) Total Loan income	31,55,452	33,98,537	45,50,022	47,67,145	52,96,970	69,42,474
b) Net Loan Portfolio as of current year-end	1,79,33,512	2,26,58,498	2,55,76,212	3,02,87,047	3,49,32,172	4,50,25,196
c) Net Loan Portfolio as of last year.	0	1,79,33,512	2,26,58,498	2,55,76,212	3,02,87,047	3,49,32,172
$R_{1\,\%}$	35.59%	16.74%	18.45%	17.06%	16.24%	17.36%
PEARLS standard	Entrepreneurial Rate					

Source: Annual Reports, ECSL

Table 4.12 show that the ratio of total loan income to average loan portfolio is 35.19 percent, 16.74 percent, 18.45 percent, 17.06 percent, 16.24 and 17.36 percent in FY 2058/059, 2059/060, 2060/061, 2061/062, 2062/063 and 2063/064 respectively. This ratio is dependent upon the entrepreneurial rate. The ratio is fluctuating trend but satisfactory as it has covered the cost of funds, the cost of administration and operation, the cost of provisions and the cost of contributions to increase capital but not enough to contribute to increase institutional capital.

4.1.4.2 Liquid Investment Income to Average Liquid Investments (R_2)

It measures the yield on all short-term investment i.e. in investment in different banks. The ratio should be above the market rate. The liquid investment income to average liquid investment has been shown in table

Table: 4.13: Liquid Investment Income to Average Liquid Investments (R_2)

R_2	**2058/59**	**2059/60**	**2060/61**	**2061/62**	**2063/64**	**2063/64**
a. Liquid Investment Income	29,924	7,850	20,927	6,823	5,525	450
b. Liquid Investment (Current Year)	25,54,766	33,09,320	43,02,628	63,24,828	74,73,790	1,07,45,075
c. Liquid Investment (Last Year)	0	25,54,766	33,09,320	43,02,628	63,24,828	74,73,790
R_2	0	0.26	0.54	0.13	0.08	0.005
PEARLS Standard	Market Rates					

Source: Annual Reports, ECSL

Table 4.13 show that the liquid investment income to average liquid investment are 0.26%, 0.54%, 0.13%, 0.08% and 0.005 % in FY 2059/60, 2060/61, 2061/62, 2062/63 and 2063/64 respectively. The trend is decreasing. The ratio depends upon the market rate.

4.1.4.3 Financial Investment Income to Average Financial Investments (R_3)

It measures the yield on all long-term investments i.e. fixed deposits, shares, securities etc. investing in fixed deposits, shares or the government securities yields high than bank saving accounts. CU suggests the ratio should be rest consistently as prevailing market.

Table: 4.14

Financial Investment Income to Average Financial Investment (R_3)

R_3	2058/59	2059/60	2060/61	2061/62	2063/64	2063/64
a. Total Financial Investment Income	0	0	0	0	0	0
b. Total Financial Investment of Current year-end	70,000	70,000	70,000	70,000	70,000	70,000
c. Total Financial Investment as of last year- end	0	70,000	70,000	70,000	70,000	70,000
$R_{3\%}$	0	0	0	0	0	0

Source: Annual Reports, ECSL

The above table 4.14 shows that ECSL has a minimum amount in its financial investment. It has not received any income from financial investment throughout the study period.

4.1.4.4 Financial Cost: Saving Deposits to Average Savings Deposits (R_5)

It measures the yield of saving deposits. Saving deposit costs include total interest and premium paid on savings deposits and taxes paid by the savings deposits. This ratio is mainly affected by the quality of assets and the overall income generated by the institutions. Due to having quality assets, institution yields high earnings and can offer a competitive interest rate to the depositors in the financial market.

Table: 4.15
Financial Cost: Saving Deposits to Average Savings Deposits (R_5)

R_5	2058/59	2059/60	2060/612	2061/62	2063/64	2063/64
$R_{5\%}$	22.22	12.33	13.11	11.60	11.24	10.69
Inflation	2.9	4.8	4	4.5	8	6.4
PEARLS Standard	Market Rates> Inflation					

Source: Annual Reports, ECSL (Ratio Calculation in Appendix)

The data given in the table 4.15 indicates that the ratio of savings deposits is 22.22 percent, 12.33 percent, 13.11 percent, 11.60 percent, 11.24 percent and 10.69 percent in the FY 2058/059, 2059/060, 2060/061, 2061/062, 2062/063 and 2063/064 respectively. The PEARLS standard suggests maintaining the market rate above inflation rate so as to increase the savings of member clients. Market rates stood above the inflation rates throughout all the years of six study periods. In other words, the real rate of interest is positive during the all six years of study periods. During the study period, ECSL has not practiced taxes and insurance premium payment on savings deposits so far.

4.1.4.5 Operating Expenses to Average Total Assets (R_9)

R_9 measures the operational cost of the institution overall assets. This cost is measured as a percentage of total assets and indicates the degree of operational efficiency or inefficiency. These costs include the both office management cost and staff salary. For survival of institution, a careful review in administrative structure is difficult to determine the need for each position and to readjust salaries. Operating expenses should not be incurred over the allocation of budget. In most of the times, institutions do not use budget as a tool for the authorization of expenses.

Table: 4.16
Operating Expenses to Average Total Assets (R_9)

R9	2058/59	2059/60	2060/61	2061/62	2062/63	2063/64
a. Total operating Expenses	14,49,984	13,74,933	13,66,388	9,85,764	10,93,504	12,26,007
b. Total Assets of Current Year- End	2,09,53,234	2,65,43,507	3,02,11,242	3,70,50,505	4,31,36,837	5,64,78,248
c. Total Assets of Last Year- End	0	2,09,53,234	2,65,43,507	3,02,11,242	3,70,50,505	4,31,36,837
R9%	13.84	5.79	4.82	2.93	2.28	2.46
PEARLS Standard	5%	5%	5%	5%	5%	5%

Source: Annual Reports, ECSL

Table 4.16 operating assets to total assets is 13.84 percent, 5.79 percent, 4.82 percent, 2.93 percent, 2.28 percent and 2.46 percent in FY 2058/059, 2059/60, 2060/61, 2061/62, 2062/63 and 2063/64 respectively. It is clear that during the initial period of the year of the study the ratio is very high, which means the operation expenses far above the PEARLS. After that period, it is significantly decreases in the consecutive years of study and reaches to 2.46 percent in the FY 2063/064. This shows that ECSL has been able to control the operating expenses after in increase in total assets also.

4.1.4.6 Provision for Loan Losses to Average Total Assets (R_{10})

It measures the cost of losses from risk assets such as delinquent loans or un-collectible accounts receivables. This cost is different from other operational expenses and should be separated to highlight the effectiveness of institution collection policies and procedures. PEARLS suggests the institution to maintain the provision enough to cover 100 percent of delinquent loans for more than 12 months and 35 percent for loans delinquent from 1 month to 12 months. Generally, lowering the delinquency as much as it can gives a safe cushion to institution from going into an adverse effect

Table: 4.17
Provision for Loan Losses to Average Total Assets (R10)

R_{10}	2058/59	2059/60	2060/61	2061/62	2062/63	2063/64
a. Total loan loss provision	28,408	86,806	1,37,856	1,92,495	2,60,449	2,92,904
b. Total Assets of Current year	2,09,53,234	2,65,43,507	3,02,11,242	3,70,50,505	4,31,36,837	5,64,78,248
c) Total Assets of last year	0	2,09,53,234	2,65,43,507	3,02,11,242	3,70,50,505	4,31,36,837
R10%	0.27%	0.37%	0.49%	0.57%	0.65%	0.59%
PEARLS Standard	Dependent on Delinquent Loans					

Source: Annual Reports, ECSL

Table 4.17 and Figure 4.16 show that the ratio of provision for loan losses to average total assets is 0.27 percent, 0.37 percent, 0.49 percent,057 percent 065 percent and 0.59 percent in FY 2058/059, 2059/060, 2060/061, 2061/062, 2062/063 and 2063/64 respectively. The trend is fluctuating up and down. This ratio depends upon the level of loan delinquencies.

4.1.5 Liquidity (L)

Liquidity is traditionally viewed in terms of cash available to lend a variable exclusively controlled by the institution. With the introduction of withdraw able savings deposits, the concept of liquidity is radically changed. Liquidity now refers to the cash needed for withdrawals a variable the institution can no longer control. The indicators reveal if institution is administering its cash to meet deposit withdrawal requests and liquidity reserve requirements while, at the same time, minimizing the amount of idle funds. To maintain the confidence of the depositors and overcome the financial crisis effective liquidity management is essential.

Under Liquidity, the tools L_2 and L_3 have been calculated and analyzed.

4.1.5.1 Liquidity Reserves to Savings Deposits (L_2)

It measures the compliance with obligatory of CU or other liquidity reserve deposit requirements. Excess uphold of liquidity reserves hampers institution from generating income. As the interest margin on depository institutions or other commercial banks is significantly low than investing them in productive assets, such deposition in liquidity reserves is discouraged to

institutions. The heavy portion of liquidity leads to institution negativity in earning and institution needs to assess the level of liquidity to maintain to off-set the unexpected demand from member's savings accounts.

Table: 4.18
Liquidity Reserves to Savings Deposits (L_2)

L_2	**2058/59**	**2059/60**	**2060/61**	**2061/62**	**2062/63**	**2063/64**
a. Total liquidity Reserve (earning Assets)	25,54,766	33,09,320	43,02,628	63,24,828	74,73,790	1,07,45,075
b. Total Assets liquidity Reserve (Non-Earning Assets)	1,35,466	2,70,795	3,40,223	98,646	4,51,590	2,94,790
c. Total Saving Deposits Liquidity Reserve	1,22,53,020	1,53,23,850	1,79,29,582	2,35,90,564	2,90,60,164	4,06,57,953
$L_{2\%}$	21.96	23.36	25.90	27.23	27.27	21.15
PEARLS standard	10	10	10	10	10	10

Source: Annual Reports, ECSL

Table 4.18 clearly demonstrates that the ratios of liquidity reserves to total assets are 21.96 percent, 23.36 percent, 25.90 percent, 27.23 percent, 27.27 and 21.15 percent in FY 2058/059, 2059/060, 2060/061, 2061/062 2062/063 and 2063/064 respectively. The ratio is in increasing trend, it is significantly high over PEARLS standard.

4.1.5.2 Non-Earning Liquid Assets to Total Assets (L_3)

It measures the percentage of total assets that is invested in non-earning liquid accounts. Non-earning assets is the cash at hand which do not generate income. But institution should establish maximum amounts to keep in cash and monetary deposits for deposits withdrawal. An analysis in administering the cash mitigates institutions how much cash to be uphold at hand at the event of member-clients deposit withdrawal.

Table: 4.19
Non Earning liquid Assets to Total Assets (L_3)

L_3	2058/59	2059/60	2060/61	2061/62	2062/63	2063/64
a. Total liquid Non-earning Assets	1,35,466	2,70,795	3,40,223	98,646	4,51,590	2,94,790
b. Total Assets	2,09,53,234	2,65,43,507	3,02,11,242	3,70,50,505	4,31,36,837	5,64,78,248
$L_{3\%}$	0.64	1.02	1.12	0.26	1.04	0.52
PEARLS Standard %	<1	<1	<1	<1	<1	<1

Source: Annual Reports, ECSL

Table 4.19 and illustrate that the ratios of non-earning assets to total assets are 0.64 percent, 1.02 percent, 1.12 percent, 0.26 percent, 1.04 percent and 0.52 percent in FY 2058/059, 2059/060, 2060/061, 2061/062, 2062/063 and 2063/064 respectively. L_3 ratio of ECSL is in the fluctuating trend over the six-study periods. In the FY 2059/060, 2060/061 and 2062/063 above the PEARLS standard but, FY 2058/059, 2061/062 and 2063/064 within the PEARLS standard.

4.1.6 Sign of Growth (S)

Growth is the major tools for analyzing financial performance of the institution. PEARLS system links the growth to profitability and other keys like total assets, loans, saving deposit, shares, institutional capital, membership, and investment. By comparing the growth in total assets to other key areas, it is possible to detect changes in the balance sheet structure, which have an impact on earnings. The loan portfolio is the most important and profitable institution's asset. The growth of total assets depends on the growth of savings. Growth of institutional capital, which consists almost entirely of preserved surpluses, is the best indicator of profitability within the MFIs. One sign of success for MFIs is sustained growth of institutional capital, usually faster than the growth of total assets. It also measures the increase in new member as well as share capital. Some MFIs may maintain a dependence on shares for growth, although member share saving are deemphasized under the WOCCU model.

Under signs of Growth (S), the tools S_1, S_2, S_3, S_5, S_7, and S_{11} have been calculated and analyzed. Other tools S_4, S_6, S_8, S_9, and S_{10} have not been calculated and analyzed due to not having non- financial investment and external credit of ECSL during the study period.

4.1.6.1 Growth in Loans (S_1)

S_1 measures the year-to-date growth of the loan portfolio. The likelihood of profitability is possible if growth in total loans keeps pace with growth in total assets. This ratio is affected by R_1 and R_{10}. The earnings from loans and the provision of allowances for loan delinquency greatly affect in the growth in loans. A prompt collection of loan in a specified time schedule helps institution from falling in the bracket of loan delinquency. When delinquencies do not occur, the earning of institution increases and can further be re-invested in productive assets, which yields income.

It is important to know various investment opportunities for income-Loan portfolio is profitable for institution and emphasis should be set in such areas. If loan growth keeps pace with growth in total assets, there is likelihood that profitability has been maintained. If loan growth drops, it indicates that less profitable areas are growing more quickly. According to PEARLS standard, if institution needs to increase the percentage of total loans outstanding (E_1). The growth in loans (S_1) should be greater than growth in total assets (S_{11}).

Table: 4.20

Growth in Loans (S_1)

S_1	2058/59	2059/60	2060/61	2061/62	2062/63	2063/64
a. Current Loan Portfolio balance	1,22,53,020	1,53,23,850	1,79,29,582	2,35,90,564	2,90,60,164	4,06,57,953
b. Loan Portfolio balance as of Last year-end	0	1,22,53,020	1,53,23,850	1,79,29,582	2,35,90,564	2,90,60,164
$S_{1\%}$	0	26.34%	12.87%	18.42%	15.34%	28.90%
PEARLS Standard	Dependent on E_1					

Source: Annual Reports, ECSL

Table 4.20 reveals that the growth in loan is 26.34 percent, 12.87 percent, 18.42 percent, 15.34 and 28.90 percent in FY 2059/060, 2060/61, 2061/62, 2062/63 and 2063/64 respectively. The growth in loan ratios is fluctuating during the study period. This ratio is dependant with E_1. The problem of growth in loan was due to a high delinquent loan and a provision of adequate allowances for loan delinquency.

4.1.6.2 Growth in Liquid Investments (S_2)

S_2 measures the growth of liquid investments. Generally, excess investments in the liquid assets are discouraged due to its low earning. Heavy investment in liquid assets impedes the institution from investing in productive assets. According to PEARLS standard, if institution needs to increase the percentage of liquid investments (E2) the growth in liquid investments (S2) should be greater than growth in total assets S11.

Table: 4.21

Growth in Liquid Investments (S_2)

S_2	2058/59	2059/60	2060/61	2061/62	2062/63	2063/64
a. Total Current Liquid Investment	25,54,766	33,09,320	43,02,628	63,24,828	74,73,790	1,07,45,075
b. Total Liquid Investment as of Last year	0	25,54,766	33,09,320	43,02,628	63,24,828	74,73,790
$S_{2\%}$	0	29.53%	30.01%	47%	18.16%	43.77%
PEARLS Standard	Dependent on E_2					

Source: Annual Reports, ECSL

Table 4.21 shows that the growth in liquid investments are 29.53 percent, 30.01 percent, 47 percent, 18.16 and 43.77 percent in FY 2059/060, 2060/061, 2061/062, 2062/063 and 2063/064 respectively. From 2059/060 t0 2061/062 the ratio increases gradually and reaches from 29.53 percent to 47 percent. Where, in 2062/063 rapid decrease has seen in the ratio holding 18.16 percent. Finally, in the last year of the study period the ratio again increases

rapidly holding 43.77 percent. This ratio is dependent upon the E_1. Since the liquid investment is in tune with the total assets the growth in liquid investments is satisfactory.

4.1.6.3 Growth in Financial Investments (S_3)

S_3 measures the growth of financial investments. Investing in financial securities reduces the risk but consequently results a slightly low earning compared to the investments on loan portfolios. Investing in financial securities reduces the risk but consequently results a slightly low earning compared to the investments on loan portfolios. Institution relying heavily on financial investment has to suffer a harsh effect from earning income. CU encourages investing the fund in the loan portfolio which yields a high portion of income. This growth depends upon the financial investments to total assets, E_3.

Table: 4.22

Growth in Financial Investments (S_3)

S_3	**2058/59**	**2059/60**	**2060/61**	**2061/62**	**2062/63**	**2063/64**
a. Total Current Financial investment	70,000	70,000	70,000	70,000	70,000	70,000
b. Total Financial Investment as of Last year	0	70,000	70,000	70,000	70,000	70,000
$S_{3\%}$	-	-	-	-	-	-
PEARLS Standard	Dependent on E_3					

Source: Annual Report, ECSL

The data in the Table 4.22 show that the growth in financial investment of ECSL is very minimum and same amount in all the study period. There is the huge increment in the growth rate percent of financial investment but if it compared to total assets the growth rate is negligible. It shows that ECSL has not taken financial investment as alternative source of utilization of its assets.

4.1.6.4 Growth in Saving Deposits (S_5)

S_5 measures the year-to-date growth of savings deposits. Saving deposit holds the maximum portion of the fund of the institution. So management of

savings deposits and growth rate of saving deposits key factor for maximizing profit, but should use its deposit in product assets and mobilize properly. The growth of total assets is dependent on the growth of savings. To encourage growth in new savings deposits, aggressive marketing programs should be initiated, which affect the growth of other key areas.

It measures the year to date growth of savings deposits. The skill in marketing program will help in accumulating the saving deposits which affect growth in other key areas.

Table: 4.23
Growth in Saving Deposits (S5)

S_5	2058/59	2059/60	2060/61	2061/62	2062/63	2063/64
a. Total Current Saving Deposit	1,22,53,020	1,53,23,850	1,79,29,582	2,35,90,564	2,90,60,164	4,06,57,953
b. Total Saving Deposit as of Last year	0	1,22,53,020	1,53,23,850	1,79,29,582	2,35,90,564	2,90,60,164
$S_{5\%}$	0	25.06%	17%	31.57%	23.18%	39.91%
PEARLS Standard	Dependent on E_5					

Source: Annual Report, ECSL

Table 4.23 shows that the growth in saving deposits is 25.06 percent, 17 percent, 31.57 percent, 23.18 percent and 39.91 percent in FY 2059/060, 2060/061, 2061/062, 2062/063 and 2063/064 respectively. This growth is dependent upon the E_5.

4.1.6.5 Growth in Member Share (S_7)

S_7 measures the growth member share capital and dependent to E_7. Since institution do not have any obligation of expenses for member share Capital unless and until it generate profit. The standard of share capital should be maintained by the members as the assets increases; otherwise the high cost fund grows up and adversely affects the profit generation of the institution.

Table: 4.24
Growth in Member Share (S7)

S_7	**2058/59**	**2059/60**	**2060/61**	**2061/62**	**2062/63**	**2063/64**
a. Total Member Share as of Current year-end	41,61,500	44,44,160	47,25,760	54,25,760	61,11,520	79,18,320
b. Total Member Share as of last year-end	0	41,61,500	44,44,160	47,25,760	54,25,760	611,1,520
$S_{7\%}$	0	6.79%	6.33%	15.47%	12%	29.56%
PEARLS Standard	Dependent on E_7					

Source: Annual Report, ECSL

Table 4.24 shows that the growth in member shares are 6.79 percent, 6.33 percent, 15.47 percent, 12 percent and 29.56 percent in FY 2059/060, 2060/061, 2061/062, 2062/063 and 2063/064 respectively. This growth is dependent upon the E7. In concludes that ESCL has not considered increasing in share capital as the assets increases. In the last FY 2063/064 of the study period the rapid increase has been seen in the share capital and the growth rate also, which is in the standard set by PEARLS model.

4.1.6.6 Growth in Total Assets (S_{11})

S_{11} measures the growth of total assets. Since, the growth in total assets affects the different ratios of PEARLS. It is one of the most important ratios. But, the quality of assets should be maintained to boost earning and make positive effect in different ratios. By comparing the growth in total assets to other key areas, it is possible to detect changes in the balance sheet structure, which could have a positive or negative impact on earnings.

Table: 4.25
Growth in Total Assets (S_{11})

S_{11}	2058/59	2059/60	2060/61	2061/62	2062/63	2063/64
a. Total Current assets	2,09,53,234	2,65,43,507	3,05,11,242	3,70,50,505	4,31,36,837	5,64,78,248
b. Total Assets as of the last Year-end	0	2,09,53,234	2,65,43,507	3,05,11,242	3,70,50,505	4,31,36,837
$S_{11\%}$	0	26.67	14.95	21.43	16.43	30.93
PEARLS Standard	>Inflation					
Inflation (%)	2.9	4.8	4	4.5	8	6.4

Source: Annual Report, ECSL

The data in Table 4.25 that the growth in total assets is 26.67 percent, 14.95 percent, 21.43 percent, 16.43 percent and 30.93 percent in FY 2059/60, 2060/61, 2061/62, 2062/63 and 2063/64 respectively. Comparing with the standard inflation rate of Nepal in consecutive periods the data stands extensively high.

4.2 Major Findings of the Study

4.2.1 ECSL has been able to make provisions for delinquent loans at 100 percent of the required PERALS standard of delinquency. The delinquency of institution is very high. However, it can be define with future uncertainties by the provision of allowances for the delinquency.

4.2.2 ECSL has been able to maintain the 35 percent provision for the delinquent loan from 1 month to 12 months in the FY 2059/060 to 2063/064. So, it has adequate provision to cover the doubtful loan.

4.2.3 ECSL has been consistently maintaining the solvency ratio in increasing trend from 2058/059 to 2063/064. The ratio has achieved the PEARLS standard, which is below the standard throughout the study periods. This implies its assets are inflated; member one rupee worth is less than that.

4.2.4 ECSL ratio of net loan to total asset almost near by to the standard of PEARLS. The ratio is in the steadily decreasing trend within all the six years of study periods.

4.2.5 The ratio of liquid investments to total assets of ECSL is in the increasing trend from 2058/059 to 2063/064. The highest ratio is 19.02 percent in FY 2063/064 and lowest in FY 2058/059 is 12.19 percent has maintained within PEARLS standard.

4.2.6 ECSL has minimum amount invested as a financial investment while comparing with total assets the percentage of financial investment is very minimum. Since the PEARLS model does not suggest certain percentage of investment must be made in the financial investment the entire ratios are with in the standard of PEARLS.

4.2.7 Expect the FY 2053/064; all the FY has not maintained the ratio of saving deposits to total assets with the PEARLS standard of 70-80 percent. It indicates that the institution has related on the external funds or the interest on the savings deposits was relatively low and market rate fell below inflation.

4.2.8 ECSL has maintained the ratio of member shares capital to total assets but it has slightly decreasing in all the FY in the FY 2058/059 it has highest value i.e. 19.86 percent and 14.02 percent has the lowest value of the FY 063/064.

4.2.9 ECSL has not maintained the ratio of institutional capital to total assets within the PEARLS standard. The highest ratio of institutional is 1.5 percent in FY 2061/062 and the lowest is 0.26 percent in FY 2063/064. The failure in the maintenance of this ratio is inability of generating adequate earnings due to its delinquency.

4.2.10 ECSL has not classified the delinquent loans up to FY 2059/060 from the FY 2060/061 it has been able to control its delinquent loan. It has maintained its delinquency below then 5 percent, the PEARLS standard.

4.2.11For the study periods under review, the ratio of non-earning assets to total assets has been below 5 percent. This shows ECSL has been able to control its non-earning assets.

4.2.12 Total loan income to average loan portfolio is in the fluctuating trend. It seemed quite satisfactory because it has covered the cost of funds, the cost of administration cost of operation and the cost of provisions. These costs of contribution have satisfactorily added to increase institutional capital.

4.2.13 ECSL liquid investment income is very low during the study periods. It was fluctuating trend. Since, the ratio is dependent upon the market rate.

4.2.14 ECSL has a minimum amount invested in financial investment and has not yield any income throughout the study periods.

4.2.15During the study period, ECSL cost of saving deposit is very high. In FY 2058/059 the cost of saving deposit reaches to 22.22 percent ECSL has largely depended on the saving deposit, being the main source of fund; it has paid maximum interest rate to the depositors. The ratio of financial cost, saving deposits to average savings deposits is decreasing trend in the consecutive year.

4.2.16 ECSL has been able to minimize the operating expenses throughout the study period. The ratios are gradually decreasing. In the FY 2058/059, the operating expenses to average total assets was maximum i.e. 13.84 percent, this is one of the reason behind the loss of ECSL in the initial stage.

4.2.17 ECSL has not been able to maintain the ratio of liquidity reserves to total deposits within PEARLS standard of 10 percent over the study periods. The trend of this ratio is fluctuating but still very high which affects the earning power of institution.

4.2.18 The non-earning liquid assets of ECSL seems to be higher during the FY 2059/60, 2060/061 and 2062/063. It has kept the liquidity reserves more then standard of PEARLS. But in the FY 2058/059, 2061/062 and 2063/064 has maintained in the framework of PEARLS.

4.2.19 Over the six year study periods, ECSL has experienced the growth of loans fluctuation trend. The highest growth is 28090 percent in FY 2063/064. Since, this ratio is dependent upon the net loans to total assets (E1), the growth rate is quite satisfactory in all the study period.

4.2.20 ECSL growth in liquid investments shows the fluctuating trend over the years of study periods. From the FY 2059/060 to 2061/062 liquid investments gradually increasing up to 47 percent in the FY 2062/063 ECSL increase its investment in productive assets and hence decreases the liquid investment. Finally, in the FY 2063/064 the liquid investment again increases. It indicates that ECSL has a problem of investment in productive sectors like loan; excess liquidity assets have been maintained.

4.2.21 ECSL has not preferred financial investment as alternative source of assets utilization. It has minimum fund in liquid investment. In general, the yield of financial investment generates more income than liquid investment, but less income than loan investment. If the institution is facing problem in investing in loan, then investment in the alternatives source (i.e. financial investment) should be taken into account.

4.2.22 Since the main source of fund of ECSL is saving deposit, the growth of saving deposit affects the many ratios. Accordingly, the growth of saving deposits affects the growth of total assets. The highest growth was 39.91 percent in 2063/064. The growth in savings deposits shows that the institution has a potentiality to invest in loan portfolio, which significantly generates more income.

4.2.23 Growth in member share is in the increasing trend through the study. It seemed quite satisfactory. Since, the ratio is dependent upon the member share capital to total assets (E7). ECSL has able to maintain the standard of PEARLS.

CHAPTER V
SUMMARY, CONCLUSION AND RECOMMENDATION

This chapter represents three parts of the study- summary, conclusion and recommendation. The fires part goes over with a summarization of the whole study, the second part depicts the conclusion and the last part presents recommendation is the high of its finding of the study.

5.1 Summary

Nepal is a developing country with agriculture-based economy. Majority of the people residing in rural areas are very poor. Agriculture productivity is quite low and agriculture output hardly meets three months needs of the family. So, co-operatives are the most significant tools for mobilizing scattered saving and use in productive investment for the benefit of the entire members and the society. In Nepal, out of thousands savings and credit Co-operative only few of them are only under the Jurisdiction of monitoring authority, Nepal Rastra Bank (NRB), other huge member of Co-operatives are under the supervision of Depart of Co-operative (DOC).

Various methodologies and tools have been applied to know about the financial position of institution and key act as accordingly ensuring the norms are appropriate but they have different result if the same information is appraised from PEARLS approach. World Council of Credit union Inc., since 1990, have neb promoted PEARLS to most of the credit unions (saving and credit Co-operative) of other countries as financial performance monitoring system and also supervisory tools for regulators and superb success achieved by the PEARLS monitoring system.

The study has been undertaken to measure the financial strength and weakness of ECSL in the framework of PEARLS. The annual reports for six years during the FY 2058/059 to 2063/064 have been examined by analyzing interpreting the PEARLS ratios. The main objective of this study is to find out

the strengths and weakness of ECSL. The specific objectives of the study were put forth to identify the stage of protection, level of effective financial structure, trend in asset quality, rate of returns and cost, position of liquidity and sign of growth of the institution over the six year study periods. The study was designed within the4 framework of descriptive and analytical research design.

The study has been divided into 5 chapters, i.e. introduction, review of literature, research methodology; presentation, analysis and interpretation of data and final chapter are this for summary, conclusion and recommendation.

Conceptual background about the Co-operative and PEARLS monitoring system, statement of the problem about the current study, objectives of the study, significance of the study, limitation of the study and organization of the study has been included in the introduction chapter.

Literature review has been divided into conceptual and theoretical review. Meaning and definition of Co-operative, global background and Nepalese events, existing situation of Co-operatives in Nepal are included in conceptual review. In theoretical review, it has included concept and objective of PEARLS and different review of dissertation has been conducted under the review of literature.

The presentation of data trace from the annual report, balance sheet and other official record of ECSL has been done by tabulation in the excel sheet then in the form of table of Ms word program. Analysis has been made through the tabulation of ratio of ECSL comparing with PEARLS standard. In addition, the inflation has also been described as suggested by PEARLS in Nepalese scenario. In component ' protection' the institution has adequately protected the loan loss with the provision of allowance for more than one year through the trend of delinquency is rising up consecutively, likewise the institution has been able to maintain provision for 1-12 month delinquent loan during the study period. The solvency of institution is low as compared to PEARLS standard. The net loans to total assets ratios almost near by the standard of PEARLS. The ratio is in the steadily decreasing. The institution has able to

maintain the liquid investment to total assets ratio and member shares to total assets PEARLS framework.

Total loan delinquent to total loan portfolio and non-earning assets to total assets has maintained below then 5 percent of PEARLS standard. Total loan income to average loan portfolio ratio is quite satisfactory. The liquid investment income is not satisfactory. The ratio is depending upon the market rate. Financial investment income is zero, due to not having invested in profitable sector. The financial cost of saving deposit is in decreasing trend but above inflation rate. The operating expenses to total assets ratio of institution is in decreasing trend.

The institution has not been able to maintain the ratio of liquidity reserves to total deposits within the PEARLS standard. Non-earning assets to total assets fluctuating trend.

The growth in loans liquid investment, saving deposits are satisfactory and in the standard of PERALS. Growth in financial investment and member share is in the standard of PEARLS.

5.2 Conclusions

Based on financial analysis and finding of the study, the following conclusions have been made on Everest Co-operative society limited.

5.2.1 The allowance for loan losses to allowance required for loans delinquent ratios are above 100 percent (P_1) in all the fiscal years. It indicates that ECSL has adequate provision to cover the bad debt losses. Solvency or Net value of assets to total shares and deposit are under the PEARLS standard and increasing trend.

5.2.2 The Net loan to total assets ratio is within the PEARLS standard. The use of funds seems satisfactory during the study period. Net loan to total assets (E_1) and liquid investment to total assets (E_2) indicate the ECSL has invest most of its fund in more productive assets and less in non-earning assets. Financial investment is minimal, which has not produced any earning over all the study period. The ratio of saving deposits to

total assets shows that, ECSL has not maintained more than 80 percent of its funds from saving deposit.

5.2.3 Total loan delinquency to total loan portfolio (A_1) is fluctuating. A_1 of ECSL in the study periods is less than 5 percent. This reveals that assets quality of ECSL is within the standard but delinquency ratio is above the prescribed standard. The ratio of non-earning assets to total assets should not exceed 5 percent of total assets as per the standard.

5.2.4 The ratio of total loan income to average loan portfolio (R_1) should be greater than the entrepreneurial rate. Earning of ECSL in not enough to contribute to institutional capital to maintain 10 percent of total assets. Liquid investment income is very low during the study period. ECSL has a minimum amount invested in financial investment and has not yield any income throughout the study period. During the first Five years of the study periods, ECSL cost of saving deposit is very high. From the official records, it is seen that, ECSL had paid up to 14 percent interest rate to the depositors of fixed amount in the initial year. ECSL has been able to minimize the operating expenses throughout the study period. The institutional has been able to control operating expenses within the PEARLS standard.

5.2.5 The liquidity reserve to saving deposits (L_2) ratio shows that ECSL has maintained high total deposit, by maintaining more than adequate liquidity, situation is losing the probability of income by investing in productive sector. The non-earning liquid assets of ECSL seem to be higher during the FY 2059/060, 2060/061 and 2062/063. It has kept the liquidity reserve more then PEARLS standard, but while in other years of the study periods, the non-earning liquid asset has maintained PEARLS standard.

5.2.6 The growth in loans ratio is quite fluctuating. Since, this ratio is dependent upon the net loans to total assets (E_1). The growth rate is satisfactory. ECSL growth in liquidity investment shows the fluctuating trend over the study period. In the fiscal year 2061/062 and 2063/064

excess liquid assets, which show the problem of investment in productive sectors, ECSL has minimum fund in financial investment, which shows ECSL has not able to grab financial investment opportunity to utilize excess fund. Growth in saving deposit is satisfactory. It has been able to maintain growth rate, after the reduction in cost of saving deposit, which is very positive sign for the institution.

5.3 Recommendation

On the basis of analysis, finding and conclusions the following recommendation have been forwarded as a suggestion to overcome the weakness faced by ECSL.

The allowances for loan losses to allowances required for loans delinquent loan greater than 12 months have been maintained as per PEARLS standard and the allowances for loan losses to allowances required for loans delinquent from 1 to 12 months have been maintained. But, delinquent loan is increasing as the loan portfolio increases, which may reduce earning. So, the institution is advised to control the climp-up delinquent loan with the better credit analysis, effective collection procedure by applying flow-up methods and rescheduling in some cases. The institution is advised to maintain solvency as PEARLS directives. Total productive assets should be added up to delinquencies of institution need to reduced

ECSL is recommended to set the optimal level of the net loans to total assets, minimize the excess liquid investments, or explore investment alternative, rather than investing investment. Saving deposits of the institution is quite sound but it is advice to increase funds in low cost account like saving deposits accounts rather than fixed deposits accounts.

The institution is advised to tune-up member-share capital depending upon the increment of total assets, to minimize the cost of fund and maximize the profit. To increase the institutional capital ratio, the institution is recommended to reduce delinquency and reduce cost of fund.

It is recommended to the institution to set different interest rates on loans according to their purpose, amount, term and risk factor. The institution needs to minimize liquid investment (E_2) and increase amount in loan portfolio.

ECSL is recommended to analyze and revise the interest rate of saving recurring fixed and loan accounts. Thou, ECSL saving deposit and loans growth rate are sound it is difficult to generate income due to the less spread rates. ECSL is also advice to tune the growth in member share with overall growth in total assets.

ECSL is recommended to reduce the excess liquid assets, calculate the withdrawal of member saving by classifying the types of deposits and term of deposit and invest in excess fund in productive sectors such as loan.

Appendix 1.1

Balance sheet
2059-2064 Assets

Assets	2058/059	2059/060	2060/061	2061/062	2062/063	2063/064
Cash	1,35,466	2,70,795	3,40,223	98,646	451,590	2,94,790
Bank	25,54,766	33,09,320	43,02,628	63,24,828	74,73,790	10,74,5075
Investment on Share	70,000	70,000	70,000	70,000	70,000	70,000
Investment on loan	1,79,33,512	2,26,58,498	2,55,76,212	3,02,87,047	34,93,2172	4,50,25,196
Fixed Assets	2,06,370	175,640	204,025	2,41,984	1,95,265	2,14,845
Other Assets	53,120	59,254	18,154	28,000	14,020	1,28,342
Total Assets	2,09,53,234	2,65,43,507	3,05,11,242	3,70,50,505	4,31,36,837	5,64,78,248

Liabilities						
Paid up Capital	41,61,500	44,44,160	47,25,760	54,56,980	61,11,520	79,18,320
Deposit	1,22,53,020	1,53,23,850	1,79,29,582	2,35,90,564	2,90,60,164	4,06,57,953
Current Liabilities	20,37,936	25,17,680	30,02,624	42,08,092	45,66,284	69,82,612
Reserve Fund	94,696	2,89,356	4,59,520	3,57,652	5,84,166	1,52,346
Share Bonus Fund	56,816	1,73,615	1,25,712	1,22,992	2,58,900	73,808
Loan loss Fund	28,408	86,806	1,37,856	1,92,495	2,60,449	2,92,904
Reserve Capital Fund	1,13,634	3,47,226	4,21,424	3,55,981	6,27,796	2,07,614
Personnel Bonus Fund	28,408	72,602	94,452	1,17,757	1,39,660	1,09,883
Cooperative Edu. Fund	28,408	86,806	1,37,856	70,996	1,38,949	41,404
Cooperative Dev. Fund	28,408	86,806	1,37,856	70,996	1,38,949	41,404
Borrowing	21,22,000	31,14,600	33,38,600	25,06,000	12,50,000	-
Total Liabilities	2,09,53,234	2,65,43,507	3,05,11,242	3,70,50,505	4,31,36,837	5,64,78,248

Appendix 1.2
Profit and Loss Account
2058-2064

Fiscal Year	**2058/059**	**2059/060**	**2060/061**	**2061/062**	**2062/063**	**2063/064**
Loan Interest	26,64,398	30,16,354	39,86,132	42,72,398	44,68,955	61,08,652
Penalty Interest	3,67,519	3,30,649	4,39,200	4,90,847	8,25,615	8,29,922
Commission	70,535	43,034	16,690	3,900	2,400	3,900
Service Charge	53,000	8,500	8,000	-	-	-
Entrance Charge	22,000	11,400	9,400	8,900	4,800	7,700
Insurance	47,764	36,810	52,145	20,447	18,548	14,482
Other	29,924	7,850	20,927	6,823	5,525	450
Management Charge	4,15,830	4,22,730	6,02,135	81,255	50,040	1,02,934
A/C Closed	15,000	9,900	12,800	12,200	8,597	7,800
Risk Bearing	2,92,078	-	-	-	-	-
Total Income	39,78,048	38,87,227	51,47,429	48,96,770	53,84,480	70,75,840
Expenses						
Total Interest exp.	13,61,361	17,00,316	21,79,701	24,09,152	29,59,772	37,27,104
Salary Allowances	5,96,619	5,66,280	4,82,826	4,13,968	4,14,100	4,20,388
Allowances	53,875	5,07,525	5,61,225	1,01,891	3,29,635	4,23,234
Provident Fund	-	-	-	14,976	14,976	15,480
Total Staff Overhead	6,50,494	10,73,805	10,44,051	5,30,835	7,58,711	8,59,102
Office Operating	7,99,490	3,01,128	3,22,337	4,54,929	3,34,793	3,66,905
Provision for Risky Loan	-	-	8,85,059	7,46,440	3,73,882	15,15,418
Depreciation	42,592	33,335	35,627	26,887	51,269	56,072
Bad Debts	10,373	-	-	-	-	-
Total Expenses	28,64,310	31,08,584	44,66,775	41,68,243	44,78,427	65,24,601
Gross Income	11,13,738	7,78,643	6,80,654	7,28,527	9,06,053	5,51,239

Appendix 1.3
Assets Composition (in %)
2058-2064

Fiscal Year	2058/059	2059/060	2060/061	2061/062	2062/063	2063/064
Cash	0.65	1.02	1.1	0.27	1.05	0.52
Bank	12.2	12.47	14	17.08	17.33	19.03
Investment on Share	0.34	0.26	0.22	0.18	0.16	0.12
Investment on Loan	85.58	85.37	83.5	81.75	80.97	79.72
Fixed Assets	0.98	0.66	0.60	0.65	0.45	0.38
Other Assets	0.25	0.22	0.58	0.07	0.04	0.23
Total Assets (%)	**100**	**100**	**100**	**100**	**100**	**100**

Appendix 1.4
Liabilities Composition (in %)

Fiscal Year	2058/059	2059/060	2060/061	2061/062	2062/063	2063/064
Paid up Capital	19.87	16.74	15.48	14.73	14.17	14.02
Deposit	58.48	57.74	58.76	63.68	67.37	71.99
Current Liabilities	9.73	9.48	9.85	11.36	10.59	12.36
Reserve Fund	1.80	4.30	4.96	3.48	4.98	1.63
Borrowing	10.12	11.74	10.95	6.75	2.89	-
Total (%)	**100**	**100**	**100**	**100**	**100**	**100**

Appendix 2.1

Protection (P)

Allowances for loan loses/ Allowances required for loans Delinquent> 12 months (P_1)

$$P_1 = \frac{a}{b}$$

Where,

a = Total Allowances for loan losses

b = Percentage for allowances required for recovering loans that are more than 12 months delinquent.

$$P_1 = \frac{a}{b} = \frac{292904}{136234} = 215\%$$

The ratios for remaining periods have been calculated as accordingly.

Net Allowances for loan losses/ allowance required for loans delinquent 11-12 months (P_2)

$$P_2 = \frac{a-b}{c}$$

Where,

a = Total Allowances for loan losses.

b = Loan Allowances for delinquent loan >1 year.

c = Delinquency of 1-12 months.

$$P_2 = \frac{a\text{-}b}{c} = \frac{292904\text{-}136234}{274860} = 57\%$$

The ratios for remaining periods have been calculated as accordingly.

Net value of Assets to Total share and Deposit, Solvency (P_6)

$$P_6 = \frac{[(a+b)-(c+0.35(d)+e-f-g)]}{g+h}$$

Where,

a = Total assets

b = Allowances for Risk Assets

c = Balance of loans Delinquent > 12 months

d = Balance of loan Delinquent from 1 to 12 months

e = Total Liabilities

f = Problem Assets (Losses that will be Liquidated)

g = Total Savings

h = Total shares

$$P_6 = \frac{(a+b)-[(c+0.35(d)+e+f+g)]}{(g+h)}$$

$$= \frac{56478248+[292904-[136234+0.35\times 274860+56478248+0+40657953]}{46657953+7918320}$$

$$= 83.83\%$$

The ratios for remaining periods have been calculated as accordingly.

APPENDIX 2.2

Effective Financial structure (E)

Net Loans/ Total Assets (E_1)

$$E_1 = \frac{(a-b)}{c}$$

Where,

a = Total Gross Loan portfolio outstanding

b = Total Allowance for loan losses

c = Total Assets

$$= \frac{\text{a-b}}{\text{c}} \text{ x } 100 = \frac{45025196\text{-}292904}{56478248} = 79.20\%$$

The ratios for remaining periods have been calculated as accordingly.

Liquid Investments/ Total Assets (E_2)

$$E_2 = \frac{a}{b}$$

Where,

a = Total liquid Investments

b = total Assets

$$\frac{a}{b} = \frac{10745075}{56478248} = 19.02\%$$

Financial Investments/ Total Assets (E_3)

$$E_3 = \frac{a}{b}$$

Where,

a = Total financial Investments

b = Total Assets

$$\frac{a}{b} = \frac{70000}{56478248} = 0.12\%$$

The ratios for remaining periods have been calculated as accordingly.

Saving Deposits/Total Assets (E_5)

$$E_5 = \frac{a}{b}$$

Where,

a = Total Saving Deposits

b = Total Assets

$$\frac{a}{b} = \frac{40657953}{56478248} = 71.99\%$$

The ratios for remaining periods have been calculated as accordingly.

Member Share Capital/ Total Assets (E_7)

$$E_7 = \frac{a}{b}$$

Where,

a = Member Share Capital

b = Total Assets

$$\frac{a}{b} = \frac{7918320}{56478248} = 14.02\%$$

The ratios for remaining periods have been calculated as accordingly.

Institutional Capital to Total Assets (E_8)

$$E_8 = \frac{a}{b}$$

Where,

a = Total Institutional Capital

b = Total Assets

$$\frac{a}{b} = \frac{152346}{56478248} = 0.26\%$$

The ratios for remaining periods have been calculated as accordingly.

Appendix 2.3

Assets Quality (A)

Total Loan Delinquency to Total Loan portfolio (A_1)

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

Where,

a = Sum of all delinquent loan balances

b = Total (Gross) Loan portfolio outstanding.

$$\frac{a}{b} = \frac{675378}{45025696} = 1.50\%$$

The ratios for remaining periods have been calculated as accordingly.

Non-earning assets to Total Assets (A_2)

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

Where,

a = Total non-earning Assets

b = Total Assets

$$\frac{a}{b} = \frac{1037977}{56478248} = 1.83\%$$

The ratios for remaining periods have been calculated as accordingly.

Appendix 2.4

Rate of Return and Costs (R)

Total loan Income to Average loan portfolio (R_1)

$$R_1 = \frac{a}{\left[\frac{b+c}{2}\right]}$$

Where,

a = Total Loan income during year

b = Net Loan portfolio (Net of Allowances for loan losses) as of current year-end

c =Net Loan portfolio (Net of allowances for loan losses) as of last year-end

$$R_1 = \frac{a}{\left[\frac{b+c}{2}\right]} \quad R_1 = \frac{6942474}{\left[\frac{45025196+34932172}{2}\right]} = 17.36\%$$

The ratios for remaining periods have been calculated as accordingly.

Liquid Investment Income to Average Liquid Investment (R_2)

$$R_2 = \frac{a}{\left[\frac{b+c}{2}\right]}$$

Where,

a = Total Liquid Investments income during year.

b = Total Liquid Investments as of Current year- end

c = Total Liquid Investments as of Last year-end

$$R_2 = \frac{450}{\left[\frac{(10745075+7473790}{2}\right]}$$

$= 0.005\%$

The ratios for remaining periods have been calculated as accordingly.

Financial Investments Income/ Average Financial Investment (R_3)

$$R_3 = \frac{a}{\left[\frac{b+c}{2}\right]}$$

Where,

a = Total Financial Investments income

b = Total financial Investments as of Current year –end

$$R_3 = \frac{0}{\left[\frac{70000+70000}{2}\right]}$$

= 0 %

The ratios for remaining periods have been calculated as accordingly.

Financial Cost: Saving Deposits to Average Savings Deposits (R_5)

$$R_5 = \frac{(a+b+c)}{\left[\frac{(d+e)}{2}\right]}$$

Where,

a = Total interest rate on saving deposits.

b = Total insurance premium paid on savings deposits.

c = Total taxes paid by CU on savings interest.

d = Total saving deposits as of current year-end.

e = Total saving deposits as of last year-end.

$$R_5 = \frac{3727104+0+0}{\left[\frac{40657953+29060164}{2}\right]}$$

= 10.69 %

The ratios for remaining periods have been calculated as accordingly.

Operating expenses to Average Total Assets (R_9)

$$R_9 = \frac{a}{\left[\frac{(b+c)}{2}\right]}$$

Where,

a = Total Operating Expenses (exclusive of provisions for loan loss)

b = Total Assets of Current Year-end.

c = Total Assets as of Last Year-end.

$$R_9 = \frac{1226007}{\left[\frac{56478248 + 43136837}{2}\right]}$$

= 2.46 %

The ratios for remaining periods have been calculated as accordingly.

Provision for loan losses to average total assets (R_{10})

$$R_{10} = \frac{a}{\left[\frac{(b+c)}{2}\right]}$$

Where,

a = Total Loan losses provision

b = Total Assets of Current Year.

c = Total Assets as of Last Year.

$$R_{10} = \frac{292904}{\left[\frac{56478248 + 43136837}{2}\right]}$$

= 0.59 %

The ratios for remaining periods have been calculated as accordingly.

Appendix 2.5

Liquidity (L)

Liquidity Reserves to Saving Deposits (L_2)

$$L_2 = \frac{a+b}{c}$$

Where

a = Total Liquidity Reserves (Earning Assets)

b = Total Liquidity Reserves (Non-earning Assets)

c = Total Saving Deposits

$$L_2 = \frac{10745075 + 29790}{40657953}$$

= 21.15 %

The ratios for remaining periods have been calculated as accordingly.

Non-earning Liquid Assets to total Assets (L_3)

$$L_3 = \frac{a}{c} \times 100$$

Where

a = Total Liquid Non-earning Assets

b = Total Assets

$$L_3 = \frac{294790}{5647828} \times 100$$

= 0.52 %

The ratios for remaining periods have been calculated as accordingly.

Appendix 2.6

Sign of Growth (S)

Growth in Loans (S_1)

$$S_1 = \left[\frac{a}{b}\right] - 1 \times 100$$

Where,

a = Current Loan Portfolio balance

b = Loan Portfolio as of Last Year-end

$$S_1 = \left[\frac{45025196}{34932172}\right] - 1 \times 100$$

= 28.90 %

The ratios for remaining periods have been calculated as accordingly.

Growth in Liquid Investments (S_2)

$$S_2 = \left[\frac{a}{b}\right] - 1 \times 100$$

Where,

a = Total Current Liquid Investments

b = Total Liquid Investments as of Last Year-end

$$S_2 = \left[\frac{10745075}{7473790}\right] - 1 \times 100$$

= 43.77 %

The ratios for remaining periods have been calculated as accordingly.

Growth in Financial Investment (S_3)

$$S_3 = \left[\frac{a}{b}\right] - 1 \times 100$$

Where,

a = Total Current Financial Investments

b = Total Financial Investments as of Last Year-end

$$S_3 = \left[\frac{70000}{70000}\right] - 1 \times 100$$

= 0 %

The ratios for remaining periods have been calculated as accordingly.

Growth in Savings Deposits (S_5)

$$S_5 = \left[\frac{a}{b}\right] - 1 \times 100$$

Where,

a = Total Current Saving Deposits.

b = Total Saving Deposits as of Last Year-end.

$$S_5 = \left[\frac{40657953}{29060164}\right] - 1 \times 100$$

= 39.9 %

The ratios for remaining periods have been calculated as accordingly.

Growth in Member Share (S_7)

$$S_7 = \left[\frac{a}{b}\right] - 1 \times 100$$

Where,

a = Total Member Share as of Current Year-end.

b = Total Member Share as of Last Year-end.

$$S_7 = \left[\frac{7918320}{6111520}\right] - 1 \times 100$$

= 29.56 %

The ratios for remaining periods have been calculated as accordingly.

Growth in Total Assets (S_{11})

$$S_{11} = \left[\frac{a}{b}\right] - 1 \times 100$$

Where,

a = Total Current Assets

b = Total Assets as of Last Year-end.

$$S_{11} = \left[\frac{56478248}{43136837}\right] - 1 \times 100$$

= 30.93 %

The ratios for remaining periods have been calculated as accordingly.

Appendix 3.1

Solvency or Net Value of Assets to Total Shares & Deposits (P_6)

P_6	Fiscal Year					
	2058/59	**2059/60**	**2060/61**	**2061/62**	**2062/63**	**2063/64**
a. Total Assets	20953234	26543507	30511242	37050505	43136837	56478248
b. Allowance for Risk Assets	48408	86806	137856	192495	260449	292904
c. Balance of Loan Delinquent >12 Month	0	52292	76586	98715	127048	136234
d. Balance of Loan Delinquent from 1 to 12 month	0	86285	145880	164526	218690	274860
e. Total Liabilities	20953234	26543507	30511242	37050505	43136837	56478248
f. Problem Assets	0	0	0	0	0	0
G. Total Savings	12253020	15323850	17929582	23590564	29060164	40657953
h. Total Shares	4161500	4444160	4725760	5456980	6111520	79158320
Solvency (%)	74.83	77.54	79.18	81.34	82.78	83.83
PEARLS Standard (%)	>=100	>=100	>=100	>=100	>=100	>=100

Source: Annual Reports, ECSL

Appendix 3.2

Non-earning Assets to Total Assets (A_2)

A_2	Fiscal Year					
	2058/59	2059/60	2060/61	2061/62	2062/63	2063/64
a. Non-earning Assets	3,81,956	4,92,689	5,49,402	3,55,630	6,47,875	10,37,977
b. Total Assets (%)	2,09,53,234	2,65,43,507	3,02,11,242	3,70,50,505	4,31,36,837	5,64,78,248
Non-earning Assets/ Total Assets (%)	1.82%	1.86%	1.80%	0.96%	1.50%	1.83%
PEARLS Standard of Excellence (%)	<=5%	<=5%	<=5%	<=5%	<=5%	<=5%

Source: Annual Reports, ECSL

Appendix 3.3

Financial Investment Income to Average Financial Investment (R_5)

R_5	Fiscal Year					
	2058/59	2059/60	2060/612	2061/62	2063/64	2063/64
a. Total interest paid on saving deposits	13,61,361	17,00,316	21,79,152	24,09,152	29,59,772	37,27,104
b. Total Insurance premium paid on saving deposit	NA	NA	NA	NA	NA	NA
c. Total Tax paid by on saving deposit	NA	NA	NA	NA	NA	NA
d. Total saving deposits as of current year-end	1,22,53,020	1,53,23,850	1,79,29,582	2,35,90,564	2,90,60,164	40,65,79,523
e. Total saving deposits as of last year- end	0	12,25,30,20	153,23,850	1,79,29,582	2,35,90,564	2,90,60,164

Source: Annual Reports, ECSL