



# An Analytical Study of the Role and Function of a Rural Development Bank in the Perspective of Nepal

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## Abstract

Rural development banks may be considered as a boon for the third world countries. Its vivid example is the neighbouring Bangladesh. Once it was supposed to be a 'great ditch'. All the foreign aids were found to be futile for its economic development. But the rural development banks have shown there the vista of financial upliftment. The country has bagged Nobel prize also due to the success of such banks in theory and practice. Geographically Nepal is more or less of the same size of Bangladesh. Its population is even less than one-fourth of that of Bangladesh. But what is the role of rural development banks in Nepal? In the present paper we have considered a rural development bank as established under the initiative of the government of Nepal. The first eight years of its establishment have been taken into account. Our analytical study shows how the situation in Nepal has turned the whole system a flop.

**Keywords:** Rural development bank, third world countries, financial upliftment.

## Introduction

The term 'bank' is originally derived from the German word 'back' meaning a joint stock fund. It was Italianised to 'banco' after the German invasion into Italy. The Babylonians developed the banking system as early as 2000 B.C. Initially temples were used as banks and out of all Greek banking institutions the great temples of Ephesus and Delphi were the most powerful ones. But due to lack of morality of the priests the people gradually lost confidence on such 'temple banks'. The origin of the modern banking may be traced to the money dealers of Florence. Bardi, Pitti, Medici etc. became famous throughout Europe as bankers in the 14th century A.D. There were eighty such bankers in Florence but not a single public bank.

The present banking institutions in SAARC countries are mainly modelled on the British type. It is probably true to say that the base of modern banking in England was erected during the Elizabethan period due to influx of gold from America and flourish in foreign trade. Land was no more considered as the only form of wealth and the merchants began to keep their surplus cash with the goldsmiths who in those days had strong rooms and armed watchmen. The goldsmiths used to issue the receipts thereof called as "goldsmith's notes" in which there remained an undertaking to return the sums of money on demand to the depositors or bearers. Such goldsmith's note can be said to be the origin of bank note. Gradually the goldsmiths realised that it was more profitable to invest a part of the sum retained with them instead of collecting the service charge for safeguarding the money. So, with a view to attracting larger amounts they began to offer interest on deposits. In this way the 'issue and deposit' banking began in England. And this

ultimately gave rise to commercial banking when joint stock companies came into this business<sup>1</sup>.

In the SAARC countries Kolkata agency houses were the first trading firms which undertook banking operation for the benefit of their constituents. Among them Alexander & Co. and Fergusson & Co. were the premier firms. They combined banking with their other kinds of business in order to have sufficient liquidity for the later. The Bank of Hindostan, an appendage of Alexander & Co., was the earliest bank started in India under European direction. The failure of the agency houses during great depression of 1829-32 A.D. gave rise to collapse of the banking departments run by them. Ultimately the Indian legislation recognised the necessity of separation of banking from any other kind of business activity and, accordingly, Companies Act, 1913 was amended in 1936 A.D. to that effect. Latter on similar provisions were incorporated in the Banking Companies Act, 1949, renamed since 1966 A.D. as Banking Regulation Act<sup>2</sup>.

In Nepal institutionalised banking operation started after the establishment of Nepal Bank Ltd. in 1994 Bikram Sambat (hereinafter abbreviated as B.S.). Gradually in the banking sector also specialisation in different fields cropped up viz. commercial banking, industrial banking, agricultural banking, export-import banking etc. Accordingly, different banks were established in Nepal also. Under the Development Bank Act, 2052 B.S. the rural development banks have been functioning in different development regions of the country.

Nepal is a country in which majority of the people live in rural area. Agricultural income is the main source of earning for

them. The initiation of institutionalised agricultural credit system in this country goes to the credit of co-operative banks. The operation of co-operative banks was confined to co-operative sector only. So, the growing need of agricultural finance could not be met up by such limited activity of the co-operative banks. In 2022 B.S. Land Reform and Saving Corporation was set up. Its function, inter alia, was to arrange for compulsory saving by the country people. In the year 2024 B.S. the Agricultural Development Bank Act was passed. Accordingly, Agricultural Development Bank was established in Nepal. Land Reform and Saving Corporation was merged with Agricultural Development Bank in order to avoid the possibility of dual financing to farmers. Thus Agricultural Development Bank became the sole financing institution in the country in the fields of agriculture and allied agriculture. In 2031 B.S. Nepal Rashtra Bank, the central bank of Nepal, instructed all the commercial banks to allocate 12% of their deposits for the purpose of priority sector advances. But in the rural sector commercial banks are scanty. Moreover, the overdue loans figure began to increase steeply in the Agricultural Development Bank. In this perspective, looking into the havoc success of rural banks in Bangladesh, the government of Nepal decided to establish 'grameen bikash banks' in the country. Such rural development banks were originally initiated through Prof. M. Yunus's masterminded project which has brought Nobel prize in Bangladesh. This encouraged the government of Nepal to institute 'grameen bikash banks' in all the development regions of the country as a replication programme. In this way Purwanchal Grameen Bikash Bank Ltd. was established in the year 2049 B.S. in Biratnagar, second largest city of the country, to cater to the needs of the eastern region. In 2052 B.S. Development Bank Act came into force. Since then this bank has been functioning under that Act instead of Commercial Bank Act, 2032 B.S.

Within four years of its establishment the Purwanchal Grameen Bikash Bank Ltd. (abbreviated as PGBBL) became the third

largest bank of its kind in the world<sup>3</sup>. But what are the role and function of the Bank? Has it fulfilled the expectations and motive with which it was established? For this paper we have considered the first eight years of PGBBL since establishment and studied analytically the performance of such a bank in the perspective of Nepal.

**Profile of the Bank:** Purwanchal Grameen Bikash Bank Ltd. started functioning with an authorised capital of 60 millions Nepalese rupees. However, the issued and subscribed capital was NRs. 30 millions only—300,000 ordinary shares @ NRs. 100/- each. In the next year i.e. 2050-51 B.S. the bank issued the remaining shares. But it could collect NRs. 22,500,000/- and NRs. 1,500,000/- only from Nepal Rashtra Bank and Nepal Bank Ltd. respectively. In the fiscal year (F.Y.) 2051-52 B.S. the authorised share capital was increased to NRs. 120 millions. Likewise, its issued and subscribed capital was increased to NRs. 60 millions—600,000 equity shares @ NRs. 100/- each. In Table-1 the capital structure of the bank as at the end of the study period has been furnished.

The board of directors of the Purwanchal Grameen Bikash Bank Ltd. is headed by the chairman deputed by Nepal Rashtra Bank. This board is formed of five members. Out of the remaining four, one director is deputed by the ministry of finance and two are deputed in turn by two commercial banks holding its share. The bank itself deposes the managing director.

As per the decision of the board PGBBL opened 40 branches under 7 area offices within eight years of its inception. There were 1,293 centres under these branches, out of which 797 being full-fledged. The bank was providing rural banking service, directly or indirectly, to 270,800 persons in 259 village development committees of 6 districts (Jhapa, Morang, Sunsari, Saptari, Sirha and Udaypur) in 3 zones (Mechi, Koshi and Sagarmatha) forming the eastern development region of the country.

**Table-1**  
**Capital Structure**

Serial number	Shareholder	Number of shares	Amount (in million NRs.)	Percentage
1	Nepal Rashtra Bank	400,500	40.05	66.75
2	Government of Nepal	49,500	4.95	8.25
3	Nepal Bank Ltd.	30,000	3.00	5.00
4	Rashtriya Banijya Bank Ltd.	30,000	3.00	5.00
5	Nepal Grindlays Bank Ltd.	30,000	3.00	5.00
6	Nepal Arab Bank Ltd.	30,000	3.00	5.00
7	Nepal Indosuez Bank Ltd.	30,000	3.00	5.00
<b>Total</b>		<b>600,000</b>	<b>60.00</b>	<b>100.00</b>

Source: Chairman's report in the 5th A.G.M. of PGBBL

The objectives of the bank followed by its activities are as follows: i. To disburse short-term loans to poor women in the rural sector especially where the commercial banks do not provide any service, ii. To save the villagers from the grip of private money-lenders who use to provide loan at a high rate of interest, iii. To provide agricultural loans to the farmers without any security, iv. To provide finance without any security in the allied agricultural sector also, v. To assist in small business and small scale industries, vi. To help the country women at the time of emergency like medical treatment, obsequies, school admission etc., vii. To run adult education and vocational training programmes for the country women, viii. To teach the would-be loanees the code of conduct, morality and ethics, ix. To grow the civic sense among the villagers, x. To grow the sense of co-operation among the rustics by arranging for group loans, xi. To encourage the people in rural sector for small savings, xii. To reduce the poverty level of the people in the rural sector, xiii. To try for overall rural development in the entire eastern region of the country.

Following the theory of the Bangladeshi Nobel laureate M. Yunus, the Purwanchal Grameen Bikash Bank Ltd. offers clean loans to groups instead of individual women. A group is comprised of five persons—a chairperson, a secretary, a middle class member and two poor members. A nine-day training is imparted by the concerned branch office of the bank. In this training the would-be loanees are taught the code of conduct and ethics. Special stress is given for improving their morality, sense of co-operation as well as civic sense. Then a test is taken by the branch. If all the group members are successful in the test, then the final examination is conducted by the area manager. When all the members of the group pass the examination, loan is granted by the branch to the two poor members. The branch as well as the remaining three members watches how the loan is

being utilised by them. After seven weeks the secretary and the middle class member are disbursed loan, if found satisfactory. In the opposite case the observation period is extended. Again the branch observes their activities for seven weeks. And in the eighth week loan is given to the chairperson. Each member of the group is given 50 weeks time to repay the loan. Every weekly instalment comprises of 2% of the principal plus interest. If somebody be defaulter (when all the five members enjoy loan), her instalment is to be paid to the branch by the remaining members of the group. On liquidation of the loan the group becomes eligible to borrow further even with higher limit.

### Research Methodology

This study is designed in an analytical-cum-explanatory manner. The main sources of data for this research work are profit and loss accounts and balance sheets of the Purwanchal Grameen Bikash Bank Ltd. for eight consecutive years from 2049-50 B.S. Different annexure to balance sheets has provided additional information for computation. The chairman’s reports for different annual general meetings have also furnished some important data.

Simply by looking into the final accounts prepared at the end of a financial year, the performance of a business enterprise cannot be comprehended. With regard to the financial performance of a firm so many related matters come into play viz. effectiveness in capital management, efficiency and profitability in operation, risk and uncertainty in competition etc. The collected data, as mentioned above, are hence analysed and tabulated in table-2 and table-3. These tabulated data are then processed under the modern tools and technique of management accounting and financial management i.e. fund flow analysis, ratio analysis and trend analysis.

**Table-2**  
**Composite Balance Sheet as at the End of Different Financial Years**

	Particulars	B.S. 2049-50	2050-51	2051-52	2052-53	2053-54	2054-55	2055-56	2056-57
<b>Liabilities and Capital</b>	Share capital	30.00	54.00	60.00	60.00	60.00	60.00	60.00	60.00
	Reserve fund	---	---	0.58	0.78	0.75	0.72	0.70	0.68
	Borrowings	---	10.00	36.12	85.53	144.12	165.03	199.27	196.14
	Deposits	---	3.14	10.76	23.32	40.49	60.63	79.06	91.42
	Other liabilities and provisions	0.02	4.25	10.46	16.85	18.06	12.87	8.81	16.70
	<b>Total</b>	<b>30.02</b>	<b>71.39</b>	<b>117.92</b>	<b>186.48</b>	<b>263.42</b>	<b>299.25</b>	<b>347.84</b>	<b>364.94</b>
<b>Assets and Properties</b>	Fixed assets	1.47	3.78	4.63	4.86	5.26	6.08	5.50	5.09
	Investments	19.46	36.10	---	---	20.00	38.00	53.80	25.80
	Loans and advances	---	18.85	71.46	119.18	166.83	198.07	221.51	246.34
	Cash and bank balances	9.07	5.56	14.42	15.93	15.41	13.20	12.28	15.65
	Other assets	0.20	2.42	9.75	17.89	17.61	7.84	10.85	15.02
	Profit and loss account	(0.18)	4.68	17.66	28.62	38.31	36.06	43.90	57.04
	<b>Total</b>	<b>30.02</b>	<b>71.39</b>	<b>117.92</b>	<b>186.48</b>	<b>263.42</b>	<b>299.25</b>	<b>347.84</b>	<b>364.94</b>

Source: Annual Reports of PGBBL. (in million NRs.)

**Table-3**  
**Composite Profit and Loss Account**

	Particulars	B.S. 2049-50	2050-51	2051-52	2052-53	2053-54	2054-55	2055-56	2056-57
Expenses	Interest on borrowings and deposits	---	147	1,435	4,507	10,807	12,799	15,727	19,415
	Staff expenses	404	3,625	9,517	13,558	16,930	21,342	23,280	28,455
	Office expenses	285	2,452	5,413	5,746	6,852	6,568	7,003	8,124
	Other expenses	4	---	11	95	99	1	---	---
	Provision for doubtful advances	---	---	175	117	127	117	515	344
	<b>Total</b>	<b>693</b>	<b>6,224</b>	<b>16,551</b>	<b>24,023</b>	<b>34,815</b>	<b>40,827</b>	<b>46,525</b>	<b>56,338</b>
Income	Interest on loans and investments	806	1,127	3,535	11,946	24,997	42,174	37,989	42,232
	Other income	65	236	40	998	96	885	674	950
	Capital grant	---	---	---	116	31	25	20	16
	Net loss	(178)	4,861	12,976	10,963	9,691	(2,257)	7,842	13,140
		<b>Total</b>	<b>693</b>	<b>6,224</b>	<b>16,551</b>	<b>24,023</b>	<b>34,815</b>	<b>40,827</b>	<b>46,525</b>

Source: Annual Reports of PGBBL. (NRs. in '000)

**Fund Flow Analysis:** In case of a business enterprise a question naturally arises: what has the firm done with the money it had? The statement of sources and uses of fund answers to this question<sup>4</sup>. For the Purwanchal Grameen Bikash Bank Ltd. the sources and uses of fund are calculated from its balance sheets as on the last day of the fiscal years for eight consecutive years since establishment.

**Ratio Analysis:** One cannot arrive at a definite conclusion about the financial health of an enterprise simply by studying and scanning the absolute figures contained in the conventional form of financial statements viz. revenue statement (i.e. profit and loss account) and balance sheet. The same is possible only when the absolute figures are analysed in terms of ratios<sup>5</sup>. For the present study the ratios are analysed by time series analysis. Different ratios are calculated for the above-mentioned eight years.

**Trend Percentage Analysis:** In course of analysis of the financial performance of a company a question naturally comes: what is the trend of the performance of it<sup>6</sup>? In order to evaluate the financial performance of PGBBL trend percentage analysis is also done. Such analysis is performed by looking into its balance sheet, income statement and activities for eight consecutive years from the beginning. In the very first year it could not start the business activities due to its establishment near the end of the fiscal year. That is why the second year is considered as the base year for the trend percentage analysis.

## Results and Discussion

**Fund Flow Analysis:** There are different *sources of fund* for the Purwanchal Grameen Bikash Bank Ltd. e.g. increase in capital, increase in borrowings, increase in deposits, increase in other liabilities and provisions etc. After the fiscal year 2051-52 B.S. the bank has not increased its capital. Due to loss year after year its reserve fund is in a declining state and contains a very meagre sum. So, the increase in borrowings and the increase in deposits are the major sources of fund for

the bank vide table-4. It is found that, on the average, 43% of the source of fund is contributed by borrowings during the study period. Deposits have contributed to, on the average, 20% of the source of fund by this period. The average contribution of other liabilities and provisions in this respect is 6% only.

The fund of the bank has been mainly used in disbursement of loans. On the average 53% of its fund is used for this purpose. 19% of the fund, on the average, is used on investments during the study period. Increase in interest receivable has given rise to a use of 3% of the fund on the average. Fixed assets are the outcome of only 1% of the average fund of the bank. The striking matter is that, on the average, 13% of the *uses of fund* are meant for the loss suffered by it year after year.

**Ratio Analysis:** The ratio analysis is done from different points of view: liquidity position, leverage position, efficiency position and profitability position (vide table-5).

**Liquidity Position:** The liquidity position of Purwanchal Grameen Bikash Bank Ltd. is checked by current ratio as well as working capital to current assets ratio.

2:1 is considered for *current ratio* as the standard value<sup>7</sup>. For PGBBL this ratio is found to be greater than the said value up to the F.Y. 2052-53 B.S. But thereafter it went on decreasing and reached the minimum value i.e. 1.66:1 in the last year of the study period.

The standard value of *working capital to current assets ratio* is 50%. Up to the F.Y. 2052-53 B.S. this ratio is found to be greater than the said value. But thereafter it continues to decrease. In the F.Y. 2054-55 B.S. though it increased to some extent but the value remained below 50%. In the final year of the study period the ratio attained the minimum value i.e. 40%.

So, it can be concluded that the liquidity position of the bank is not at all good.

**Table-4**  
**Statement of Sources and Uses of Fund from F.Y. 2049-50 to 2056-57 B.S.**

Particulars		B.S. 2049-50	2050-051	2051-052	2052-053	2053-054	2054-055	2055-056	2056-057
<b>Sources of Fund</b>									
1	Increase in capital	30.00	24.00	6.00	---	---	---	---	---
2	Increase in reserves	---	---	0.58	0.20	---	---	---	---
3	Operating income/profit	0.18	---	---	---	---	2.26	---	---
4	Increase in borrowings	---	10.00	26.11	49.41	58.59	20.92	34.23	---
5	Increase in deposits	---	3.14	7.62	12.56	17.16	20.14	18.43	12.36
6	Increases in other liabilities and provisions	0.02	4.22	6.22	6.39	1.21	---	---	7.89
7	Decrease in fixed assets	---	---	---	---	---	---	0.58	0.41
8	Decrease in investments	---	---	36.10	---	---	---	---	28.00
9	Decrease in interest receivable	---	---	---	---	---	10.91	---	---
10	Decrease in other assets	---	---	---	---	1.62	0.23	---	0.07
11	Decrease in cash and bank balances	---	3.51	---	---	0.53	2.20	0.92	---
<b>Total Source</b>		<b>30.20</b>	<b>44.87</b>	<b>82.63</b>	<b>68.56</b>	<b>79.11</b>	<b>56.66</b>	<b>54.16</b>	<b>48.73</b>
<b>Uses of Fund</b>									
1	Increases in fixed assets	1.47	2.32	0.85	0.22	0.40	0.82	---	---
2	Increases in investments	19.46	16.63	---	---	20.00	18.00	15.80	---
3	Increases in interest receivable	0.06	1.71	5.86	4.69	0.31	---	0.91	1.94
4	Increases in accounts receivable	0.10	0.40	1.31	1.35	1.03	1.38	2.05	2.30
5	Increases in other assets	0.04	0.10	0.16	2.10	---	---	0.04	---
6	Increases in cash and bank balances	9.07	---	8.86	1.52	---	---	---	3.37
7	Increase in loans outstanding	---	18.85	52.61	47.72	47.65	31.24	23.44	24.83
8	Operating loss	---	4.86	12.98	10.96	9.69	---	7.84	13.14
9	Decrease in reserves	---	---	---	---	0.03	0.03	0.02	0.02
10	Decrease in borrowings	---	---	---	---	---	---	---	3.13
11	Decrease in other liabilities and provisions	---	---	---	---	---	5.19	4.06	---
<b>Total Use</b>		<b>30.20</b>	<b>44.87</b>	<b>82.63</b>	<b>68.56</b>	<b>79.11</b>	<b>56.66</b>	<b>54.16</b>	<b>48.73</b>

Source: Annual Reports of PGBBL. (in million NRs.)

**Leverage Position:** The leverage position of the Purwanchal Grameen Bikash Bank Ltd. is tested by debt-equity ratio, debt-assets ratio, fixed assets to equity ratio and current assets to equity ratio.

A *debt-equity ratio* up to 2:1 is considered as safe for a company<sup>8</sup>. After the F.Y. 2052-53 B.S. this ratio for the bank is found to exceed the said value. In the final year of the study period it attained the highest value i.e. 5:1.

The *debt-assets ratio* for the bank is found to increase continuously from the very beginning. In the last year of the study period the value became as high as 99%. That means, 99% of the assets of the bank are financed by its debt.

The *fixed assets to equity ratio* is found to be very poor for the bank. 60% to 75% is treated as the normal value of this ratio<sup>9</sup>. But throughout the study period the highest value of it is 10% only.

The *current assets to equity ratio* for PGBBL has got, since beginning, an upward tendency. In the final year of the study period the ratio attained the value of almost 5:1. The incremental sum of current assets, over the shareholders' equity,

is contributed by the debt of the bank as revealed from the above-mentioned debt-equity and debt-assets ratios. Such overburden of debt is causing loss of the bank year after year.

So, the leverage of borrowings for the function of PGBBL has already reached an alarming position.

**Efficiency Position:** The efficiency position of Purwanchal Grameen Bikash Bank Ltd. is analysed by loans outstanding to equity ratio, administrative expenses to loans outstanding ratio, elements of loan per staff member, loans outstanding to collection ratio, overdue loans ratio, loans collection-disbursement ratio and loan collection rate.

The *loans outstanding to equity ratio* shows that the activity of the bank is steadily increasing year by year.

The *administrative expenses to loans outstanding ratio* is found to remain unaltered (around 14%) for the last few years. Looking into the loss suffered by the bank year after year it must try to reduce the ratio to 10%.

The *elements of loan per staff member* of the bank reveal that the efficiency of its staff in the disbursement and collection of

loans has increased over the years. But when the time factor comes in question, it is found that they are gradually lagging behind in collection of loans timely.

*Loans outstanding to collection ratio*, when analysed, shows the efficiency in collection of loans to be maximum in the F.Y. 2054-55 B.S. Actually it is the very year in which the bank earned profit after its commencement of usual business.

The *overdue loans ratio* is found to be zero up to the F.Y. 2052-53 B.S. Thereafter it continuously increased and reached the highest value (11.2%) in the last year of the study period.

For a losing concern like PGBBL the *loans collection-disbursement ratio* must be maintained above 90%. The bank became able to reach this level from the F.Y. 2054-55 B.S. only.

For a financial institution the *loan collection rate* must be above 70%. For PGBBL this is always found to be 90% or above.

So, the efficiency position of the staff members and the bank as a whole is not found bad. But looking into the loss year after year, it should try for further betterment of its activities.

**Table-5**  
**Financial Ratios**

(NRs. in '000)

S. N.	Particulars	B.S. 2049-50	2050-51	2051-52	2052-53	2053-54	2054-55	2055-56	2056-57
1.	Current ratio	1915.6:1	4.11:1	3.01:1	2.44:1	1.73:1	1.94:1	1.76:1	1.66:1
(a)	Current assets (in NRs.)	28,734	62,918	94,468	151,217	217,142	253,636	294,481	298,698
(b)	Current liabilities (in NRs.)	15	15,295	31,336	61,989	125,436	130,636	167,378	180,095
2.	Working capital to current assets ratio (in %)	100	76	67	59	42	48	43	40
(a)	Working capital (in NRs.)	28,719	47,623	63,132	89,228	91,706	123,000	127,103	118,603
3.	Debt-equity ratio	0.0005:1	0.32:1	0.95:1	2.07:1	3.34:1	3.93:1	4.73:1	5.01:1
(a)	Total debt (in NRs.)	15	17,185	57,276	125,662	202,633	238,504	287,112	304,228
(b)	Shareholders' equity (in NRs.)	30,000	54,000	60,580	60,783	60,749	60,716	60,696	60,679
4.	Debt-assets ratio (in %)	0.05	26	57	80	90	91	94	99
(a)	Total asset (in NRs.)	30,201	66,703	100,263	157,863	225,105	263,194	303,942	30,7905
5.	Fixed assets to equity ratio (in %)	5	7	8	8	9	10	9	8
(a)	Fixed assets (in NRs.)	1,467	3,785	4,632	4,858	5,261	6,080	5,500	5,094
6.	Current assets to equity ratio	0.96:1	1.17:1	1.56:1	2.49:1	3.57:1	4.18:1	4.85:1	4.92:1
7.	Loans outstanding to equity ratio	---	0.35:1	1.18:1	1.96:1	2.75:1	3.26:1	3.65:1	4.06:1
8.	Administrative exp. to loans outstanding ratio (in %)	---	32	21	16	14	14	14	15
(a)	Administrative expenses (in NRs.)	690	6,077	14,930	19,353	23,782	27,911	30,283	36,579
(b)	Loans outstanding (in NRs.)	---	18,846	71,459	119,181	166,831	198,071	221,507	246,339
9.	Per capita disbursement of loan (in NRs.)	---	157	504	811	1,030	1,304	1,106	1,243
(a)	Loans disbursed (in NRs.)	---	34,977	116,369	199,486	290,518	367,852	387,134	440,030
(b)	Total member of staff	65	223	231	246	282	282	350	354
10.	Per capita collection of loan (in NRs.)	---	72	276	617	861	1,194	1,039	1,173
(a)	Loans collected (in NRs.)	---	16,131	63,756	151,764	242,868	336,612	363,698	415,198
11.	Per capita loans outstanding (in NRs.)	---	85	309	484	591	702	633	696
12.	Per capita interest receivable (in NRs.)	---	8	33	50	44	3	5	13
(a)	Interest receivable on loans (in NRs.)	---	1,767	7,629	12,321	12,448	760	1,912	4,574
13.	Loans outstanding to collection ratio (in %)	---	117	112	79	69	59	61	59
14.	Overdue loans ratio (in %)	---	0	0	0	0.1	5.1	9.5	11.2
(a)	Overdue loans (in NRs.)	---	0	0	0	98	10,092	20,945	27,545
15.	Loans collection-disbursement ratio (in %)	---	46	55	76	84	92	94	94
16.	Loan collection rate (in %)	---	90	90	93	95	97	95	93
(a)	Interest received on loans (in NRs.)	---	2	2,999	11,339	23,144	41,017	34,436	39,152
17.	Net profit to total asset ratio (in %)	0.6	(7.3)	(12.9)	(6.9)	(4.3)	0.9	(2.6)	(4.3)
(a)	Net profit (in NRs.)	178	(4,861)	(12,976)	(10,963)	(9,691)	2,257	(7,842)	(13,141)
18.	Operating ratio (in %)	80	457	463	184	139	95	120	130
(a)	Operating expenses (in NRs.)	693	6,224	16,551	24,022	34,816	40,828	46,525	56,339
(b)	Operating revenue (in NRs.)	871	1,363	3,575	13,060	25,125	43,085	38,683	43,198

Source: Annual Reports of PGBBL

**Profitability Position:** The profitability position of Purwanchal Grameen Bikash Bank Ltd. is viewed by net profit to total asset ratio and operating ratio.

The *net profit to total asset ratio* is found to be negative except the F.Y. 2049-50 and 2054-55 B.S. That means, the bank has been suffering loss all along except the year of foundation (when it did not start its business) and 2054-55 B.S. In case of profit this ratio is below 1% whereas in case of loss the same is always greater than 2.5% and even as large as 12.9%.

An *operating ratio* of 80% to 90% is considered as normal. But for the bank it is usually greater than 100% during the study period except the F.Y. 2049-50 and 2054-55 B.S. After commencement of normal function from the F.Y. 2050-51 B.S. the bank is found to earn a marginal profit (as revealed from the operating ratio of 95%) in the F.Y. 2054-55 B.S. only. On the other hand, in the years of loss this ratio is even as high as 457% or 463% (vide F.Y. 2050-51 and 2051-52 B.S. respectively).

So, obviously, the profitability position of PGBBL has become a matter of anxiety.

**Trend Percentage Analysis:** The trend percentage analysis is done by looking into the balance sheet, income statement (i.e. P/L. A/c.) and activities of the bank.

The *trend percentage analysis of balance sheet* reveals that the capital and reserves of PGBBL remain, more or less, unaltered for the last six years of the study period (vide table-6). Its fixed assets are quite small. It is not able to increase the investments.

Considerable increase has taken place in disbursement of loans. That means, it is attracting more and more villagers to avail them of its service. Due to increase in its field of operation the accounts receivable figure is also steeply increasing. In order to meet the growing demand of fund it is continuously borrowing from different banks and international organisations. There happens a considerable increase in deposits also.

The *trend percentage analysis of income statement* shows that the major income of the bank is the interest earning from the loans disbursed (vide table-7). Though the interest income goes on increasing, side by side the interest on borrowings also increases every year. Interest expenses on account of deposits too increase each and every year. When the total interest expenses are clubbed with the total administrative expenses, the overall expenditure supersedes the total income of the bank. As a result it has been suffering from loss year after year.

The *trend percentage analysis of activities* highlights its performance in loaning (vide table-8). The disbursement of loan has been continuously increasing. Side by side the collection of loan is also increasing every year. The loans outstanding figure too increases each and every year. Naturally, the interest received on loans goes on increasing continuously. Such increase in the volume of loaning activity has also given rise to increase in interest receivable on loans. Up to F.Y. 2052-53 B.S. there was no overdue loan. But thereafter it is also continuously increasing. The bank is found to manage a drastic curtailment in its interest receivable figure in the F.Y. 2054-55 B.S. And only in that very year the Purwanchal Grameen Bikash Bank Ltd. could earn profit.

**Table-6**  
**Trend Percentage of Balance Sheet (Base Year 2050-51 B.S.)**

	Particulars	B.S. 2049-50	2050-51	2051-52	2052-53	2053-54	2054-55	2055-56	2056-57
Liabilities and Capital	Capital and reserves	56	100	112	113	112	112	112	112
	Borrowings	---	100	361	855	1,441	1,650	1,993	1,961
	Deposits	---	100	343	743	1,290	1,932	2,519	2,912
	Other liabilities and provisions	1	100	246	397	425	303	208	393
	<b>Total</b>	<b>42</b>	<b>100</b>	<b>165</b>	<b>261</b>	<b>369</b>	<b>419</b>	<b>487</b>	<b>511</b>
Assets and Properties	Fixed assets	39	100	122	128	139	161	145	135
	Investments	54	100	---	---	55	105	149	71
	Interest receivable	3	100	432	697	715	97	149	259
	Inventories	31	100	211	1,650	534	377	406	356
	Accounts receivable	20	100	361	629	835	1,108	1,516	1,974
	Cash and bank balances	163	100	260	287	277	238	221	282
	Loans outstanding	---	100	379	632	885	1,051	1,175	1,307
	Cumulative loss	(4)	100	377	611	818	770	937	1,218
<b>Total</b>	<b>42</b>	<b>100</b>	<b>165</b>	<b>261</b>	<b>369</b>	<b>419</b>	<b>487</b>	<b>511</b>	

Source: Annual Reports of PGBBL. (in %)

**Table-7**  
**Trend Percentage of Income Statement (Base Year 2050-51 B.S.)**

	Particulars	B.S. 2049-50	2050-51	2051-52	2052-53	2053-54	2054-55	2055-56	2056-57
Expenses	<b>Total interest expenses</b>	---	<b>100</b>	<b>976</b>	<b>3,067</b>	<b>7,354</b>	<b>8,710</b>	<b>10,702</b>	<b>13,211</b>
	Borrowings	---	100	2,972	9,965	25,589	27,821	32,176	39,500
	Deposits	---	100	360	936	1,721	2,805	4,068	5,090
	<b>Staff expenses</b>	<b>11</b>	<b>100</b>	<b>263</b>	<b>374</b>	<b>467</b>	<b>589</b>	<b>642</b>	<b>785</b>
	Salary and allowances	4	100	260	347	440	550	605	722
	Provident fund	3	100	364	585	578	803	909	1,231
	Others	78	100	258	544	665	861	881	1,191
	<b>Overhead expenses</b>	<b>12</b>	<b>100</b>	<b>228</b>	<b>243</b>	<b>289</b>	<b>273</b>	<b>307</b>	<b>345</b>
<b>Grand Total</b>	<b>11</b>	<b>100</b>	<b>266</b>	<b>386</b>	<b>559</b>	<b>656</b>	<b>748</b>	<b>905</b>	
Income	<b>Total interest income</b>	<b>72</b>	<b>100</b>	<b>314</b>	<b>1,060</b>	<b>2,219</b>	<b>3,743</b>	<b>3,372</b>	<b>3,748</b>
	Loans	---	100	184,928	699,195	1,427,140	2,529,299	2,123,474	2,414,277
	Investments	72	100	48	54	165	103	316	274
	<b>Total other income</b>	<b>28</b>	<b>100</b>	<b>17</b>	<b>471</b>	<b>54</b>	<b>385</b>	<b>294</b>	<b>409</b>
	<b>Loss</b>	<b>(4)</b>	<b>100</b>	<b>267</b>	<b>226</b>	<b>199</b>	<b>(46)</b>	<b>161</b>	<b>270</b>
<b>Grand Total</b>	<b>11</b>	<b>100</b>	<b>266</b>	<b>386</b>	<b>559</b>	<b>656</b>	<b>748</b>	<b>905</b>	

Source: Annual Reports of PGBBL. (in %)

**Table-8**  
**Trend Percentage Statement of Activities (Base Year 2050-51 B.S.)**

Sl. No.	Particulars	B.S. 2049-50	2050-51	2051-52	2052-53	2053-54	2054-55	2055-56	2056-57
1	Loans disbursed	---	100	333	570	831	1,052	1,107	1,258
2	Loans collected	---	100	395	941	1,506	2,087	2,255	2,574
3	Loans outstanding	---	100	379	632	885	1,051	1,175	1,307
4	Loans overdue	---	---	---	---	100	10,298	21,372	28,107
5	Interest received on loans	---	100	184,928	699,195	1,427,140	2,529,299	2,123,474	2,414,277
6	Interest receivable on loans	---	100	432	697	704	43	108	259

Source: Annual Reports of PGBBL, N.B. For loans overdue 2053-54 B.S. is considered as the base year. (in %)

## Conclusion

Rural development banks (RDBs) in Nepal were established looking into their counterparts in Bangladesh. The theory of Md. Yunus there has been followed in Nepal so far as practicable. The success of such banks in Bangladesh has brought Nobel Prize to him. But what is the position of RDBs in Nepal? Purwanchal Grameen Bikash Bank Ltd., which is the third largest bank in the world of its kind, is still surviving as if due to oxygen supplied by the government of Nepal because no other organisation (vide table-1) is interested to invest in such a losing concern.

On principle RDBs in Nepal run on the concept of co-operation. But such co-operative attitude among the loanees cannot be developed overnight. In Nepal the people has least sense of co-operation, as a result of which even partnership firms also cannot flourish.

Further, since loans are distributed by RDBs without any security, the customers try to take undue advantage of it. However, poverty diminishes morality, no doubt. But Bangladesh is also a poor country. It has become a theoretical concept only in Nepal what the loanees show in practice in Bangladesh. Undoubtedly, morality cannot also be developed overnight<sup>10</sup>.

Unlike natural science social science is not based on firm and universally true norms. As for example, from thirty's decade to fifty's one so many research projects were initiated in U.S.A. to determine some universal traits for leadership. But such thirty years' endeavour went in vain as not a single trait was found to be common in all the countries. Likewise, rural development banks have come as a boon for Bangladeshi people, who mostly live in rural areas. But in Nepal the system has totally become a flop.

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