CHAPTER ONE

INTRODUCTION

1.1 **Background of the Study**:

Nepal is one of the 49 least developed countries (LDCs) of the world .Poverty is still widespread and poverty incidence fluctuates between 31%and 42%during 1977 and 2003.Population below poverty line is estimated at 30.8% in 2003/04.Despite several measures initiated to address poverty problems ,number of people below poverty line increased from about 4.9 millions in 1977 to about 7.5 millions in 2003.Agriculture dominates the Nepalese economy with around 39% share in GDP in 2005.Over 85% of the Nepalese population live in rural areas and nearly 80% of the employment come from agriculture and related activities.

Poverty is a complex phenomenon in Nepal due to varied reasons .First, the proportion of the poor in rural areas is almost twice as high as in urban areas .Second, there is a high regional variation in the incidence of poverty with the mountain regions having the highest concentration of the poor. Finally, poverty is also high among lower castes and disadvantaged social groups. In general poor have are characterized by limited access to paid employment, which is a key asset for the poor and underemployment and unemployment problems must be addressed by any poverty reduction interventions. Poverty reduction has been an explicit goal of planning in Nepal since the mid 1980s and various plans implemented in the past including the on-going interim plan (2008-2010) states poverty reduction as its sole objective.

Nepal's Gross Domestic Savings is only about 12.4% of its GDP and the level of rural HH Savings is even much lower at 7% in 2004/05. Low Level of HH income led to low level of savings, and a limited extent of self-financing on farm, off-farm and non-farm income and employment generating activities. Considering the need to ensure adequate access to financial services to promote growth and reduce widespread poverty, the Government of Nepal (GON) has implemented several targeted credit and microfinance programmes since mid 1970s with the ultimate goal of poverty reduction through an increase access of rural poor to subsidized credit and other microfinance services. The sector gain momentum after the restoration of democracy in 1990.

Nepal's microfinance sector is governed by the Bank and Financial Institutions Act 2006.Cooperative Act 1991 and Act for NGOs involved in Financial Intermediation 1999.Within the prevailing legal and regulatory framework, Microfinance Institutions(MFIs) in Nepal are: I)commercial oriented MFIs such as Regional Grameen Bikas Bank (RGBBs),Microfinance Development Bank (MDB)and Financial Intermediary NGOs(FI-NGOs);ii)community based MFIs such as Savings and Credit Cooperatives (SCCs),Small Farmers' Cooperative Limited (SFCLs)and iii)apex institution namely Rural Microfinance Development Centre (RMDC) ,Sana Kisan Bikas Bank (SKBB)Ltd. and Rural Self-Reliance Fund(RSRF) providing wholesale loan to MFIs.

Despite significant growth in both the number of MFIs and microfinance programmes ,their cumulative impacts are yet to be significant .They have faced major challenges to extend their services in inaccessible hills and mountains. Their outreach ,which is slightly more than 850,000 in 2007, is about 37% of the potential market and is concentrated in accessible areas and virtually no or limited access in remote areas. Expansion of outreach has been impeded among other due to complicated geo-political environments, weak technical capacity of the MFIs in key areas such as accounting and auditing; strategic planning; financial analysis and human resource management; lack of commercial orientation and a slow professionalism, and dissertations arising from directed lending program and limited to a small relatively less poor segment of rural population and concentrated in plains and accessible hill districts. There are still sizable numbers of poorer segments mainly living in remote areas still relying wit informal sources to meet their financial need/demand.

While commercial oriented MFIs are quite successful to penetrate their services in urban and densely populated peri-urban areas, the community based MFIs have comparatively better penetration in relatively inaccessible areas. On the other hand , thousand of Savings and Credit Groups(SCGs)[1] promoted under social mobilization programme by government and non-government sectors exist throughout Nepal irrespective of remoteness ,but are yet to be fully used up to the potential level .Attempts has been almost forgotten in Nepalese Financial Market.

1.1.1 Salient Features of Microfinance Service Delivery In Nepal

In Nepal, microfinance has become accepted over the last 30 years as an effective and sustainable strategy for poverty reduction and development .As a consequence microfinance institutions/programs are mushroomed and some of them are in a gradual process to become large sustainable financial institutions for the poor. These developments are the outcomes of Nepalese context and realities of lack of access to formal financial services in rural areas, inability of informal sector to provide sustainable financial services to the poor and efforts to integrate microfinance into an economic and development process. These institutions were emerged with the support of government, non-government and donor organizations and their services facilitated autonomy, enhanced integration and improved socio-economic status of poor including women.

There exist instances that establishment of commercial ,profit –making microfinance models led to competition and to a large and diversified services translating into reaching more people .However, this profitability rationale has led to an increase in

[1] A SCG is a voluntary association of persons with common interest, formed democratically without any political applications to improve economic and social status of the members in terms of their needs and interests. While the SCG activities are multi purpose , they quite often have a special focus on S &C management.Although unregistered, they function within the framework of an informal set of by-laws framed by members themselves. Number of members in SCG ranges between 15 and 50 people, either men only or women only or mixed.

the number of sustainable MFIs working in accessible areas in order to limit their operational expenses. Remote areas in particular have been neglected for plains and accessible hills where operational expenses in accessible areas has led to a gradual observation that diversity of microfinance services in a very competitive markets yields both positive (choice of services providers, low interest rates, proximity, etc.)And negative (higher risk, over indebtedness, occasional unfair competition, profit search geared towards more profitable clients, etc.) effects. It is thus apparent that development of microfinance sector should not be accompanied by an increase in default cases and over indebtedness which could yield results that are contrary to initial goal of microfinance towards checking financial exclusion while expending the services . Notwithstanding commendable progress achieved by microfinance service providers in extending their services in rural areas, a large majority of rural population, particularly those poor living in remote areas are still outside the ambit of their most basic human needs.

The above argument implies that there is a need to find alternatives to help these sections of population to gain access to formal credit. Recent experience shows that putting together small group of people living in same settlements with similar interests and other homogeneous factors as SCGs enables them to augment their meager resources and help them to sort out their own priorities according to their felt needs and problems. Large number of SCGs almost uniformly distributed across ecological belts and development regions including remote areas are not used to a full potential on the absence of mechanism.

1.1.2 Population of Microfinance

In these days the role and value of non-government financial intermediaries are increasing in the field of microfinance such as Grameen Bank, Project Linking Banks to Poor 1990 and the Production Credit Groups (PCGs) initiated by Bank for Agriculture and Agricultural Cooperatives (BACC) in Thailand .Similarly, Assistance to Rural Women in Non-farm Development (ARWIND), Self-employmed Women Association (SEWA) and Mysore Resettlement and Development agency (MYRADA) in India , Nirdhan Utthan Bank and Self-helf Banking programme (SBP-CSD) in Nepal are some popular NGO-based financial intermediaries. Due to the perceived success of Grameen Bank it has been replicated/adopted by many other countries of having similar socio-economic conditions. The countries are Sri Lanka , Malaysia by other developing countries ,India ,Vietnam, Indonesia, Pakistan and Nepal in Asia .It is replicated by other developing countries of Africa as Guinea, Kenya ,Malawi, Zambia, Mali etc./and Chile ,Bolivia and Peru in South America. This approach is adopted even in Canada, France and the United States to help people in becoming income generators. Home based day care, street vending, cleaning, trucking, sewing,menufacturing gift baskets etc. are the typical loan activities in United States (Getubing ,1993:101).

However, there are some issues that are micro projects or programs generating good loans? Are they giving expected impact to leaders or project designers? These issues are specific to the design and evaluation of the credit projects. But this matter closely concerned to theoretical aspect of the credit projects. But this is closely concerned to theoretical aspect of the subject i.e.the characteristics of finance. Among other characteristics, fungibility is the main, which means the use of finance is often not associated with the purpose for which it is obtained.

The second feature of finance is credit earns no return for borrowers, which is very important in analyzing these issues. Surely credit gives purchasing power to borrowers that with credit they can have assets that are expected to yield return. This is the simple development model that underlies the foreign aid concept, or women of the borrower in the form of interest and transaction costs. There will be a long gap in the intermediate steps between credit access and income generation. Therefore, loans sometimes, may lead to failure in credit markets creating a large volume of bad debt losses (Pischke Von, 1991:63).

1.1.3 Financial Statements in the Context of MFIs

BALANCE SHEET

- Is the summary of the economic resources of an organization and the claims against those resources at a specific point of time.It is cumulative since the beginning of business operations. It is like snapshot / photograph of the organization's financial position at that moment.
- Main components are Assets, Liabilities and Equity in balance, especially Assets = Liabilities + Equity.
- Assets represent what the organization HAS or what is OWNED by the organization or OWNED to it by others. Assets are those items in which an organization has invested its funds for the purpose of generating future receipts of cash.
- Liabilities represent what is OWED by the organization to others. For example, a loan which has been granted to the organization or obligations that the organization has to provide goods and services in the future.
- Equity represents the CAPITAL or NET WORTH of the organization. Equity includes capital contributions of any investors or donors, retained earnings and the current year surplus.
- Prepared at least annually, often more frequently –monthly and quarterly.
- Depends on transfer of data from the income statement. Namely, Net Surplus (deficit) current year, the amount of income (or loss) generated in the current year; recording Donated Equity-current year from cash donations on the Income Statement. The expenses for Loan Loss Provision are also considered in recording the loan loss reserve.
- Relates to Loan Portfolio Data for data on outstanding loan balances and savings collected.
- The changes in Balance Sheet from year to year are the major inputs into the Cash Flow Statement.

- It is useful to: compare balance sheets from previous periods in order to determine if the organization is growing and how well it is managing its financial resources; for trend analysis; and for analyzing the relative distribution of assets, liabilities and equity.

INCOME STATEMENAT

- Reports the organization's economic performance OVER a specified period of time .It is like a movie of the organization's finances. Shows the result of the activities of the organization during a specified accounting period and shows the degree to which the revenue generated from these activities covered the organization's costs.
- Summarizes all revenue earned and expenses incurred during a specified accounting period .It is prepared so the institution can determine its net profit or loss. Net profit or loss is the difference between revenue and expenses.
- Revenue refers to money received (or to be received if accrual accounting is used) by an organization for goods sold and services rendered during an accounting period.
- Revenue for an MFI includes: interest earned on loans to clients, fees earned on loans to clients, interest earned on deposits with a bank, etc.
- Expenses represent the costs incurred for goods and services used in the process of earning revenues .Direct expenses for an MFI included financial costs, operating expenses and loan loss provisions.
- Relates to Balance Sheet through the transfer of cash donations and net profit (loss) as well as depreciation and in the relationship between the loan loss provisions, the reserve.
- Relates to Portfolio-uses historical default rates (and the current reserve) to establish the Loan Loss Provision.
- Relates to Cash Flow through the net profit/loss as a starting point on the cash flow
- By recording the net profit/loss earned the Income Statement measures the financial performance and from which indicators on efficiency and profitability can be

extracted.

CASH FLOW STATEMENT

- Also known as : STATEMENT OF CHANGES IN FINANCIAL POSITION, or STATEMENT OF CHANGES IN SOURCES AND USES OF FUNDS
- Shows clearly how an organization obtains cash (sources of funds) and how it spends cash (uses of funds) including the borrowing and repayment of debt, capital transactions and other factors that affect the cash position.
- Relates to other statements through the Balance Sheets-from the increases and decreases in assets and liabilities from one balance sheet to the next, as well as through the income statement.
- The Income Statement includes non-cash expenses and does not include cash spent on assets that the Cash Flow Statement does include.

PORTFOLIO REPORT

- Provides information about the lending operations of an MFI.
- Information usually includes-total value and number of loans disbursed during the period ,number and value of loans outstanding end of period, average outstanding balance of loans, value of payments in arrears, value of outstanding loan balances in arrears, value of loans written off during period, aging report as well as information on loan terms, loan officers, savings, etc.
- Prepared daily, weekly or monthly depending on the frequency of payments and methodology of the MFI. Needs inputs from client ledgers and loan officers.
- Relates to other statements in calculating anticipated and actual revenue from loan interest and fees, calculating the loan loss provision and the resulting reserve establishment. Provides information for the Balance Sheet on value of outstanding loans and value of loans written off during the period.
- Portfolio Quality ratios can be calculated from portfolio information. This information together with the aging report can give a lot of information on the

health of the portfolio. As the portfolio is the major sources of revenue generation in an MFI this report can also give valuable insight into an MFI's sustainability.

1.1.4 **Introduction and Historical Background of Sahara Nepal**

Sahara Nepal (SCCs),Jhapa a partner organization of RMDC(Rural Microfinance Development Centre), is operating in 44 Village Development Committees (VDCs) of Jhapa district in the Eastern Terai region of Nepal. It has provided micro finance services to 10,884 families ,with outstanding loan Rs.56,069,116 among it's 10043 borrowers in the f/y 2006/07.It has maintained 100% repayment rate from the very beginning of it's service operation. All it's members are women of the poor families.

It gets wholesale loan from RMDC (one of the apex organization of Nepalese MFIs) and gets other technical assistance for it's operation and management .Upto the F/Y 2006/07, it has received Rs.3,72,51,000 as loan which represents 66%(approx.) of its investment(Total Outstanding Loan).

Organizational Profile Of Sahara Nepal

Established Date: 1995

Microfinance Commenced Date:2001

Covered Districts: Jhapa

Particulars	F/Y 2001/02	F/Y 2002/03	F/Y 2003/04	F/Y 2004/05	F/Y 2005/06	F/Y 2006/07
Covered VDCs	5	7	11	18	31	44
No.Of Branch	-	-	-	2	4	9
Total Staff	5	8	8	14	17	33
Total Field Staff	3	3	5	12	15	23
No. Of Centre	17	22	46	113	197	309
No.Of Groups	88	152	360	840	1632	2292
Total Members	443	760	1801	4200	7664	10884
Total Borrowers	410	688	1618	3941	7269	10043
No.Of Dropouts	6	67	142	340	798	1143

1.1.5 Microfinance Service Delivery System In Sahara Nepal

After a general survey / Detail Household Survey about Demographic Status and Potential Clientele of a particular area / ward of a VDC is done , the target groups (poor women with permanant residence) are provided with the information about the organization's objectives and product/services and motivated them to make a group centre consisting with 15 to 50 . They are incouraged to socially unite themselves and solve their financial needs on the basis of mutual responsibility . No collatorial requirement , doorstep service, small loan size with installment basis repayment(25 installments),fortnightly installment and other products of loan ,savings ,insurance etc.and other required conceptual procedure are taught during a 7-days pre-group trainin (PGT).

It offers general loan from Rs.2000 to Rs.10000 to 1st year lonee and upto Rs.15000 to 2nd year lonee ,upto Rs.20000 to 3rd year's lonee and upto Rs.25000 to 4th and above years lonee. Another discipline loan from Rs.2000 up to the half of that year's general loan ,is also provided to the general lonee after 6th installments period is over. Compulsory savings Rs.20 and above as Voluntary savings from each member of the group is collected fortnightly in the field. Loan proposal and approval is passed by the group at the field and loan is provided at its branch office. 5% of the general loan is deducted at the office and deposited as Centre Fund in the respective member's account and Rs. 50 as insurance is also charged and if accidence happened (She or her husband died) Rs.5000 is provided as compensation. It gives 8% interest to its members and charges 20% interest upon them.

1.2 Statement Of The Problem:

Since the Microcredit Summit Held in Washington in February,1997 ,microfinance has been internationally recognized as a key to poverty alleviation and integrated into the development agenda .Countries all over the world are experiencing the impact of microcredit. But today, what the world needs is not just microcredit but more "Cost-effective Microfinance Institutions" that are able to increase quickly and efficiently their outreach to achieve one of the millennium Development Goals: Cutting absolute poverty in half by 2015; by increasing sustainable access to financial services for the poor. To address this millennium goal, Nepalese MFIs must contribute to develop the system, sustainability, discipline, low cost management, human resource, good governance, ensure the accountability and transparency ,market development and favorable policy adaptation in government and other stakeholders level.

Microfinance has a demonstrated powerful impact in the livelihood of the poor and a crucial role in reducing poverty. Viability, Sustainability, Operational Efficiency etc. are vital for smooth running of MFIs .Profitability analysis helps and provides solutions to these issues and helps to continue and expand its services to the poor on a sustainable basis.

In this study, the researcher attempts to seek answers of some profitability issues of Sahara Nepal (SCCs) such as:

(i) How far has Sahara Nepal been able to collect savings from the sustainability point of view?

(ii) How it has been managing its position in relation to the liquidity, assets & capital adequacy?

(iii) How sound is Sahara Nepal's operational result in relation to its profitability?

1.3 Importance of The Study:

There are numerous examples of the positive impacts on poverty reduction as a result of microfinance. However, the number of MFIs involved in poverty alleviation is not sufficient in Nepal. The main hurdle in the development of and expansion of microfinance is the lack of capable MFIs in Nepal. Micro finance is not merely a business of providing a few numbers of poor families as sample but it is a business that provides and expands services to the maximum number of the poor families in a sustainable manner. Financial viability and Sustainability obtained through profit planning is an essential thing to efficiently run the business and serve the target groups. Cost effective micro finance institutions is the need of the time.

This study is multi-divisionally significant to:

a) Management
b) Shareholders
c) General Public (depositors, prospective customers, investors)
d) Policy Formulators (who are concerned with Nepalese MFIs)

1.4 Objectives Of The Study:

The major objectives of the present study are as follows:

- To understand the concept of profitability and it's application in microfinance institutions.
- To analyze Savings, Return On Assets, Return On Equity, Yield On Portfolio, Operational Self-Sufficiency (OSS) and other key ratios applied in MFIs.
- To examine the major problems of MFIs.
- To recommend possible measures for further improvement.

1.5 Limitations Of The Study:

The study is conducted for the partial fulfillment of MBS degree .So it possesses some limitations of it's own kind. The limitations of this study are as follows:-

- Because of time and resources constraints, only one MFIs (Sahara Nepal SCCs) is confined in the study.
- This study is mostly based on the published financial statements of concerned MFIs along with other related journals, newspapers, magazines, bulletins, textbooks etc.
- This analysis covers the span of only six years from 2001/02 to 2006/07.

1.6 Organization Of Research:

This study will be classified into 5 chapters. Each chapter is divided into sub-headings describing the related subjects.

The first chapter is the introductory framework that includes background, statement of the study, importance of the study, objectives of the study, and limitations of the study and organization of research.

Chapter two deals with the literature , relevant to the study .It is divided into three headings (a) Conceptual Review Of Financial Analysis (b) Poverty Alleviation Strategy &Micro Credit Programs (c)Comparative Advantage Of SCCs against MFIs in Nepal .

The research methodology adopted for the present study is mentioned in the third chapter which deals with research design, population and sample, sources and types of data, data gathering procedure, method of analysis (or tools and techniques of analysis).

Chapter four deals with the presentation,analysis and interpretation of relevant and available data of Sahara Nepal (SCCs) in order to fulfill the objectives of this study. To obtain best result, the data have been analyzed according to the research methodology as mentioned in Third Chapter. Major findings of the study are also mentioned in this chapter.

The last chapter five includes summary, conclusions and recommendations.

CHAPTER –TWO

REVIEW OF LITERATURE

This chapter deals with the literature , relevant to the study .It is divided into three headings (a) Conceptual Review Of Financial Analysis (b) Poverty Alleviation Strategy &Micro Credit Programs (c)Comparative Advantage Of SCCs against MFIs in Nepal .

2.1 Conceptual Review Of Financial Analysis

Financial analysis is the process of identifying the financial strengths and weaknesses of the firm by properly establishing relationship between the items of the balance sheet and the profit and loss a/c. The focus of the financial analysis is on key figures contained in the financial statements and the significant relationships that exist between them[2]. It is undertaken by various interest groups of a firm and the nature of analysis differs depending on the purpose of the analyst. Management of the firm is generally interested in every aspect of the financial analysis because they have over all responsibility of maintaining efficient and effective utilization of resources and sound financial position of the firm.

Financial analysis may of two types viz. vertical analysis and horizontal analysis. When a financial statement like a Balance Sheet or a Profit and Loss Account, of a certain period only are analysed , the analysis is called vertical analysis . Since it measures position of the business at a point of time, it is also known as static analysis[3]. In horizontal analysis, a series of statements relating to a number of years are reviewed and analyzed .It is also known as a dynamic analysis because it measures the change of

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[2] M.Y.Khan and P.K.Jain, "Financial Management" , Tata McGraw-Hill Publishing Co.Ltd.,New Delhi.2nd Edition.1992,p.79.

[3] P.Saravanaved, " Objective Type Question in Management Accounting" , Sultan Chand and Sons.New Delhi,1983,p.29.

position or trend of the business over a number of years[4]. This study is based on horizontal analysis. There are three steps in financial analysis[5]:-

1	Selection of the information relevant to the decision under consideration from the total information.
2	Arrangement of the selected information in a way to highlight significant relationships, and
3	Interpretation and drawings of inferences and conclusions.

A powerful and the most widely used tool of financial analysis is ratio analysis .A financial ratio (of simply a ratio) is the relationship between two accounting figures, expressed mathematically or the term ratio refers to the numerical or quantitative relationship between two items/variables. This type of relationship can be expressed as i) percentage ii) fractions and iii) proportion of numbers. Ratios help to summarize the large quantities of financial data and to make qualitative judgment about the firm's financial performance."Financial ratios help us to find the symptoms of problems. The cause of any problem may be determined only after locating the symptoms. The operational and financial problems of a corporation can be ascertained by examing the behaviors of these ratios[6]". So, the ratios in financial institutions are regarded as the best indicators of their performance.

Financial ratios have been a topic of number of empirical studies in the past decades. Many scholars have conducted empirical studies on different subject matters about financial ratios. One group of empirical studies utilizes ratio derives from failed and non-failed firm's balance sheets and income statements to predict corporate failures. For example, Altman(1968) has identified several statistically useful financial ratios for predicting corporate failure .Another direction which emerged in research into financial ratio analysis was the classification and reduction of a large number of ratios into a small

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[4] Ibid

[5] M.Y.Khan and P.K.Jain .op.cit.

[6] Dr. Radheshyam Pradhan, "Public Corporations of Nepal" (A study of financial ratios, National Book Organization, N.D., 1986,p.30.

subset (Pinches et al.,1975) Chen and Shimerda ,1981).Another research direction is the behavioral aspects of decision-making using financial ratios.Slovic (1969) examined the investment worthiness of firms by means of ANOVA models where treatments are the firm's ratio attribute and the dependent variables are the respondents' rating scores. Gibson (1983),(1985) and (1987) has examined useful financial ratios from a behavioral perspectives and discussed useful than others for accountants ,bankers and financial analysts. Recently , Shivaswamy, Hoban and Matsumato have conducted a study to examine the behavioural aspects of financial ratio analysis to identify behaviourally useful financial ratio for retailers and manufactures; and statistically useful ratios derived from bankruptcy analysis and to investigate whether or not credit analysis find a different set of ratios useful in studying retail firms and manufacturing firms[7].

Ratio analysis is the systematic use of ratio to interpret the financial statements so that the strengths and weaknesses of a firm as well as its historical performance and current financial condition can be determined[8]. A comparative study can be made between different statistics concerning varied facets of a business unit with the help of ratio analysis. Besides, just as the blood pressure, pulse and temperatures are the measures of the health of an individual, so does ratio analysis measure the economic and financial position / performance of a firm can be fully X-rayed through ratio analysis[9].

After calculating various ratios, we need some standard for comparison to draw conclusion from the result. The standard of comparison may be of four types:-

1 Ratios calculated from the past financial statements of the same firm.
2 Ratios developed using the projected, or pro forma, financial statements of the same firm.
3 Ratios of the some selected firm, especially the most progressive and successful, at the same point in time.

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[7] Shrvaswamy, Hoban and Matsumoto, "A Behavioural Analysis of financial ratios",The Mid-Adantic Journal of Business ,March 1993, vol.29.no.1P. 7-19.

[8] M.Y.Khan and P.K.Jain, op. cit.,p.80.

[9] C.R.Kothari , "Quantitative Techniques" , Vikas Publishing House pvt.ltd., New Delhi, 1990.p.487.

4 Ratios of the industry to which the firm belongs[10].

Weston and Brigham have classified ratios into six fundamental types:-

1) Liquidity ratios,2) Leverage ratios, 3) Activity ratios, 4) Portfolio ratios, 5) Growth ratios, and 6) Valuation ratios.

Among these types of ratios, the first four types are popular and widely used. Growth ratios measure the firm's ability to maintain it's economic position in the growth of the economy and Valuation ratios are the most complete measure of performance because they reflect the risk ratios (the first two) and the returns ratios (the following three)[11]. Viewing the nature and the limitation of this study only the first three types of ratios are used here for financial analysis.

2.1.1 Liquidity Ratios

Liquidity refers to the ability of a firm to meet its short term or current obligations as and when they fall due for payment. So liquidity ratios are used to measure the ability of a firm to meet its short term obligations and from them the present cash solvency as well as ability to remain solvent in the event of adversities of the same can be examined[12]. Liquidity of a firm can be measured by establishing a relationship between cash and other current assets to current obligations. There must be a proper balance between liquidity and lack of liquidity because the failure of company to meet it's obligations, due to lack of sufficient liquidity , will result in bad credit image, loss of creditors' confidence , or even in law suits resulting in the closure of the same[13]. And also a very high degree of liquidity means resources of a firm's unnecessarily is being tied up

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[10] I. M. Pandey, op. cit., 110

[11] J. Fred Weston and Eugene F. Brigham, “Managerial Finance” , The Dryden, Press, Hinsdale.Illinois, 7th Edition, 1984,p. 138.

[12] James c. Van Home, “Financial Management and Policy”, Prentice-Hall of India Pvt.Ltd., New Delhi 8th Edition (10th Printing) , Jan.1990.p.756.

[13] I.M. Pandey.op.cit.115.

as idle assets in current assets, which is earning nothing.

2.1.2 Utilization (or Activity) Ratio

Utilization Ratio, concerned with measuring the efficiency in asset management , are used to judge how effectively the firm is using it's resources. In this sense, these ratios are also called efficiency ratio of asset Utilization / Management ratios. Besides, such ratios are also called turnover ratios because they indicate the speed with which assets are being converted or turned over into sales. The greater the rate of turnover or conversion, the more efficient the Utilization /Management, other things being equal[14].

2.1.3 Profitability Ratio

Profitability is a measure of operating efficiency that can be measured by Profitability Ratio. Profitability Ratio, which indicate degree of success in achieving desired profit levels, measure management's overall effectiveness as shown by the returns generated on sales and investment. These ratios are composed of “a group of ratios showing the combined effects of liquidity, asset management and debt management on operating results[15]". So such ratios are regarded as a central measure of the earning power and operating efficiency of a firm[16]. The profitability ratios are calculated and analyzed to get answers to questions such as[17] :-

1) Is the profit earned by the firm adequate?
2) What rate of return does it represents?
3) What is the rate of profit for various divisions and segments of the

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[14] M. K. Khan and P.K. Jain .Op.,p.110.

[15] J. Fred Weston and Eugene F. Brigham. “Essentials of Managerial Finance”, the Dryden Press, 8th Edition.p.249.

[16] M.Y. Khan and P.K. Jain, “ Managerial Accounting and Financial Management”, (Problems and solutions), Tata McGraw-Hill Publishing co. ltd.New Delhi, 1988.p.30.

[17] M.Y.Khan and P.K.Jain , “Financial Management” , op.cit.,p.99.

firm?

4) What is the earnings per share?

5) What amount was paid in dividends?

6) What is the rate of return to equity holders? And so on.

These groups of rates consist of many ratios. The ratios,which are relevant and suitable for this study, are defined, calculated and analyzed in the Fourth Chapter.

2.2 Poverty Alleviation Strategy & Microfinance Programmes

The economists like Hamilton, Gunar Myrdal commented on the existence of poverty in the American industrial economy. They talked about "Poor" and "Poverty" relating to different economic theories. Poverty is created from structural causes as suggested by Marshal e.g., social prejudices related to color, sex, race, etc. These elements reduced educational or job opportunities for the people that ultimately affected on aggregate demand creating a gap in levels of standard of living even in industrialized countries like USA (Hamilton, 1968:85).Karl Marx's theory of Surplus Value also created poverty in these countries in the 19th century. The labor saving technology, that they used profit on the one hand and on the other hand the condition of the laborers become miserable widening the gap between rich and poor in the economy (Hamilton, 1968:115)
The development strategy for underdevelopment economies, after the world war II particularly between 1950s and midway through 1960s, was concentrated on urbanised industrialization. But poverty and unemployment in these economies continued to grow at steady pace with the growing rate of population. In the 1970s Robert CmNamara , the then World Bank's President focused World's attention on "basic human needs" of the people who live below " absolute poverty" .In his words "Absolute Poverty is a condition of life so degraded by disease, illiteracy, malnutrition and squalor as to deny its victims basic human necessities". He remarked that "The majority of the poor live in rural areas and they cannot equitable share the growth and the growth also could not reach to the poor."(Meier, 1995:49).Therefore, he suggested a new strategy for rural development that brought forth the Integrated Rural Development (IRD) concept. Arthur T.Mosher also

supported this concept but not complex, well funded programmes. But within a few years of launching the programme, it became failure to reach the poor. By and large, it's benefit could reach to rural non-poor rather than poor crowding out the later.

Since the 1970s again, government of many developing countries, tried to alleviate poverty through rural credit programmes by formal banking institutions. They tried to increase the access of rural households to Institutional Credit considering it as a major element for poverty alleviation. In Nepal also a large framework of formal financial Institutions (Commercial banks, development banks and other financial institutions) are involved in financing rural and poor households .Since 1971s, the Central Bank started directing commercial banks to invest its portion of portfolio in the productive sector, industry, priority sector and deprived sector(Basu S.K.,1974:89). It also formulated strategy for creating and developing specialized institutions for the provision of development finance e.g. ADB/N, NIDC, Nepal Stock Exchange, Credit Guarantee Corporation, APROSC, National Insurance Company etc. But the worldwide trend is seen that there is "sustainable failure" of these state regulated suppliers of cheap credit to majority of the rural poor (Hopes, 1994:118)). They could cover not more than 25% of the total institution credit in many developing countries. The Credit Review Survey Reports published by NRB in different periods have reported the percentage of credit utilization from the formal sources as 18% in 69/70 ; 24%in 76/77 and only 25%in 91/92 (NRB Survey Report Vol.II 1994)

Thus the subsidized bank credit couldn’t be effective for serving the actual poor for many reasons. Main reasons for are wrong targeting procedures , poor planning and lack of technical supports , lack of supervision , lack of motivation to borrowers , lack of incentives to commercial banks so that they become indifferent towards the rural poor. Besides, corrupted bureaucracy, high administrative costs and high default rate (more than 60 %) also added their failture (Getubing & Sete, 1993:179).

Microfinance service for the poor is one of the interventions to reduce poverty and relate to a wide range of flexible and appropriate financial services (savings, credit, insurance, leasing, money transfer, remittance, etc.) provided by MFIs to address preferences and needs of the poor. In principal, microfinance services correspond to the chronic (non-destitute) poor and to the transitory poor in different ways . The lack of access to credit is readily understandable in terms of absence of collateral that poor can offer , in addition to various complexities and high costs involved in dealing with small , often illiterate borrowers . The poor have either to rely on loans from moneylenders at high interest rates or friends and families whose suppliers of funds are limited. MFIs attempt to overcome these barriers through innovative measures such as group lending and regular savings schemes, as well as the establishment of close links between poor clients and their staff (UNDP, 2004:19). The range of possible relationships and the mechanism for poverty reduction is very simple. If access to credit can be improved , it is argued , the poor can participate in productive activities that will allow income growth, provided there are no other binding constraints. This enables poor to mitigate risk, plan for future and make choices that translates to increase food consumption , invest in education , health , housing ,water and sanitation. This is a route out of poverty for non-destitute chronic poor. For transitory poor , who are vulnerable to fluctuations in income that bring them close to or below the poverty line, microfinance provides the possibility of credit at times of need some schemes the opportunities of regular savings by a household itself can be drawn on(Sharma &.Nepal,1997:73) The avoidance of sharp declines in family expenditures by drawing on such credit for 'promotional' (i.e. income creating) and 'protect ional'(i.e. consumption smoothening) purposes , respectively, is over-simplified since the chronic poor will also have short-term needs that have to be met , whether it is due to income shortfalls or unexpected expenditures like medicinal bills or social events like weddings or funerals. One of the most interesting generalizations to emerge from microfinance and poverty literature is that the poorest of the chronic poor (the hard core poor) will borrow essentially for protect ional purposes given both the low and irregular nature of their income. This group, it is suggested, will be too risk –averse to borrow for promotional measures (i.e. for investment in future) and will therefore be a very limited beneficiary of microfinance schemes.

Thus, experiences on implementing microfinance programme around the universe indicate that microfinance is not for everyone. The sick , mentally ill , destitute are not good candidates for MFIs, but they should rather receive direct assistance , Microfinance canbe effective also for the poorest because there is no proof of either an inverse relationship between a client's level of poverty and their entrepreneurial skills or minor inclination to save among the entrepreneurial activity can benefit from microfinance .As a matter of fact , MFIs enable the poorest to improve their socio-economic conditions only if an appropriate programme design and targeting are implemented and the impact of microfinance can increase when it is provided together with other social services such as education and health(Christen & R.P.,1989:65).

2.3 Comparative Advantages Of SCCs Against MFIs In Nepal

Potentials of the SCCs on expanding the frontier of microfinance services has been identified through an assessment of the comparative advantages (if any) that SCCs have against MFIs on the provision of microfinance services in remote areas. This has been done through a comparative assessment of their Cost structure, Efficiency and Productivity and Portfolio Quality as discussed hereunder[18] :

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[18] Discussion in this section is based on information gathered through the survey of MFIs including 48 SCGs , 14 SCCs, 7 SFCLs, 4 MDBs and 3 FI-NGOs from 16 districts representing mountains, inaccessible hills and Tarai using criteria such as age of operation, products, services, operational policies, pricing, leadership and managerial capabilities to ensure homogeneity and make appropriate comparison from Dhakal (2007).

2.3.1 Cost Structure

Cost structure of the existing MFI has been assessed to better understand their capability to continue serving people tomorrow as well as today. Cost structure of these MFIs across geographical regions is analyzed using ratios such as return on average performing assets (APA), total operating expenses and operating self-sufficiency.

Table 1: Return on Average Performing Assets (%) across MFI type

S.N.	Areas	SCCs	SCGs	SFCLs	MDBs	FI-NGOs
1	Mountains	16.2	17.5	-	-	-
2	Inaccessible Hills	17.1	17.7	12.1	13.2	13.4
3	Accessible Hills	16.6	17.2	13.8	15.1	15.3
4	Tarai	16.9	17.9	14.7	16.3	16.1
	Total	16.6	17.6	16.4	15.2	14.9
	Effective interest rate(%	18.0	18.0	18.0	18.0	18.0

Source: Dhakal (2007)[19]

Return on APA signifies the financial productiity and it is almost identical in SCGs and SCCs, close to effective interest rate and with minor variation on financial productivity across geographical regions while there is significant difference between effective interest rate and return on APA in case of SFCLs, MDBs and FI-NGOs. Financial productivity is relatively low in SFCLs, followed by MDBs, FI-NGOs, SCCs and SCGs. Across ecological belts there is inverse relationship between return on APA and remoteness. As expected, financial productivity of SFCLs, MDBs, and FI-NGOs is lower in inaccessible hills, followed by accessible hills and relatively higher in Tarai. Financial productivity is highest in SCGs and lowest in FI-NGOs.

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[19] Mr. Dhakal is Relignment Coordinator of Micro-Credit Support, UNDP Nepal.

Table 2: Total Operating Expenses /Average Performing Asset Ratio (%) across MFI type

S.N.	Areas	SCCs	SCGs	SFCLs	MDBs	FI-NGOs
1	Mountains	19.4	7.2	-	-	-
2	Inaccessible Hills	16.2	5.4	17.3	17.2	15.7
3	Accessible Hills	12.6	6.2	14.3	15.8	13.9
4	Tarai	11.5	4.6	11.6	14.6	12.9
	Total	16.4	5.9	15.4	15.6	14.2

Source: Dhakal (2007)

Total operating expenses (sum of financial cost, loan loss provision, and administrative cost) to APA ratio is very low in case of SCGs (5 to 7%) , while it ranges between 11 and 19 % among SDU of other MFIs . In all these cases, there is a direct relationship between operating expenses ratio and geographical remoteness with high ratio in remote areas than in accessible areas. Variation on ratios is quite high in case of SCCs and SFCLs across geographical remoteness while it is relatively narrow among FI-NGOs and MDBs .

Table 3: Operating Self Sufficiency Ratio (%) across MFI type

S.N.	Areas	SCCs	SCGs	SFCLs	MDBs	FI-NGOs
1	Mountains	83.5	243.1	-	-	-
2	Inaccessible Hills	105.6	327.8	69.9	76.7	77.1
3	Accessible Hills	131.7	277.4	96.5	95.6	97.8
4	Tarai	147.0	389.1	126.7	111.6	110.9
	Total	101.4	300.4	106.7	97.9	105.4

Source: Dhakal (2007)

As expected operating self-sufficiency (OSS) is highest (300%) in case of SCGs and lowest (98%) in case of MDBs. In general, all the MFIs in Tarai and SCGs and SCCs in remaining three geographical regions have OSS more than 100% indicating that they have earned enough revenue to cover their total operating cost. There are SCCs in mountains, SFCLs, MDBs and FI-NGOs in hills (both accessible and inaccessible)not able to cover their operating costs and yet to be self-sufficient.

Analysis of the cost structure of the MFIs indicates limitations of the SFCLs, MDBs, and FI-NGOs to expand their servies in remote areas. The findings imply that SCCs is a sustainable model to ensure access to microfinance services in all four geographical areas except mountains while SCGs as an isolated entity is feasible in all the four geographical regions. Innovation to reduce operating cost is one of the pre-requisite to expand microfinance services through SCCs in mountains and other modalities (MDBs, SFCLs,and FI-NGOs) in high hills and mountains.

2.3.2 Efficiency and Productivity

Most of the MFIs are quite efficient and benefit from low salary levels , high staff productivity and an interated approach to credit delivery , all of which has contributed to maintain cost structures at current low level. In the MFI covered under this research , on an average one staff serve 131 loan clients.Across MFIs FI-NGOs are the most productive than other MFIs. Their local existence and unique delivery system distinguishes them from MDBs. In both MDBs and FI-NGOs, jobs are tied to staff performance; hence there is drive to attain higher productivity.Design consideration, legal framework and management factor limits borrowers to staff ratio of SCCs and SFCLs towards lower bound that warrants improvement through enhanced professionalism.

Table 4: Borrowers / Staff ratio (NO.) across MFI type

S.N.	Areas	SCCs	SCGs	SFCLs	MDBs	FI-NGOs
1	Mountains	72	-	-	-	-
2	Inaccessible Hills	86	-	200	132	159
3	Accessible Hills	118	-	117	140	192
4	Tarai	171	-	130	169	247
	Total	97	-	159	153	199

Source: Dhakal (2007)

In addition to being productive, the MFIs covered by this research are efficient and minimize cost of service delivery. It cost the sample SDU just NRs.642 (i.e.9 dollers) to maintain one client. Across MFIs, cost per borrowers is highest among SDU of MDBs and lowest in SFCLs , FI-NGOs and SCCs are is between, SCCs/SFCLs are able to achieve higher efficiency as a result of its lower operating costs and larger loan sizes.

Table 5: Cost per Borrowers (Rs.) across MFI type

S.N.	Areas	SCCs	SCGs	SFCLs	MDBs	FI-NGOs
1	Mountains	518	-	-	-	-
2	Inaccessible Hills	497	-	203	1953	1344
3	Accessible Hills	448	-	217	1652	931
4	Tarai	406	-	280	1281	656
	Total	486	-	293	1542	987

Source: Dhakal (2007)

The findings of this research indicates that key microfinance actors are located at the frontier of microfinance services and strategy to strengthening existing MFIs and using thousands of SCGs to a full potential is most fundamental to expand microfinance services in remote areas.

2.3.3 Portfolio Quality

With portfolio at risk (PAR) over 30 days of 10.6%, the MFIs covered by this research reports almost one tenth of the portfolio as delinquent which is quite high. PAR is more (25.6%) in case of SFCLs, followed by SCCs (13.2%) and FI-NGOs (11.5%). With and average 3.6% PAR, MDBs are performing fairly well. As with productivity, organizational culture (Zero tolerence on overdue) is also the key determinant of portfolio quality.

Table 6: Portfolio at Risk (%) across MFI type

S.N.	Areas	SCCs	SCGs	SFCLs	MDBs	FI-NGOs
1	Mountains	12.6	12.4	-	-	-
2	Inaccessible Hills	17.2	8.6	33.4	5.6	13.6
3	Accessible Hills	11.4	5.1	17.2	4.1	12.1
4	Tarai	8.7	6.7	21.4	2.3	8.7
	Total	13.2	8.2	25.6	3.6	11.5

Source: Dhakal (2007)

Writing off delinquent loans currently remains a taboo practice among Nepalese MFIs. As a result, loan loss rates reported by these units are likely to understate actual portfolio loss. Most of the microfinance managers lack clear understanding on true spirit of write-offs as they fear that once a loan is written-off , it can no longer be recovered in future.

2.4 Research Gap

I couldn't find any academic research or thesis study relating to the topic Profitability Analysis in MFIs. Experts and professionals concerning to microfinance sector have provided me the knowledge while processing data. This study attempts to fulfill the objective of financial analysis with basic profitability indicators applied in MFIs. As it is a new topic of study in Financial Analysis, it tries to meet all the criteria for its objective fulfillment.

Chapter Three

RESEARCH METHODOLOGY

The research methodology adopted for the present study is mentioned in this chapter which deals with research design, population and sample, sources and types of data, data gathering procedure, method of analysis (or tools and techniques of analysis).

3.1 Research Design

A research design is purely and simply the framework or plan for a study that guides the collection and analysis of the data. This study is basically based on descriptive research and "Descriptive research is a fact finding operation searching for adequate informations. It is a type of survey which is generally conducted to assess opinions, behaviours, and characteristics of given population and to describe the situation and event occuring at present. Since this study is conducted for the comparative evaluation of financial performance of Sahara Nepal (SCCs) and Nepalese MFIs. Hence, descriptive or analytical research design is followed in this study.

3.2 Population and Sample

Some Nepalese MFIs is the population of this study and Sahara Nepal (SCCs) is selected as sample for the evaluation. Similarly, financial statements of six years (beginning from F.Y. 2001/02, 2006/07) are selected as samples for the purpose of the study.

3.3 Sources and Types of Data

This study is mainly based on secondary data. So the major sources and types of data are in published form such as:

a) Financial Statements of Sahara Nepal (SCCs)

b) Annual Reports of the same MFIs.

c) Bulletins and Reports periodically published by various government bodies.

d) Other published materials like newspapers, journals, magazines, text book etc.

Besides, primary data are also collected to some extent through discussion with shareholders, financial experts and personnel of MFIs.

3.4 Data Gathering Instruments and Procedures

This study is mainly based on secondary data, obtained from various sources mentioned above. Besides, a detailed review of literature has been conducted in order to collect relevant data and information. Such review materials are mainly collected from Central Library of T.U. (Kirtipur), Library of Central Department of Management (T.U., Kirtipur) and other public libraries . Apart from this, some useful data, facts, and figures are also obtained from shareholders, financial experts, and MFIs personnel through a discussion with them. Such data, information, facts and figures have been processed by editing, tabulating, calculating prior to their analysis in order to obtain proper results and shown in the form of ratios, percentages, simple averages, graphs etc. for clear presentation.

3.5 Methods of Analysis (or Tools and Techniques of Analysis)

The data collected and arranged in proper form have been analyzed and interpreted through financial and statistical tools viz. ratio analysis, Karl Pearson's Correlation Coefficient, etc.

3.5.1 Financial Ratio Analysis

Financial Ratios, calculated and interpreted in this study, are given below with their indicators and respective formulae and meanings.

3.5.1.1 Indicators For Financial Analysis

LOAN PORTFOLIO QUALITY ANALYSIS

- Delinquency Rate-Portfolio at Risk
- Portfolio Ageing
- Loan Loss Rate

EFFICIENCY

- Administrative Efficiency
- Operation Efficiency
- Personnel Costs as a Percent of Administrative Costs
- Number of Active Loan Clients per Staff Member
- Number of Active Loan Clients per Loan Officer
- Outstanding Portfolio per Loan Officer
- Number of Clients per Branch Office

PROFITABILITY

- Return on Assets
- Return on Equity
- Yield on Portfolio
- Operational Self-Sufficiency

3.5.1.2 Portfolio Quality Ratios

Accounting provides us with an on going history of financial activity. Ratios will allow examining financial relationships to diagnose the well being of our project.

Key ratios should be monitored regularly to measure performances. The chart which follows describes the purpose of each indicator and gives a range of acceptable ratios.

3.5.1.3 EFFICIENCY RATIOS

Number of Active Loan Clients
Per Staff Member

Number of Active Loan Clients
Per Loan Officer

Number of Active Loan Clients Per Branch

Gross Portfolio Outstanding Per Loan Officer

Operating Efficiency = Total Operating Expenses + In-kind donations/Average Net Portfolio Outstanding

Administrative Efficiency = Personnel + other admin. expenses + in-kind donations/Average Net Portfolio Outstanding

OR

= Personnel Expenses + in-kind personnel donatios/Total Administrative Expenses + total in-kind donations

3.5.1.3 PROFITABILITY RATIOS

TERM	FORMULA	DEFINITION
Operating Profit	Operating income - Operating Expenses	The MFI's Profit
Return on Assets	Operating profit /Average Total Assets	How productively the MFI has employed its assets.
Return on Equity	Operating profit /Average Equity	The return on the capital of the MFI
Yield On Portfolio	Interest income from loans/Average Net Portfolio Outstanding	The income generated by the portfolio
Operational Self-Sufficiency	Operational Income/Total Operating Expenses	The degree to which Operating income covers operating expenses

3.5.2 Statistical Tools

Correlation Analysis (Karl Pearson's Correlation Coefficient) is applied in this study.

3.5.2.1 Correlation Analysis

Of the several mathematical methods of measuring correlation, the Karl Pearson's Method, popularly known as Pearson's Coefficient of Correlations , is most widely used in practice. The formula for computing Pearsonian Correlation Coefficient using direct method is as follows:

$$r = \frac{N\Sigma XY - (\Sigma X)(\Sigma Y)}{N\Sigma X - (\Sigma X) \quad N\Sigma Y - (\Sigma Y)}$$

Here, N = Number of pairs of x and y observed,

X = Value of Outstanding Loan

Y = Value of Total Savings

r = Pearsonian correlation coefficient

Chapter Four

PRESENTATION AND ANALYSIS OS DATA

This chapter deals with the presentation, analysis and interpretation of relevant and available data of Sahara Nepal (SCCs) in order to fulfill the objectives of this study. To obtain best result, the data have been analyzed according to the research methodology as mentioned in Third Chapter.

4.1 Savings Percentage of Sahara Nepal (SCCs)

Savings percentage is an important indicator of viable and sustainable microfinance institutions. It shows and institution’s efficiency in performance and reliability and efficient utilization of the same indicates its success and profitability as well as service – orientation. Since all the investment is made without collateral, savings percentage determines the security of loan. The wholesaler MFIs analyzes the Partners Organization's Savings Percentage before approving it's loan proposal. RMDC does not approve the loan proposal if its partner's organization's savings percentage to total outstanding loan is below 20 %. It reduces the risk on portfolio outstanding as well as helps to operate without outsiders support from its own internal resources.

Savings Percentage to Total Outstanding Portfolio of Sahara Nepal (SCCs)

Table No. 7 **" In Rs. Million."**

F/Y	Total Outstanding Loan	Growth Index	% Change	Total Savings	Growth Index	% Change	Savings %
2001/02	10	1.00	-	2	1.00	-	20
2002/03	21	2.16	110	6	3.09	200	28.57
2003/04	56	5.65	166.67	17	8.25	187.33	30.36
2004/05	158	15.75	182.14	43	20.51	152.94	27.22
2005/06	394	39.09	149.37	107	50.73	148.84	27.16
2006/07	560	55.55	42.13	153	72.80	43	27.32

Average: 26.77

The savings percentage is 20 % in F.Y. 2001/02. In other words, out of total outstanding loan, it has utilized savings by 20%. The rate has reached the highest in the F.Y. 2003/04 (30.36 %). Then the rate is in declining trend as it is 27.22% in the F.Y. 2004/05 and the lowest 27.16 % in 2005/06. The average savings percentage rate (in relation to total savings to total portfolio) is 26.77 %, which is not satisfactory.

The significance of the relationship between the foresaid two variables during the study period can be tasted by applying Karl Pearson's Correlation Coefficient (r), the formula for finding out correlation coefficient (r) using direct method is as follows:

$$r = \frac{N\Sigma XY - (\Sigma X)(\Sigma Y)}{N\Sigma X - (\Sigma X) \quad N\Sigma Y - (\Sigma Y)}$$

Here, N = Number of pairs of x and y observed,

X = Value of Outstanding Loan

Y = Value of Total Savings

r = Pearsonian correlation coefficient

Calculation of Correlation Coefficient

Table No 8 " **In Rs. Million**"

F/Y	**X**	**X2**	**Y**	**Y2**	**XY**
2001/02	10	100	2	4	20
2002/03	21	441	6	36	126
2003/04	56	3136	17	289	952
2004/05	158	24964	43	1849	6794
2005/06	394	155236	107	11449	42158
2006/07	560	313600	153	23409	85680
N = 6	ΣX =1199	ΣX =497477	ΣY = 328	ΣY = 37036	ΣXY= 135730

Here, N = 6 , ΣX =1199, ΣX =497477, ΣY = 328 , ΣY = 37036 and ΣXY= 135730 .

6(135730)-(1199)(328)

r = ………………………………………

6(497477)-(1199) 6(37036)-(328)

r = 0.99

Calculation probable error (P.E.)

1-r

P.E. =0.6745 ………

N

We have, r = o. 99,

1-(0.99)

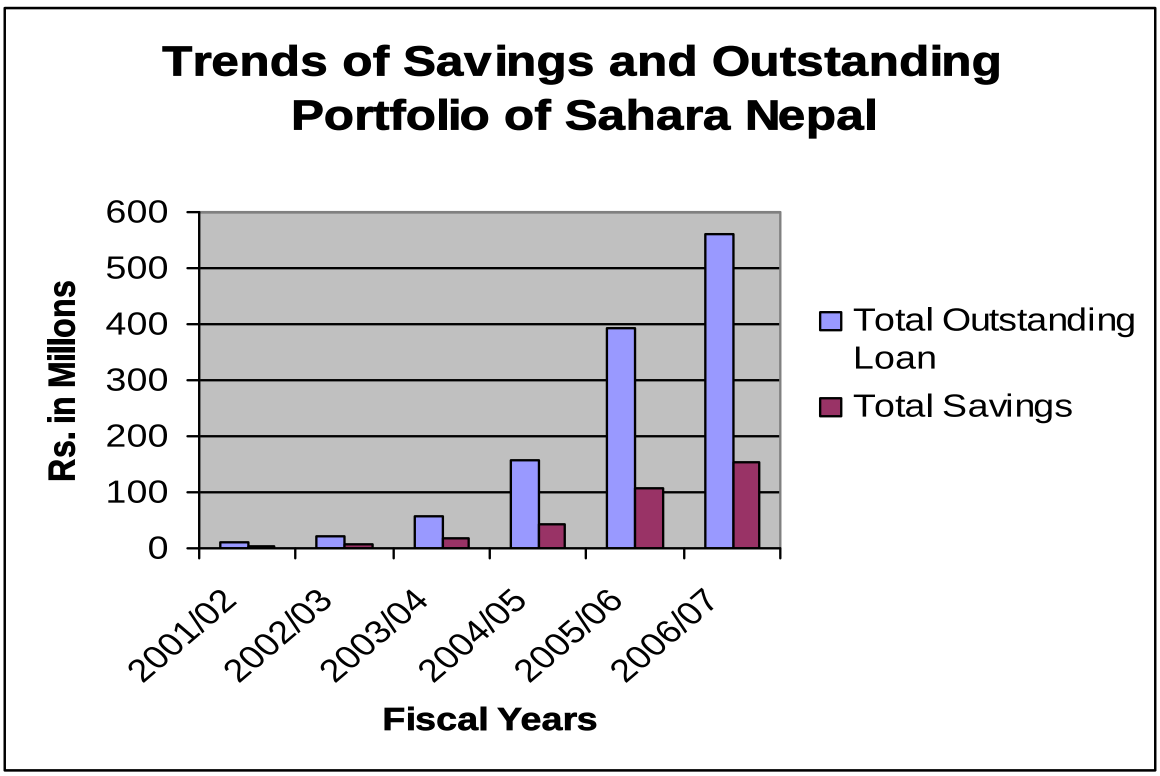
P. E. = 0.6745 …………… = 0.005

6

Since r is more than 0.5 and also far more than six times the probable error, it is considered significant. In other words, there is highly positive correlation between "Total Savings" and "Total Outstanding Lone "of Sahara Nepal.

Trend of Savings & Outstanding Portfolio of Sahara Nepal

Fig. 1



4.1.1 Composition of Forced and Voluntary Savings on Total Savings

There is two types of savings collected in Sahara Nepal . One is Forced Savings and the other is Voluntary Savings. Forced savings means Compulsory Savings required as part of the credit methodology and Voluntary Savings indicates Individual Savings by the clients voluntarily or liquid deposits from the general public. The composition of Forced and Voluntary Savings on Total Savings is given in the following table no.9

Composition of Forced and Voluntary Savings on Total Savings

Table No. 9 **"In Rs. Million** ".

F/Y	**Total Savings**	**Forced Savings**	**Voluntary Savings**	**% of Forced Savings**	**% of Voluntary Savings**
2001/02	2	1.6	0.4	80	20
2002/03	6	4.5	1.5	75	25
2003/04	17	13.9	3.1	82	18
2004/05	43	33.5	9.5	78	22
2005/06	107	72.5	34.5	68	32
2006/07	153	117.4	35.6	76	24
Average				**76.5**	**23.5**

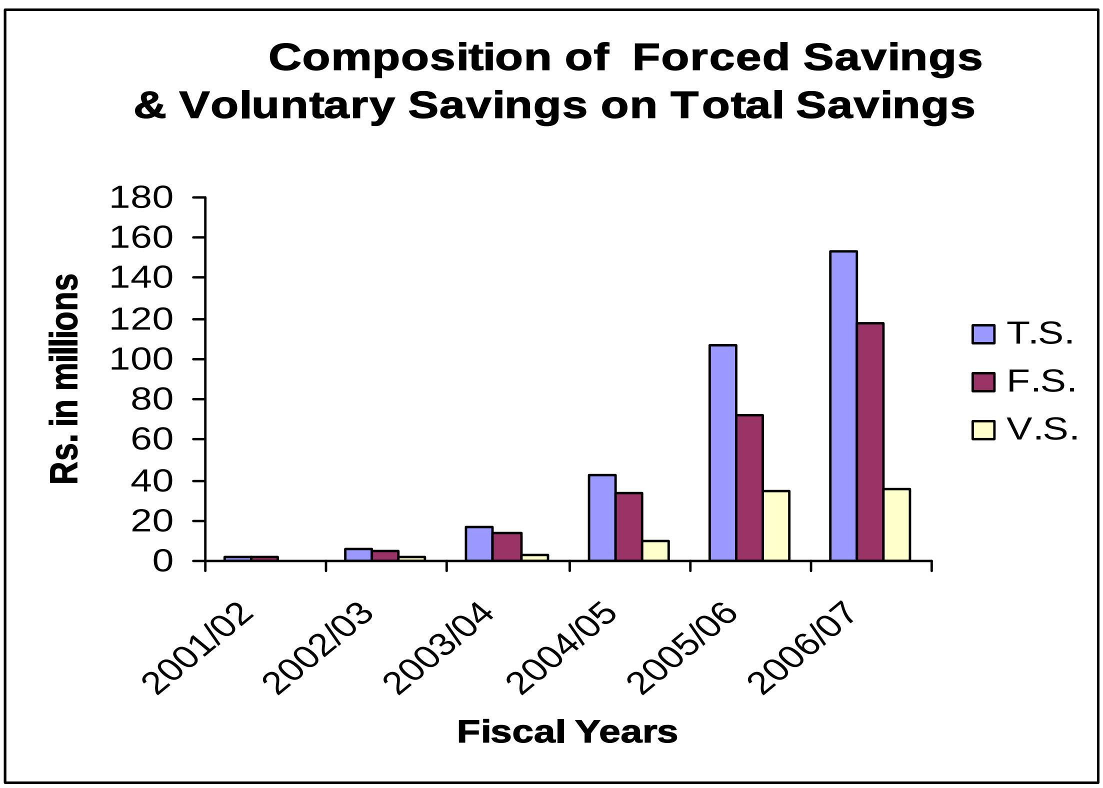
The above calculation indicates that there is less contribution of Voluntary Savings (average 23.5 %) on Total Savings and more contribution of Forced Savings (average of 76.5 %) on Total Savings of Sahara Nepal. The lowest Voluntary Savings percentage occured in F.Y. 2003/04 (18 %) and highest in 2005/06 (32 %). Similarly, the Forced Savings ranges between 68 to 82 % in F.Y. 2005/06 and 2003/04 respectively.

Due to Forced Savings, the maximum number of Dropouts happened in the F.Y. 2006/07 (Dropout members 1143) because the members don't have access to withdraw their deposit before leaving the group. Group Savings of Rs. 20 each fortnightly deposited amount and each year's 5 % deducted amount from General Lone comprises this Forced Savings. It is essential for viability and sustainability standpoint for MFI but it impacts adversely to the clients as they consider they are taking their own deposit as lone from the institution.

There is less contribution (average 23.5 %) of Voluntary Savings indicate that Sahara Nepal needs to motivate their clients with attractive scheme and strategy to raise the level of its Voluntary Savings composition. As such Voluntary Savings becomes more sustainable from the Liquidity Standpoint.

Composition of Forced Savings & Voluntary Savings on Total Savings

Fig. 2



4.2 Financial Analysis

This study is conducted to analyze the financial performance of Sahara Nepal (SCCs) through the calculation and interpretation of various financial ratios as follows:

4.2.1 Portfolio Quality Ratios

Portfolio Quality Ratios will allow us to examine financial relationships to diagnose the well being in terms of the investment / portfolio. The first and the sole objective of microfinance is to make huge investment with small loan size from it's available resources. The major portfolio ratios relating to Sahara Nepal is shown in the following table no.10

Portfolio Quality Ratios

Table No.10

Key Indicators	F.Y 2001/02	F.Y 2002/03	F.Y 2003/04	F.Y 2004/05	F.Y 2005/06	F.Y 2006/07
Repayment Rate %	100	100	100	100	100	100
Yield On Portfolio %	0.20	0.21	0.175	0.15	0.153	0.167
Average Loan Size(Rs.)	4486	5548	10685	11295	10083	11174
Average Loan Outstanding(Rs)	504640	1593589	3938093	1079503	27665467	47759165

4.2.1.1 Repayment Rate % :

Repayment rate shows amount paid compared to amount due/ expected during a specific period. It does not provide useful information about the performance of the outstanding portfolio. There is 100% repayment rate in Sahara Nepal (SCCs), it means all investment made during the period were repaid on time with interest.

4.2.1.2 Yield On Portfolio % :

For the fiscal years 2001/02 and 2002/03, the interest rate was 25 %and thereafter reduced to 20 %. SO, the above calculation represents types of interest rate. With interest rate of 25 %, YOP measured 20 % and 21 % respectively for F.Y. 2001/02 and 2002/03 and with interest rate of 20% in the remaining four years, the YOP were 17.5% , 15%, 15.3% and 16.7% respectively. YOP ratios of Sahara Nepal are not quite satisfactory. It must be yearly to effective interest rate to give productive result.

4.2.1.3 Average Loan Size :

Average loan size of a MFIs is said to be good between a range of Rs. 5000 to Rs. 10000 .Average loan size of Sahara Nepal is in ascending order with the range from Rs. 4486 (F.Y. 2001/02) to Rs. 11174 (F.Y. 2006/07) . However, it needs to increase the no. of Lonee and maintain the size within Rs. 5000 to Rs. 10000.

4.2.1.4 Average Loan Outstanding :

The source of income of a MFI is its investment. The assumption for a MFI to operate effectively and produce some profits, the average loan outstanding should be to Rs. 1, 00, 00,000 (One Crore.)Per branch. Since Sahara Nepal has 9 branches in the F.Y. 2006/07.,the average loan outstanding to this period is Rs. 4,77,59,165 (in total) .It needs to increase the no. of lonee in order to meet the standard. The general principal in the context of Nepalese MFIs, there must be 2000 borrowers per branch with One Crore Loan Outstanding. Thus, the average loan outstanding is not satisfactory from the above viewpoint.

4.2.2 Efficiency Ratios

Following efficiency /productivity ratios are calculated to measure the efficiency of resource management of Sahara Nepal (SCCs) in the following table no.11

Efficiency / Productivity Ratios

Table No. 11

Indicators	F/Y 2001/02	F/Y 2002/03	F/Y 2003/04	F/Y 2004/05	F/Y 2005/06	F/Y 2006/07
Branch Productivity						
No.of Centres per branch	17	22	46	57	49	34
No. of Group per branch	88	152	360	420	408	255
No. of Members per branch	443	760	1801	2100	1916	1210
No. of Borrowers per branch	410	688	1618	1970	1817	1116
Outstanding loan per branch	1009280	2177898	5698288	7945860	9859804	6229902
Staff Productivity						
No.of Centres per Staff	3	3	6	8	12	9
No. of Group per Staff	18	19	45	60	96	70
No. of Members per Staff	89	95	225	300	451	330
No. of Borrowers per Staff	82	83	202	281	428	255
Outstanding loan per Staff	201856	272237	712286	1135122	2320542	1699064
Field Staff Productivity						
No.of Centres per Staff	6	7	9	10	13	12
No. of Group per Staff	18	19	45	70	109	92
No. of Members per Staff	148	253	360	350	511	436
No. of Borrowers per Staff	137	229	324	328	485	402
Outstanding loan per Staff	336427	725966	1139658	1324310	2629948	2242765

4.2.2.1 Branch Productivity :

With the increase of branches , all the indicators relating Centre No.,Group No, Members and Borrowers is in declining trend .No.of Centres ,Groups ,Members and Borrowers is highest in F.Y. 2004/05 (57) and lowest in the starting F.Y. 2001/02 (17). All the standards are met in the F.Y. 2004/05 regarding branch productivity which is quite satisfactory.There is a high no.of branch increment in the F.Y. 2006/07, which resulted the lower productivity at that year.

4.2.2.2 Staff and Field Staff Productivity :

The required standard of staff productivity has been met in the F.Y. 2005//06 with no. of centers (12), groups (96), members (451) and borrowers (428) measures. It is seen that there is a good ratio between the members and borrowers (more than 90%), but except in the F.Y. 2006/07. There is about 23% passive members in the F.Y. 2006/07,which indicates only 77% of its members are active lonee. Idle members are harmful for the sound health of a MFI.

As per the standard of RMDC one field staff needs to handle 15 to 20 fortnightly centers, 500 to 600 members, 20 lakhs to 30 lakhs loan outstanding. With the comparison to this figure, Sahara Nepal's field staff mobilization is below the standard except in F.Y.2005/06. There is 40 to 50 members consisted in a centre which requires 2 hour time to complete a meeting which is quite boring and time consuming. A MFI need to manage a centre consisting with 25 to 30 members, which practice is not applied so far in Sahara Nepal, indicates it needs to reduce the Centre Size to get staff productivity and retain its members stopping the no.of dropouts due to time factor.

4.2.3 Profitability Ratios

Profitability Ratio is calculated to measure the operating efficiency of MFIs.

This group consists of various ratios calculated and interpreted below :

4.2.3.1 Return Of Total Assets

This ratio is calculated to reveal the overall operating efficiency of a firm in terms of generating profit utilizing it's total assets. It is calculated by dividing the amount of Net Profit by the amount of Total Assets.This ratio during the study period is presented below:

Return on Total Assets

Table No.12

F.Y.	Net Profit (Rs.)	Total Assets(Rs.)	Ratio
2001/02	581	1595968	0.04 %
2002/03	32990	2333925	1.41%
2003/04	8581	7416246	0.12%
2004/05	(2977)	18761486	(0.02) %
2005/06	27099	41657587	0.06%
2006/07	458264	106834354	0.43%
Average			**0.34%**

There is a negative ROA ratio in the F.Y. 2004/05 (-0.02%), indicates the institution incurred loss at this year (Net Loss with Rs. 2977). The ROA ratio is highest in 2002/03 (1.41%). Thereafter, its ratio is in decreasing or below 1%. In 2006/07, the ratio is slightly increased to 0.43% but does not indicate effective utilization of its total assets. The average ratio is 0.34%.

Above analysis helps to conclude that Sahara Nepal’s profitability in relation to return on total assets after F.Y.2002/03 has been poor. The ROA is declining in the proceeding years due to heavy increment in total assets and lower increment in Net Profit. Also, there is heavy increment in the no. of branches year after year is another prime reason of becoming lower ROA ratios.

4.2.3.2 Return on Shareholder's Fund Ratio

Return on Equity shows the return on the capital employed by the shareholders of a MFI. This ratio shows how efficiently the MFIs have utilized the resources of the Shareholders. It is presented below:

Return on Shareholder's Fund Ratio

Table No.13

F.Y.	Net Profit (Rs.)	S/H's Fund(Rs.)	Ratio
2001/02	581	39200	1.48 %
2002/03	32990	69100	47.74%
2003/04	8581	161600	5.31%
2004/05	(2977)	395000	(0.75) %
2005/06	27099	734300	3.69%
2006/07	458264	1007000	45.51%

Above table exhibits that Sahara's ratio is negative in 2004/05 (-0.75%) indicates a net loss of Rs.2977. ROE is 1.48% in the F.Y. 2001/02 and it increases to 47.74% in F.Y.2002/03.Thereafter it decreased and became negative. But it gives some return in the F.Y. 2005/06 (3.69%) and reached 45.51% in F.Y. 2006/07, which is satisfactory level.

4.2.3.3 Operating Self-Sufficiency Ratio %

Operating Self-Sufficiency shows the degree to which operating income (interest and fee income related to loans, income from other finance related services, income from other investments) covers operating expenses (sum of financial costs, loan loss provision and administrative cost). The OSS of Sahara Nepal is analyzed on the following table no.

14 below:

Operating Self-Sufficiency Ratio %

Table No.14

F.Y.	Operating Income (Rs.)	Total Operating Costs (Rs.)	OSS %
2001/02	102987	102406	100.5
2002/03	342877	309887	110.6
2003/04	814832	806251	101.1
2004/05	1738221	1741198	99.83
2005/06	4360627	4333528	100.6
2006/07	5696976	5238712	108.7
Average			103.6

The Operating Income in the F.Y. 2004/05 does not cover the operating costs ,which resulted the OSS below 100 %. At this year, the OSS is 99.83% ,which incurred net loss (Rs.2977).There is a highest OSS, among above six years analysis ,in the F.Y. 2002/03 (110.6%) which gives Rs.32,990 as net profit. OSS gives a roadmap to understand the MFIs capability to continue serving people tomorrow as well as today. The CCGs (Credit and Cooperatives Groups) in Tarai are producing an average of 147% (Dhakal, 2007) as OSS Ratio. Compared to this figure Sahara's OSS level is comparatively low. It needs to reduce it's operating costs in one side and raise it's revenue sources on the other to meet the average MFIs level.

4.2.3.4 Yield On Portfolio Ratio

The income generated by the portfolio represents Yield on Portfolio.It indicates the exact figure of Total Yield (interest and fee income from lones) generated from Average Net Portfolio Outstanding. The following analysis is done regarding Sahara's YOP on the following table no.15

Yield on Portfolio Ratio (%)

Table No.15

F.Y.	Interest. income From Lone (Rs.)	Average Net Portfolio Outstanding (Rs.0	YOP %	Effective Interest Rate %	Difference in %
2001/02	102,987	504,640	20.4	25	(4.6)
2002/03	342,877	1,593,589	21.5	25	(3.5)
2003/04	814,832	3,938,093	20.6	25	(4.4)
2004/05	1,738,221	10,079,503	17.2	20	(2.8)
2005/06	4,360,627	27,665,467	15.7	20	(4.3)
2006/07	5,696,976	34,159,165	16.7	20	(3.3)

The above analysis shows there is 3.5% (2002/03) to 4.6 % (2001/02) variation between effective interest rate and YOP%.In these three years (2001/02 to 2003/04),the highest YOP% ,Sahara realized is 21.5% (2001/02). In all these three years the effective interest rate is 25%.

But in the later years, Sahara reduced its effective interest rate to 20% and raised a maximum of 17.2% YOP in the F.Y. 2004/05.But all the above measured YOP% denotes poor result regarding to the comparison in MFIs industry average. The variation between 1 to 2 % is regarded as favorable in MFIs .The above calculated YOP of Sahara indicates that there is slow credit delivery system i.e, more amount of cash and bank balance.

4.2.3.5 Drop-out Ratio

"Drop-out" is a common problem faced by microfinance institutions (MFIs).It is harmful since it hindrance the profitability of the MFIs.It threatens the viability and sustainability of the programs that is not able to keep it under control. Basically, members dropouts reasons are (i) Personal (ii) Institutional and (iii) Social. Dropout ratio of Sahara Nepal is presented and analyzed in the following table no.16

Drop-out Ratio

Table No.16

F.Y.	Total Members	Dropout No.	Ratio
2001/02	443	6	1.35 %
2002/03	760	67	8.82%
2003/04	1801	142	7.88%
2004/05	4200	340	8.09%
2005/06	7664	798	10.41%
2006/07	10884	1143	10.50%
Average			7.84%

The above table shows that there is increasing trends of dropouts. In F.Y.2001/02, the lowest drop-out ratio (1.35%) indicates favorable condition but thereafter the ratio with two digit no. shows adverse and serious situation for the viability and sustainability viewpoint. It needs to reduce to 2% and below to run a MFI with viability and sustainability. There is average drop-out ratio of 7.84% in Sahara Nepal which is quite high.

4.3 Major Findings

On the basis of preceding chapters, data presentation and analysis, some important findings can be drawn. The major findings of this research study are summarized below:

- Microfinance services for the poor are one of the interventions to reduce poverty and relate to a wide range of flexible and appropriate financial services (savings, credit, insurance, leasing, money transfer, remittance etc.) provided by MFIs to address preferences and needs of the poor. A complete packaging of services to support emergence and growth of SCCs as well as enhance their capacity on aspects such as promotion and management , loan operation, accounting/ book keeping , financial management and linkages with apex institutions is the present need.Support packages should be flexible that assists their graduation to a level where they will be credit worthy to the apex body for wholesale lones.

- Sahara Nepal's Savings percentage to Total Outstanding Portfolio is in an average of 27.22% .In Savings Composition, the Forced Savings is in an average of 76.5% and Voluntary Savings in an average of 23.5 %.

- Repayment Rate of Sahara Nepal is 100%.

- There is Rs. 4, 77, 59,165 as Average Loan Outstanding in F.Y. 2006/07 (with 9 branches and 10043 lonee) representing Average loan size of Rs. 11,174.

- With an increment of branches , all the indicators relating to no.of centres ,groups members,and borrowers is in declining trend from productivity viewpoint .No.of centres,groups ,members and borrowers per branch is highest is F.Y.2004/05 with 57 Centres, 420 Groups ,2100 Members and 1970 borrowers respectively.

- There is about 23% passive members in the F.Y.2006/07.The satisfactory staff productivity is measured in the F.Y.2005/06 with 12 Centres, 96 Groups, 451 Members and 428 Borrowers per staff with an average outstanding loan of Rs. 23,20,542 . But this productivity has been decreased in F.Y. 2006/07.

- There is lower rate of return on total assets with an average of 0.34%. ROA is highest in 2002/03 (1.43%) and negative in F.Y. 2004/05 (-0.02%).

- ROE is 1.48% in F.Y. 2001/02 and it increases to 47.74% in the F.Y.2002/03.In F.Y. 2006/07, ROE represents to 45.51%.

- Yield On Portfolio is 16.7% (effective interest rate 20%) in the F.Y. 2006/07.There is minimum variation between effective interest rate and YOP measured (with 2.8%) in F.Y. 2004/05.

- The average member dropout ratio of Sahara Nepal is 7.84%.Dropout ratio of F.Y. 2006/07 is 10.50%.

Chapter 5

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

The underdeveloped countries of the world have already accepted the microfinance program as one of the effective tools in the poverty alleviation. It is necessary to support this program and make it success by providing microfinance services to the maximum number of poor families in out country as well.

The main hurdle in the development and expansion of microfinance is the lack of capable microfinance institutions in our country. The institutional capacity of most of the local institutions is very low. There is lack of institutions in the remote areas of the country. Now the time has come for the government to include in it's national agenda to develop quality MFIs in the country which can operate the microfinance program effectively with the model appropriate to the area.

In reality, the micro credit programs are endeavoring to emulate the efficient working of informal lending system. If they can not compete with these systems they will lose their lending business with high overdue loan and high administrative costs. They must emphasize mainly on the importance of knowing the clients and meeting their needs in their lending business. For this, Profitability analysis helps design appropriate model poor friendly.

Sahara Nepal is providing loans to the women of the poor households on group guarantee and without physical collateral. It has been providing microfinance services to 11043 poor women in 44 VDCs of JHAPA district. It has received a series of trainings and on-site consultancy services from RMDC in order to improve its microfinance operation smoothly.

It has 9 branches, 33 staffs, 309 Centres in its service delivery system. Up to the F.Y.2006/07, it has received Rs. 3, 72, 51,000 as loan from RMDC and its Outstanding Portfolio in the same year is Rs.5, 60, 69,116. Its OSS is an average of 103.6%.

5.2 Conclusions

Microfinance can be defined as providing the services like micro savings, micro credit, micro insurance and other support services to the poor to uplift socio-economic condition. It is a powerful instrument of poverty reduction.

Nepal's microfinance sector is governed by the Bank and Financial Institutions Act 2006.Cooperative Act 1991 and Act for NGOs involved in Financial Intermediation 1999.Within the prevailing legal and regulatory framework, Microfinance Institutions(MFIs) in Nepal are: I)commercial oriented MFIs such as Regional Grameen Bikas Bank (RGBBs),Microfinance Development Bank (MDB)and Financial Intermediary NGOs(FI-NGOs);ii)community based MFIs such as Savings and Credit Cooperatives (SCCs),Small Farmers' Cooperative Limited (SFCLs)and iii)apex institution namely Rural Microfinance Development Centre (RMDC) ,Sana Kisan Bikas Bank (SKBB)Ltd. and Rural Self-Reliance Fund(RSRF) providing wholesale loan to MFIs.

Financial Viability and Sustainability obtained through PROFIT PLANNING is an essential thing to effectively run the business and serve the target groups. Liquidity ratios, Efficiency ratios, Productivity ratios, Portfolio Quality Ratios, and Profitability ratios etc, helps to make rational decision making.

Profitability analysis acquaints us with financial and portfolio analysis tools so that we can properly assess our organizations' financial status and accordingly can make appropriate decisions, prepare plans and strategies to better the organizations' health and attain sustainability in the future.

Well established system, manuals for operation, effective monitoring and follow up system, effective communication and coordination system, business culture and professionalism, committed, honest and dynamic leadership etc. are major essentials for the sound health of a MFI.

Profitability ratios such as ROA, ROE, YOP, OSS, Drop-out etc. are applied in microfinance to measure operating efficiency.

5.3 Recommendations

On the basis of findings of the study, the following recommendations have been made for the sound and effective operation of Sahara Nepal's Microfinance Programme.

- Sahara Nepal need to motivate its clients with attractive schemes and strategy to raise the level of voluntary savings on its present savings composition. Another product of Savings like Pension Savings could be a new package for rising savings percentage.

- Maintaining the present average loan size, it should increase the no. of borrowers for this; Staff Target regarding members increment must be correlated with the performance based reward system.

- Organizing a regular Branch Meeting at Central Office fortnightly / monthly, it must address the present profitability position of their respective branch and thereby design the strategy and corrective measures in a collective group approach about future workplan.Efficiency of every staff need to be discussed and they should be encouraged to do self-analysis about their own performance and productivity regarding to MFIs standards.

- It should manage a centre consisting with 25 to 30 members to avoid dropouts and increase field staffs' efficiency in its credit delivery system.

- It needs to utilize its total assets efficiently in order to generate some return. Leakage and delays must be found out and corrective measures must be done in time to operate the idle resources to its capacity level.

- There is higher composition of debt financing in its capital structure. The ROE is satisfactory only in 2006/07.It must increase the present level percentage composition of equity capital in its capital structure.

- The Average OSS% of Sahara Nepal is comparatively low to its Industry Average. It must reduce its operating expenses by efficiently utilizing its resources and productively mobilizing its human resources to increase its member and generate more revenue.

- All the measured YOP % of Sahara Nepal denotes poor result regarding to the MFIs comparison standard. It must reduce it's variation between 1 to 2 % by improving in its credit delivery system and cash management.

- In order to reduce its dropout rate, it must introduce attractive schemes , downsizing its present centre size to 25 -30 members .Dropouts should be tied with in the measurement of its Staff Evaluation and Reward System.

- Introducing a variety of social services, rewarding its successful borrowers, organizing skill-based training to its clients, motivation to increase the no. of members which Sahara Nepal could launch as its Strategy.

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Income Statement of Sahara Nepal

Particulars	F/Y 2001/02	F/Y 2002/03	F/Y 2003/04	F/Y 2004/05	F/Y 2005/06	F/Y 2006/07
Interest and fee income	99,497	316,963	689,642	1,602,442	4,158,728	5,626,686
Other income	3,490	25,914	125,190	135,779	201,899	70,290
Total Income (Rs.)	102,987	342,877	814,832	1,738,221	4,360,627	5,696,976
Financial Expenses	62,737	224,907	351,379	627,963	1,329,866	2,912,598
Office and Administrative Exp.	39,669	84,980	454,872	954,318	1,904,051	1,650,335
Loan Loss Provision	0			158,917	1,099,611	675,779
Total Expenses	102,406	309,887	806,251	1,741,198	4,333,528	5,238,712
Net profit (Loss)	581	32,990	8,581	-2,977	27,099	458,264

Balance Sheet of Sahara Nepal

Particulars	F/Y 2001/02	F/Y 2002/03	F/Y 2003/04	F/Y 2004/05	F/Y 2005/06	F/Y 2006/07
Cash and Bank	565,688	140,727	1,623,278	2,733,383	1,903,207	5,803,949
Outstanding Loan Portfolio (Gross)	1,009,280	2,177,898	5,698,288	15,891,719	39,449,214	56,069,116
Receivables	21,000			1,000		92,447
Other Assets		15,300	94,693	135,384	315,166	39,869,842
Total Assets	**1,595,968**	**2,333,925**	**7,416,259**	**18,761,486**	**41,667,587**	**101,835,354**
Liabilities						
Loan from RMDC	1,380,000	1,574,200	5,554,300	14,045,100	29,188,000	37,251,000
Centre/Group Savings	136,301	481,193	1,237,978	2,946,757	7,267,272	3,714,683
Individual Savings	31,487	156,652	316,475	907,604	2,403,277	3,109,661
Other Liabilities	8,399	19,209	34,404	86,183	333,836	53,857,298
Insurance			69,350	182,250	406,100	503,150
Equity						
Paid up Capital	39,200	69,100	161,600	395,500	744,300	1,007,000
Cumulative profit/loss	581	33,571	42,152	39,175	662,74	458,264
Provision For Loan Loss				158,917	1,258,528	1,934,298
Total Equity and Liabilities	**1,595,968**	**2,333,925**	**7,416,259**	**18,761,486**	**41,667,587**	**101,835,354**