

Rural Finance Nepal (RUFIN)

Partner for Sustainable Financial Services in the Countryside

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Microfinance and Armed Conflict in Nepal:

The Adverse Effects of the Insurgency on the Small
Farmer Cooperatives Ltd. (SFCLs)

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Rural Finance Nepal is a joint Nepali-German project, implemented by the Agricultural Development Bank of Nepal (ADB) and other partners with technical assistance from GTZ
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1. Introduction

Over the last five years, quietly and without much international attention, an armed conflict between members of the Maoist armed forces, the police, and military respectively, has been growing in Nepal. There is widespread consensus as to the root causes of the conflict. The main reasons, all closely interrelated, are inequitable social-economic and political access, bad governance/corruption and poverty.

Since the beginning of the insurgency in 1996, the conflict has claimed the lives of more than 7,000 Maoists, security personnel and civilians. The costs of the conflict are estimated to be around 8-10% of Nepal's Gross Domestic Product¹. The banking sector in particular, with its exposed branch network in the rural areas, has been a prime target of the Maoist insurgency. An estimated 20-30% of the branch network of the three largest banks, i.e. The Agricultural Development Bank of Nepal, Nepal Bank Ltd. and Rastriya Banijya Bank, has been vandalised by the Maoists. This ultimately translates into the withdrawal of banking services from the rural areas, which, in turn is adding to the estimated gap of loans in the rural areas of USD 128 million.

Textbox 1: A Brief Historical Background on the Small Farmer Development Programme

In 1975, the ADBN started to form through its Sub Project Offices (SPOs) Joint Liability Groups of small farmers. In line with the prevailing development thinking of that time, cheap money, meant for productive purposes, was channeled to the group members. The high overhead cost and low collection rates of the SPOs, however, led professionals to question the sustainability of this approach. In 1987, the ADBN introduced an action research Institutional Development Program (IDP) with the support of GTZ. The objective of the new direction was to transfer the ADBN-run SPOs into fully self-administered and -managed cooperatives of small farmers. In 1993, as a result of the IDP, the first four SPOs were transformed into Small Farmer Cooperatives Ltd. (SFCLs). Since then, 125 SFCLs have been established, reaching out to 73,000 rural households.

A Small Farmer Cooperative Ltd. is a multi-service cooperative designed to deliver primarily financial, but also non-financial services to its members in rural areas. SFCLs are civil society organisations, which pool their joint resources to meet basic needs and to defend their members' interests. They are member-owned and controlled and have an open membership policy towards "poor" farmers.

SFCLs deliver various financial and non-financial services. Financial services include various forms of voluntary and compulsory savings products, a variety of loan products as well as a livestock insurance scheme. Non-financial services include construction of irrigation channels, establishment of milk collection centres, nursery programmes and women empowerment programmes.

In the last years, the literature on microfinance in post conflict situations e.g. for countries like Rwanda, Mozambique or Cambodia has increased rapidly². Guiding principles have been proposed on how to start microfinance in a post

¹ DFID: Economic Aspects of the Insurgency in Nepal, Report 57/02, 2002.

² See Wilson, Tamsin: Microfinance during and after armed conflict: Lessons from Angola, Cambodia, Mozambique and Rwanda, Concern Worldwide & The Springfield Centre for Business in Development, Durham, 2001 and Doyle, Kareen: Microfinance in the Wake of Conflict: Challenges and Opportunities, Microenterprise Best Practices Project, Development Associates, Bethesda, 1998.

conflict situation³. However, relative little research has been done to analyse how grassroots microfinance institutions cope within the context of ongoing armed conflicts. The Agricultural Development Bank of Nepal (ADBN) and the German Technical Cooperation (GTZ) under their joint Rural Finance Nepal (RUFIN) Project, thus, would like to share the findings of an analysis of 77 Small Farmer Cooperatives Ltd. (SFCLs) within the context of the ongoing insurgency in Nepal.

The purpose of this study is to provide an update on the development of the SFCLs by analysing the financial 2002 data of 77 SFCLs. It is thus a follow-up of RUFIN's Working Paper No. 1, which analysed the SFCL July 2000 data⁴. Now, two years later, the present study will revisit the SFCLs by focussing on the adverse effects of the Maoist insurgency on the financial performance of the SFCLs. The study team has also attempted to reveal some of the coping strategies of these grassroots organisations in relation to the conflict.

The methodology for the financial analysis part follows to a large extent the same method as used in the ADBN/GTZ RUFIN Working Paper No.1. The following steps were applied:

- i. The study team collected financial statements of 77 SFCLs from 29 out of 31 districts from SFCLs being in operation for more than six months. SFCLs in the districts of Gorkha and Pyuthan could not be included in the study due to improper financial statements.
- ii. Since an SFCL loan classification system of overdue loans in the form of an ageing report is not yet available, the study team made provisions of 35% on all overdue loans. "Overdue" means the instalments due, and does not include the remaining balance of the overdue loan.
- iii. To avoid the effects of an improper rescheduling of loans by SFCLs in the Dhading District, the study team maintained the same level of provisioning for these SFCLs as the previous year.
- iv. The 31 districts in which SFCLs are operating were categorized into four clusters i.e. "very poor performing", "poor performing", "moderately performing" and "performing". These classifications are based on the performance of SFCLs and the number of Maoist incidents.⁵ For this, the study used monthly progress reports of individual SFCLs. The study team selected three basic criteria which are a) the number of attacks by the Maoists in the districts b) the past due ratio and c) the outstanding interest receivables out of outstanding loans. The classification into the four

³ See Nagarajan, Geetha: Microfinance in Post-Conflict Situations: Towards Guiding Principles for Action, ILO/UNHCR Technical Workshop on Microfinance in Post-Conflict Countries, 15-17 September 1999, ILO, Geneva.

⁴ Wehnert, Ulrich and Roshan Shakya: Are Small Farmer Cooperatives Ltd. Viable Financial Institutions? ADBN/GTZ, Rural Finance Nepal (RUFIN), Working Paper No. 1, Kathmandu, January 2001.

⁵ For details on the clusters please refer to annex 2.

district clusters was based on meeting the benchmarks for two out of the three following indicators:

- Very poor performing districts: 25% or more SFCLs are attacked by the Maoists; 30% or more loans are overdue and the outstanding interest receivables are 30% or more.
 - Poor performing districts: 15% or more SFCLs are attacked by the Maoists; 20% or more loans are overdue and the outstanding interest receivables are 20% or more.
 - Moderately performing districts: 5% or more SFCLs are attacked by the Maoists; 10% or more loans are overdue and the outstanding interest receivables are 10% or more.
 - Performing districts: less than the above mentioned standards of moderately performing districts.
- v. In addition, the study team made adjustments to the income statements in order to calculate the imputed cost of capital (at 6% for interest free loans and 7% for capital fund), to exclude donations or subsidies and to deduct income from non-banking activities.

We relied largely on the commonly used financial ratios such as operational and financial self-sufficiency. All ratios are explained in more detail in annex 1.

Chapter two will provide the reader with some more background information on the present ongoing conflict in Nepal. Chapter three gives a brief overview of the structure of the rural financial sector in Nepal and outlines some recent developments. Chapter Four includes an analysis of the financial performance of the Small Farmer Cooperatives Ltd. within the context of Nepal's armed conflict. Conclusions and Recommendations are found in Chapter Five.

2. The Conflict in Nepal⁶

Nepal's conflict has been steadily escalating since 1996. It started in the Mid-western districts and has since then spread significantly. Forty-six of Nepal's 75 districts have been classified as "highly affected" and another 20 (including Kathmandu) as "affected" by the Maoist insurgency. The violent clashes between Maoists and the police/military have so far claimed more than 7,000 lives, among which are at least 5,100 Maoists and 1,190 security personnel. The civilian death toll in the bloody violence stands at 773 to date.⁷

The conflict is characterised by limited and selective violence, and use of locally available weapons. Aside from threats and actual killings, other forms of violence include extortion, arson, looting, robbery, etc. So far, His Majesty's Government (HMG) has treated the insurgency as a law and order problem under the aegis of the police. Therefore the army (approximately 40,000 men) has only recently become actively engaged in the conflict against the Maoist army and militia (estimated at 10,000-20,000 men and women).

Textbox 2: A Brief History on Recent Nepalese Politics

Nepal was ruled as a largely isolated kingdom for centuries. It was never colonised. In the mid-1800s, the king's power was constrained by the Rana family, who assumed hereditary premiership for 104 years. In 1951 the people, led by the Nepali Congress (NC) and supported by the King, overthrew the Rana family. After several years of attempts to establish a constitutional democratic political order, a constitution was drafted in 1959. The first-ever general election was held in 1959 and the Nepali Congress formed a majority government. In 1960, the King, who wielded almost absolute power according to the constitution, dismissed the elected government, banned all political parties and introduced a party-free Panchayat system under royal control. The Panchayat regime repressed opposing political leaders and was characterised by arbitrary lawmaking and human rights abuses. In 1990, there was a second democratic "revolution", leading to the constitutional democratic system in place today. This popular uprising was led by the Nepali Congress Party and seven underground communist parties who had fought against the Panchayat regime. After the restoration of a multiparty democratic system in 1990, a general election was held in 1991. The Nepali Congress formed a majority government and the United Marxist-Leninist Party (UML) became the main opposition party. Another leftist group, Ekata Kendra (Unity Centre) led by Baburam Bhattarai, became the third largest party in the parliament. In 1995, the NC majority government fell apart due to internal party conflicts. The Parliament was dissolved and a mid-term election was held. The United People's Front led again by Baburam Bhattarai, boycotted the election in which no political party won a clear majority. UML, as the biggest party in Parliament, formed a minority government, which was ousted 9 months later in a vote of no confidence. The Nepali Congress, together with RPP (a party of former Panchas), formed a coalition government with Sher Bahadur Deuba as the Prime Minister. It was during the premiership of Deuba in 1996 that the United People's Front of Baburam Bhattarai submitted 40 demands to the Prime Minister, demanding that they be met by February 17 of the same year. The government did not respond immediately and the Maoists declared their "People's War" on 13 February 1996. On June 1, 2001 ten members of Nepal's royal family including King Birendra and his family were massacred in a shootout at the Royal Palace. King Gyanendra, the middle brother of the slain ruler, was enthroned on June 4. After five years of "war", the Deuba government entered into a dialogue with the Maoists in July 2001, but the process broke down in November of the same year. The Maoists then attacked a military barrack and the Government immediately responded by imposing a state of emergency over the country. In 2002, the parliament was dissolved and the local bodies' five years tenure expired but the government could not hold fresh elections due to the "War". The King decided to take charge of ruling the country and appointed Lokendra Bahadur Chand as prime minister in October 2002. Recently in February 2003 a ceasefire was announced by both sides and the dialogue process has been initiated once again.

⁶ This chapter draws heavily from GTZ's Nepal Country Study on Conflict Transformation and Peace Building, Eschborn, 2002.

⁷ Figures were reported by the Royal Nepal Army on October 31, 2002.

The main causes of the conflict are attributed by observers to bad governance and corruption, inequitable socio-economic and political access and resulting widespread poverty. These issues have been used by the Maoists to justify their challenge to the government, and they contribute to motivate certain sectors of society to openly join or at least silently support their movement and cause.

The conflict in Nepal, as compared to other countries, is still relatively tractable due to the following reasons:

- It is a conflict between two parties, the government and the Maoist movement, over control of the state and thus, on the national level, has a mainly political dimension; this is not (yet) complicated by a significant “war economy”;
- There is no significant international dimension, neither through the serious involvement of neighbouring countries, nor through actions by the superpowers;
- Neither ethnic nor religious identities have (yet) been significantly instrumentalised by conflict parties.

The major economic sectors affected by the conflict are: tourism, carpets, textiles, and especially the alcohol industry (manufacturing and sales). Some agricultural exports are also affected (cardamom, for example). Increasingly, the whole country is suffering from insecurity and the resulting economic paralysis. Consequently, Nepal has had to register for the first time in 19 years a negative growth rate in GDP for the fiscal year ending July 2002⁸.

Farmers are reported to have increasing difficulties to market their products in the headquarters of many districts since footbridges and basic infrastructure facilities have become targets of the Maoists. With difficult access to markets the farmers are forced to sell their farm products at very low prices to their localities or to even start exchanging their products in kind. Due to this difficult environment many Nepalese have started to migrate to India to make a living. This has been common in the past, too. However, this time many people are not planning to return soon.

The banking sector in particular has been heavily affected by the conflict. Between 20 and 30% of the branch networks of the three largest banks, that is Rastriya Banijya Bank, Nepal Bank Ltd. and the Agricultural Development Bank of Nepal⁹ have been vandalized by the insurgents. This is resulting in a withdrawal of banking services from affected areas. Even “pro-poor” providers of rural financial services such as Small Farmer Cooperatives Ltd. (SFCLs) or Grameen Bank Replicators have become targets of the Maoists. Banks and

⁸ Kathmandu Post, 12 December, 2002.

⁹ Until July 2002, 166 offices of ADBN have been vandalised and looted, including 61 bank offices and 81 Sub Project Offices. These incidents caused physical damage valued about NRs 10.6 million (USD 135,000). In terms of cash, NRs 28.7 million (USD 370,000) were looted.

customers have now to cope with a weakened outreach through a diminished branch network. The financial institutions are facing higher costs due to reconstruction efforts, and last but not least, branch staff is often in a state of fear and continuous tension due to security concerns. Thus, consolidating or moving towards institutional sustainability in the present context of Nepal is a veritable challenge for all financial institutions.

3. Recent Developments in the Rural Financial System

Brief overview on the rural microfinance system of Nepal

Over the last decade, Nepal's rural micro finance sector has expanded significantly in terms of service providers and clients served. All in all, the rural financial institutions providing micro finance services in the formal and semi-formal segment are reaching out to an estimated 630,000 members¹⁰. The biggest players in terms of outreach are the Regional Rural Development Banks, which are modeled upon the Grameen Bank approach of Bangladesh. However, the viability is reported to be very poor with the exception of the Western Grameen Bikas Bank.

Table 1: Key Actors in Nepal's Rural Micro Finance Sector

Financial Institution	No. of members	Percentage
Regional Rural Development Banks ¹¹	129,000	20.5%
Grameen Bank Replicators ¹²	68,000	10.8%
Registered Savings and Credit Cooperatives	90,000	14.3%
Small Farmer Cooperatives Ltd.	73,000	11.6%
Various government supported microfinance programmes ¹³	95,000	15.1%
ADBN (Small Farmer Development Programme)	97,000	15.4%
Microfinance NGOs ¹⁴	78,000	12.4%
Total	630,000	100%

The table to the right indicates that the market is fairly well balanced between the "cooperatives", the "private and government-owned Grameen Bikas Banks/Replicators" and the "government supported microfinance programmes".

The Small Farmer Cooperatives Ltd., the outcome of the transformation process of ADBN's sub project offices, have gained over the last years an increasing share in the rural financial market. This share is

even expected to increase over the next years with the transformation of ADBN's remaining 187 SPOs into SFCLs. The estimated savings for ADBN in terms of operational costs due to the outsourcing of its microfinance operations are estimated to be around USD 1.2 million. Up to February 2003, 125 SFCLs have been established with outstanding loans of USD 11.5 million and internally generated resources of USD 2.5 million. Out of around 73,000 members, female membership stands at 38% and is increasing.

Even if we add the rural customers of ADBN, NBL and RBB to the above mentioned rural service providers, the final figure of clients/members reached with financial services arrives at around 1.1 million clients only. This is contrasted with the estimated demand of 3.6 million households in rural Nepal for financial services. Thus, the market for micro and rural financial services

¹⁰ This figure does not include the rural clients of ADBN's Development Banking segment and the clients of Nepal Bank Ltd. and Rastra Baniya Bank since all three banks are considered to serve the better off clients in the rural areas.

¹¹ The Regional Rural Development Banks include Central Grameen Bikas Bank, Western Grameen Bikas Bank, Mid Western Grameen Bikas Bank and Far Western Grameen Bikas Bank.

¹² Private-owned Grameen Bank Replicators include Nirdhan and the Centre for Self-help Development (CSD).

¹³ The government supported microfinance programmes include the Micro Credit for Women (MCPW) and Production Credit for Rural Women (PCRW).

¹⁴ Microfinance NGOs include Support Activities for Poor Producers of Nepal (SAPPROS), Development Project Service Centre (DEPROSC) and other private savings and credit organizations.

appears to be huge, if only the services could be delivered in a sustainable manner. Institutional and financial sustainability is the major concern at present in the rural financial system of Nepal. For many institutions *consolidation* is the priority, not *expansion*. The government-owned key providers of rural financial services such as RBB, NBL and the Regional Rural Development Banks are reported to be near insolvency. The ADBN's financial position, while certainly better than the one of RBB and NBL, cannot be assessed with certainty at this point of time.

This leaves us with a few small private development banks, microfinance NGOs, various government supported microfinance programs and thousands of informal and semi formal savings and credit cooperatives to serve the rural poor with financial services. However, also in this segment, very little is known about the true performance of these institutions other than that they are reported to contribute to poverty reduction in rural Nepal.

It appears that the gap between demand and supply of rural (micro) financial services will not be closed any time soon. Major financial institutions such as RBB, NBL, the RRDBs and ADBN will have to go through extensive reforms. In addition, the grassroots microfinance institutions will face difficulties in expanding their services in the present non-conducive environment.

Transformation of NGOs into Development Banks

In the last couple of years, many NGO microfinance institutions have transformed themselves into development banks as part of their commercialization strategy. The NGOs are thus responding to the difficult task of doing both social mobilization work *and* financial services delivery. Thus, they have started to outsource their microfinance activities from the NGOs into newly created financial institutions under the Development Bank Act of 1996. According to reports from NRB, there are at present 13 privately owned as of December 2002. Another 40 applications were reported in 2001 to be in the pipeline to receive a development banking license.

The first development bank that was created through an NGO was the Nirdhan Uttan Bank in December of 1998. Prior to this, the NGO Nirdhan had been operating as a private Grameen Bank replicator for more than five years. The shareholders of Nirdhan Uttan Bank include Nepal Arab Bank, Himalayan Bank, Everest Bank, Nirdhan NGO, Grameen Trust and some private individual shareholders. The bank has NRs 10 million (USD 128,000) paid up capital and is allowed to operate in 10 districts. As of December 2001, the bank was serving 31,616 clients with NRs 186 million (USD 2.4 million) in loans outstanding. Total savings amount to NRs 48 million (USD 0.62 million). The portfolio in arrears was reported to be 6.8% at that point in time.

Similarly, the NGO DEPROSC established the DEPROSC Development Bank in January of 2001. Like Nirdhan Uttan Bank, DEPROSC Development Bank has NRs 10 million (USD 128,000) in paid up capital, too, and can serve rural clients in 10 districts. Recently, DEPROSC Development Bank announced a

modest total operating profit of NRs 1 million (USD 12,800) for its first year of operation.

In addition, the Center for Self-Help Development (CSD) has been providing financial services as a Grameen Bank Replicator in the Eastern and Central Part of Nepal since 1994. CSD is in the process of forming the Swabalamban Bikas Bank with a paid up Capital of NRs 10 million (USD 128,000). The promoters include CSD NGO, three private commercial banks and a women's cooperative.

Establishment of second tier refinance Institutions

As rural financial service providers, many non-bank financial institutions have been emerging since the late eighties in the form of NGOs, cooperatives or development banks. The main aim of these organizations is to tap local and other resources to supply credit to the rural poor. In addition, there are an estimated 26,000 savings and credit grassroots organisations, which provide financial services particularly to people in remote areas.

Based on the assumption that most of these organizations were too small to effectively meet the demand for credit, HMG began to support the establishment of second tier institutions with the aim of providing refinance, mostly at subsidized rates to the emerging organizations. The first of its kind was the Rural Self-Reliance Fund (RSRF) established by NRB with 20 million NRs (USD 256,000) in the early 1990s. Until March 2000, the fund was accessed by less than 6,000 borrowers from about 43 NGOs and 66 cooperatives of the country.

The Rural Micro Finance Development Centre (RMDC) is a more recent second tier institution, established under the Development Bank Act with a paid up capital of NRs 80 million (USD 1.03 million). RMDC was registered in October 1998 and provides wholesale loans to NGOs, cooperatives and the Regional Rural Development Banks. The Asian Development Bank provided USD 20 million as a main source of funding. Nepal Rastra Bank, 13 commercial banks, 5 Regional Rural Development Banks, one Grameen Bank Replicator and DICGD are the shareholders of RMDC. ADB put much emphasis on a board of directors coming mainly from the private sector. By May 2001, RMDC had loans outstanding of about USD 0.29 million.¹⁵ After a review of its lending rate, RMDC is now charging an interest rate of 6.5 percent plus a service charge of 0.5 percent. With this adjustment, the loans outstanding increased to NRs 57.3 million (USD 730,000) by July 2002. RMDC's refinance client base increased to 17 MFIs.

The latest addition to Nepal's second tier institutions is the Sana Kisan Bikas Bank (Small Farmer Development Bank). This apex bank has been established to completely outsource ADBN's microfinance operations under the SFDP. The objective of the new bank is to create a specialized, professional and lean rural finance institution to refinance SFCLs and similar

¹⁵ Asian Development Bank (ADB): Agricultural Sector Performance Review, TA No. 3536-NEP, 2001.

institutions in rural areas and to encourage the SFCLs to become majority shareholders of this bank in a 5-10 year time frame. The total paid-up capital at present is almost NRs 100 million (USD 1.3 million). The biggest shareholder is ADBN with NRs 70 million (USD 900,000), followed by the Ministry of Finance with NRs 20 million (USD 255,000) and two commercial banks with a total share holding of NRs 7 million (USD 90,000). The initial 21 SFCL promoting agencies have a joint holding of USD 22,000. This amount is expected to be increased significantly over the coming years. Despite being the smallest shareholder, the SFCLs are represented in the seven-member board with two representatives. The remaining seats are shared by ADBN with three representatives and by the Ministry of Finance and the Nepal Bank Ltd. with one representative each. SKBB started its lending operations to SFCLs from three area offices in November 2002.

4. Small Farmer Cooperatives and the Armed Conflict

4.1 The Nature of the Distortion of SFCLs

S.N.	Year	Number of SFCLs attacked
1.0	1997	1
2.0	1998	1
3.0	1999	3
4.0	2000	3
5.0	2001	10
6.0	2002	16

After the Maoists declared the so-called people's war in 1996, the first incident in which an SFCL was involved occurred in 1997. In that year, Maoist insurgents tried to burn down the offices of the SFCL Duwakot in Dhading district. All documents, furniture and other office

equipment were destroyed. The second target of the Maoists was SFCL Kumrose in Chitwan district in 1998¹⁶. As the table to the left indicates, during 1999 and 2000 there were three attacks each year on SFCLs. Since then, the incidents have started to dramatically increase: In 2002, sixteen incidents were reported, in which the SFCLs became the victims of the insurgents. Altogether, until December 2002, thirty-four out of 121 SFCLs have had to suffer under the conflict.

The regional conflict analysis shows that the 34 incidents with SFCLs involved were spread over 16 districts. As shown in the table, the central region has the highest absolute numbers of 16 reported incidents, which, with the exception of one, all took place in the Dhading district. This means in relative terms, that around 40% of the existing SFCLs in the Central region were attacked. This is topped by the 66% incident rate in the Far Western region, although the absolute number of "only" six incidents does appear rather small.

S.N.	Name of Region	Number of SFCLs in the region	Number of SFCL attacked
1.0	Eastern Region	30	5
2.0	Central Region	35	16
3.0	Western Region	33	5
4.0	Mid-western Region	17	4
5.0	Far-western Region	6	4
	Total	121	34

What is the actual damage that occurred to the SFCLs during these incidents? Six out of 34 attacked SFCLs reported that their office buildings, which were constructed by the farmers themselves, were completely destroyed by the Maoists¹⁷. In almost all cases the insurgents burned the SFCL documents and looted the land

certificates of the members, which served as collateral for their loans. In a few cases the SFCLs also lost some cash.

The question of why SFCLs are being attacked by the Maoists has often been raised. It appears that the Maoists in general do not have a consistent policy towards community development activities. In many cases it depends on the local commanders and their perceptions of the organizations in the areas under their control. It is reported that they are rather tolerant of NGOs and local organizations which are conducted in a transparent manner and which deliver pro-poor results. However, with the ever- increasing escalation of the

¹⁶ See Textbox No. 10 for details of the SFCL Kumrose incident.

¹⁷ This is true for SFCLs Duwakot, Chainpur, Goganpani and Chhatreaurali in Dhading district, SFCL Laxmipur in Dang district and SFCL Prithvinagar in Jhapa district.

conflict, the Maoists have become more hostile towards development work, too.

Having said all this, there is one obvious reason why the SFCLs have become the targets of the Maoists. This is the perceived close link of the SFCLs to the ADBN, an institution, which has always been a prime target of the Maoists since the beginning of the war in 1996. By destroying the loan records of ADBN's branches, the Maoists assume that the farmers will not have to repay the loans.

According to SFCL officials involved in the incidents, it appears that the Maoists are also looking for sympathy of those SFCL members, which have past due loans and which presumably would benefit most from destruction of an SFCL office.

Textbox 3: An Account of the SFCL Maldi Incident on 23 August, 2000

On 23 August 2000, the SFCL Maldi was running its operations just like any normal day from 10.00 to 17:30. All staff members went home after the office closure. The guard, too, went home for a quick dinner at 20:00. At 20:30 about 150 unidentified people started to march towards the office. They quickly captured the office and brought out many documents and files into the courtyard. Then, they burned all documents and office furniture. Luckily, at that day there was no cash in the office, or that might have been lost, too.

According to the villagers, the attackers held a public meeting in front of the office building and warned each and everyone not to object to their activities. To intimidate the people, they blasted two explosive devices. The whole incident lasted between twenty to thirty minutes. The insurgents then split up in various smaller groups and left the location.

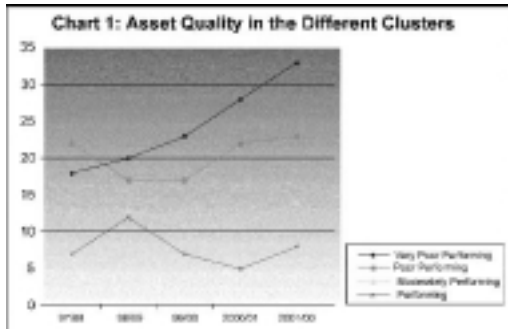
SFCL officials immediately called the police. However, only the next morning did the police arrive to begin official investigations. The SFCL officials also went to the district head quarters to report the incident to the District Administration Office, the District Police Office, the ADBN branch office and the District Cooperative Office. After four days, SFCL representatives arrived in Kathmandu to discuss the incident and related support measures with ADBN and the GTZ project office.

According to the Manager, SFCL Maldi lost goods valued at seventy thousand rupees in the attack. Aftermath, the SFCL did not have any records to re-start its daily activities, so first they prepared the records with support of SFCL members. They also cut down interest to 14% from 16% due to the pressure of the Maoists.

4.2 Major Findings from the Financial July 2002 Analysis

Loan portfolio quality is decreasing

The loan portfolio analysis clearly shows that the past due loans of SFCLs are dramatically increasing, particularly in the last couple of years. The chart below indicates that this development has already been a well-established trend in the 11 "very poor performing districts" since 1998. The loan portfolio, measured as past due loans to total outstanding loans decreased from 18% by July 1998 to 33.3% by July 2002.

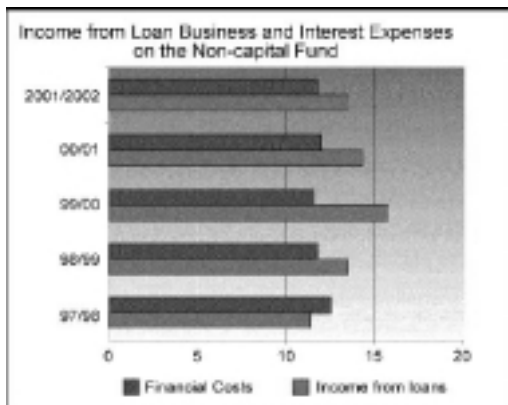


The study team also classified the districts as per the SFCL performance into ¹⁸four clusters like very poor performing districts, poor performing districts, moderately performing districts and performing districts. However, the study has found that even the performing districts have started to decrease their loan quality since July 2001.

In the case of the poor performing 5 districts of the SFCLs, their loan quality slightly improved from 22% in the fiscal year 1997/1998 to 17% in the fiscal year 1998/1999 and they remained stable until the fiscal year 1999/2000. Then, their loan quality decreased to 22% and 23% in the fiscal years 2000/2001 and 2001/2002. Whereas the moderately performing 7 districts of the SFCLs and performing 8 districts of the SFCLs were able to improve their loan quality until the fiscal year 2000/2001, after that their loan quality also went up to 13.6% and 7.6% in the fiscal year 2001/2002 respectively.

Looking at the Sana Kisan Bikas Bank (SKBB) area office clusters, Anandavan and Nepalgunj area offices had 7.6% and 7.3% past due loans respectively. Among the nine SKBB area office clusters, Gajuri and Mahendranagar had more than 28% past due loans. Looking at some individual cases, the SFCL Anandavan and Natajhij had zero past due loans while the SFCL Dhusha arrived at the bottom of the table with more than 60% past due loans.

Financial margin is decreasing



The interest rate on the various SFCL loan products was between 17% and 24% until the fiscal year 1999/2000. A year later, in most SFCLs the interest rates came down to a range between 14% and 21%. This development was to a minor extent the result of a market change, but basically the influence of the Maoist insurgents. They put pressure on the Management Teams of the SFCLs to decrease the interest rate on loans to members and at the same time to maintain the interest rates on savings.

Looking at the last five years, the SFCLs' income from the loan business on average outstanding loan balance increased from 11.4% in the fiscal year 1997/98 to 15.8% in the fiscal year 1999/2000. Since then, it has declined and gone down to 13.6% in the fiscal year 2001/02. However, the financial costs have remained relatively stable in a range between 11.6% and 12.5% over the past 5 years. This is largely due to ADBN's unaltered refinance rate of 12% to SFCLs.

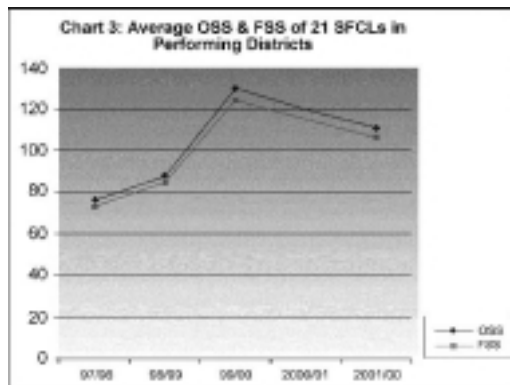
¹⁸ For more details refer to annex: 2.

Consequently, the financial margin of SFCLs went significantly down after July 2000. Although, the average margin for all SFCLs still remained positive, some individual SFCLs are de facto operating with a negative margin in the present country scenario. This is particularly true for the SFCLs operating in the "very poor performing" districts. In this cluster, the SFCLs are managing an income from loan business of 10.8%, while confronted with financial costs of 11.5%. In the case of the "moderately performing" and "performing" districts, loan income stands for both at 16.3%, with 11.9% and 11.5% respectively as financial costs.

Looking at the individual SKBB area office clusters, Anandavan and Ratna Nagar clusters managed to achieve a comfortable income level from the loan business of 17.4% and 18.6% respectively. Similarly, in these clusters the financial cost was found to be below 12% in the fiscal year 2001/2002.

The average FSS & OSS is decreasing

As a consequence of the decreasing loan portfolio quality and shrinking financial margins of SFCLs, the average financial self-sufficiency and operational self-sufficiency ratios have started to decrease since July 2000, too. The OSS and FSS calculated from our sample of 77 SFCLs increased from 63% (OSS) and 62% (FSS) in the fiscal year 1997/98 to 107% (OSS) and 104% (FSS) in the fiscal year 1999/2000. This finding supports the previous study with a sample of 33 SFCLs, which also showed that the SFCLs managed to cross the 100% FSS level in the year 1999/2000. Until 2001/2002, however, the FSS and OSS declined considerably to 82% and 85%, respectively.

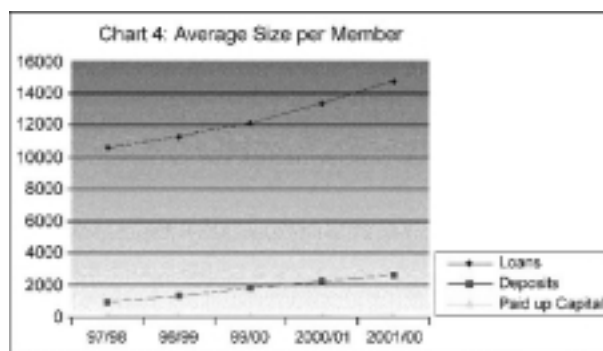


While the decline in OSS and FSS ratios applies to all our four categories, there are some important differences to note. As the chart on the left indicates, the 21 SFCLs in the "performing district" cluster clearly managed to stay above the 100% FSS level until July 2002. Starting in 1997/98 with an FSS ratio of 73%, the ratio peaked at 125% in 1999/2000 and declined to 106% by July 2002.

A similar development can be reported from the SFCLs in the "moderately performing" district cluster. They, too, did manage to maintain the important 100% FSS level until July 2002, despite the non-conductive banking environment.

With regard to the SFCLs in the "very poor performing" districts, the OSS and FSS reached 86% and 83%, respectively, in the fiscal year 1999/2000, up from 62.5% and 60.9% in the fiscal year 1997/98. Similarly, the OSS and FSS of SFCLs in the "poor performing districts" increased from a poor 53% in the fiscal year 1997/1998 to 95% and 94%, respectively, in the fiscal year 1999/2000. The levels went down again to 74% and 73% in the fiscal year 2000/2001 and remained at that level in 2001/2002.

Loans, savings and paid-up capital per member are growing



In our discussions with SFCL officials, they always emphasized the point that the average SFCL member is still relying on and effectively using the services of the SFCL as much as possible, despite the times of conflict. This statement is supported in our study by impressive growth rates of major indicators such as average size of loans, deposits and paid-up capital per member. The growth in the core business areas of the SFCLs throughout the last years indicates

strong member commitment and trust in the institutional capacities of these grassroots organizations.

As the chart on the left side indicates, the average loan amount increased from roughly NRs. 10,600 (USD 136) in the fiscal year 1997/98 to NRs. 14,800 (USD 190) in the fiscal year 2001/2002. The average size of deposits per member more than doubled during the same five year period from only NRs. 920 (USD 12) to NRs. 2,600 (USD 33). The reason behind the impressive savings drive of the SFCLs is the introduction of new savings products, which have caught the attention to the rural people. In addition, the SFCLs were also providing attractive interest rates on savings in relation to other financial institutions.

Textbox 4: An Account on the Attack on SFCL Arguali on 1 April , 2002

SFCL Arguali was conducting the regular monthly board meeting on April 1, 2002. At this meeting all board members of the SFCL and advisers were present. Suddenly, a group of people entered the office rooms with arms at around 13:30 and asked who was the chief of the Cooperative. Mr. Ghimire identified himself. Without delay the Maoists informed him that they had come "to take action" against this Cooperative. Then they started to carry the SFCL documents outside the office building. One of the extremists captured the telephone in the next room of the same building, and others captured the people gathered in that area, then they asked for money.

In general, SFCL Arguali sends cash to the bank before 15:00, so they were preparing the deposit voucher for when the extremists arrived. Therefore the extremist easily took NRs. 55,203 from the SFCL manager along with the bank voucher. In addition, they threatened the SFCL official that they would have blasted the building, but because it was not SFCL owned, they didn't.

Then the Maoists asked the manager about other documents, particularly the land certificates of the small farmers. They put all documents in one place and poured around 10 liters of petrol over the documents and burned them. Then, they left the place on bicycles in a southern direction towards jungle. They also threatened the people not to put out the fire or call police until at least 4-5 hours after they had left the place.

Immediately after, the people tried to control the fire and twenty minutes later the police arrived at the scene and prepared an incident report. Some cash and important documents were lost in the attack.

Nevertheless, early the next day, the SFCL started business by redrafting the documents and calling meetings of its board of members and groups in the village. As a result the SFCL is once again operating very smoothly in the village.

In addition, the average paid up capital per member nearly doubled within the five year period. This ratio increased from only NRs. 95 (USD 1.22) in the fiscal year 1997/98 to NRs. 175 (USD 2.24) in the fiscal year 2001/2002. However, this is still not considered sufficient to cover the risks related to the SFCLs' loan business and to provide protection to their depositors. The task of increasing paid-up capital is very challenging for SFCL management. There are no real incentives in place to encourage the members to buy more shares other than the requirement spelled out in the cooperative act, i.e. one share per member. There are also certain limitations with regard to the dividend policy that discourages members to buy more shares. SFCLs have now started to link the loan amount to a certain minimum number of shares. In this way, they are hoping to increase their share capital to meet some basic financial standards.

Attacked SFCLs are on the way towards modest recovery

The study team took a close look at those SFCLs which were involved in Maoist attacks before July 2001. This cluster includes the SFCLs Kumrose, Pratapur, Kalleri, Maidi, Prithvinager, Daiji, Begnash and Chhitaha. All eight SFCLs managed to achieve an OSS of above 100% in the fiscal year 1998/99. However, after the incidents occurred in 1999 and 2000, the OSS dropped to 82% by July 2000 and further slipped to only 46% by July 2001. These SFCLs have made a tremendous effort to revitalize their operations over the last fiscal year that ended in July 2002. As a consequence, the OSS improved to 73%, which, of course, is still not yet sufficient for long-term survival. However, the first steps have been made in the right direction. The SFCLs are collecting their loans regularly and have even achieved decreases in past due loans despite the non-conducive environment.

4.3 Coping Mechanisms of SFCLs with the Crisis

As the previous chapters have shown, Small Farmer Cooperatives Ltd. have become the frequent target of the Maoists. Altogether, 34 incidents were reported up until December 2002. The present non-conducive environment for economic, financial and social activities has led to an overall decline in the performance of these grassroots institutions. In this context, the study team has tried to identify some of the coping mechanisms the SFCLs have developed during the armed conflict. The coping strategies include a) information campaign at local, district and national level b) indirect dialogue with the Maoists on local level c) special security arrangements for cash and file management d) temporary transfer of operations to district headquarters and e) the immediate reconstruction, rehabilitation and relaunch of activities.

Information campaign at local, district and national level

During the SFCL problem-solving workshops¹⁹ in the fiscal year 2001/02, many Chairmen and Managers of the SFCLs raised the point that their organizations had become the target of the Maoists, since SFCLs are often perceived to be units of the ADBN, even in those cases in which the

¹⁹ The so called "SFCL problem solving workshops" are regular events jointly organized by ADBN and SFCLs with support from GTZ with the objective of identifying weaknesses within the SFCL operations and/or weaknesses in the relationship between ADBN and SFCLs. The participants of the workshop will then suggest practical solutions to identified problems.

transformation process of Sub Project Offices into SFCLs has been completed for some years. It was therefore suggested to start an information and awareness campaign, which would emphasize the autonomous status of SFCLs, the ownership of the small farmers and the strong savings mobilization drive of many SFCLs.

As a result of this discussion, the SFCLs decided to prepare two signboards, which would provide information about the SFCLs to villagers and members. One board, to be fixed outside of the SFCL building, contains a vision and mission statement (see textbox No. 5). The other signboard, meant to be fixed inside the SFCL offices, would provide information about the present status of membership and similar data²⁰.

Textbox 5: Content of the Newly Designed SFCL Signboard

1. Background

This SFCL [*name*] is a local people's owned institution established in [*location*] to provide needed services to its members in [*location*] VDC. This SFCL is fully managed, owned and controlled by the small farmers.

2. Main features of SFCLs

- ✓ A multi-service co-operative at VDC level
- ✓ Three tier approach at village, ward and VDC level
- ✓ Providing both financial and social services to its members
- ✓ Rural based programme
- ✓ Members' ownership in both assets and liabilities
- ✓ Planning and implementation of various projects as per the need of the members

3. Vision:

SFCL is a self-reliant institution of local small farmers providing services to them from their own resources to advance the social and economical status of small farmers in a sustainable manner.

4. Mission:

To provide social and financial services to small farmers to improve their living conditions.

5. Objectives:

- ✓ To form small farmer groups and upgrade their income by increasing employment opportunities.
- ✓ To improve economic and social conditions of small farmers by pooling local resources to meet basic needs of members

²⁰ The signboard includes information about: Total households of the VDC, total households of small farmers in the VDC, total SFCL members, total SFCL female members, total SFCL male members, total groups, total female groups, total male groups, members internal resources and loans outstanding.

Among the 34 districts in which SFCLs are operating, the Dhading district has been affected most severely by the conflict in the context of SFCLs. By December of 2002, altogether 12 SFCLs had been attacked out of a total of eighteen, some of them repeatedly. For the managers and members of the SFCLs, service delivery under these conditions turned into a nightmare.

When the number of attacks on SFCLs increased in 2000 and early 2001, the Small Farmer Cooperative Union, Dhading, took the initiative to call a national press conference in Kathmandu. The purpose was again to spread the message of the autonomous status of SFCLs, the ownership of the small farmers and their strong commitment to community projects.

In this press conference, which took place in April of 2001, the SFCL union invited journalists who were perceived to be close to the Maoists, representatives from other SFCLs outside of Dhading district and other well-reputed individuals who were strong supporters of the SFCL approach. The press statement released by the Small Farmer Cooperative Union, Dhading, is featured in textbox 6.

Textbox 6: Press Statement of the Small Farmer Cooperative Union, Dhading, on 4 April, 2001

Dear friends from the press circle,

We would like to welcome all of you to this press conference. We are thanking you for accepting our invitation. Since the armed so-called people's war was started by the underground Nepal Communist Party (Maoist), 10 SFCLs have been attacked in the country with damages caused of NRs. 201,020.

Small Farmer Cooperatives Ltd. are operating to uplift the livelihood and capacity of the landless farmers and poor laborers. Five Small Farmer Cooperatives Ltd have been completely destroyed until today and 5 others have been partially destroyed due to the attack of the Maoists knowingly or unknowingly.

Small Farmer Cooperatives Ltd. are established as autonomous cooperative societies and are operated for, with and by the poor. We are associated with this small farmer cooperative movement. No one can achieve their objective by destroying the Small Farmer Cooperatives Ltd., which are fully owned by the poor and landless farmers. The cooperative movement is the only way to reduce poverty from the country, so we request objectors provide us with constructive suggestions and advice instead of destroying the Small Farmer Cooperatives Ltd.

Thank you

It is very difficult to assess the effectiveness of this initiative by the Small Farmer Cooperative Union, Dhading. For a few months immediately after the conference there were no Maoist attacks on SFCLs. Only after the government declared the Maoists as terrorists and a state of emergency was introduced, did the Maoists resume their activities with rigor and attack another 20 SFCLs until December 2002.

Indirect dialogue with the Maoists on local level

It is an open secret that the survival of any organization in Maoist affected areas in Nepal depends on the effective communication of this organization with the local Maoist cadres. A key coping strategy for SFCLs in the present armed conflict is thus to engage into an informal dialogue with the Maoists aiming to convince the assigned local Maoist leaders about the pro-poor stance of the SFCLs, the transparent conduct of operations and about the farmers' ownership and management. Many SFCLs even asked the Maoists to provide advice and critical comments on perceived gaps and to allow some time for adjustments. As described earlier in this study, almost all SFCLs have lowered their lending rates over the last couple of years as an immediate response to the Maoist pressure.

An interesting case that indicates the strong confidence of a grassroots institution is SFCL Prithvinagar. After a Maoist assault, this SFCL lodged a written protest to the higher echelons in the Maoist organization demanding apologies and compensation. They succeeded in having the Maoists admit their mistake in attacking the SFCL and were offered the return of the NRs. 62,000 looted by them. However, the SFCL turned down the offer of the cash refund and continues to insist until today on being fully compensated for their loss and damage²¹.

Textbox 7: One of the Best Performing Cooperatives: SFCL Anandavan

The ADBN introduced the Small Farmer Development Program (SFDP) in this VDC in 1977 to support the social and economic development of the small farmers and small traders. Prior to this program, the small farmers in Anandavan did not have any access to financial institutions. They had to depend on the village elite to get access to loans at very high rates of interest. In July 1997, the small farmers of Anandavan took over the responsibilities from the ADBN-run Sub Project Office (SPO) as a member-owned and managed grassroots organisation with 212 members organised in 36 groups. Until July 2002, the SFCL expanded its services to 861 members with an 86% female membership. The following table outlines the impressive institutional and financial growth path of SFCL Anandavan over the last 5 years:

S. No.	Items	(7/1998)	(7/1999)	(7/2000)	(7/2001)	(7/2002)
1.	Total groups	41	48	88	127	133
2.	Male groups	18	19	19	20	23
3.	Female groups	23	29	69	107	110
4.	Total members	242	286	578	829	861
5.	Male members	90	99	100	105	120
6.	Female members	152	187	478	724	741
7.	Share amount	\$ 284	\$ 336	\$ 988	\$ 1,042	\$ 1,895
8.	Savings amount	\$ 6,695	\$ 16,909	\$ 39,054	\$ 71,497	\$ 122,128
9.	Loans Outstanding	\$ 70,691	\$ 79,761	\$ 113,659	\$ 121,586	\$ 173,292
10.	OSS	97%	160%	209%	144%	149%
11.	FSS	93%	154%	196%	133%	134%

The reasons for the decreasing operational and financial self-sufficiency ratios in the fiscal year 2000/2001 can be attributed to a) an aggressive savings mobilisation drive with above market interest rates b) the reduction in lending rates and c) general increase in operating costs.

²¹ Bihari Krishna Shrestha: Promoting Self-help Poverty and Good Government in the Communities. Some Observations from a Study Tour of four Selected SFCLs, RUFIN/GTZ, February 2003.

Special security arrangements for cash and file management

In the beginning of the conflict, many SFCLs lost important documents and files about their operations due to Maoists burning them. For them it was very difficult to restart their operations after an attack since there was no back up system in place. Gradually, the SFCLs developed special arrangements on how to operate under constant threats of an assault. The two most important arrangements relate to document and liquidity management.

As part of the document management policy, the SFCLs are now preparing two copies of all important documents, which are kept in a safe place far from the village like an ADBN branch or Supervision Office.

Similarly, the SFCLs have also developed a near zero cash balance strategy to avoid the loss of money in a possible incident. During the day until 14:00, the time until banks normally allow depositing money, the SFCLs transfer their cash funds to the banks. The money collected after 14:00 until the closing of offices around 17:00 will be kept with selected members and boards of directors on a rotational basis. A few SFCLs such as SFCL Kumrose have started to insure their cash vault for NRs. 200,000 (USD 2,500).

Due to the described practices, the SFCLs have lost a rather insignificant amount of money in the 34 incidents so far. Similarly, the document management and protection policy is helping the attacked SFCLs to effectively restart their operations within a couple of months. In some cases SFCLs even restarted the next day following an attack.

Temporary transfer of operations to district headquarters

Many SFCLs have shifted their offices to their district headquarters, which are considered to be relatively safe from Maoist attacks. As in the Dhading case, almost all SFCLs have done so after suffering the trauma of real and potential attacks. This measure was adopted in those cases where the SFCL open dialogue policy with the local Maoists did not yield clear signals as to whether or not the SFCL would be safe from any attack. Usually, such a decision is taken after consultations between the Main Committee (i.e. the board of directors) and SFCL members. Once the offices are shifted, the message is spread from the Main Committee to the intergroups and further to the small farmer groups.

Shifting offices into the district headquarters implies running the SFCL operations from an often far away location from the clients. This move brings further hardship to the members, since they have to travel in some cases a half-day or more to reach their destination.

Textbox 8: The rehabilitation of the Small Farmer Cooperative Ltd., Kumrose

The small farmers of Kumrose Village Development Committee took over the Sub-Project Office (SPO) of the Agricultural Development Bank of Nepal (ADBN) in July 1996 by establishing a Small Farmer Cooperative Ltd. (SFCL). Since then, SFCL Kumrose has been providing various financial and non-financial services to the small farmers such as limited banking services, livestock insurance, construction of irrigation canals, literacy programs, water tap distribution, community forestry and milk collection.

In October 1998, the extremists attacked the SFCL Kumrose. A group of armed people with faces covered entered the office building at around 22:30 and destroyed all important documents such as group files, loan agreement documents, hand-over documents and documents related to other agencies. Then they announced that the farmers did not need to pay back loans and that the farmer's land certificates would be returned later on.

The next morning, leaders of the small farmers started to gather in the SFCL building and immediately decided to call an emergency board meeting. After this board meeting, SFCL Kumrose informed the ADBN branch and regional offices, the police station and the District Administrative Office of Chitwan about the incident.

One day after the incident, the SFCL organized a village level meeting in which all group leaders, inter-group leaders, board members, advisers, account committee members, representatives from ADBN branch and regional offices, the chairman and vice-chairman of the VDC and other intellectuals from the village participated. The meeting focused on how to revitalize the SFCL's activities. With support from the board members, the group and inter-group leaders, the SFCL staff prepared the records in less than one month.

After this incident, the SFCL successfully introduced limited banking services to the village and also took responsibility for the farmer-to-farmer replication program. The SFCL also extended its office building to host additional services. At present, the SFCL Kumrose is one of the leading SFCLs in the country, which is due to the full commitment of the members and the vision of the board of directors.

This journey is also often interrupted by army and Maoist checkpoints in which the travelers have to respond to many interrogations. Under these conditions, a regular service delivery of SFCLs to their members is hardly possible. The prime objective of moving offices is thus, to safeguard the SFCLs from an attack and to adopt a wait and see strategy for some time.

Immediate reconstruction, rehabilitation and relaunch of activities

One of the best coping mechanisms with the crisis appears to be the immediate reconstruction of the destroyed office buildings, the rehabilitation of the office infrastructure followed by the relaunch of services. Out of 34 attacked SFCLs, 30 managed to relaunch their services with support of the members, the local administration and the local community at large. Some of the SFCLs even appear to have emerged from the crisis stronger than before, since members and villagers fully realized after the attacks the great value of a financial and social service provider who is targeting more than 60% of all the rural and mostly poor households within a Village Development Committee.

However, while most of the attacked SPOs of ADBN had to be closed or merged with sub branches or shifted to district headquarters, almost all SFCLs quickly revitalized their operations after the incidents. Today, 30 out of 34 attacked SFCLs are again providing services to their members. There could be no better sign of true people's ownership.

5. Summary and Conclusions

This study is a follow-up study of RUFIN's Working Paper No.1, in which the financial viability of 33 SFCLs was analysed with very positive results as of July 2000. At that time the authors of the study were happy to report the crossing of the 100% financial self sufficiency ratio, which indicates that the SFCLs as autonomous grassroots organizations are indeed capable of fully covering their costs in the long term without subsidies. Since then, the general situation has changed dramatically in Nepal due to the escalation of the armed conflict.

The economic costs of the crisis are reported to be tremendous (8-10% of GDP). Nepal has had to register its first negative growth rate in more than a decade for the last fiscal year. Due to the conflict and its high costs, a reallocation of government resources is taking place from the development cooperation portfolio to the conflict portfolio i.e. the police, military and reconstruction services.

Textbox 9: SFCL Farmer-to-Farmer Self-Replication

In the last four years, a farmer-to-farmer self-replication of SFCLs has emerged as a cost effective method for promoting decentralized local grass-root cooperatives in the rural areas. Earlier, the SFCL model was the outcome of the transformation process of ADBN's sub-office branches into farmer-owned and –managed institutions. With the farmer-to-farmer replication approach, SFCLs can now be established through other professional and mature cooperatives, too. This new instrument is expected to significantly increase the number of new SFCLs to serve the countryside with sustainable financial services.

Some positive aspects of the self-replication program are a) they are initiated by the small farmers b) they have low operating costs c) it's possible to establish a cooperative within 3 years only and d) local resources can be mobilized on a large scale.

The SFCL Chhatredeurali initiated this activity as a pilot test in 1999 and established a women's SFCL in Kewalpur VDC of Dhading district after 3.5 years. SFCL Kewalpur combined 350 members with NRs. 2.8 mil in outstanding loans, NRs. 1 mil in mobilized internal resources and a financial self-sufficiency ratio of 93%.

Nepal's rural finance sector expanded, in terms of institutions and outreach, over the last years at a very slow pace. A couple of encouraging trends are emerging, such as the transformation of microfinance NGOs into development banks or the emergence of second tier apex institutions. All this is positive news, but offset by the adverse effects of the crisis. The general motto of the financial institutions including grassroots microfinance providers seems to be *consolidation* rather than *expansion*. This, of course, is adding to the already existing huge gap between the demand and supply for micro financial services in the remote areas. Generally, the microfinance community in Nepal is not very keen on reporting on their financial performance. It is thus very difficult to make an assessment of the financial health of the sector in general.

With regard to the recent developments of SFCLs, the study team has arrived at the following major findings:

- With around 73,000 rural household members, the 125 SFCLs could expand their share in the rural financial market to more than 10%. Despite the relative slow transformation process, SFCLs are one of Nepal's fastest growing grassroots microfinance models.
- The path towards profitability of SFCLs, as seen prior to the year 2000, is clearly interrupted. Major financial indicators such as the financial and operational self sufficiency ratios, the loan portfolio quality and financial margins have decreased over the last couple of years. The average financial self sufficiency ratio for our 77 SFCL sample stands now at 85% as of July 2002, compared to 104% by July 2000.
- The reason for the decline in performance can be attributed to the activities of the Maoist insurgents. Out of 125 SFCLs, 34 have been attacked by Maoists. Six SFCLs lost their offices through fire; in all cases important documents were destroyed. On the one hand, the local Maoist commanders are pressuring the SFCLs to lower the loan interest rates; on the other hand the Maoists are encouraging the farmers not to repay the loans.

Textbox 10: CGAP/IFAD Rural Pro-Poor Innovation Challenge Announcement

"We are very pleased to announce the ten winners of the first round of the CGAP/IFAD Rural Pro-Poor Innovation Challenge (RPPIC). We had an overwhelming response to the funding announcement, with over 500 applications received. Selecting the award recipients from the many applications was a difficult exercise. The selection criteria was based on depth of outreach, innovation and commitment to sustainability. The selected candidates are listed below.

1. International Justice Mission (India)
2. PRISMA (Peru)
3. Honduras: Asociacion PILARH
4. Conservation Coffee Program with Conservation International (Mexico)
5. Small Farmer Cooperatives Ltd. (Nepal)
6. Bai Tushum Financial Foundation (Kyrgyzstan)
7. MAFF (Albania)
8. Moldova Microfinance Alliance (Moldova)
9. Association pour la Promotion des Groupements Agricoles (Togo)
10. Kyrgyz Agricultural Finance Corporation (Kyrgyzstan)

Warm congratulations from CGAP and IFAD to all the winners, and thank you to all who submitted applications."

- There is much speculation as to the reason why SFCLs have become the targets of the Maoists. For one, with the ever increasing escalation of the conflict, the Maoists have become more hostile towards community and development work in general. The more practical argument suggests that the SFCLs are perceived by the Maoists as an extension of the ADBN, an

institution, which, since the beginning of the conflict in 1996, has been a prime target. By destroying the loan records of ADBN's branches, the Maoists assume that the farmers will not have to repay the loans.

- The SFCLs, attacked and non-attacked, are trying to cope with the present conflict in many ways. Some of the coping mechanisms identified by the study team are the following: a) information campaign at local, district and national level b) indirect dialogue with the Maoists on local level c) special security arrangements for cash and file management d) temporary transfer of operations to district headquarters and e) the immediate reconstruction, rehabilitation and relaunching of activities.
- The immediate relaunching of the SFCL services, despite threats and warnings of the Maoists, is one of the most amazing and encouraging findings of the study team. Thirty out of 34 attacked SFCLs are up and running business and services again. Most of them are heading towards modest recovery. This fact is even more impressive if we look at the 81 SPOs of the ADBN, which were destroyed by the Maoists. Most of them had to be closed or merged with the sub branches or shifted to their district headquarters after the attacks.

Is there a key lesson that we can learn from the SFCLs at this time of conflict? Yes, but it is an old one: The members' trust (or distrust) will decide on the destiny of the grassroots microfinance institutions. Despite the crisis, SFCLs evidenced increasing deposits, paid-up capital and outstanding loans as the members' manifestations of confidence in their organizations. Many SFCLs are now struggling for institutional survival, but on a strong fundament of people's ownership that will keep the institution afloat.

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Annex 1: Definition of indicators and financial ratios used in the study

Financial Ratios	Definition
A. Effective Financial Structure:	
Net Loan/Total Asset	$(\text{Total Outstanding loan} - \text{Loan Loss Provision}) / \text{Total Asset}$
Total Deposit/Total Asset	Total Savings Deposits/Total Asset
Borrowed Fund/Total Asset	$(\text{Loans} + \text{Other external funds or loans}) / \text{Total Asset}$
Paid-up Capital/Total Asset	Total Paid up Capital/Total Asset
Total Capital Fund/Overdue Loan	$(\text{Paid-up Capital} + \text{Reserve Fund} + \text{Undistributed Profits}) / \text{Overdue Loans}$
Total Internal Source/Total Outstanding Loan Balance	$(\text{Total Capital Fund} + \text{Total Deposit}) / \text{Total Outstanding Loans}$
Total Deposits / Total Internal Source	Total Deposits/ Total Internal Source
Total Paid up Capital/Total Deposits	Total Paid up Capital / Total Deposits
Total Capital Fund / Total Asset	Total Capital Fund / Total Asset
B. Asset Quality	
Total Overdue Loan/Total Loans	Last Past Due Instalments/ Outstanding Loans
C. Rates of Return & Cost	
Income From Loan Business/Average Outstanding Loan Balance	$(\text{Interest Income} + \text{Commission}) / (\text{Previous Oustd. Loans} + \text{Current Outstd. Loans})/2$
Interest Expenses on Deposit / Average Deposit	$\text{Interest Expenses on Deposit} / (\text{Previous Deposit Bal.} + \text{Current Deposit Bal.})/2$
Interest Expenses on Borrowed Fund / Average Borrowed Fund	$(\text{Interest Expenses} + \text{Commission or rebate}) / (\text{Previous Borrowed Fund Bal.} + \text{Current Borrowed Fund Bal.})/2$
Total Operating Expenses / Total Average Assets	$(\text{Staff expenses} + \text{Office Adm. exp.} + \text{Dep.} + \text{Maintenance} + \text{Others}) / (\text{Pr. Total asset} + \text{Current total asset})/2$
Total Financial Expenses / Average Non-Capital Fund	$(\text{Interest exp. on loans and Deposit} + \text{Commission or rebate expenses on loans}) / (\text{Pr. Total Non-Capital Fund} + \text{Current Non-Capital Fund})/2$
C. Liquidity	
Liquidity Ratio	Cash and Bank Account / Deposits
D. Signs of Growth	$(\text{Value for year 2} - \text{Value for year 1}) / \text{Value Year 1}$
E. Operating self-sufficiency	$\text{Total Income} - (\text{Subsidies} + \text{Other Income}) / (\text{Total operational expenses} + \text{total provisions} + \text{total financial costs} - \text{Other non-operating expenses})$
F. Financial Self-sufficiency	$\text{Total Income} - (\text{Subsidies} + \text{Other Income}) / (\text{Total operational expenses} + \text{total provisions} + \text{total financial costs} + \text{total imputed cost of capital} - \text{Other non-operating expenses})$

Annex 2: District clusters based on the performance of SFCLs

(a) Very Poor Performing Districts:

S.N.	Name of Districts	Number of SFCLs	% of Attacks out of SFCLs	% of Past due loans	% of Interest Receivables
1	Sunsari	5	40	38	31
2	Udaypur	2	0	40	35
3	Siraha	2	0	57	38
4	Dhading	18	72	40	45
5	Gorkha	1	0	59	71
6	Lamjung	1	0	46	50
7	Kaski	1	100	38	33
8	Dang	3	67	31	22
9	Pyuthan	1	100	30	26
10	Surkhet	4	25	30	31
11	Kailali	4	50	31	18

(b) Poor Performing Districts:

S.N.	Name of Districts	Number of SFCLs	% of Attacks out of SFCLs	% of Past due loans	% of Interest Receivables
1	Jhapa	7	14	24	35
2	Morang	7	14	23	21
3	Chitwan	5	20	27	22
4	Tanahu	1	0	21	32
5	Kanchanpur	2	100	22	18

(c) Moderately Performing Districts:

S.N.	Name of Districts	Number of SFCLs	% of Attacks out of SFCLs	% of Past due loans	% of Interest Receivables
1	Saptari	4	25	16	14
2	Siraha	2	0	10	17
3	Makawanpur	1	0	15	17
4	Baglung	3	0	24	19
5	Kapilvastu	3	0	13	14
6	Arghakhachi	2	50	6	10
7	Banke	4	0	17	40

(d) Performing Districts:

S.N.	Name of Districts	Number of SFCLs	% of Attacks out of SFCLs	% of Past due loans	% of Interest Receivables
1	Ilam	3	0	5	21
2	Mahottari	2	0	0	1
3	Dhanusha	2	0	14	8
4	Bara	1	0	5	2
5	Nawalparasi	8	17	5	6
6	Rupandehi	9	0	9	6
7	Sanja	2	0	6	13
8	Bardiya	3	0	8	8

Annex 3: List of Small Farmer Cooperatives Ltd. included in the study

S.N.	Name of SFCLs	Year of establishment	District	Incident status
1.	Shree Antu	1995	Ilam	
2.	Smalbung	1999	Ilam	
3.	Prithavinagar	1995	Jhapa	Attacked in 2001
4.	Gailadubba	1996	Jhapa	
5.	Pathariya	1998	Jhapa	
6.	Panchgasti	1996	Jhapa	
7.	Bahundangi	1997	Jhapa	
8.	Khudunabari	1998	Jhapa	
9.	Letang	1996	Morang	
10.	Sundharpur	1997	Morang	
11.	Mrigauliya	1999	Morang	
12.	Jhorahat	1998	Morang	
13.	Chhitaha	2000	Sunsari	Attacked in 2001
14.	Panchkanya	1998	Sunsari	
15.	Basaha	1996	Udaypur	
16.	Beltar	1998	Udaypur	
17.	Hariharpur	1998	Saptari	Attacked in 2002
18.	Terauta	2002	Saptari	
19.	Vishnupur	1996	Siraha	
20.	Laxmipur	2000	Siraha	
21.	Sakhuwa	1998	Dhanusha	
22.	Naktaijhij	2000	Dhanusha	
23.	Jabdi	1996	Sarlahi	
24.	Pidari	1998	Sarlahi	Attacked in 2002
25.	Manahari	1998	Makawanpur	
26.	Dumarwana	1997	Bara	
27.	Kumrose	1996	Chitwan	Attacked in 1998
28.	Birendranagar	1998	Chitwan	
29.	Bachhauri	2000	Chitwan	
30.	Kalleri	1995	Dhading	Attacked in 1999
31.	Gaganpani	1996	Dhading	Attacked in 2002
32.	Dhusha	1997	Dhading	Attacked in 2002
33.	Baireni	1997	Dhading	
34.	Salang	1998	Dhading	
35.	Kumpur	1998	Dhading	
36.	Thakre	1996	Dhading	Attacked in 2002
37.	Maidi	1993	Dhading	Attacked in 2000
38.	Sunaulabazar	1996	Dhading	Attacked in 2002

S.N.	Name of SFCLs	Year of establishment	District	Incident status
39.	Salyantar	1998	Dhading	Attacked in 2002
40.	Dhola	2000	Dhading	Attacked in 2001
41.	Tripureshower	1995	Dhading	Attacked in 2001
42.	Kewalpur	2002	Dhading	
43.	Sundharbazar	1998	Lamjung	
44.	Dhorphirdi	1996	Tanahu	
45.	Begnas	2000	Kaski	Attacked in 2001
46.	Phedikhola	1998	Sanja	
47.	Tangram	1997	Baglung	
48.	Narayansthan	1997	Baglung	
49.	Bhakunde	2000	Baglung	
50.	Trivenisusta	1997	Nawalparasi	
51.	Makar	1999	Nawalparasi	
52.	Argyauli	1999	Nawalparasi	Attacked in 2002
53.	Panchanagar	2000	Nawalparasi	
54.	Banjariya	2000	Nawalparasi	
55.	Saljhandi	1996	Rupandehi	
56.	Devdaha	1997	Rupandehi	
57.	Anandavan	1997	Rupandehi	
58.	Madhubaliya	1999	Rupandehi	
59.	Shankarnagar	2000	Rupandehi	
60.	Kerwani	2001	Rupandehi	
61.	Semlar	2001	Rupandehi	
62.	Motipur	1997	Kapilbastu	Attacked in 2002
63.	Varkalpur	1998	Kapilbastu	
64.	Narpani	1997	Arghakhachi	
65.	Khilji	2000	Arghakhachi	Attacked in 2001
66.	Urhari	1998	Dang	Attacked in 2002
67.	Naubasta	1996	Banke	
68.	Mahadevpuri	1996	Banke	
69.	Kachanapur	2000	Banke	
70.	Taratal	1998	Bardiya	
71.	Sanoshree	2002	Bardiya	
73.	Uttaerganga	1996	Surkhet	
74.	Malakheti	1996	Kailali	
75.	Shreepur	1997	kailali	
76.	Pratapur	1999	Kailali	Attacked in 1999
77.	Samadaiji	1996	Kanchanpur	Attacked in 2001

Annex 4: Financial ratios of "clustered" SFCLs

FINANCIAL RATIOS Average of 77 SFCLs

	Mid-July 97 to Mid-July 98	Mid-July 98 to Mid-July 99	Mid-July 99 to Mid-July 00	Mid-July 00 to Mid-July 01	Mid-July 01 to Mid-July 02
E=Effective Financial structure					
E1. Net Outstanding Loan Balance/ Total Asset	80.5%	81.7%	83.6%	83.8%	81.3%
E2. Total Deposits/ Total Asset	7.6%	10.2%	13.3%	15.1%	15.7%
E3. Borrowed Fund/ Total Asset	79.0%	77.1%	72.2%	71.3%	69.0%
E4. Paid-up Capital/ Total Asset	0.8%	0.7%	0.9%	1.0%	1.0%
Total Capital Fund/ Overdue Loan	18.2%	25.6%	62.3%	129.9%	110.5%
Total internal Source/ Outstanding Loan Balance	10.6%	14.4%	19.0%	21.6%	22.5%
Total Deposit/ Total Internal Source	84.5%	86.3%	82.2%	82.0%	83.7%
Total Paid up Capital / Total Deposit	15.3%	7.7%	8.2%	6.7%	7.1%
Total Capital Fund / Total Asset	1.4%	2.2%	3.5%	4.3%	4.1%
A=Asset Quality					
A1. Total Overdue Loan/ Total Outstanding Loan Balance	16%	16%	15%	18%	20%
R=Rates of Return & Cost					
R1. Income from Loan Business/ Average Outstanding Loan Balance	11.4%	13.5%	15.8%	14.3%	13.6%
R2. Interest Expenses on Deposit/ Average Deposit balance	6.4%	7.8%	7.3%	7.5%	7.4%
R3. Interest Expenses on Borrowed Loan/ Average Borrowed Fund	12.9%	12.1%	12.2%	12.8%	12.7%
R4. Total Operating Expenses/ Total Average Assets	2.7%	2.4%	2.4%	2.6%	2.5%
Total Financial Expenses/Average Non-Capital Fund	12.5%	11.8%	11.6%	12.0%	11.8%
L=Liquidity					
L1. Total liquid Assets/ Total Deposit	80.8%	50.1%	26.9%	19.7%	18.6%
S=Signs of Growth					
S1. Growth in Total Assets	0.0%	9.2%	13.2%	14.5%	15.3%
S2. Growth in Outstanding Loan Balance	0.0%	11.9%	15.8%	16.0%	12.2%
S3. Growth in Deposits	0.0%	77.8%	52.9%	35.3%	21.0%
S4. Growth in Borrowed Fund	0.0%	4.6%	5.4%	11.9%	9.6%
S5. Growth in Paid-up Capital	0.0%	23.6%	88.9%	28.8%	31.0%
S6. Growth in Membership	0.0%	3.6%	7.8%	4.2%	1.4%
S7. Growth in Operating Expenses	0.0%	88.3%	63.7%	42.5%	18.2%
Growth in Total Capital Fund	0.0%	343.2%	345.6%	139.1%	50.7%
Operating Self-Sufficiency Ratio	63%	86%	107%	91%	85%
Financial Self-Sufficiency Ratio	62%	83%	104%	89%	82%
Gender					
Share of Female Member/ Total Membership	33.1%	33.7%	34.8%	36.1%	37.6%
Female Participation in Board/ Total Board Member	18.9%	18.4%	17.6%	18.1%	19.8%
Growth in Female Participation in the Program	0.0%	10.6%	18.7%	8.4%	4.5%
Growth in Female Participation in the Board	0.0%	2.3%	8.1%	-0.5%	10.9%
Average Size					
Loan Size Per Member	10,574	11,280	12,103	13,366	14,758
Deposits Per Member	918	1,315	1,801	2,208	2,613
Paid-up Capital Per Member	95	87	129	145	175
Members Per Group	7	7	7	7	7
Loan Amount Per Staff	1,773,843	2,067,047	2,105,648	2,293,887	2,579,006
Co-operative Member Per Staff	172	186	175	172	176

FINANCIAL RATIOS

SFCLs in very poor performing districts

Number of Districts: 11					
Number of SFCLs: 26					
	Mid-July 97 to Mid-July 98	Mid-July 98 to Mid-July 99	Mid-July 99 to Mid-July 00	Mid-July 00 to Mid-July 01	Mid-July 01 to Mid-July 02
E=Effective Financial structure					
E1. Net Outstanding Loan Balance/ Total Asset	78.9%	78.8%	79.3%	77.6%	73.4%
E2. Total Deposits/ Total Asset	8.2%	10.8%	13.8%	14.8%	15.9%
E3. Borrowed Fund/ Total Asset	78.9%	77.5%	72.2%	71.5%	68.8%
E4. Paid-up Capital/ Total Asset	1.2%	0.8%	0.9%	0.9%	0.9%
Total Capital Fund/ Overdue Loan	39.4%	42.2%	107.8%	154.9%	129.4%
Total internal Source/ Outstanding Loan Balance	12.1%	15.5%	19.1%	20.3%	22.2%
Total Deposit/ Total Internal Source	81.9%	86.6%	87.0%	87.6%	89.6%
Total Paid up Capital / Total Deposit	15.8%	7.8%	6.9%	6.2%	5.8%
Total Capital Fund / Total Asset	2.0%	2.2%	2.7%	2.8%	2.6%
A=Asset Quality					
A1. Total Overdue Loan/ Total Outstanding Loan Balance	18.0%	19.5%	22.5%	27.9%	33.3%
R=Rates of Return & Cost					
R1. Income from Loan Business/ Average Outstanding Loan Balance	12.5%	14.0%	13.9%	12.8%	10.8%
R2. Interest Expenses on Deposit/ Average Deposit balance	7.3%	7.8%	7.5%	7.5%	6.9%
R3. Interest Expenses on Borrowed Loan/ Average Borrowed Fund	11.3%	13.0%	12.2%	12.7%	12.5%
R4. Total Operating Expenses/ Total Average Assets	3.2%	3.2%	2.8%	2.8%	2.5%
Total Financial Expenses/ Average Non-Capital Fund	10.9%	12.6%	11.6%	12.0%	11.5%
L=Liquidity					
L1. Total liquid Assets/ Total Deposit	73.1%	62.2%	36.1%	35.0%	31.8%
S=Signs of Growth					
S1. Growth in Total Assets		11.1%	16.2%	10.4%	6.8%
S2. Growth in Outstanding Loan Balance		11.7%	18.7%	12.0%	3.3%
S3. Growth in Deposits		52.4%	47.3%	25.7%	12.9%
S4. Growth in Borrowed Fund		7.0%	8.0%	7.4%	2.3%
S5. Growth in Paid-up Capital		14.6%	32.9%	24.7%	7.1%
S6. Growth in Membership		4.2%	6.4%	2.6%	-0.1%
S7. Growth in Operating Expenses		47.6%	23.8%	24.0%	11.6%
Growth in Total Capital Fund		47.5%	86.2%	95.9%	0.9%
Operating Self-Sufficiency Ratio	62.5%	79.6%	85.8%	74.6%	67.2%
Financial Self-Sufficiency Ratio	60.9%	77.3%	82.9%	72.4%	65.2%
Gender					
Share of Female Member/ Total Membership	32.7%	33.7%	34.1%	34.5%	37.2%
Female Participation in Board/ Total Board Member	19.2%	21.0%	19.4%	19.7%	23.4%
Growth in Female Participation in the Program		15.8%	13.8%	6.9%	0.5%
Growth in Female Participation in the Board		22.2%	-1.7%	9.9%	6.0%
Average Size					
Loan Size Per Member	10,244	10,615	11,594	12,943	13,164
Deposits Per Member	956	1,286	1,784	2,142	2,429
Paid-up Capital Per Member	137	100	122	133	144
Members Per Group	6	6	6	6	6
Loan Amount Per Staff	1,361,622	1,697,974	1,966,223	2,202,778	2,347,448
Co-operative Member Per Staff	137	164	172	169	176

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SFCLs in poor performing districts

Number of Districts: 5					
Number of SFCLs: 15					
	Mid-July 97 to Mid-July 98	Mid-July 98 to Mid-July 99	Mid-July 99 to Mid-July 00	Mid-July 00 to Mid-July 01	Mid-July 01 to Mid-July 02
E=Effective Financial structure					
E1. Net Outstanding Loan Balance/ Total Asset	72%	78%	82%	80%	75%
E2. Total Deposits/ Total Asset	6%	9%	12%	14%	14%
E3. Borrowed Fund/ Total Asset	73%	74%	72%	70%	65%
E4. Paid-up Capital/ Total Asset	0%	0%	1%	1%	1%
Total Capital Fund/ Overdue Loan	6%	10%	12%	11%	12%
Total internal Source/ Outstanding Loan Balance	10%	13%	16%	18%	19%
Total Deposit/ Total Internal Source	87%	91%	88%	90%	90%
Total Paid up Capital / Total Deposit	10%	6%	12%	7%	9%
Total Capital Fund / Total Asset	1%	1%	2%	2%	2%
A=Asset Quality					
A1. Total Overdue Loan/ Total Outstanding Loan Balance	22%	17%	17%	22%	23%
R=Rates of Return & Cost					
R1. Income from Loan Business/ Average Outstanding Loan Balance	11%	13%	14%	12%	14%
R2. Interest Expenses on Deposit/ Average Deposit balance	7%	8%	7%	7%	7%
R3. Interest Expenses on Borrowed Loan/ Average Borrowed Fund	15%	12%	13%	13%	13%
R4. Total Operating Expenses/ Total Average Assets	2%	2%	2%	2%	2%
Total Financial Expenses/ Average Non-Capital Fund	15%	12%	12%	12%	12%
L=Liquidity					
L1. Total liquid Assets/ Total Deposit	60%	58%	32%	19%	16%
S=Signs of Growth					
S1. Growth in Total Assets		7%	8%	13%	20%
S2. Growth in Outstanding Loan Balance		13%	15%	12%	12%
S3. Growth in Deposits		61%	45%	37%	19%
S4. Growth in Borrowed Fund		6%	6%	10%	11%
S5. Growth in Paid-up Capital		16%	242%	13%	39%
S6. Growth in Membership		3%	4%	2%	2%
S7. Growth in Operating Expenses		77%	60%	33%	12%
Growth in Total Capital Fund		20%	384%	11%	32%
Operating Self-Sufficiency Ratio	53%	86%	95%	74%	75%
Financial Self-Sufficiency Ratio	53%	85%	94%	73%	74%
Gender					
Share of Female Member/ Total Membership	35%	34%	35%	36%	35%
Female Participation in Board/ Total Board Member	20%	18%	19%	16%	18%
Growth in Female Participation in the Program		6%	8%	5%	0%
Growth in Female Participation in the Board		-9%	10%	-5%	21%
Average Size					
Loan Size Per Member	11,047	11,859	12,793	14,170	15,509
Deposits Per Member	898	1,326	1,765	2,213	2,558
Paid-up Capital Per Member	60	64	145	149	209
Members Per Group	7	7	7	7	7
Loan Amount Per Staff	2,245,122	2,528,807	2,608,696	2,682,757	3,039,898
Co-operative Member Per Staff	204	216	205	190	198

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SFCLs in moderately performing districts

Number of Districts: 7					
Number of SFCLs: 15					
	Mid-July 97 to Mid-July 98	Mid-July 98 to Mid-July 99	Mid-July 99 to Mid-July 00	Mid-July 00 to Mid-July 01	Mid-July 01 to Mid-July 02
E=Effective Financial structure					
E1. Net Outstanding Loan Balance/ Total Asset	86.0%	86.0%	90.0%	90.6%	89.7%
E2. Total Deposits/ Total Asset	8.0%	10.1%	12.9%	14.9%	15.4%
E3. Borrowed Fund/ Total Asset	82.9%	80.4%	76.9%	76.3%	75.1%
E4. Paid-up Capital/ Total Asset	0.7%	0.6%	0.7%	0.7%	0.8%
Total Capital Fund/ Overdue Loan	11.9%	20.7%	77.2%	89.0%	54.1%
Total internal Source/ Outstanding Loan Balance	10.0%	12.3%	17.3%	19.6%	20.6%
Total Deposit/ Total Internal Source	88.0%	91.9%	81.2%	82.4%	81.3%
Total Paid up Capital / Total Deposit	9.8%	6.4%	5.9%	5.3%	5.3%
Total Capital Fund / Total Asset	1.0%	1.0%	3.3%	3.6%	4.1%
A=Asset Quality					
A1. Total Overdue Loan/ Total Outstanding Loan Balance	12.7%	12.5%	11.2%	10.7%	13.6%
R=Rates of Return & Cost					
R1. Income from Loan Business/ Average Outstanding Loan Balance	10.0%	13.7%	18.4%	15.6%	16.3%
R2. Interest Expenses on Deposit/ Average Deposit balance	6.9%	7.4%	7.6%	7.5%	7.5%
R3. Interest Expenses on Borrowed Loan/ Average Borrowed Fund	10.9%	14.3%	12.4%	13.2%	12.8%
R4. Total Operating Expenses/ Total Average Assets	3.5%	2.6%	2.6%	3.0%	2.7%
Total Financial Expenses/Average Non-Capital Fund	10.6%	13.8%	11.8%	12.5%	11.9%
L=Liquidity					
L1. Total liquid Assets/ Total Deposit	41.2%	45.3%	16.6%	14.8%	17.6%
S=Signs of Growth					
S1. Growth in Total Assets		10.8%	8.0%	16.9%	16.8%
S2. Growth in Outstanding Loan Balance		13.6%	10.4%	17.9%	18.0%
S3. Growth in Deposits		54.4%	30.0%	31.4%	24.3%
S4. Growth in Borrowed Fund		8.3%	2.5%	14.7%	13.5%
S5. Growth in Paid-up Capital		20.0%	19.5%	24.9%	26.2%
S6. Growth in Membership		4.0%	4.8%	3.2%	2.0%
S7. Growth in Operating Expenses		129.7%	17.7%	29.1%	33.6%
Growth in Total Capital Fund		82.2%	329.1%	55.8%	101.6%
Operating Self-Sufficiency Ratio	57.0%	80.2%	126.4%	99.1%	101.8%
Financial Self-Sufficiency Ratio	55.3%	77.8%	123.9%	97.0%	99.4%
Gender					
Share of Female Member/ Total Membership	27.8%	29.9%	32.5%	34.7%	35.9%
Female Participation in Board/ Total Board Member	8.8%	10.4%	13.2%	14.2%	13.9%
Growth in Female Participation in the Program		11.1%	14.2%	7.0%	3.1%
Growth in Female Participation in the Board		0.0%	50.0%	-4.5%	3.0%
Average Size					
Loan Size Per Member	9,689	10,288	10,955	12,353	14,526
Deposits Per Member	809	1,147	1,529	1,967	2,375
Paid-up Capital Per Member	73	71	83	97	119
Members Per Group	6	7	7	7	7
Loan Amount Per Staff	1,312,028	1,607,015	1,601,037	1,840,532	2,168,366
Co-operative Member Per Staff	138	159	151	154	153

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SFCLs in performing districts

Number of Districts: 8					
Number of SFCLs: 21					
	Mid-July 97 to Mid-July 98	Mid-July 98 to Mid-July 99	Mid-July 99 to Mid-July 00	Mid-July 00 to Mid-July 01	Mid-July 01 to Mid-July 02
E=Effective Financial structure					
E1. Net Outstanding Loan Balance/ Total Asset	88.6%	81.6%	88.0%	91.2%	90.1%
E2. Total Deposits/ Total Asset	5.6%	8.9%	13.1%	17.3%	19.4%
E3. Borrowed Fund/Total Asset	85.1%	76.4%	72.7%	70.9%	69.0%
E4. Paid-up Capital/ Total Asset	0.4%	0.5%	0.8%	0.9%	0.9%
Total Capital Fund/ Overdue Loan	19.3%	45.3%	100.3%	437.3%	385.1%
Total internal Source/ Outstanding Loan Balance	7.6%	16.1%	21.4%	26.4%	29.2%
Total Deposit/ Total Internal Source	75.5%	73.5%	70.2%	73.1%	74.5%
Total Paid up Capital / Total Deposit	32.5%	9.3%	9.7%	6.0%	5.5%
Total Capital Fund / Total Asset	1.2%	4.4%	6.1%	7.1%	7.4%
A=Asset Quality					
A1. Total Overdue Loan/ Total Outstanding Loan Balance	7.1%	11.7%	7.4%	5.2%	7.6%
R=Rates of Return & Cost					
R1. Income from Loan Business/ Average Outstanding Loan Balance	10.5%	12.8%	18.4%	17.2%	16.3%
R2. Interest Expenses on Deposit/ Average Deposit balance	4.0%	8.2%	6.7%	8.2%	9.2%
R3. Interest Expenses on Borrowed Loan/ Average Borrowed Fund	12.4%	10.7%	12.4%	12.4%	12.4%
R4. Total Operating Expenses/ Total Average Assets	2.4%	1.9%	2.4%	2.7%	2.4%
Total Financial Expenses/Average Non-Capital Fund	12.0%	10.6%	11.8%	11.8%	11.5%
L=Liquidity					
L1. Total liquid Assets/ Total Deposit	237.2%	60.0%	28.3%	13.5%	12.7%
S=Signs of Growth					
S1. Growth in Total Assets		10.1%	14.1%	20.8%	22.7%
S2. Growth in Outstanding Loan Balance		6.2%	18.9%	24.5%	22.4%
S3. Growth in Deposits		236.6%	89.5%	75.7%	46.8%
S4. Growth in Borrowed Fund		-0.4%	4.9%	12.3%	14.3%
S5. Growth in Paid-up Capital		49.9%	127.3%	52.4%	29.6%
S6. Growth in Membership		5.5%	17.5%	9.8%	5.1%
S7. Growth in Operating Expenses		75.4%	203.4%	52.6%	28.8%
Growth in Total Capital Fund		2156.2%	706.3%	356.5%	169.0%
Operating Self-Sufficiency Ratio	76.0%	87.7%	130.0%	119.8%	111.0%
Financial Self-Sufficiency Ratio	73.3%	84.8%	124.5%	115.0%	106.4%
Gender					
Share of Female Member/ Total Membership	40.9%	40.6%	41.8%	44.5%	47.4%
Female Participation in Board/ Total Board Member	23.8%	23.5%	22.0%	25.1%	26.0%
Growth in Female Participation in the Program		10.8%	33.3%	17.2%	18.2%
Growth in Female Participation in the Board		0.0%	-1.5%	0.0%	5.1%
Average Size					
Loan Size Per Member	12,740	12,410	13,050	14,639	16,744
Deposits Per Member	825	1,382	1,909	2,652	3,513
Paid-up Capital Per Member	56	67	123	144	169
Members Per Group	7	7	7	7	7
Loan Amount Per Staff	2,031,630	1,881,504	1,916,262	2,364,992	2,716,095
Co-operative Member Per Staff	170	157	149	166	167

FINANCIAL RATIOS

SFCLs served by Area Office of SKBB in Birtamod

Number of Districts: 2					
Number of SFCLs: 9					
	Mid-July 97 to Mid-July 98	Mid-July 98 To Mid-July 99	Mid-July 99 to Mid-July 00	Mid-July 00 to Mid-July 01	Mid-July 01 to Mid-July 02
E=Effective Financial structure					
E1. Net Outstanding Loan Balance/ Total Asset	71%	78%	81%	80%	75%
E2. Total Deposits/ Total Asset	8%	10%	13%	14%	14%
E3. Borrowed Fund/Total Asset	70%	74%	72%	72%	67%
E4. Paid-up Capital/ Total Asset	0%	0%	1%	1%	1%
Total Capital Fund/ Overdue Loan	4%	8%	15%	22%	13%
Total internal Source/ Outstanding Loan Balance	11%	13%	17%	18%	19%
Total Deposit/ Total Internal Source	95%	96%	91%	91%	92%
Total Paid up Capital / Total Deposit	5%	4%	6%	6%	8%
Total Capital Fund / Total Asset	0%	0%	1%	2%	1%
A=Asset Quality					
A1. Total Overdue Loan/ Total Outstanding Loan Balance	17%	12%	12%	17%	19%
R=Rates of Return & Cost					
R1. Income from Loan Business/ Average Outstanding Loan Balance	11%	12%	14%	11%	12%
R2. Interest Expenses on Deposit/ Average Deposit balance	6%	7%	7%	7%	7%
R3. Interest Expenses on Borrowed Loan/ Average Borrowed Fund	18%	11%	12%	13%	13%
R4. Total Operating Expenses/ Total Average Assets	2%	2%	2%	2%	2%
Total Financial Expenses/Average Non-Capital Fund	17%	10%	11%	12%	12%
L=Liquidity					
L1. Total liquid Assets/ Total Deposit	62%	57%	35%	17%	16%
S=Signs of Growth					
S1. Growth in Total Assets		2%	8%	13%	19%
S2. Growth in Outstanding Loan Balance		7%	13%	13%	11%
S3. Growth in Deposits		35%	39%	20%	17%
S4. Growth in Borrowed Fund		1%	5%	12%	10%
S5. Growth in Paid-up Capital		15%	95%	25%	56%
S6. Growth in Membership		1%	4%	3%	2%
S7. Growth in Operating Expenses		16%	190%	31%	17%
Growth in Total Capital Fund		15%	274%	26%	41%
Operating Self-Sufficiency Ratio	58%	87%	96%	71%	65%
Financial Self-Sufficiency Ratio	58%	86%	95%	70%	65%
Gender					
Share of Female Member/ Total Membership	32%	34%	33%	33%	34%
Female Participation in Board/ Total Board Member	18%	17%	15%	15%	15%
Growth in Female Participation in the Program		3%	7%	3%	8%
Growth in Female Participation in the Board		0%	-7%	7%	6%
Average Size					
Loan Size Per Member	12,684	13,331	14,484	16,065	17,433
Deposits Per Member	1,343	1,656	2,171	2,551	2,931
Paid-up Capital Per Member	67	66	145	162	225
Members Per Group	7	7	7	7	7
Loan Amount Per Staff	2,366,484	2,440,401	2,407,302	2,497,640	2,765,486
Co-operative Member Per Staff	193	186	170	162	167

FINANCIAL RATIOS

SFCLs to be served soon by Area Office of SKBB in Itahari

Number of Districts: 2					
Number of SFCLs: 6					
	Mid-July 97 to Mid-July 98	Mid-July 98 To Mid-July 99	Mid-July 99 to Mid-July 00	Mid-July 00 to Mid-July 01	Mid-July 01 to Mid-July 02
E=Effective Financial structure					
E1. Net Outstanding Loan Balance/ Total Asset	76.5%	79.5%	84.9%	82.7%	77.6%
E2. Total Deposits/ Total Asset	6.2%	9.7%	13.2%	14.3%	16.5%
E3. Borrowed Fund/ Total Asset	74.6%	76.7%	74.7%	75.0%	69.3%
E4. Paid-up Capital/ Total Asset	1.8%	0.6%	0.6%	0.5%	0.5%
Total Capital Fund/ Overdue Loan	27.8%	17.5%	17.5%	11.7%	10.3%
Total Internal Source/ Outstanding Loan Balance	12.0%	14.5%	17.1%	17.9%	21.3%
Total Deposit/ Total Internal Source	71.0%	85.0%	86.5%	90.4%	90.8%
Total Paid up Capital / Total Deposit	27.5%	6.7%	5.0%	3.6%	3.1%
Total Capital Fund / Total Asset	3.4%	2.6%	2.4%	1.8%	2.0%
A=Asset Quality					
A1. Total Overdue Loan/ Total Outstanding Loan Balance	17.9%	19.0%	18.7%	20.2%	23.9%
R=Rates of Return & Cost					
R1. Income from Loan Business/ Average Outstanding Loan Balance	8.2%	13.7%	16.0%	13.6%	13.8%
R2. Interest Expenses on Deposit/ Average Deposit balance	5.7%	6.9%	7.7%	7.3%	7.6%
R3. Interest Expenses on Borrowed Loan/ Average Borrowed Fund	10.8%	11.9%	15.2%	14.8%	12.4%
R4. Total Operating Expenses/ Total Average Assets	1.8%	1.9%	2.4%	2.6%	2.2%
Total Financial Expenses/ Average Non-Capital Fund	10.6%	11.5%	14.2%	14.0%	11.6%
L=Liquidity					
L1. Total liquid Assets/ Total Deposit	22.4%	57.1%	24.5%	32.4%	21.1%
S=Signs of Growth					
S1. Growth in Total Assets		2.5%	11.1%	15.9%	16.3%
S2. Growth in Outstanding Loan Balance		10.3%	18.8%	15.4%	9.5%
S3. Growth in Deposits		59.6%	51.8%	31.5%	29.8%
S4. Growth in Borrowed Fund		6.0%	8.6%	14.8%	6.9%
S5. Growth in Paid-up Capital		-9.5%	13.4%	3.1%	9.8%
S6. Growth in Membership		9.1%	-0.5%	1.7%	1.2%
S7. Growth in Operating Expenses		135.0%	95.4%	36.9%	7.2%
Growth in Total Capital Fund		-5.1%	245.6%	16.8%	22.3%
Operating Self-Sufficiency Ratio	46.2%	81.7%	92.3%	76.8%	80.0%
Financial Self-Sufficiency Ratio	44.9%	79.4%	91.0%	75.9%	79.0%
Gender					
Share of Female Member/ Total Membership	36.3%	37.2%	38.3%	39.2%	38.9%
Female Participation in Board/ Total Board Member	21.5%	23.0%	22.3%	15.2%	18.7%
Growth in Female Participation in the Program		24.0%	2.6%	3.9%	0.5%
Growth in Female Participation in the Board		-6.3%	-10.0%	-10.7%	50.0%
Average Size					
Loan Size Per Member	11,023	10,938	12,969	14,810	16,049
Deposits Per Member	816	1,216	1,862	2,357	3,044
Paid-up Capital Per Member	218	79	92	86	91
Members Per Group	8	7	7	7	7
Loan Amount Per Staff	2,118,737	2,444,080	2,134,816	2,921,770	3,180,095
Co-operative Member Per Staff	193	235	168	198	201

FINANCIAL RATIOS

SFCLs to be served soon by Area Office of SKBB in Mahendranagar

Number of Districts: 5					
Number of SFCLs: 10					
	Mid-July 97 to Mid-July 98	Mid-July 98 to Mid-July 99	Mid-July 99 to Mid-July 00	Mid-July 00 to Mid-July 01	Mid-July 01 to Mid-July 02
E=Effective Financial structure					
E1. Net Outstanding Loan Balance/ Total Asset	78.1%	71.5%	73.9%	79.0%	75.7%
E2. Total Deposits/ Total Asset	7.6%	10.4%	13.5%	16.0%	15.1%
E3. Borrowed Fund/ Total Asset	80.3%	74.8%	70.7%	72.5%	72.7%
E4. Paid-up Capital/ Total Asset	0.5%	0.4%	0.5%	0.6%	0.5%
Total Capital Fund/ Overdue Loan	3.2%	3.5%	19.6%	32.4%	21.1%
Total internal Source/ Outstanding Loan Balance	9.7%	14.7%	19.6%	22.5%	21.9%
Total Deposit/ Total Internal Source	93.9%	96.3%	91.5%	88.1%	88.3%
Total Paid up Capital / Total Deposit	6.5%	3.8%	3.6%	3.7%	3.4%
Total Capital Fund / Total Asset	0.5%	0.4%	1.7%	2.7%	2.8%
A=Asset Quality					
A1. Total Overdue Loan/ Total Outstanding Loan Balance	19.4%	23.4%	19.9%	19.9%	28.0%
R=Rates of Return & Cost					
R1. Income from Loan Business/ Average Outstanding Loan Balance	14.7%	10.7%	17.1%	15.3%	13.4%
R2. Interest Expenses on Deposit/ Average Deposit balance	7.8%	7.0%	7.5%	7.3%	7.4%
R3. Interest Expenses on Borrowed Loan/ Average Borrowed Fund	12.7%	12.5%	13.1%	11.5%	12.9%
R4. Total Operating Expenses/ Total Average Assets	2.0%	2.7%	2.3%	2.6%	2.0%
Total Financial Expenses/Average Non-Capital Fund	12.0%	12.1%	12.3%	11.0%	11.9%
L=Liquidity					
L1. Total liquid Assets/ Total Deposit	77.2%	88.0%	51.0%	34.6%	34.7%
S=Signs of Growth					
S1. Growth in Total Assets		7.9%	8.8%	7.7%	16.0%
S2. Growth in Outstanding Loan Balance		13.3%	11.2%	17.0%	14.9%
S3. Growth in Deposits		53.9%	44.9%	33.4%	16.4%
S4. Growth in Borrowed Fund		6.5%	1.8%	7.7%	13.9%
S5. Growth in Paid-up Capital		18.5%	63.2%	39.3%	0.3%
S6. Growth in Membership		0.8%	8.1%	4.6%	6.8%
S7. Growth in Operating Expenses		231.9%	42.7%	35.9%	5.7%
Growth in Total Capital Fund		24.6%	239.2%	570.3%	25.2%
Operating Self-Sufficiency Ratio	63.5%	55.4%	105.9%	99.0%	77.3%
Financial Self-Sufficiency Ratio	62.8%	54.4%	103.2%	96.1%	75.3%
Gender					
Share of Female Member/ Total Membership	24.4%	23.3%	25.6%	25.7%	29.9%
Female Participation in Board/ Total Board Member	8.8%	12.5%	9.5%	8.5%	10.4%
Growth in Female Participation in the Program		3.1%	21.9%	13.0%	23.1%
Growth in Female Participation in the Board		0.0%	-11.1%	-11.1%	14.3%
Average Size					
Loan Size Per Member	10028	9860	10105	11833	13355
Deposits Per Member	900	1281	1701	2160	2342
Paid-up Capital Per Member	60	49	65	84	85
Members Per Group	7	7	7	7	7
Loan Amount Per Staff	1430196	1540438	1390407	1701878	2019987
Co-operative Member Per Staff	143	161	136	142	150

FINANCIAL RATIOS
SFCLs served by Area Office of SKBB in Ratna Nagar

Number of Districts: 3					
Number of SFCLs: 5					
	<i>Mid-July 97</i>	<i>Mid-July 98</i>	<i>Mid-July 99</i>	<i>Mid-July 00</i>	<i>Mid-July 01</i>
	<i>to</i>	<i>to</i>	<i>to</i>	<i>to</i>	<i>to</i>
	<i>Mid-July 98</i>	<i>Mid-July 99</i>	<i>Mid-July 00</i>	<i>Mid-July 01</i>	<i>Mid-July 02</i>
E=Effective Financial structure					
E1. Net Outstanding Loan Balance/ Total Asset	76.1%	80.6%	83.1%	83.0%	82.8%
E2. Total Deposits/ Total Asset	4.0%	8.1%	11.1%	16.3%	17.2%
E3. Borrowed Fund/ Total Asset	80.0%	76.9%	72.9%	65.7%	63.5%
E4. Paid-up Capital/ Total Asset	0.5%	0.4%	1.7%	1.6%	2.1%
Total Capital Fund/ Overdue Loan	4.1%	19.1%	99.4%	89.3%	86.7%
Total internal Source/ Outstanding Loan Balance	5.5%	11.1%	17.6%	23.9%	25.9%
Total Deposit/ Total Internal Source	82.5%	84.0%	72.5%	77.1%	76.7%
Total Paid up Capital / Total Deposit	23.8%	9.0%	25.3%	11.1%	14.0%
Total Capital Fund / Total Asset	0.5%	1.5%	4.4%	5.3%	5.8%
A=Asset Quality					
A1. Total Overdue Loan/ Total Outstanding Loan Balance	23.7%	16.4%	14.7%	20.7%	17.1%
R=Rates of Return & Cost					
R1. Income from Loan Business/ Average Outstanding Loan Balance	13.4%	15.7%	14.3%	15.2%	18.6%
R2. Interest Expenses on Deposit/ Average Deposit balance	5.9%	9.4%	6.2%	5.6%	5.5%
R3. Interest Expenses on Borrowed Loan/ Average Borrowed Fund	14.3%	14.8%	10.4%	12.4%	13.3%
R4. Total Operating Expenses/ Total Average Assets	1.7%	2.0%	1.7%	2.6%	2.7%
Total Financial Expenses/Average Non-Capital Fund	14.0%	14.5%	10.0%	11.3%	11.7%
L=Liquidity					
L1. Total liquid Assets/ Total Deposit	114.7%	71.0%	45.0%	15.4%	14.5%
S=Signs of Growth					
S1. Growth in Total Assets		8.1%	11.7%	18.0%	17.8%
S2. Growth in Outstanding Loan Balance		10.6%	15.9%	20.5%	15.7%
S3. Growth in Deposits		91.6%	54.6%	96.8%	24.0%
S4. Growth in Borrowed Fund		4.3%	5.2%	6.6%	13.5%
S5. Growth in Paid-up Capital		6.4%	559.4%	40.0%	88.1%
S6. Growth in Membership		2.6%	0.6%	3.7%	5.4%
S7. Growth in Operating Expenses		103.8%	30.0%	178.0%	23.5%
Growth in Total Capital Fund		178.5%	796.5%	132.5%	28.7%
Operating Self-Sufficiency Ratio	58.1%	93.8%	107.8%	95.0%	114.7%
Financial Self-Sufficiency Ratio	57.6%	92.4%	105.9%	92.5%	111.3%
Gender					
Share of Female Member/ Total Membership	29.6%	32.2%	33.9%	37.8%	33.6%
Female Participation in Board/ Total Board Member	18.4%	17.6%	19.5%	17.9%	17.1%
Growth in Female Participation in the Program	0.0%	4.3%	9.8%	16.9%	-8.7%
Growth in Female Participation in the Board	0.0%	-6.3%	10.0%	-6.7%	0.0%
Average Size					
Loan Size Per Member	11,031	11,927	13,385	15,395	16,881
Deposits Per Member	562	1,164	1,716	2,803	3,339
Paid-up Capital Per Member	60	57	248	268	391
Members Per Group	7	8	7	7	7
Loan Amount Per Staff	2,211,958	2,261,685	2,609,678	2,587,073	2,704,338
Co-operative Member Per Staff	201	188	206	171	167

FINANCIAL RATIOS
SFCLs to be served soon by Area Office of SKBB in Gajuri

Number of Districts:1					
Number of SFCLs: 13					
	<i>Mid-July 97</i>	<i>Mid-July 98</i>	<i>Mid-July 99</i>	<i>Mid-July 00</i>	<i>Mid-July 01</i>
	<i>to</i>	<i>to</i>	<i>to</i>	<i>to</i>	<i>to</i>
	<i>Mid-July 98</i>	<i>Mid-July 99</i>	<i>Mid-July 00</i>	<i>Mid-July 01</i>	<i>Mid-July 02</i>
<i>E=Effective Financial structure</i>					
E1. Net Outstanding Loan Balance/ Total Asset	78.8%	80.0%	78.5%	75.7%	71.5%
E2. Total Deposits/ Total Asset	8.6%	9.7%	11.2%	12.5%	14.0%
E3. Borrowed Fund/Total Asset	78.0%	78.7%	74.9%	71.5%	69.3%
E4. Paid-up Capital/ Total Asset	0.7%	0.7%	0.7%	0.7%	0.8%
Total Capital Fund/ Overdue Loan	11.9%	14.8%	16.8%	22.5%	12.1%
Total internal Source/ Outstanding Loan Balance	12.1%	13.1%	14.8%	16.7%	19.5%
Total Deposit/ Total Internal Source	86.1%	88.3%	89.6%	90.3%	91.8%
Total Paid up Capital / Total Deposit	8.6%	7.2%	6.4%	5.9%	5.6%
Total Capital Fund / Total Asset	1.5%	1.4%	1.4%	1.4%	1.3%
<i>A=Asset Quality</i>					
A1. Total Overdue Loan/ Total Outstanding Loan Balance	20.4%	18.3%	24.2%	30.7%	33.1%
<i>R=Rates of Return & Cost</i>					
R1. Income from Loan Business/ Average Outstanding Loan Balance	12.6%	13.7%	11.5%	10.3%	8.9%
R2. Interest Expenses on Deposit/ Average Deposit balance	7.6%	7.6%	7.4%	7.3%	6.4%
R3. Interest Expenses on Borrowed Loan/ Average Borrowed Fund	12.7%	11.9%	12.0%	12.0%	12.1%
R4. Total Operating Expenses/ Total Average Assets	3.9%	3.7%	2.9%	2.7%	2.4%
Total Financial Expenses/Average Non-Capital Fund	12.3%	11.6%	11.5%	11.4%	11.2%
<i>L=Liquidity</i>					
L1. Total liquid Assets/ Total Deposit	63.6%	65.8%	38.3%	33.3%	35.4%
<i>S=Signs of Growth</i>					
S1. Growth in Total Assets		14.2%	18.5%	9.7%	8.6%
S2. Growth in Outstanding Loan Balance		13.2%	18.6%	8.9%	4.0%
S3. Growth in Deposits		30.3%	40.1%	20.1%	14.6%
S4. Growth in Borrowed Fund		12.9%	12.9%	4.2%	5.0%
S5. Growth in Paid-up Capital		21.3%	28.9%	16.2%	4.7%
S6. Growth in Membership		4.4%	6.7%	3.0%	0.2%
S7. Growth in Operating Expenses		13.8%	12.3%	8.5%	10.0%
Growth in Total Capital Fund		43.7%	61.7%	31.3%	-0.4%
<i>Operating Self-Sufficiency Ratio</i>	57.8%	78.6%	72.1%	61.9%	60.0%
<i>Financial Self-Sufficiency Ratio</i>	56.7%	76.4%	69.3%	60.1%	58.5%
<i>Gender</i>					
Share of Female Member/ Total Membership	31.0%	34.1%	33.6%	32.8%	38.2%
Female Participation in Board/ Total Board Member	11.9%	16.8%	17.3%	17.5%	23.8%
Growth in Female Participation in the Program		19.3%	5.1%	3.1%	0.7%
Growth in Female Participation in the Board		37.5%	6.1%	0.0%	0.0%
<i>Average Size</i>					
Loan Size Per Member	11,087	11,465	12,613	13,190	13,183
Deposits Per Member	1,099	1,273	1,656	1,964	2,273
Paid-up Capital Per Member	95	94	107	115	122
Members Per Group	6	6	6	6	6
Loan Amount Per Staff	1,260,349	1,549,644	2,153,087	2,075,818	2,197,184
Co-operative Member Per Staff	118	137	177	163	169

FINANCIAL RATIOS

SFCLs to be served soon by Area Office of SKBB in Pokhara

Number of Districts: 5					
Number of SFCLs: 8					
	Mid-July 97 to Mid-July 98	Mid-July 98 to Mid-July 99	Mid-July 99 to Mid-July 00	Mid-July 00 to Mid-July 01	Mid-July 01 to Mid-July 02
E=Effective Financial structure					
E1. Net Outstanding Loan Balance/ Total Asset	78.4%	76.3%	82.6%	81.6%	79.9%
E2. Total Deposits/ Total Asset	4.5%	8.0%	11.6%	11.7%	13.8%
E3. Borrowed Fund/ Total Asset	82.5%	75.7%	72.5%	75.2%	70.7%
E4. Paid-up Capital/ Total Asset	0.6%	0.7%	0.8%	0.7%	0.7%
Total Capital Fund/ Overdue Loan	4.9%	7.3%	10.8%	9.1%	10.0%
Total internal Source/ Outstanding Loan Balance	6.1%	10.9%	15.1%	14.9%	17.8%
Total Deposit/ Total Internal Source	84.9%	89.3%	86.0%	89.7%	89.0%
Total Paid up Capital / Total Deposit	13.8%	8.8%	7.5%	6.1%	5.6%
Total Capital Fund / Total Asset	0.7%	1.1%	2.1%	1.6%	2.0%
A=Asset Quality					
A1. Total Overdue Loan/ Total Outstanding Loan Balance	20.8%	25.7%	26.4%	24.7%	29.4%
R=Rates of Return & Cost					
R1. Income from Loan Business/ Average Outstanding Loan Balance	8.9%	12.5%	19.5%	14.3%	14.6%
R2. Interest Expenses on Deposit/ Average Deposit balance	6.8%	8.0%	7.9%	7.9%	7.5%
R3. Interest Expenses on Borrowed Loan/ Average Borrowed Fund	11.0%	16.6%	13.8%	13.2%	12.7%
R4. Total Operating Expenses/ Total Average Assets	2.7%	2.1%	2.6%	2.6%	2.4%
Total Financial Expenses/Average Non-Capital Fund	10.9%	16.0%	13.1%	12.8%	12.0%
L=Liquidity					
L1. Total liquid Assets/ Total Deposit	59.0%	26.1%	11.9%	26.8%	19.4%
S=Signs of Growth					
S1. Growth in Total Assets		7.1%	-6.8%	17.3%	5.9%
S2. Growth in Outstanding Loan Balance		6.3%	2.0%	17.8%	5.5%
S3. Growth in Deposits		101.7%	33.9%	33.9%	25.0%
S4. Growth in Borrowed Fund		-1.6%	-10.6%	16.6%	-0.5%
S5. Growth in Paid-up Capital		12.6%	9.0%	14.1%	15.8%
S6. Growth in Membership		2.8%	2.1%	-0.6%	1.6%
S7. Growth in Operating Expenses		99.2%	24.4%	10.4%	35.6%
Growth in Total Capital Fund		61.3%	59.8%	19.8%	27.6%
Operating Self-Sufficiency Ratio	43.1%	70.6%	118.5%	81.6%	89.1%
Financial Self-Sufficiency Ratio	42.1%	68.2%	115.6%	80.1%	87.4%
Gender					
Share of Female Member/ Total Membership	30.7%	30.8%	31.6%	35.8%	36.0%
Female Participation in Board/ Total Board Member	8.3%	8.3%	8.1%	11.1%	11.3%
Growth in Female Participation in the Program		2.9%	4.5%	14.6%	2.3%
Growth in Female Participation in the Board		0.0%	0.0%	0.0%	0.0%
Average Size					
Loan Size Per Member	11,325	11,659	11,702	13,812	14,144
Deposits Per Member	597	1,133	1,506	2,089	2,517
Paid-up Capital Per Member	80	88	93	106	111
Members Per Group	6	6	6	6	6
Loan Amount Per Staff	1,544,813	1,666,841	1,745,614	2,037,949	2,339,729
Co-operative Member Per Staff	139	143	147	148	164

FINANCIAL RATIOS

SFCLs served by Area Office of SKBB in Anandavan

Number of Districts: 4
Number of SFCLs: 16

	Mid-July 97 to Mid-July 98	Mid-July 98 To Mid-July 99	Mid-July 99 to Mid-July 00	Mid-July 00 to Mid-July 01	Mid-July 01 to Mid-July 02
E=Effective Financial structure					
E1. Net Outstanding Loan Balance/ Total Asset	89.9%	86.1%	95.3%	94.7%	93.1%
E2. Total Deposits/ Total Asset	6.2%	8.9%	13.2%	17.0%	19.3%
E3. Borrowed Fund/Total Asset	85.2%	78.6%	76.1%	73.1%	70.1%
E4. Paid-up Capital/ Total Asset	0.4%	0.5%	0.8%	0.7%	0.7%
Total Capital Fund/ Overdue Loan	22.7%	68.0%	138.0%	543.4%	424.2%
Total internal Source/ Outstanding Loan Balance	8.3%	16.7%	20.3%	24.9%	28.4%
Total Deposit/ Total Internal Source	71.2%	69.9%	67.2%	72.3%	72.1%
Total Paid up Capital / Total Deposit	34.6%	10.6%	10.5%	5.4%	4.6%
Total Capital Fund / Total Asset	1.6%	5.4%	6.5%	7.0%	7.7%
A=Asset Quality					
A1. Total Overdue Loan/ Total Outstanding Loan Balance	7.6%	8.0%	4.3%	4.3%	7.6%
R=Rates of Return & Cost					
R1. Income from Loan Business/ Average Outstanding Loan Balance	10.2%	14.1%	19.3%	17.0%	17.4%
R2. Interest Expenses on Deposit/ Average Deposit balance	4.2%	8.8%	6.5%	8.6%	10.1%
R3. Interest Expenses on Borrowed Loan/ Average Borrowed Fund	11.8%	14.0%	12.6%	12.6%	12.6%
R4. Total Operating Expenses/ Total Average Assets	3.5%	2.1%	2.5%	2.8%	2.6%
Total Financial Expenses/Average Non-Capital Fund	11.5%	13.7%	12.0%	12.1%	11.9%
L=Liquidity					
L1. Total liquid Assets/ Total Deposit	266.6%	58.2%	18.2%	13.8%	11.2%
S=Signs of Growth					
S1. Growth in Total Assets		18.5%	7.9%	23.8%	22.1%
S2. Growth in Outstanding Loan Balance		14.3%	17.9%	24.1%	22.0%
S3. Growth in Deposits		251.0%	83.1%	81.8%	46.5%
S4. Growth in Borrowed Fund		8.7%	1.5%	13.2%	12.4%
S5. Growth in Paid-up Capital		53.4%	124.5%	39.6%	26.2%
S6. Growth in Membership		6.4%	19.7%	8.9%	0.5%
S7. Growth in Operating Expenses		54.5%	112.1%	53.4%	43.5%
Growth in Total Capital Fund		2421.4%	873.2%	128.0%	260.8%
Operating Self-Sufficiency Ratio	76.6%	93.8%	139.7%	118.5%	116.3%
Financial Self-Sufficiency Ratio	73.3%	90.3%	134.1%	114.3%	111.6%
Gender					
Share of Female Member/ Total Membership	41.3%	41.2%	44.4%	48.5%	50.7%
Female Participation in Board/ Total Board Member	22.7%	20.7%	22.6%	28.4%	29.5%
Growth in Female Participation in the Program		13.0%	34.8%	16.8%	6.0%
Growth in Female Participation in the Board		0.0%	3.1%	13.0%	8.6%
Average Size					
Loan Size Per Member	11,369	11,139	11,506	13,142	16,087
Deposits Per Member	676	1,187	1,597	2,313	3,318
Paid-up Capital Per Member	47	59	94	106	123
Members Per Group	7	7	7	6	6
Loan Amount Per Staff	1,819,400	1,833,193	2,051,325	2,460,771	2,818,369
Co-operative Member Per Staff	164	169	178	189	177

FINANCIAL RATIOS

SFCLs to be served soon by Area Office of SKBB in Nepalgunj

Number of Districts: 4					
Number of SFCLs: 6					
	Mid-July 97	Mid-July 98	Mid-July 99	Mid-July 00	Mid-July 01
	to	to	to	to	to
	Mid-July 98	Mid-July 99	Mid-July 00	Mid-July 01	Mid-July 02
E=Effective Financial structure					
E1. Net Outstanding Loan Balance/ Total Asset	84.2%	86.1%	89.9%	93.2%	91.9%
E2. Total Deposits/ Total Asset	8.6%	11.6%	17.4%	19.5%	19.3%
E3. Borrowed Fund/Total Asset	80.5%	80.0%	70.9%	73.0%	71.7%
E4. Paid-up Capital/ Total Asset	0.6%	0.7%	0.8%	0.9%	1.1%
Total Capital Fund/ Overdue Loan	131.3%	118.9%	414.8%	623.4%	471.0%
Total internal Source/ Outstanding Loan Balance	12.9%	16.2%	24.3%	27.5%	27.3%
Total Deposit/ Total Internal Source	81.9%	86.1%	80.2%	76.5%	80.3%
Total Paid up Capital / Total Deposit	8.4%	6.6%	5.1%	5.2%	6.2%
Total Capital Fund / Total Asset	2.7%	2.8%	5.4%	6.9%	6.5%
A=Asset Quality					
A1. Total Overdue Loan/ Total Outstanding Loan Balance	7.6%	11.9%	8.3%	6.1%	7.3%
R=Rates of Return & Cost					
R1. Income from Loan Business/ Average Outstanding Loan Balance	9.9%	15.0%	18.3%	18.0%	15.0%
R2. Interest Expenses on Deposit/ Average Deposit balance	7.3%	7.4%	7.5%	8.1%	7.4%
R3. Interest Expenses on Borrowed Loan/ Average Borrowed Fund	7.1%	12.2%	11.8%	13.1%	12.6%
R4. Total Operating Expenses/ Total Average Assets	2.7%	2.7%	2.9%	3.5%	2.8%
Total Financial Expenses/Average Non-Capital Fund	6.8%	11.8%	11.1%	12.1%	11.5%
L=Liquidity					
L1. Total liquid Assets/ Total Deposit	61.0%	42.4%	11.7%	8.7%	10.8%
S=Signs of Growth					
S1. Growth in Total Assets		5.6%	11.8%	14.6%	16.7%
S2. Growth in Outstanding Loan Balance		6.5%	20.7%	17.3%	15.7%
S3. Growth in Deposits		61.0%	53.1%	31.0%	21.9%
S4. Growth in Borrowed Fund		-0.7%	4.4%	15.5%	10.3%
S5. Growth in Paid-up Capital		30.9%	30.3%	36.0%	43.3%
S6. Growth in Membership		4.8%	7.1%	3.5%	1.9%
S7. Growth in Operating Expenses		26.6%	16.2%	28.0%	14.0%
Growth in Total Capital Fund		37.8%	192.0%	307.9%	35.6%
Operating Self-Sufficiency Ratio	74.0%	87.7%	128.2%	120.4%	100.4%
Financial Self-Sufficiency Ratio	71.8%	86.0%	124.9%	116.4%	96.4%
Gender					
Share of Female Member/ Total Membership	43.1%	40.4%	46.3%	45.3%	43.9%
Female Participation in Board/ Total Board Member	38.5%	29.7%	35.6%	32.0%	30.1%
Growth in Female Participation in the Program		13.7%	26.6%	2.8%	0.7%
Growth in Female Participation in the Board		0.0%	133.3%	-20.0%	-1.4%
Average Size					
Loan Size Per Member	8,423	9,918	10,437	11,673	13,220
Deposits Per Member	818	1,191	1,835	2,304	2,590
Paid-up Capital Per Member	59	70	83	109	148
Members Per Group	4	7	7	7	7
Loan Amount Per Staff	1,220,891	2,102,343	1,760,268	1,917,221	2,339,919
Co-operative Member Per Staff	145	201	168	163	177

FINANCIAL RATIOS

SFCLs to be served soon by Area Office of SKBB in Dhangadhi

Number of Districts: 2					
Number of SFCLs: 4					
	Mid-July 97 to Mid-July 98	Mid-July 98 To Mid-July 99	Mid-July 99 to Mid-July 00	Mid-July 00 to Mid-July 01	Mid-July 01 to Mid-July 02
E=Effective Financial structure					
E1. Net Outstanding Loan Balance/ Total Asset	87.5%	89.3%	87.2%	86.3%	84.4%
E2. Total Deposits/ Total Asset	9.2%	12.5%	15.2%	16.7%	17.0%
E3. Borrowed Fund/Total Asset	81.6%	73.9%	70.6%	68.7%	66.7%
E4. Paid-up Capital/ Total Asset	1.7%	2.0%	1.9%	2.3%	2.5%
Total Capital Fund/ Overdue Loan	16.5%	42.2%	48.0%	45.4%	36.0%
Total internal Source/ Outstanding Loan Balance	12.3%	19.0%	22.9%	24.5%	24.5%
Total Deposit/ Total Internal Source	80.7%	71.5%	73.7%	76.1%	76.8%
Total Paid up Capital / Total Deposit	21.7%	17.3%	13.4%	14.0%	15.1%
Total Capital Fund / Total Asset	2.1%	5.3%	6.0%	6.2%	5.9%
A=Asset Quality					
A1. Total Overdue Loan/ Total Outstanding Loan Balance	14.0%	13.6%	15.8%	23.2%	28.2%
R=Rates of Return & Cost					
R1. Income from Loan Business/ Average Outstanding Loan Balance	12.6%	14.6%	14.8%	14.2%	13.8%
R2. Interest Expenses on Deposit/ Average Deposit balance	7.2%	7.7%	7.8%	7.4%	7.6%
R3. Interest Expenses on Borrowed Loan/ Average Borrowed Fund	12.9%	10.1%	11.6%	13.8%	12.7%
R4. Total Operating Expenses/ Total Average Assets	3.9%	2.5%	2.7%	2.9%	3.1%
Total Financial Expenses/Average Non-Capital Fund	12.5%	9.8%	11.1%	12.6%	11.7%
L=Liquidity					
L1. Total liquid Assets/ Total Deposit	43.7%	18.0%	20.1%	13.7%	14.9%
S=Signs of Growth					
S1. Growth in Total Assets		17.6%	32.5%	19.8%	13.4%
S2. Growth in Outstanding Loan Balance		19.9%	34.1%	19.4%	13.0%
S3. Growth in Deposits		62.1%	59.5%	30.0%	12.9%
S4. Growth in Borrowed Fund		6.6%	24.1%	17.5%	10.3%
S5. Growth in Paid-up Capital		38.7%	44.6%	55.5%	29.8%
S6. Growth in Membership		2.7%	13.8%	4.5%	2.5%
S7. Growth in Operating Expenses		17.6%	18.4%	61.3%	19.4%
Growth in Total Capital Fund		168.4%	114.6%	6.7%	24.0%
Operating Self-Sufficiency Ratio	67.3%	117.0%	100.1%	84.0%	85.2%
Financial Self-Sufficiency Ratio	65.7%	113.3%	97.5%	81.2%	82.3%
Gender					
Share of Female Member/ Total Membership	28.8%	30.5%	29.0%	30.5%	31.8%
Female Participation in Board/ Total Board Member	21.2%	21.2%	16.2%	20.2%	19.1%
Growth in Female Participation in the Program		11.2%	38.6%	11.1%	6.7%
Growth in Female Participation in the Board		-5.6%	33.3%	8.3%	0.0%
Average Size					
Loan Size Per Member	8,668	10,224	11,450	12,835	14,074
Deposits Per Member	837	1,302	1,848	2,249	2,497
Paid-up Capital Per Member	168	224	249	328	382
Members Per Group	6	6	6	7	6
Loan Amount Per Staff	1,471,389	1,762,245	2,121,942	2,333,830	2,868,745
Co-operative Member Per Staff	176	181	186	181	203

FINANCIAL RATIOS

SFCLs attacked by Maoists before July 2001

Number of SFCLs: 8

	Mid-July 97 to Mid-July 98	Mid-July 98 to Mid-July 99	Mid-July 99 to Mid-July 00	Mid-July 00 to Mid-July 01	Mid-July 01 to Mid-July 02
E=Effective Financial structure					
E1. Net Outstanding Loan Balance/ Total Asset	74.7%	76.6%	78.3%	72.0%	70.1%
E2. Total Deposits/ Total Asset	8.8%	11.0%	13.5%	13.6%	13.6%
E3. Borrowed Fund/ Total Asset	73.9%	71.4%	69.6%	68.7%	66.1%
E4. Paid-up Capital/ Total Asset	0.5%	0.6%	1.6%	1.2%	1.3%
Total Capital Fund/ Overdue Loan	7.4%	10.0%	17.1%	7.0%	8.0%
Total internal Source/ Outstanding Loan Balance	12.5%	15.2%	19.3%	18.8%	19.5%
Total Deposit/ Total Internal Source	82.3%	85.8%	80.0%	89.1%	88.8%
Total Paid up Capital / Total Deposit	12.6%	8.0%	20.8%	8.0%	9.3%
Total Capital Fund / Total Asset	1.7%	1.7%	2.9%	1.8%	1.8%
A=Asset Quality					
A1. Total Overdue Loan/ Total Outstanding Loan Balance	28.0%	25.0%	25.8%	37.0%	36.6%
R=Rates of Return & Cost					
R1. Income from Loan Business/ Average Outstanding Loan Balance	12.6%	15.0%	12.6%	10.1%	11.5%
R2. Interest Expenses on Deposit/ Average Deposit balance	7.8%	8.0%	7.6%	7.2%	6.6%
R3. Interest Expenses on Borrowed Loan/ Average Borrowed Fund	13.5%	12.2%	11.8%	14.6%	12.6%
R4. Total Operating Expenses/ Total Average Assets	2.7%	2.4%	2.8%	2.1%	1.9%
Total Financial Expenses/Average Non-Capital Fund	13.2%	11.8%	11.4%	13.8%	11.6%
L=Liquidity					
L1. Total liquid Assets/ Total Deposit	91.3%	75.3%	41.2%	39.0%	32.7%
S=Signs of Growth					
S1. Growth in Total Assets		11.9%	14.3%	11.5%	11.0%
S2. Growth in Outstanding Loan Balance		13.5%	17.5%	7.5%	7.5%
S3. Growth in Deposits		51.0%	47.7%	54.1%	11.6%
S4. Growth in Borrowed Fund		7.8%	9.9%	4.3%	6.6%
S5. Growth in Paid-up Capital		20.3%	275.9%	25.9%	22.2%
S6. Growth in Membership		2.2%	5.0%	3.3%	-0.5%
S7. Growth in Operating Expenses		17.3%	23.7%	15.8%	19.8%
Growth in Total Capital Fund		23.8%	323.0%	0.9%	18.7%
Operating Self-Sufficiency Ratio	52.8%	100.5%	82.2%	45.9%	73.1%
Financial Self-Sufficiency Ratio	52.2%	99.0%	81.0%	45.1%	71.6%
Gender					
Share of Female Member/ Total Membership	32.8%	33.6%	30.6%	33.5%	34.0%
Female Participation in Board/ Total Board Member	14.0%	12.1%	12.6%	12.6%	12.5%
Growth in Female Participation in the Program		4.5%	7.5%	5.9%	1.1%
Growth in Female Participation in the Board		-10.0%	30.0%	-8.3%	0.0%
Average Size					
Loan Size Per Member	9,388	10,298	11,232	12,985	13,926
Deposits Per Member	978	1,336	1,803	2,053	2,283
Paid-up Capital Per Member	64	76	228	178	219
Members Per Group	7	7	7	7	7
Loan Amount Per Staff	1,859,246	2,097,374	2,428,920	2,794,021	3,197,374
Co-operative Member Per Staff	195	199	213	213	229