

***VYCCU Savings and Credit Cooperative
Case Study***

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1. Background and Methodology of the Scan

International Finance Corporation (IFC), a member of the World Bank Group is conducting a project called “Industry Mapping of Small-Balance Deposits in South Asia”. The objective of the project is to understand the supply and demand sides of the market for micro-savings and devise appropriate market-led micro-deposit and micro-insurance product and services for the poor.

As part of the project a team of two consultants, Amit Kumar Greg and Anil Paul from *MicroSave*, India, visited VYCCU Savings and Credit Cooperative from June 28, 2010 to July 2, 2010 with the objective to conduct a institutional case study. The team interviewed clients, staff, department heads and the board of directors at the Head Office to understand the strength, weakness, opportunity and threats of the institution. The organisational planning and the performance are evaluated from the financial reports and other operational reports. The existing manuals are verified for the policies and processes. Based on the documents reviewed and client and staff interaction, the team arrived to the findings summarised in this document.

2. Institutional Overview

Table 1: Institution's Basic Details

<i>Institution's Basic Details</i>			
Organisation Name	VYCCU Savings and Credit Co-operative Society Ltd	Organisation Type	Savings and Credit Cooperative (SACCO)
Country	Nepal	State/Region	Western (Nawalparasi District, Lumbini)
Chief Functionaries Name	Madhab Prasad Poudel	Contact	+97 9845023097
Legal Entity	Co-operative	Year of Incorporation	1993

2.1 History

VYCCU Savings and Credit Union (referred as VYCCU) was promoted in the year 1991 by Vijay Youth Club to initiate savings habit among the community. The club later renamed as Vijay Development and Research Centre (VDRC) started collecting 50 paisa per day from its members as a recurring savings. The amount collected was deposited in commercial banks and the interest earned was distributed to the depositors at the end of every six month.

In 1993 after the enactment of Co-Operatives Act, 2048 (1992), VYCCU got registered as a primary level savings and credit cooperative (SACO) with its registered office at Gaidakot, Nawalparasi district. In the years 1997, VYCCU registered itself with the Microfinance Department of Nepal Rashtra Bank (NRB) and received the license for limited banking programme where they were permitted to mobilise savings from non-share holders. Even though the permission to mobilise savings from non-share holders was repealed later by NRB, the licence brought the institution under the scan of the NRB which created acceptance in the community. With this licence, VYCCU is eligible to raise fixed deposits from its members, provident fund deposits from its institutional members and also eligible to issue chequebooks. VYCCU is monitored by Registrar of Cooperatives and by NRB.

Membership is open to all permanent residents in the operational area and not limited solely to the poorer section however VYCCU gives priority to the low and medium income house-hold and encourage them to be part of the programme. The organisation aims to promote savings as a habit and to provide credit for income generation, thus improve the socio-economic condition of the member. To ensure the participation of women and other disadvantaged sections the share requirement is kept as minimum of one units of share of NRs 100 each. Members are encouraged to have more than one unit of share. Currently there are 5,602 shareholders with a total share capital of 17,094,900.

The institution is managed by an independent body named Executive Committee of eleven members elected from the General Assembly for tenure of three years. The operational head (Manager) responsible for the

day to day administration reports to the Executive Committee. General assembly also elects sub-committees for supervision of accounts and loan.

VYCCU had its Head office at Gaindakot and a service centres at each target VDC. As on June, 2010 VYCCU is operating in five VDCs, namely, Gaindakot, Mukundapur, Amarpuri, Rajahar and Kavasothi.

2.2 Mission, Values and Vision

2.1.1 Mission

Setting up of an institute based on co-operative principle and financial capability. Mobilization of local resources will administrate institute devoid of all social discrimination. Emphasis on social unity and development of human as well as material prerequisites

2.2.2 Vision

Establishment of pioneer financial institute based on social justice, public credibility and imitable self-reliant community.

2.3 Target Clients, Products and Delivery Channels

VYCCU’s mission and vision is to optimally utilise the local resources based on cooperative principles and bring in a positive change with in the members by providing affordable savings, credit and other related services. VYCCU believes that “savings is the seed of development” and campaigns savings habit among its members.

As a primary level cooperative VYCCU’s membership is open to all permanent residents in its operational area who can invest minimum in one share of NRs100 each. VYCCU focuses on low and middle income families especially women, people living in the hilly region and other disadvantaged sections of the society. Registered institution also had share holding in VYCCU. The composition of share holding is as shown in the graph below:

VYCCU offers a variety of avenues to save through a range of savings products. Mobilised savings are used to offer credit services to the members and there by meet the micro and small enterprise needs and social needs of the members. The savings and credit products are designed from experience and through interaction with the community.

3. Institutional Analysis

3.1 Institution’s Legal Structure and Shareholding Details

VYCCU is a primary Savings and Credit Cooperative (SACCO) registered under the Cooperatives Act, 2048 (1992). As a cooperative institution, the members are the owners of the institution. Membership is open to all permanent residents within the operational area of the institution irrespective of gender, caste, creed and financial status who has attained the age of 16 years and capable of entering into a contract and not declared insolvent. SACCOs are permitted to offer its financial services only to its members (share holders) and so membership is a primary requirement to avail services. Currently 51 percent of the shareholders are female followed by 47 percent male members. The remaining 2 percent is institutional share holders. The graph (Figure: 1) details the composition of the share holdings for the last three years.

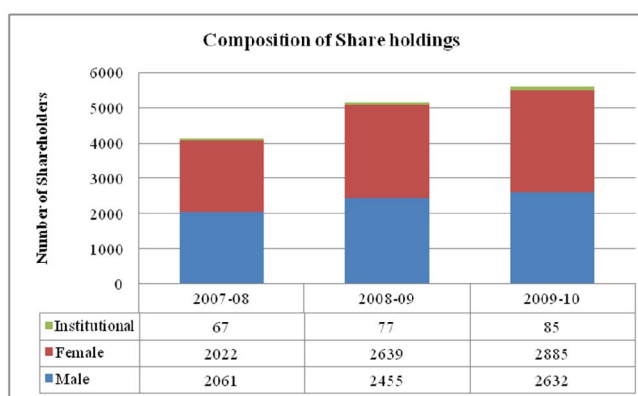
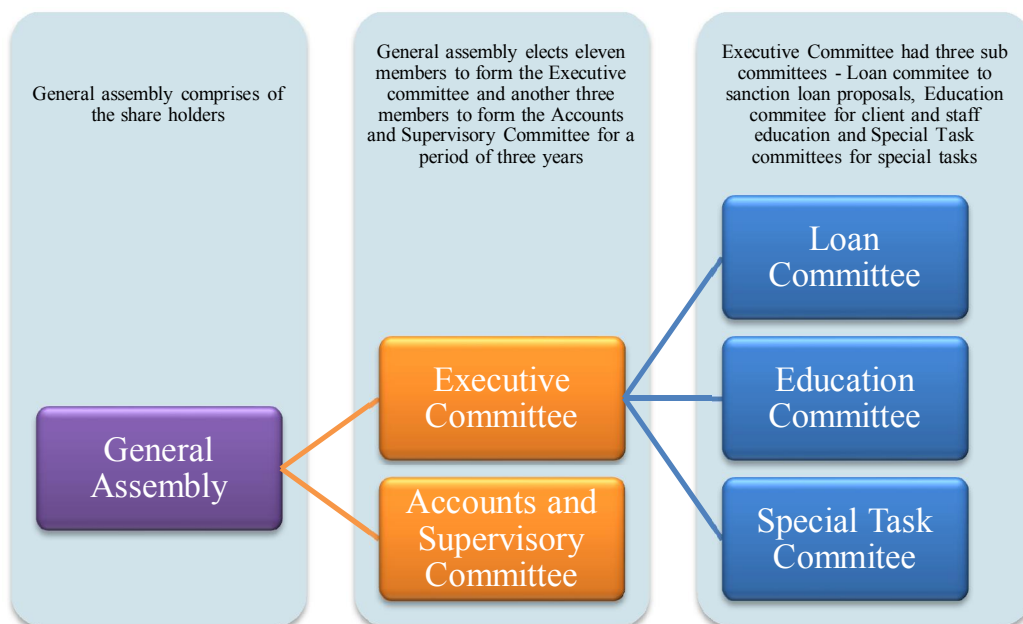


Figure 1: Composition of Share Holdings

In the year 1997 VYCCU by itself approached NRB for limited banking license under clause 26 (2) of Cooperatives Act 1992. As a registered SACCO the institution is regulated by the District Registrar of

Cooperative and as a licensed SACCO for doing limited banking VYCCU complies the terms and conditions prescribed and the directives issued by the Nepal Rastra Bank.

3.2 Governance



3.2.1 General Assembly

All the shareholders form part of the general assembly. It is mandatory for the General assembly to have an annual general meeting within six months after every fiscal year. The quorum for an annual general meeting shall be 25 percent of the total membership. The General assembly in the annual general body examine and endorse the annual accounts. General assembly elect the Executive Committee (Board of Directors) and the Accounts and Supervisory Committee. Executive Committee and Accounts Committee are elected for the tenure of three years. Extra ordinary general meeting can be convened in special occasions. The bye-law can be amended by a two-third majority of the members present at the general meeting.

A policy statement on election of office bearers of various committees is in place and elections are done in democratic way of secret ballot. An election committee constituting of three members is responsible for conducting fare elections.

3.2.2 Executive Committee (Board of Directors)

The Executive committee consist of 11 members elected by the General Assembly. The tenure of an elected board is for three years. The General Assembly can re-elect an outgoing member. The Executive committee meets monthly on every first Saturday. The deliberations during the meeting are recorded. Executive committee generally deliberate on loan sanction, performance indicators, processing external borrowings, etc.

Executive Committee members are qualified, experienced, trained in managing cooperatives by national and internal agencies and had exposure to co-operative institutions in other countries like India, Bangladesh, Srilanka and Philippines. As the executive committee members are from the community they had the commitment to work for the betterment of the community.

The Executive committee members are restrained from accepting remuneration from the Cooperative for being board member. Executive committee members are also restrained from taking loan from the institution during their tenure as executive members to ensure fare and transparent decision making. The Manager responsible for the day to day administration is an ex-officio member to the Executive Committee with no voting rights. Thus the board comprises of 100% independent members.

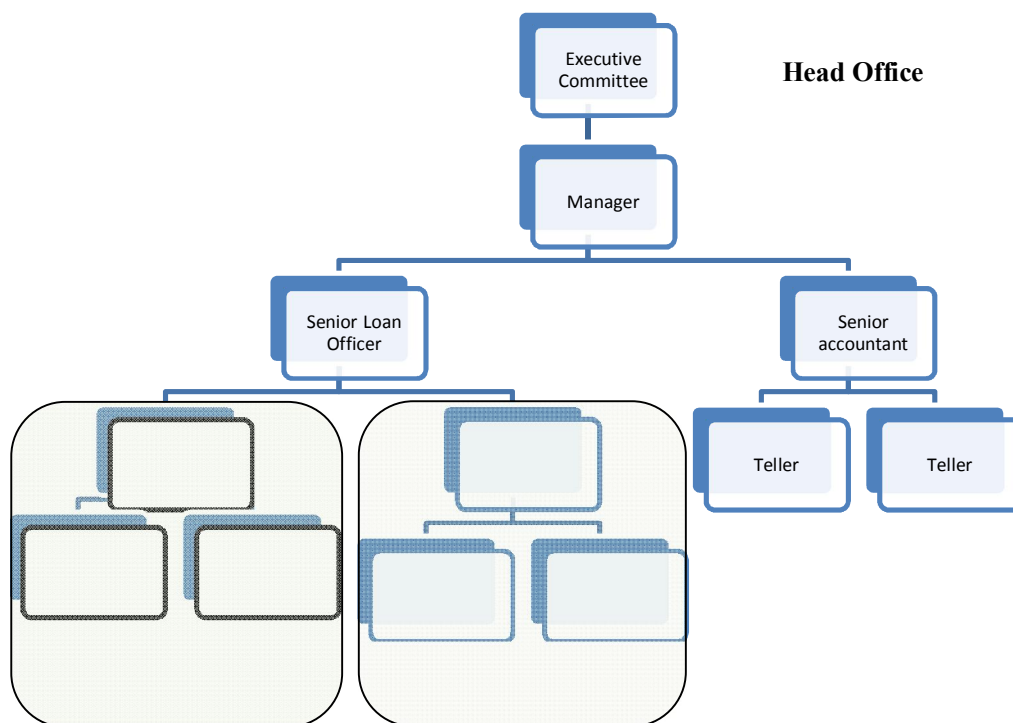
Executive committee has two sub-committees for its smooth functioning.

- Loan committee – constituted by Executive Committee has two nominees from the General Assembly and a coordinator from the Executive Committee. Loan Committee convenes at the request of the manager or the senior loan officer and decides on the loan proposals.
- Education Committee – constituted by the Executive Committee and its main function is to train the members on cooperative principles, policy changes, product features etc. Introductory information meetings to encourage new members to join the programme are also conducted by this committee.
- Special task committee – Executive committee constitutes special task committees to perform specialised tasks. Presently Scholarship Committee is now working on scholarships to the best performers among the member’s children.

3.2.3 Accounts and Supervisory committee

Besides the Executive Committee, the General Assembly elect a three member committee including one coordinator for tenure of three years. The account committee perform the internal audit of the organisation in a regular basis and give suggestions to the board. The account committee submits its report to the general meeting every year.

3.3 Management and Organisational Structure



3.3.1 Head Office structure

VYCCU has a counter based system of servicing the clients. Other than daily savings deposit collected by the savings officers, for all deposits, withdrawals, loan disbursement, loan repayment and money transfer members has to come to the head office. Head office has teller counters to service the loan and savings clients. The banking hours are from 10AM to 3PM and the counter will be then closed for the day end closings. The teller counters are convenient and are adequately secured. Besides loan and saving services, Head office and Service centres provide money transfer service under franchising agreement.

3.3.1 Branch Structure

As per the Cooperative rules, VYCCU is not permitted to open branches, however to service customers at different VDCs service centres are open. Service centres provide savings collection and withdrawal services. A senior savings collector is responsible for the service centre assisted generally by two savings collectors. Savings collectors visit the client at their residence or business centre daily and collect the savings. Each

savings collector visits approximately 80 to 85 clients a day. Due to lack of staff and support MIS the loan repayments are not currently serviced by these centres. However, some times members do their repayment at the service centre and the savings collector deposit the cash at HO and distribute the receipt next day. The institution is planning to upgrade the service centre to cater loan clients also. The service centres are provided with software and the senior savings officer will encode the transaction. The data back-up along with cash and transaction vouchers are submitted to the Head office by day end.

The service centres are the convenient touch points for getting the service of VYCCU. As convenience for transaction is one of the major attractions for any savings product service centres help in meeting more and distant clients (the farthest service centre is 45kms from the head office). The transactions at the service centre are updated in the main data base at HO every day which ensures accountability. The current branching structure is appropriate considering the statutory restrictions. By extending loan service in the service centre more members can be serviced conveniently.

3.4 Human Resource Management

VYCCU has a relatively small staff team consisting of 14 fulltime staff, supported by a team of volunteers. Manager is the chief functionary of the institution and directly responsible for the day to day administration and reports to the Executive Committee.

VYCCU has an experienced Manager and a team of committed field staff. Majority of the head office staffs are experienced and had long association with the institution. Staffs are informed about the policies and products and have the basic skills needed to carry out the recording and reporting functions. Support functions like internal audit, client education, loan sanctioning etc are done by a team of members who are working on voluntary basis. With the limited operations the current staff strength is adequate but on larger scale of operations VYCCU has to graduate to more formal organisational structure.

New recruits are inducted through a formal classroom training followed by on the job training where they will shadows an experienced staff. The parent organisation VDRC has a training institute and a bouquet of experienced trainers. Volunteers play an important role in the functioning of VYCCU. Members training and internal audit functions are done by a committee of elected volunteers by the General assembly.

3.5 Operational Policies

As a licensed SACCO it is mandatory to prepare the following policy statements are the statements are in place

3.5.1 Savings and Credit Policy:

Savings and Credit policy statement details the various savings and credit products offered by VYCCU to its members. The statement gives a short description of various products, offered, eligibility criteria and the transaction limits. The policy also states the steps for managing delinquency and the fine to be collected in case of non/late payments.

3.5.2 Financial Policy

Financial policy statement details about opening of bank account, authority for transaction, responsibility of the teller, cashier, savings collector, senior savings collector and the manager, vault management, key holdings and recording of balances. Procedures for audits, preparation and presentation of financial statements, risk management measures, financial facilities for staffs are also covered in this policy statement.

3.5.3 Administrative Policy

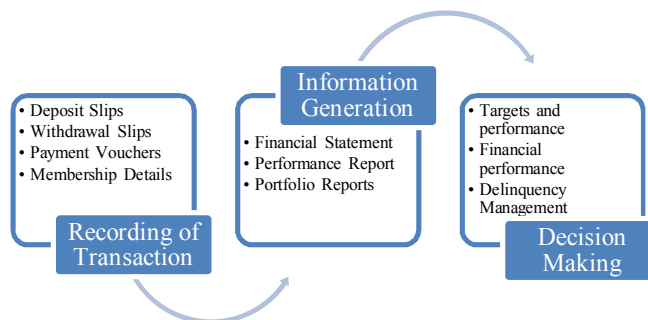
The administrative policy covers the human resource functions. It explains the eligibility criteria for staff (age, qualification, and experience) and the procedure to be followed for recruitment. It also deals with the office timings, leave policy, staff benefits, duties, responsibilities and punishments. Job description of each designation is specifically described in the policy.

3.6 Management Information Systems

Management information System (MIS) in VYCCU is a basic accounting package developed by “Techminds” capable of recording its financial transactions, ledger maintenance and preparation of financial statements. Head office and service centre modules are stand alone. Every day a back-up from each service

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centres are uploaded to the head office module as an end of day routine to update the information. Vouchers, slips/cheques and receipts are used to record the primary transaction and are maintained properly. Staff are trained in using the software for encoding transaction and generate reports when needed. Data encoding at service centres are done by senior savings officer and at HO is done by the tellers. VYCCU is not having any dedicated staff for managing the software but had contracted with the software and hardware vendors for onsite supports in case of functional failure.



3.7 Internal Audit and Control

The role of internal audit is performed by the Accounts and Supervisory Committee comprised of three elected volunteer members from the general assembly for tenure of three years. The committee is separate from the Executive Committee and reports to the General Assembly once in a year during the Annual General assembly.

VYCCU does not have an internal audit department or dedicated staff. The committee meets once every month and conducts scrutiny of vouchers and account books. The scope of audit of the committee is also very limited and the frequency of audit is low. The committee verifies the accounting records at head office but does not visit clients or service centres. Though, the strength of this system is the fact that it is a committee independent of the management, it needs to be strengthened by including some regular staff members who can give more time to the job and also by enhancing the scope of auditing

The accounts are audited by a statutory auditor twice every year but put his seal on the annual audited statement.

3.8 Risk Management

3.8.1 Loan Processing

Loan is processed by various authorities based on the requested loan amount.

- Senior Loan Officer processes loans up to Npr.50,000
- Manager processes the loan above Npr.500,000
- Loan committee comprising of Manager, Accountant and Senior Loan Officer sanctions the loan proposal up to Npr.50,000 and
- A three member loan committee constituted by the Executive Committee sanctions the loan proposals above Npr.50,000 up to Npr.500,000. Manager or Senior Loan Officer will present the proposal
- Loans proposals above Npr.500,000 are sanctioned by the Executive Committee

3.8.2 Collateralisation

All loans above Npr.25,000 are collateralised. Guarantee from existing members are required for loans less than Npr.25,000. One member can guarantee up to 5,000 or his savings balance which ever is high. A member is not permitted to give guarantee more than one loan. Loan above Npr.25,000 property is to be mortgaged. The property given as collateral is valued based on the saleable value, geographic position, approach road, irrigational facility, electric/telephone connections etc. Valuation of collateral for loans above Npr.500,000 is to be carried out by the Manager. An encumbrance is noted at the District Collateral Office (*Malpot Karylay*) on loan disbursement and encumbrance is raised on loan closure.

4. Products and Delivery Channels

4.1 Savings

VYCCU offers multiple options to clients to do savings. The main savings products offered by VYCCU to its clients are monthly savings, Daily savings, Piggy Box Savings, Voluntary Savings, Fixed Deposit and Employee Provident Fund. Savings Collectors are appointed to make regular visits at client’s residence or business locations. Teller locations at head office and service centres also accept savings and issue receipts. (Interest calculation is done on monthly basis and payment is made half yearly)

Savings Products (Table 1)		
The “P”	Monthly Savings	Daily Savings
Product	<ul style="list-style-type: none"> Compulsory Minimum monthly saving of Npr.50 Permitted to withdraw 75 percent of total balance after 6 months 	<ul style="list-style-type: none"> Voluntarily Minimum daily saving of Npr.10 Permitted to withdraw 90 percent of total balance after 3 months
Price	<ul style="list-style-type: none"> Account opening fee Npr. 10 Passbook fee Npr. 10 Account closing fee Npr. 50 Interest paid- 8% pa (Interest is calculated on average monthly balance compounding half yearly) 	<ul style="list-style-type: none"> Account opening fee Npr. 20 Passbook fee Npr. 10 Account closing fee Npr. 50 Interest paid- 6% pa (Interest is calculated on average monthly balance compounding half yearly)
Place	<ul style="list-style-type: none"> Members can do account opening and deposit/withdrawal transactions either at the nearest Service Centre or at the Head office 	<ul style="list-style-type: none"> Account opening and closing at Service Centre/Head office Deposits at client’s residence/business location Withdrawals at Head office/Service Centre
Process	<p>Account Opening</p> <ul style="list-style-type: none"> Member can walk-in to nearest Service Centre/Head Office and open account by filling an account opening form <p>Deposits</p> <ul style="list-style-type: none"> Member visits to the nearest Service Centre/Head Office Teller/Senior Savings Collector collects cash along with passbook. Updates the passbook and computerised MIS and then issues a receipt to the member <p>Withdrawals</p> <ul style="list-style-type: none"> Member visits to the nearest Service Centre/ Head Office to withdraw Members fills Withdrawal Slip and submits along with passbook to the teller/Senior Savings Collector Staff verifies the details, process the payment, updates computerised MIS and passbook 	<p>Account Opening</p> <ul style="list-style-type: none"> Member can walk-in to nearest service centre/central office and open account by filling an account opening form <p>Deposits</p> <ul style="list-style-type: none"> Savings collector visits the residence/business location of the member Savings Collector prepares a Deposit Slip, updates the member’s Passbook and collects the amount Savings collector records the deposit slip number in the pass book and keeps the deposit slip <p>Withdrawals</p> <ul style="list-style-type: none"> Member visits to the nearest Service Centre/ Head Office to withdraw Members fills Withdrawal Slip and submits along with passbook to the teller/Senior Savings Collector Staff verifies the details, process the payment, updates computerised MIS and passbook
Promotion	<ul style="list-style-type: none"> Community radio Members’ education programmes Word of mouth Advertisement in local newspaper 	<ul style="list-style-type: none"> Through community radio Promotion during members’ education programmes Advertisement in local newspaper Word of mouth
Physical Evidence	<ul style="list-style-type: none"> Account opening form Copy of citizenship card Photograph of self and the nominee Deposit/withdrawal slip Cheque book 	<ul style="list-style-type: none"> Account opening form Copy of citizenship card Photograph of self and the nominee Deposit voucher FD card FD account closing form

People	<ul style="list-style-type: none"> • Savings collector • Teller • Accountant • Manager 	<ul style="list-style-type: none"> • Savings collector • Teller • Accountant • Manager
Positioning	<ul style="list-style-type: none"> • Easy and convenient way of saving 	<ul style="list-style-type: none"> • Safe savings for long term

Savings Products (Table 2)		
The “P”	Piggy Box Savings	Voluntary Savings
Product	<ul style="list-style-type: none"> • Optional –to promote savings habit • A Piggy Box is provided to the members • Minimum monthly savings of Npr. 30 • Permitted to withdraw up to 75 percent of balance after 3 months 	<ul style="list-style-type: none"> • Npr. 300 is needed to be deposited while opening the account. • Preferred amount can be deposited and withdrawn anytime • Cheque book is issued • No passbook is issued
Price	<ul style="list-style-type: none"> • Refundable security deposit for the Piggy Box Npr. 100 • Account opening fee Npr. 20 • Passbook fee Npr. 10 • Account closing fee Npr. 50 • Interest paid- 7% pa (Interest is calculated on monthly average balance and compounded half yearly) 	<ul style="list-style-type: none"> • No charge for account opening • Free cheque book • Npr. 25 are charged for lost cheque book • Account closing fee Npr. 50 • Interest paid- 8% pa (Interest is calculated on daily balance basis and compounded half yearly)
Place	<ul style="list-style-type: none"> • Account opening and closing at service centre/ Head office • Deposits are done at client’s residence/ business location • Withdrawal at Service Centre/Head Office 	<ul style="list-style-type: none"> • Members can do transactions either at the nearest Service Centre/Head Office
Process	<p>Account Opening</p> <ul style="list-style-type: none"> • Member can walk-in to nearest Service Centre/Head Office and open account by filling an account opening form <p>Deposits</p> <ul style="list-style-type: none"> • The Piggy Box is kept with the member • Member put the cash that she/he wants to save in the box at any time during the month. Any denomination value currency can be put in the Piggy Box • On the pre-fixed collection date (between 20th to 30th of every month) Savings Collector visits the member’s location and collect cash, updates the Passbook and prepares Deposit Slip <p>Withdrawals</p> <ul style="list-style-type: none"> • Member visits to the nearest Service Centre/ Head Office to withdraw • Members fills Withdrawal Slip and submits along with Passbook to the teller/Senior Savings Collector • Staff verifies the details, process the payment, updates computerised MIS and passbook 	<p>Account Opening</p> <ul style="list-style-type: none"> • Member can walk-in to nearest Service Centre/Head Office and open account by filling an account opening form <p>Deposits</p> <ul style="list-style-type: none"> • Member visits to the nearest Service Centre/Head Office • Teller/Senior Savings Collector collects cash along with passbook. Updates the passbook and computerised MIS and then issues a receipt to the member <p>Withdrawals</p> <ul style="list-style-type: none"> • Member visits to the nearest Service Centre/ Head Office to withdraw • Members fills Withdrawal Slip and submits along with passbook to the teller/Senior Savings Collector • Staff verifies the details, process the payment, updates computerised MIS and passbook
Promotion	<ul style="list-style-type: none"> • Through community radio • Promotion during members’ education programmes • Word of mouth 	<ul style="list-style-type: none"> • Through community radio • Promotion during members’ education programmes • Word of mouth • Advertisement in local newspaper

Physical Evidence	<ul style="list-style-type: none"> Account opening form Copy of citizenship card Photograph of self and the nominee Piggy Box and its key (the key is kept at the office) Deposit/Withdrawal slip Passbook 	<ul style="list-style-type: none"> Account opening form Copy of citizenship card Photograph of self and the nominee Deposit/Withdrawal slip Cheque book
People	<ul style="list-style-type: none"> Savings collector Teller Accountant Manager 	<ul style="list-style-type: none"> Savings collector Teller Accountant Manager
Positioning	<ul style="list-style-type: none"> Self saving at home 	<ul style="list-style-type: none"> Easy and convenient way of saving

Savings Products (Table 3)		
The “P”	Fixed Deposit	Employee PF
Product	<ul style="list-style-type: none"> Optional – long term deposit Minimum Npr. 500 and no limit on the maximum amount Amount can be withdrawn at maturity only Members can avail loan up to 80% of the FD amount at an interest rate of FD interest + 2% 	<ul style="list-style-type: none"> Institutional members of VYCCU are offered the Provident Fund Account services for their staff members. Contribution towards provident fund is deposited by the institutions at Employee PF account opened with VYCCU
Price	<ul style="list-style-type: none"> Interest paid on deposit are as follows and compounded every six months <ul style="list-style-type: none"> Up to 1 year 9.5% pa 1 to 2 years 10% pa 2 to 3 years 11% pa No other charges 	<ul style="list-style-type: none"> Interest paid- 9.5% pa (Interest is calculated on daily balance basis and compounded half yearly) No other charge
Place	<ul style="list-style-type: none"> Members can do transactions either at the nearest Service Centre/Head office 	<ul style="list-style-type: none"> Member institutions representative can do transactions at the Head office
Process	<p>Account opening/Deposit</p> <ul style="list-style-type: none"> An account opening form is submitted along with two photograph of member, one photograph of nominee and the desired amount Teller/Senior Savings Collector records the transaction in computerised MIS and generates a deposit slip An FD Card with his/her photo pasted on it is issued to the depositor <p>Maturity/account closing</p> <ul style="list-style-type: none"> Member submits the FD card along with the Account Closing Form to the Teller/Senior Savings Collector Staff checks the balance and interest payable from the MIS Makes entry in the FD card and makes payments to the member after proper authorisations 	<p>Account opening</p> <ul style="list-style-type: none"> Authorised representative of the member institution submits a filled application to open the Provident Fund Account <p>Deposit</p> <ul style="list-style-type: none"> The contribution towards provident fund is deposited monthly at the Head Office by the authorised representative of member institutes. Staff member who has his/her PF account with VYCCU can withdraw the money by furnishing the authorisation letter issued by the respective institution.
Promotion	<ul style="list-style-type: none"> Through community radio Promotion during members’ education programmes Advertisement in local newspaper Word of mouth 	<ul style="list-style-type: none"> Through community radio Promotion with member institutions

Physical Evidence	<ul style="list-style-type: none"> Account opening form Copy of citizenship card Photograph of self and the nominee Deposit/Withdrawal Slip FD card 	<ul style="list-style-type: none"> Account opening form Copy of citizenship card Photograph of self Deposit voucher/Withdrawal Slip Withdrawal authorisation letter
People	<ul style="list-style-type: none"> Savings collector Teller Accountant Manager 	<ul style="list-style-type: none"> Teller Accountant Manager
Positioning	<ul style="list-style-type: none"> Safe savings for long term 	<ul style="list-style-type: none"> Hassle free transactions for long term deposits

The composition savings product mix as on June 14, 2010 is as depicted in the graphs below. 49 percent of the savings accounts are of female members, 48 percent from the male members followed by 3 percent institutions. Out of total savings account, monthly savings product has 62 percent of share in account numbers and contributes 21 percent of savings balance. Voluntary savings follows with 20 percent account numbers and contribute 58 percent of savings balance.

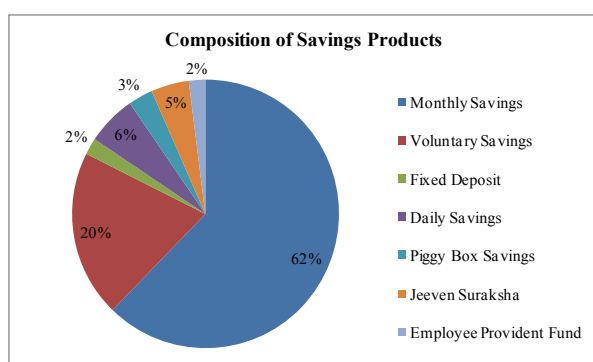


Figure 2: Composition of Savings Products

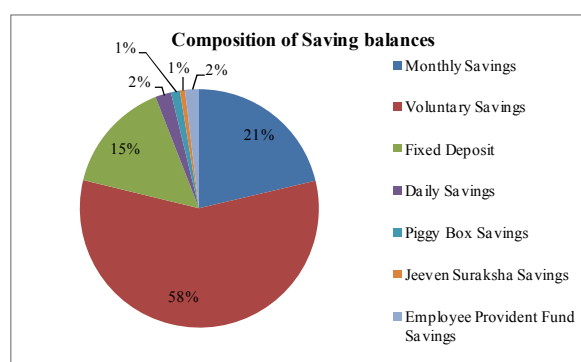


Figure 3: Composition of Savings Balances

4.2 Loan Products

Following loan products are offered to the VYCCU clients based on the needs. The loan amount is fixed based on detailed assessment of the collateral.

Loan Products (Table 1)		
Product Name	Income Generating Loan	Social Loan
Purpose	<ul style="list-style-type: none"> Income generating activities including stock purchase, agricultural activities, poultry etc. 	<ul style="list-style-type: none"> Loan is given from education, foreign employment, cultural festivals and ceremonies, and house/ building/ land purchase
Loan Term	<ul style="list-style-type: none"> Up to Npr. 20,000 – 1 year More than Npr. 20,000 – 3 years 	<ul style="list-style-type: none"> 3 years
Repayment Frequency	<ul style="list-style-type: none"> Bi-monthly for the Business loans including poultry Once in three months for agriculture, live stock, and goat farming 	<ul style="list-style-type: none"> Quarterly
Amount	<ul style="list-style-type: none"> For business and poultry farming maximum up to Npr. 700,000 For agriculture, live stock , and goat farming maximum up to Npr. 500,000 	<ul style="list-style-type: none"> Up to Npr. 700,000
Charges/ Other Conditions	<ul style="list-style-type: none"> Interest Rate: 11% pa for loans up to Npr. 50,000 and 13% pa for loan more than Npr. 50,000 Interest is calculated on reducing balances Loan application form Npr. 10 No other fees 	<ul style="list-style-type: none"> IR: 15% pa Interest is calculated on reducing balances Loan application form Npr. 10 No other fee is charged

Loan Products (Table 2)			
Product Name	Hire Purchase Loan	Inter-Lending	Emergency Loan
Purpose	<ul style="list-style-type: none"> Loan is given to buy vehicle (e.g. tractor, motorcycle, car etc.) 	<ul style="list-style-type: none"> Loan is given the institutional members of the cooperative 	<ul style="list-style-type: none"> Loan is given to meet the emergency financial needs due to <ul style="list-style-type: none"> Illness, Hospitalisation, House Damage, Death of family member
Loan Term	<ul style="list-style-type: none"> For motorcycle loan 2 years For other purposes 4 years 	<ul style="list-style-type: none"> 4 years 	<ul style="list-style-type: none"> 6 months
Repayment Frequency	<ul style="list-style-type: none"> Monthly 	<ul style="list-style-type: none"> Quarterly 	<ul style="list-style-type: none"> Lump-sum payment at the end of the 6 months
Amount	<ul style="list-style-type: none"> Up to Npr. 1,000,000 	<ul style="list-style-type: none"> Up to Npr. 1,000,000 	<ul style="list-style-type: none"> Up to Npr. 20,000
Charges/ Other Conditions	<ul style="list-style-type: none"> Interest Rate: 16% pa Interest is calculated on reducing balances Loan application form Npr. 10 No other fee is charged 	<ul style="list-style-type: none"> Interest Rate: 10% pa Interest is calculated on reducing balances No other fee is charged 	<ul style="list-style-type: none"> Interest Rate: 9% p.a. Interest is calculated on reducing balances No other fee is charged No collateral or guarantee of other members is required If member repays the loan within one month, interest charge is waived off

The graph below shows the composition of the loan accounts. 40 percent of the loan accounts are for business purposes followed by 34 percent for consumption purposes. 32 percent of the portfolio outstanding is for consumption purposes and 30 percent is for business purposes.

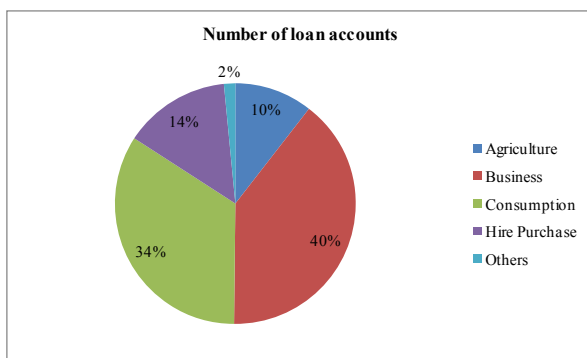


Figure 4: Number of Loan Accounts

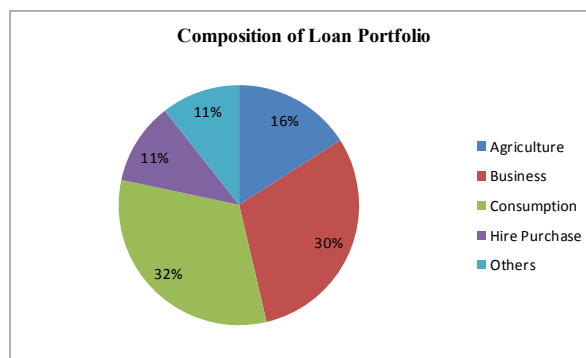


Figure 5: Composition of Loan Portfolio

Seasonality Analysis

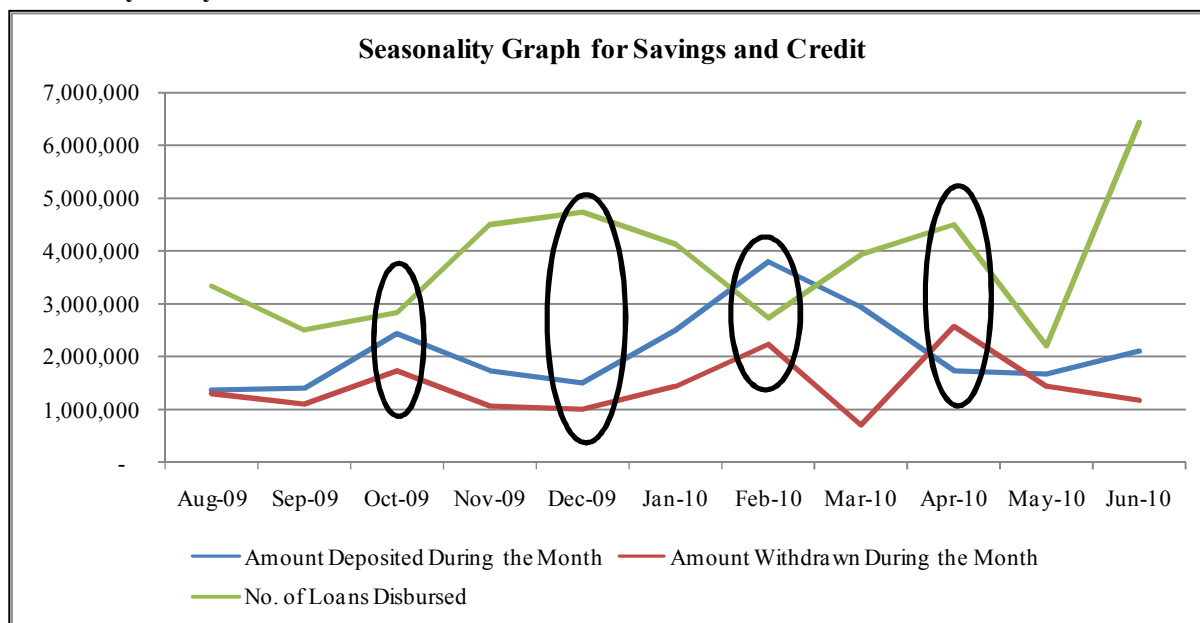


Figure 6: Seasonality Graph for Savings and Credits

Bhartpur has a rich agriculture based economy. During the harvest seasons (October and February) members have enough income to cover their daily and business related expenses; therefore the demand for loans is low and members deposit balances rise.

During lean agriculture period, where most of the members who do not cultivate cash crops) fully depend on loans to meet additional cash requirements for their running businesses or even for consumption purposes. Rise in loan demand during April and December is largely to meet educational needs and house renovation needs.

5. Financial Performance and Ratio Analysis

Key Financial Ratios¹

FINANCIAL STRUCTURE RATIOS	2007-08	2008-09	2009-10
Net Loan Portfolio/Total Assets	67.93%	63.18%	71.27%
Savings Deposits / Total Assets	79.90%	79.78%	79.59%
External Credit / Total Assets	0.00%	0.00%	0.00%
Member Paid-up Share Capital / Total Assets	5.72%	6.40%	7.58%
Institutional Capital ² / Total Assets	13.03%	13.41%	12.74%
NPA / Total Assets ³	5.71%	3.32%	NA
RATE OF RETURN AND COST RATIOS			
Net Loan Income / Average Net Loan Portfolio	13.20%	14.97%	9.73%
Total Interest Cost on Savings Deposits /Average Savings Deposits	4.87%	4.80%	3.15% Six month's posting
Total Operating Expenses / Avg. Total Assets	1.66%	1.93%	1.16%
Return on Assets	2.89%	5.55%	4.02%
Return on Equity	15.42%	28.65%	19.99%
LIQUIDITY RATIOS			

¹ Ratios are calculated based on the data provided in audited financial statements for Fy 2007-08 and 2008-09, and from the un-audited financial statements for the FY 2009-10

² Institutional Capital is defined as all legal and non-distributable reserves, capital donations and the portion of the current year's surplus that will be retained as legal or non-distributable reserves.

³ Directly taken from the VYCCU's published annual report

Short Term Investments + Liquid Assets - Short Term Payables /Savings Deposits	29.23%	30.67%	24.66%
Liquidity Reserves / Savings Deposits	30.56%	30.95%	24.59%
Liquid non-earning Asset/ Savings Deposits	3.50%	1.65%	1.57%
Interest Earned on the Total Earning Deposits/ Avg. Total Earning Deposits	2.29%	4.85%	4.16%
GROWTH RATIOS			
Growth in Liquid Investments		46.89%	11.21%
Growth in Savings Deposits		45.03%	40.00%
Growth in Share Capital		62.62%	66.26%
Growth in Membership		24.60%	8.33%
Growth in Total Assets		45.26%	40.34%

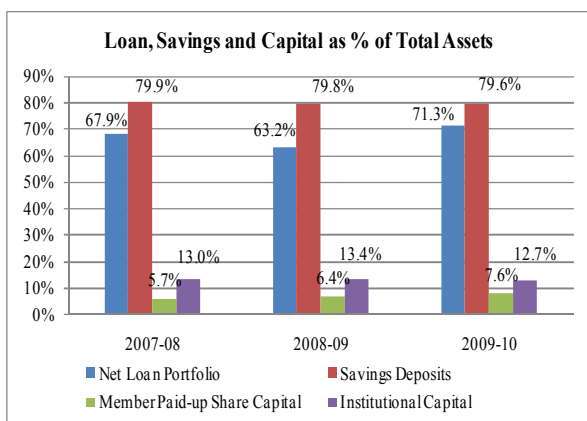


Figure 7: Loan, Savings and Capital as % of Total Assets

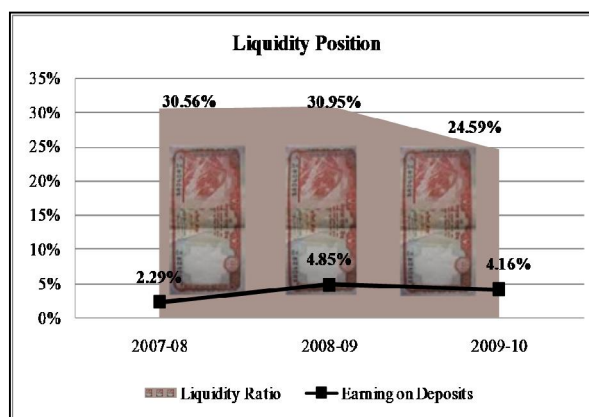


Figure 8: Liquidity Position

Loan portfolio currently constitutes 71.3 percent of the total asset. Member’s share constitutes 7.6 percent whereas institutional capital (reserves and surplus) constitutes 12.7% Savings collected from the members is 79.6% of the total asset. There is a scope for VYCCU to increase members’ capital base by transferring portion of institutional capital to members’ share capital (Refer Figure 7)

It is a statutory requirement to maintain 15 percent liquidity however VYCCU is having higher liquidity ratio. (Refer Figure 8 and 9) The liquidity ratio in last three years has been more than the minimum requirements. The graph shows the relations between liquid funds and the income earned thereon, which is around 4%. Maintaining more than required liquid assets has an opportunity cost of not been able to use that money for on-lending which earns around 10% yield. According to the management, the withdrawal behaviour is quite fluctuating and seasonal in nature (deposits went up and withdrawal went down in last quarter of the year, for details refer to section on seasonality); therefore, organisation maintains more than more liquidity.

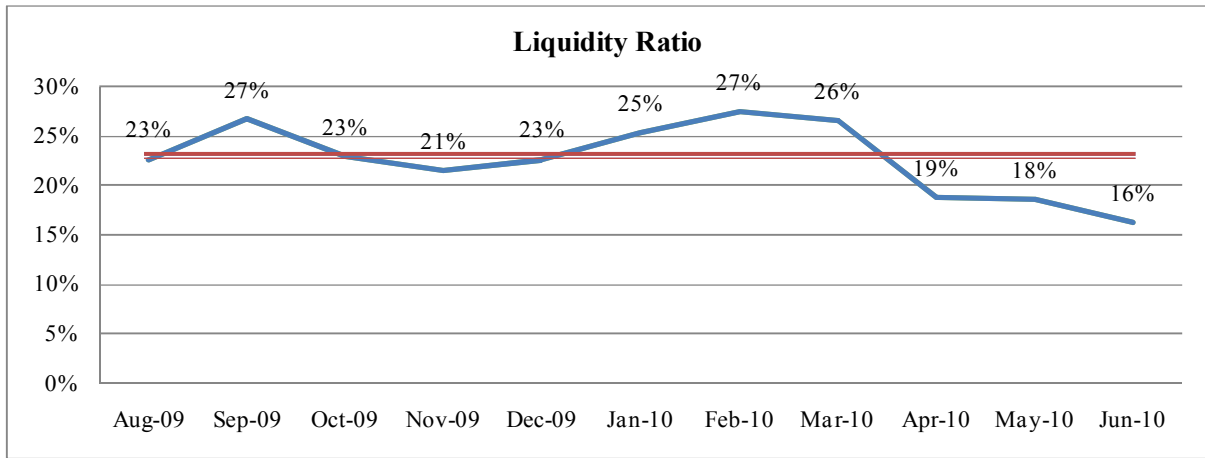


Figure 9: Liquidity Ratio

VYCCU has a low operating cost which is less than 2 percent attributable to the branch base model where the majority of services are offered at branch and small staff team (Refer figure 11). As the saving portfolio provides sufficient fund for generating loan portfolio, VYCCU enjoys low cost funds and the financial cost⁴ is less than 5 percent. The effective interest rate for VYCCU is around 13 percent.

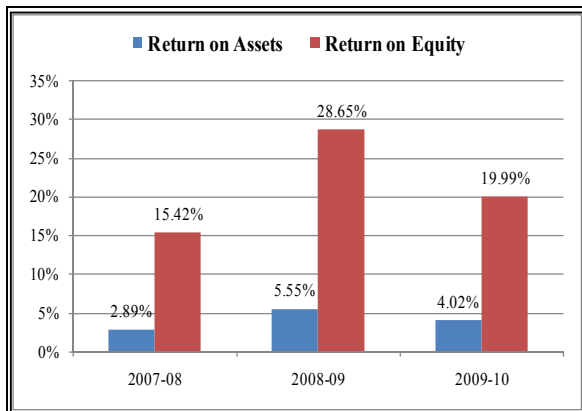


Figure 10: Return on Asset and Equity

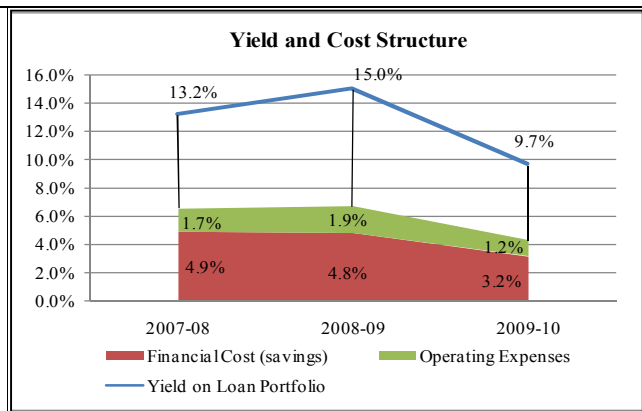
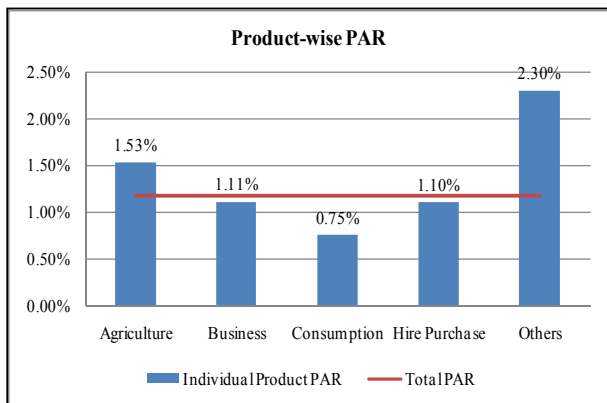


Figure 11: Yield and Cost Structure



The overall PAR > 60 days as of June 14, 2010 is 1.18% (represented by the red line figure 12). Agriculture and others (includes institutional inter-lending and emergency loans) portfolio has slightly higher PAR than the overall PAR. The relatively higher PAR is contributed by dairy and school cooperative members who sometimes delay the payment. School cooperative receives the admission fee on the month May-June, which will be collected by VUCCU in the last months (June/July); this might reduce the PAR to normal level.

⁴ Financial cost for the year 2009-2010 is showing 3.2 percent as the interest income is posted only at the end of each quarter and the interest expenses towards last quarter is not figured in June 2010 financial statements.

6. Strengths, Weaknesses, Opportunities and Threats (SWOT)

Table 2: SWOT Matrix

	Helpful	Areas for Improvement
Internal Origin (attributes of the organisation)	STRENGTHS	WEAKNESSES
	Active and experienced Executive Committee	Restriction on operational area
	Community ownership and Trust	MIS system required overhauling
	Transparency	Internal audit needs strengthening
	Written policy	Insufficient share capital limiting growth
	Experienced Staff Team	Moderate Participation of women and disadvantaged section
	Range of Products	
	Effective loan appraisal system	
	Adequate accounting System	
External Origin (attributes of the environment)	OPPORTUNITIES	THREATS
	Limited presence of commercial and development banks	Competition
	Limited banking license	Political instability
	Permission to service in more VDCs	Un-stable macro economic environment

6.1 Strengths

6.1.1 Active and Experienced Executive Committee

The executive committee is elected by the general assembly for three years and the committee comprises of 11 members having experience in cooperative sector since 1992. Some of the board members were trained by international institutions like “Cordaid” and had exposure to various cooperatives models in other countries. Manager responsible for day to day administration reports to the executive committee. Executive committee is independent as they are volunteers and are not having any benefits form the institutions including credit facility.

6.1.2 Community Ownership and Trust

As a cooperative the ownership vests in the community (share holders). Continuous education on cooperative principles and active participation of the General Assembly in the progress evaluation and policy making has created a feel of ownership and trust among the members. The Executive board members are localities having good reputation. Other initiations of VDRC, the parent organisation, like agricultural development programme, health programmes, women and child development programmes, institutional development programmes, school, training centre and community radio also increased the visibility of the institution and thus created a trust among the people.

6.1.3 Transparency

Financial statement, operational report, report of the Accounts and Supervisory committee, external auditor’s report and variance with the projection are published every year and circulated to the members before the AGM. The financial statements along with the interest rates charged/offered for loan/savings are published regularly in two daily one in English (Kathmandu Post) and other in vernacular (Kantipur Daily)

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quarterly as part of statutory disclosure. A team of elected members from the general assembly (Accounts and Supervisory Committee) conducts the internal audit and reports to the General Assembly. For unbiased decisions the Executive committee and other sub-committee members or their immediate relatives are not permitted to take any kind of remuneration including loan facility during their tenure.

6.1.4 Written Policies

Written policies approved by the cooperative department are in place on administration, finance, election, savings and credit and inter-lending. Administrative policy covers various aspects of human resource management. Finance policy covers the expenditure, asset purchase, insurance and cash management. Election policy deals with the requirements for candidature, election committee, election procedure and declaration of results.

6.1.5 Experienced Staff Team

VYCCU is having a small team of experienced staff having long association. Staff are adequately skilled to manage and record financial transaction. The manager, senior loan officer and senior accountant are experienced and capable of running the institution. All staffs are aware of the mission, vision, policies and products of the institution. Certain vital functions like internal audit, loan appraisal and client education are carried out by experienced volunteers elected by the general assembly.

6.1.6 Range of Products

VYCCU offers a bouquet of six savings product and five credit products. The savings product includes (1) compulsory savings, (2) daily recurring deposits, (3) Piggy box savings, (4) Demand Savings (voluntary savings), (5) Fixed Deposit and (6) Employee Provident Fund option to the institutional members. To meet the credit needs of the members following loan products are designed: (1) Income generation loan, (2) social loan, (3) emergency loan and (4) hire-purchase loan. The products are designed in consultation with the selected members from general assembly. The product features are re-visited after six months of roll-out. Pricings are generally influenced by the market competition. Besides VYCCU had agency relation with Western Union, Money Gram, Western Union, Samsara, Money Express, Nabil Remits and Everest Remits to provide money transfer services.

6.1.7 Effective loan appraisal system

VYCCU has developed different levels for loan appraisal based on the loan amount. Small tickets loan up to NRs.50,000 are appraised by the staff committee. Above NRs.50,000 up to NRs.500,000 are done by the Loan committee and above that the executive committee. Adequate member guarantee and/or mortgage of property are enforced to mitigate the default risk. Property is valued by the appropriate authority before the loan sanction. The loan appraisal system is explained in detail in section XXX

6.1.8 Adequate accounting system

VYCCU has developed a system of accounting efficient enough to manage the business. The software supports accounting requirements and generates operational reports and financial statements. Passbooks, vouchers, deposit and withdrawal slips are used to record/support primary transactions.

6.2 Weaknesses

6.2.1 Restriction on operational area

VYCCU as a SACO have statutory restriction on expanding its operational area and is permitted to operate only in one District where it is registered. According to the latest changes in Cooperative rules, a primary cooperative is permitted to work only in five VDCs within the district and for extending service to more VDCs it requires permission from District Cooperative Registrar. VYCCO is presently servicing five VDCs and have permission to work in 49 VDCs out of 73 VDCs in the district.

6.2.2 Management information system requires overhauling

VYCCU has a computerised accounting and management information system in vernacular and capable to manage the current level of operation. The HO and service centre modules are stand alone modules and the data gets consolidated at the end of the day. MIS require a overhauling to meet the challenges of expansion to more geography and of extending all products through service centre.

6.2.3 Internal audit needs strengthening

The general assembly elects Accounts and Supervisory Committee and is responsible for the internal audit. The Accounts and supervisory committee conduct audit once in a quarter and reports once to the General Assembly. Any emergency findings are discussed with the Executive Committee. The frequency and scope of audit is limited. The client records like passbook are not verified to ensure consistency with office records. The appreciable element is the independent nature of the Accounts and Supervisory committee.

6.2.4 Insufficient share capital limiting growth

NRB regulation confines VYCCU from raising savings more than 10 times the equity which limits the growth plans. For the last six years VYCCU has offered the maximum permissible dividend to its members, to attract more investments. VYCCU limits the minimum share requirement as one share to make the membership feasible for the low income group, women and other disadvantaged sections and encourage members to have more investment in shares.

6.2.5 Moderate participation of women and disadvantaged section

Even though the 51 percentage is women members their representation in Executive committees and other sub-committees are very low. Voluntary nature and restriction in taking loans for the executive committee and various other subcommittees are preventing women and disadvantaged sections from active participation. As per the NRB guidelines 50 percentage of Board members are to be graduates and low literacy rates in the villages among women also limits their participation

6.3 Opportunities

6.3.1 Limited presence of Commercial and Development Banks

Due to political insurgencies commercial banks and microfinance developments banks are not having their presence in the remote VDCs which opens up a huge market to expand. Within the area of operation there exists scope for penetration.

6.3.2 Limited Banking License

VYCCU is one of the sixteen SACCOs licensed for doing limited banking transactions out of 4500 registered SACCOs in the country and the only one among 157 SACCOs operating in the Nawalparasi district. With this license VYCCU can raise fixed deposits from its members, provident fund deposits from its institutional members and also eligible to issue chequebooks. Scrutiny of NRB under the license had already created a confidence among the locals which gives VYCCU an extra mileage over the others.

6.3.3 Permission to service in more VDCs

SACCOs are permitted to work in five VDCs in the district where they are registered. For expanding to more VDCs special permission is required from the district registrar and such permissions are issued only on strict compliance requirements. VYCCU has already permission to expand to 49 VDCs out of 73 VDCs in the Nawalparasi district.

6.4 Threats

6.4.1 Competition

Mushrooming of SACCOs in the operational area is resulting in unhealthy competition, client pouching and multiple lending. Some SACCO runaway with its member's money have created a wrong image among the prospective clients which keep them away from joining.

6.4.2 Political insurgency

Due to political insurgency, the government remains unstable resulting in a situation either of no policy or of frequent changes in the policy. Even though microfinance is recognised by the Government as an appropriate tool to fight poverty Government has failed to create conducive regulatory environment for its optimal utilisation. Lack of capacity to supervise has compelled the Government to restrict. VYCCU being a SACCO has restrictions for its operations.

6.4.3 Unstable macro economic environment

People are finding difficulties in finding entrepreneurial activities and those had micro-enterprises market to sell their products. This has reduced their capacity to take loan and also to save. Due to strikes, working days

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are affected which results in reduced efficiency. Frequent road blocks also reduce the movement of the produces resulting in reduced income.

7. Conclusion and Recommendations

7.1 Scalability of Existing Services

VYCCU has the potential to expand its services to the lower segment. The legal structure limits its geographical expansion due to the restriction on SACCO expanding beyond the registered District. Staff structuring and management information system needs a detailed overhauling. VYCCU had a great variety of savings and loan products. The products are developed from the experiences of the senior management team which can be re-defined to make more client centred by using market research techniques.

7.2 Recommendation towards the Pilot-Test

As pre-requisites before undergoing the pilot-test, VYCCU would require

1. Strategic Business Planning Exercise based on which VYCCU should determine its strategy and delivery channels to serve the targeted segment.
2. Market Research for Microfinance on the basis of which products would be designed for pilot-testing.

Annexure 1: Income Statement for the year ending 15-July to 14-June of the FY

Particulars (all figures in Npr.)	2007-08	2008-09	2009-10 ⁵
Interest on Loan Portfolio	8,971,381	13,189,028	12,720,971
Interest earned from Bank	546,454	1,727,997	2,050,782
Other Earned Income	587,536	650,524	439,430
Financial Income (A)	10,105,371	15,567,549	15,211,183
Interest paid on savings deposits	4,295,219	5,185,279	4,835,592
Interest and fees on borrowed funds	99,656	18,250	0
Financial Expense (a)	4,394,875	5,203,529	4,835,592
Personnel Expenses	967,451	1,166,393	1,206,583
Administration Expenses (including Dep.)	763,629	944,109	812,351
Marketing and Promotion Expenses	94,946	493,993	217,970
Loan Loss Provision	695,623	250,901	400,000 ⁶
Operating Expenses (b)	2,521,649	2,855,396	2,636,904
Non-Operating Revenue/Expense (c)	0	0	0
Total Expenses (B) = a+b+c	6,916,524	8,058,925	7,472,496
Net Income (before taxes and donations) A-B	3,188,847	7,508,624	7,738,687
Amount of Taxes Paid	0.00	0.00	0.00
Amount of Donation Received	0.00	0.00	0.00
Net Income (after taxes and donations)	3,188,847	7,508,624	7,738,687
Transfer to General Reserve (25%)	797,212	1,877,156	1,934,672
Surplus available for apportionment (100%)	2,391,635	5,631,468	5,804,015
<i>Share Surplus Fund 40%</i>	956,654	9,805,705	1,255,608,506
<i>Capital Protection Fund 5%</i>	119,582	1,494,772,031	597,909
<i>Employee Bonus Fund 15%</i>	358,745	2,092,680,844	1,793,726
<i>Cooperative Education Fund 10%</i>	239,164	1,255,608,506	597,909
<i>Loss Recovery Fund 5%</i>	119,582	1,494,772,031	597,909
<i>Provision for Bad Debtors 15%</i>	358,745	2,092,680,844	1,793,726
<i>Cooperative Development Fund 10%</i>	239,164	1,255,608,506	597,909

3.

Annexure 2: Balance Sheet as of 14th July of the FY

Particulars (all figures in Npr.)	2007-08	2008-09	2009-10 ⁷
ASSETS			
Cash in Hand	3,082,458	2,111,090	2,811,615
Cash at Bank	23,079,575	36,450,221	34,621,875
Deposit with the Coop Association	771,778	1,002,270	6,564,160
Gross Portfolio Outstanding	79,752,937	106,301,133	165,722,825
Short Term Receivable + Pre-paid exp	319,057	302,982	338,982
Sub-total, Current Assets (A)	107,005,805	146,167,696	210,059,457
Fixed Deposits	0	10,000,000	10,000,000
Investments in Shares	693,000	1,553,000	1,553,000
Sub-total, Investments (B)	693,000	11,553,000	11,553,000
Gross Fixed Assets	3,637,304	3,749,127	-
(Accumulated Depreciation)	-1,032,605	-1,248,041	-
Net Fixed Assets	2,604,699	2,501,086	3,248,131
Sub-total, Long-term Assets (C)	2,604,699	2,501,086	3,248,131
TOTAL ASSETS (A+B+C)	110,303,504	160,221,782	224,860,588

⁵ For the FY 2009-10, due to unavailability the data has been taken uptill June 14, 2010 (i.e. for 11 months)

⁶ Loan loss provisioning is done at the end of the financial year; since the case study was developed before VYCCU could finalise the financial statements for 2009-10, for the purpose of completing the statements and analysis, Npr. 400,000 (0.3% of the average portfolio) has been taken as Loan Loss Provision

⁷ For the FY 2009-10, due to unavailability the data has been taken up till June 14, 2010 (i.e. as of June 14, 2010)

LIABILITIES			
Savings deposits	88,136,937	127,827,013	178,959,525
Short-term Commercial Loans			
Short Term Payables	1,489,728	657,740	206,894
Sub-total, Current Liabilities (D)	89,626,665	128,484,753	179,166,419
Paid-up Share Capital	6,306,900	10,256,300	17,052,100
General Reserve	4,422,764	7,175,911	10,052,055
Loan Loss Reserve	4,818,849	5,069,751	5,469,751
Other Reserves (includes surplus)	5,128,326	9,235,067	13,120,263
Sub-total, Equity & Reserves (E)	20,676,839	31,737,029	45,694,169
TOTAL LIABILITIES AND EQUITY (D+E)	110,303,504	160,221,782	224,860,588