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RETURN RATIO APPROACH TO FUNDS' MANAGEMENT (COST-BENEFIT ANALYSIS): COOPERATIVE BANK OF OROMIA (CBO), HEAD OFFICE, ADDIS ABABA, ETHIOPIA

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Abstract
The study was conducted to assess return ratio to funds management (cost–benefit perspective analysis) in Cooperative Bank of Oromia, Addis Ababa, Ethiopia. Both primary and secondary data were used. The secondary data- were obtained from annual reports of the bank. The data were analyzed using trend analysis, ratios, percentage, and average. According to the analyzed results displayed that, the potential sources the bank were both the cooperative and non cooperatives. The trend analysis displayed that there was high fluctuation of this sources of funds. Funds management development from three types of approaches: Cost approach, Integrated approach and Return approach. To indicators of return approach to funds management includes: Return on loans and advances, Return on investment and Return on Equity ratios were an explanatory variable that the bank made satisfactory performances. From the above findings it could be recommended that the bank has to increase cooperative members and encourage them to contribute in share capital. In addition, the bank has to confront the national bank rules and regulations which are imposed on cooperative bank of oromia to change the principles of cooperatives and bank has to render service to cooperatives as well as the societies. The management has to use the equity properly and realize the return for the members. Funds managers should fully participate in achieving their plan in all funds mobilization, uses of funds and collection of returns.

Key Words: Funds Management, Cost-Benefit Analysis, Return Approach, Return on Loans and Advances, Return on Investment and Return on Equity Ratios.

1. Background

A cooperative bank is a financial entity which belongs to members, who are at the same time the owners and the customers of their bank and this bank was often created by persons belonging to the same local or professional community or sharing a common interest. Cooperative banks generally provide their members with a wide range of banking and financial services. Those are loans, deposits, banking accounts etc *(Mane, 2011).*

Efficient management of funds essentially includes rising of funds and their use in the manner that generates revenues sufficient to meet the operational as well as financial costs and contributes a reasonable return on capital *(Padmsini, 1997).* Thus, the objective of earning profits shall be fulfilled by an appropriate design of funds management on sound commercial principles. This thinking necessitated to conduct a study on funds management with the reference of cooperative cost-benefit perspective.

The history of banking in Ethiopia traces back to a century. However, before the introduction of the modern banking system in Ethiopia, traditional financial institutions such as 'Equb' and 'Idir' has contributed a lot in sharing risks, developing saving habits and by positively impacting on the economic betterment and social well being of the society. Later on, modern banking in Ethiopia has come in to birth in 1905. This has made true the opening of the first bank of Ethiopia called Bank of Abyssinia in 1906. Moreover, historical records show that different types of banks (private and public, domestic and foreign) in different regimes have been seen in Ethiopia. However, banking sector in Ethiopia is expanding through time. Particularly starting from the 1990s to the present days, numbers of banks have come into existence. Among these, Cooperative Bank of Oromia is the newly emerging one. Having the vision of bringing a new dynamism of the financial sector and the banking business in Ethiopia, Cooperative Bank of Ethiopia was introduced in on October 29, 2004 in accordance with article 304 of Commercial Code of Ethiopia. It was established in line with proclamation no. 84/1994 with authorized *(National Bank of Ethiopia, 2013).*

The importance of bank is more pronounced in developing countries like Ethiopia because financial markets are usually underdeveloped and banks are typically the major source of finance for the majority of firms and are usually the main depository of economic savings.

2. Statement of the Problem
The funds management is important for the maximization of profit in the bank, an effective and efficient funds management strategy seeks to optimize the returns on every unit of resource of the bank through prudent use of funds, appropriate interest pricing, planning of investment options, liquidity management and a proper matching of its assets and liabilities. In cooperative bank of oromia, an efficient system of funds management has been an evident by its absence, because of which, it is often stuck with high quantum of surplus funds mobilized at high cost and existence of high market competition in the industry in the area of fund mobilization *(CBO, annual report 2013/14).*

Hence, funds management of the Cooperative Bank of Oromia, an important issue and their cost-benefit perspective is to be studied through cost approach, return approach and integrated approach Funds management of the CBO is an important issue and their *Return Approach* is to be studied with their impact on *Return on Loans and Advances, Return on Investment and Return on Equity Ratios* in CBO. In this context, the questions apt to arise are:

Whether the funds management of the banks is in satisfactory manner in terms of return approach ratios?.

To find out the answer to this question, an analytical study had to be undertaken. The results of such studies will help to find out the problem, difficulties, impacts etc., and to frame financial policies by the CBO for the benefits of the farmers, the community and other stakeholders.

3. Literature Reviews
Several individual researchers had studied a few facets of integrated approach of selected CBO in selected area. To know how far the ground is already prepared and to identify the gaps therein and to spell out the issues which need further intensive and comprehensive analysis, an attempt is made to review the related literature.

3.1 Jyoti Gupta (2012) expressed that the task force considers it necessary for the cooperative banks to devote adequate attention to maximizing their returns on every unit of resources through an effective funds management strategy and mechanism. For the purpose, institution specific investment policies need to be evolved taking into account, composition of funds, maturity pattern of assets and liabilities, availability of money market instruments, exposure limits and efficient monitoring and control mechanism.

3.2 Vhokto Kumar Biswas (2012) studied the term funds has many meanings; in narrow sense it means the accumulated sum of money of people while in broader sense, it refers to financial resources. It also means the working capital which is the excess of current assets over current liabilities. The most common usages of the term, funds refer to cash means working capital and financial resources. Working capital includes that part of total capital which is in use or carrying out the routine or regular business operations. The success and efficiency of an organization, to a large extent, depends upon the effective utilization and management of working capital.

3.3 Maheswari (2012) pointed out that cooperative banks do need the measures for efficient management of funds like other financial institutions as they raise share capital, create reserve, mobilize deposits, borrow funds, recover loans lent and maintain adequate margin to meet the cost of management. The in-flow channels of funds do require their maintenance to meet the demand as and when it arises. The efficiency of management of funds can be judged meaningfully if one studies the relationship between the scale of operation i.e. inflow and out-flow of funds and cost of management.

4. Objectives of the Study

The specific objectives of the present study are:

1. To analyze the return approach in the CBO, and
2. To offer suitable suggestions for the development of the CBO.

5. Data Source and Collection and Analysis Methods

5.1. Source of data

For this study quantitative data was employed from secondary sources based on the selected bank for the study. The secondary data was needed for analysis is mainly obtained from the audited financial statements of Cooperative Bank of Oromia. The financial statement was considered basically on Balance Sheet and profit and loss of consecutive five years data i.e. 20013-14 to 2017-18.

5.2. Data Collection Methods

Data collection is an important aspect of any type of research study. So, appropriate attention will be given for it while inaccurate data collection can impact the result of a study an ultimately lead to invalid results. For this study, the researcher will be used mainly quantitative methods for data collection. So, the researcher will collect the secondary data from audited financial statements mostly the balance sheet, income statement and profit and loss of cooperative bank of Oromia for the consecutive five years (2013-14 up to 2017-18) data by using data sheet.

5.3. Method of Data Analysis

The collected data was analyzed by percentage, averages, and the results are presented using tables. In addition the researcher will also employ data is presented using tables. Finally, taking analyzed information in to account, the inferences are drawn and recommendations will forwarded to fund manager of bank.

6. Sampling

Cooperative bank of Oromia is purposively selected in the study because; it is the first cooperative bank in the country. But the criterion used in selecting the bank in the study based on the holding of a complete 5 years financial statement data (2013-14 to 2017-18), date of establishments that are established before 2010 and the capital they run in business. The study analysis was undertaken for 5 consecutive years of operation for the bank.

7. Results and Discussion

7.1 Return Approach

7.1.1 Return on Loans and Advances

Return on the loans and advances portfolio provides the most profitable avenue for deployment of funds by a bank. This is a facility granted to a bank customer that allows the customer make use of banks funds which must be repaid with interest at an agreed period. The term loan refers to the amount borrowed by persons from the bank refers the nature of loan and the sum paid to the borrower. Thus, from the view point of borrower it is borrowing and from the view point of bank, it is lending. Loan may be regarded as credit granted where the money is disbursed and its recovery is made on a later date. Interest is charged on the loan at agreed rate and intervals of payment. There is a sense of debt in loan, whereas an advance is a facility being availed of by the borrower. However like loans, advances are also to be repaid. Thus a credit facility repayable in installments over a period is termed as loan while a credit facility repayable within one year may be known as advances. Cooperative bank of oromia lend money in four different ways: direct loans, cash credit, overdraft, and discounting of bills Return on loans and advances are components of return approach of the bank.

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Table 1.1,Return on Loans and Advances

(Br. in amount)

Year	Return on Loans and Advance	Credit Amount	Ratio
2013/14	239,671,564	2,079,719,046	11.53
2014/15	422,291,243	3,644,115,624	10.43
2015/16	701,729,147	6,566,040,876	10.68
2016/17	823,669,491	5,851,657,783	14.07
2017/18	974,915,180	6,114,711,523	15.94
Average	**632,455,325**	**4,851,248,971**	**12.53**

Source: computed from audited financial statement of cooperative bank

All return on loans and advances are above 10 percent. It's average value is 12.53 percent from 2013-14 to 2017-18. It has 15.94 percent of maximum value and minimum value of. So 10.43 percent is a financial asset of a bank arising from a direct or indirect loan and advance in five years. The required level of return on loans and advance is between 10-14 percent. As a result of this cooperative bank of oromia did good performance regarding return on advance then it is satisfactory.

7.1.2 Return on Investment Ratio

Employment of bank funds in investments is intended to meet the requirements of statutory liquidity ratio. It measures the firm's efficiency in utilizing invested capital. In other words this ratio expresses bank's ability to generate the required return (expected return) based on using and managing the invested resources by the members. Return on investment is a measure of profitability that indicates whether or not a bank is using its resources in an efficient manner. ROI is known as a profitability ratio, because it provides information about management's performance in using the resources to generate income. ROI is also used by bankers and business analysts to assess a bank use of resources and financial strength.

Table 1.2,Return on Investment

(Br. in amount)

Year	Return	Investment	Ratio
2013/14	239,671,564	567,247,292	42.25
2014/15	422,291,243	839,903,292	50.27
2015/16	701,729,147	1,505,183,292	46.62
2016/17	823,669,491	1,775,521,720	46.39
2017/18	74,915,180	-	0
Average	**452,455,325**	**4,687,855,596**	**18.55**

Source: computed from audited financial statement of the bank

The return on investment of cooperative bank of oromia which was invested on government, corporate security and bills was showing fluctuate increased during the study period from 2013-14 to 2017-18. The average value of return on investment is 18.55 percent. In addition, ROI is limited by the fact that it focuses on one period of time and thus should be considered a short-term performance measure. Ignoring the long-term effects of investments can cause poor decision-making, so it is advisable to combine ROI with other measures of profitability and performance. Return on investment in cooperative bank oromia is satisfactory when it evaluated with the standard optimum level of >3 percent.

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7.1.3 Return on Owner's Equity Ratio

This ratio indicates profitability of a bank by comparing its net income to its average shareholders' equity. The return on equity ratio (ROE) measures how much the shareholders earned for their investment in the company. The higher the ratio percentage, the more efficient management is in utilizing its equity base and the better return is to members.

The ROE ratio is an important measure of a company's earnings performance. The ROE tells common members how effectively their money is being employed. Peer Company, industry and overall market comparisons are appropriate. Financial analysts consider return on equity ratios in the 15-20 percent range as representing attractive levels of investment quality.

An increasing return on equity can suggest the bank is able to grow profits without adding new equity into the business, which dilutes the ownership share of existing shareholders. The higher a company's return on equity, the better management is at employing investors capital to generate profits. The return on equity looks at the return on the shareholder's investment and thus from the shareholder's perspective, allows a comparison of investment in a bank's shares with other investment opportunities, while it can also provide a measure of the bank's riskiness.

Table 1.3,Return in Equity

(Br. in amount)

Year	Net Income	Average Owners Equity	Ratio
2013/14	189,615,412	695,991,486	27.24
2014/15	344,050,986	1,090,376,173	31.55
2015/16	312,438,109	1,410,910,720	22.14
2016/17	39,116,730	1,220,946,535	03.20
2017/18	25,096,924	222,375,701	11.28
Average	**182,063,633**	**928,120,123**	**19.08**

Source: Computed from Audited financial statement of cooperative bank oromia

The cooperative bank of oromia performed increased trend of return on equity the average value of five years was 19.08 percent and it is satisfactory when it is compared to the standard value of 15-20 percent. Unlike other return on investment ratios, ROE is a profitability ratio from the investor's point of view not the company. In other words, this ratio calculates how much money is made based on the members' investment in the bank, not the banks investment in assets or something else.

That being said, members want to see a high return on equity ratio because this indicates that the bank is using its members' funds effectively. Many members also choose to calculate the return on equity at the beginning of a period and the end of a period to see the change in return. This helps track a banks progress and ability to maintain a positive earnings trend.

8. Major Findings

The present study, "Return Ratio Approach to Funds' Management (Cost-Benefit Analysis): Cooperative Bank of Oromia (CBO), Head Office, Addis Ababa, Ethiopia" is an analytical one. The study was conducted in Ethiopia. The study was conducted in CBO, Head Office, Ethiopia. CBO was selected and secondary data were used for the analysis. A decadal period was covered by this (2013-14 to 2017-18). Statistical tools of statistical like average and ratio were used for analysis. The major findings and conclusion are presented in the following paragraphs.

8.1 Return on Loans and Advances

The Bank lends money in four different ways: direct loans, cash credit, overdraft, and discounting of bills. All Return on Loans and Advances (ROLA) are above 10 percent and its average value is 12.53 percent from 2013-14-2017-18. Return on loans and advances of the bank meets the optimum standard level of 10-14 percent which so satisfactory.

8.2 Return on Investment

The Return on Investment (ROI) of cooperative bank of oromia which was invested in government security and bills was increased during the study period from 2013-14-2017-18. The average value of return on investment is 18.55 percent and the optimum level of return on investment is >3 percent because of this the performance the bank was satisfactory.

8.3 Return on Equity

The Return on Equity (ROE) position the bank increased trend of return on equity. The average value of five years was 19.08 percent and it is satisfactory when it is compared to the standard value of (ROE) 15-20 percent. There is lack of management efficiency to utilize the resources contributed by members.

Table 1.4,Result of Integrated Ratio Assessment Approach

S. No	Name of the Ratios	Ratios Result	
		S	**NS**
	Return Approach Ratios		
1.	Return on Loans and Advances	**S**	**-**
2.	Return on Investment	**S**	**-**
3.	Return on Equity	**S**	**-**
	Total	**3**	**0**

S: Satisfactory; NS: Not Satisfactory

9. Conclusions

Funds management ratio is the coordination and control of all sources of funds in cooperative loans and advances, Return on investment and return on equity were variables that the bank not satisfactory performance. Even though, the bank is cooperative bank the share of cooperative ware very low the bank is planned little and fulfill small target. Therefore, the present study leads to the conclusion that though return ratio of cooperative bank of oromia, sufficient attention is not given for efficient utilization of these funds. Lack of professionalization and poor management performance seems to be responsible for this situation.

10. Suggestions

1. The average value of return on owner’s equity of five years was not satisfactory when it is compared to the standard value of ROE. Therefore, the management has to use the equity properly and realize the return for the members.
2. In case of performance, the funds’ managers there are negative devotions of funds manager’s activities. Because, negative results has impact on the funds management performance funds manager fully participate in achieving their plan in all funds mobilization, uses of funds and collection of returns.
3. The bank has to increase interest bearing and increase non-interest bearing deposits which help the bank to stabilize its sources of funds.

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