Research Paper
Impact Factor: 5.494
Peer Reviewed & Indexed Journal
www.ijbarr.com

IJBARR
E- ISSN -2347-856X
ISSN -2348-0653

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

Abebe Gerem Hailu* Ahmed Endris**

**Head of the Department, Department of Cooperatives, CB&E, Post Box No. 1145, Wollo University, Dessie, Ethiopia.*

*** PG student, Department of Cooperatives, CB&E, Post Box No. 1145, Wollo University, Dessie, Ethiopia.*

Abstract

The study was conducted to assess integrated 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 integrated approach to funds management includes: Deposits to total liability, Investment to working capital, Credit to deposits and Liquid asset to total liability ratio 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, Integrated approach, Deposits to total liability, Investment to working capital, Credit to deposits and Liquid asset to total liability.

1. Background

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).*

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

IJBARR
E- ISSN -2347-856X
ISSN -2348-0653

management on sound commercial principles. This thinking necessitated to conduct a study on funds management with the reference of cooperative cost-benefit perspective.

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 cost approach is to be studied with their impact on deposit to total liabilities, investments to working capital, credit to deposits and liquid asset to total liability 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 integrated 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 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.

3.2 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.

3.3 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

IJBARR
E- ISSN -2347-856X
ISSN -2348-0653

account, composition of funds, maturity pattern of assets and liabilities, availability of money market instruments, exposure limits and efficient monitoring and control mechanism.

4. Objectives of the Study: The specific objectives of the present study are:

1. To analyze the integrated 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 Integrated Approach

7.1.1 Deposits to Total Liability Ratio

The size of deposits determines the funds available for profitable deployment by the banks. Deposits are mobilized in local which serve as a stable source of financing. Further, the deposits can be obtained at lower cost of financing it is compared to the alternative sources of bank funds.

Table 1.1,Deposit to Total Liability Ratio,(Br. in amount)

Year	Deposit	Liability	Ratio
2013/14	4,465,039,064	5,841,478,790	76
2014/15	5,450,097,267	6,259,995,680	87.06
2015/16	7,368,004,706	10,051,156,315	73.30
2016/17	8,488,327,234	9,466,401,571	89.66
2017/18	25,392,151	27,512,333	92.29
Average	**5,159,372,084.4**	**6,329,308,937.8**	**81.51**

Source: Computed from audited financial statement of cooperative bank of oromia

As it is revealed on the table 4.6 deposit to total liability decreases from 2013-14 to 2017-18 this is not good trend for the bank because, deposit is useful sources of funds of the bank. However the overall values of deposits total liability shows 81.51 percent which is good. Hence, it is important to know the share of deposits in the total sources of funds determining the total deposit to total liability ratio. The standard level of deposits to total liability is high good as a result of this it is satisfactory.Higher ratios indicate more reliance on deposits.

7.1.2 Investment to Deposit Ratio

The Bank invested a portion of its deposits in government and corporate securities which earn relatively low income as compared to investments on loans and advances. A higher ratio of investment to deposits indicates that more funds are deployed in low return investments than in high return credit business. It also implies that the funds are diverted from credit business to investment activities for liquidity purpose than to earn a handsome return. This tends to adversely affect on the profitability of bank funds. The investment of the banks includes the investments on governmental securities. Investment in treasury bills; investment in National bank of Ethiopia bills and fixed time deposits in national bank of Ethiopia

Table 1.2,Investment to Deposit Ratio(Br. in amount)

Year	Investment	Deposit	Ratio
2013-14	567,247,292	4,465,039,064	12.70
2014-15	839,903,292	5,450,097,267	15.41
2015-16	1,505,183,292	7,368,004,706	20.42
2016-17	1,775,521,720	8,488,327,234	20.91
2017-18	-	25,392,151	0
Average	**636,534,460.8**	**5,159,372,084.4**	**13.88**

Source: Computed from audited financial statement of cooperative bank of oromia

The investment to deposit ratio of cooperative bank of oromia shows flexible trend in the study period and the overall average value the bank was 13.88 percent which is below standard. The required standard is >25 percent however the performance of the bank was 13.88 percent therefore the ratio of investment to deposit of the bank is not satisfactory.

7.1.3 Credit to Deposit Ratio

A Bank with greater credit to deposit ratio can be considered better monitored and safer than banks with very low credit to deposit ratios. As a lending bank, cooperative bank of oromia accepts that deposits must have a certain measure of liquidity to maintain its normal daily operations. Credit given to its customers is mostly not considered as liquid, meaning that they are invested over a long period of time.

The credit to deposit ratio can be used by members and internally by the bank to determine the financial short term viability. The credit to deposit ratio may be used to ensure that any money needed is immediately available. Banking insurance companies may also find this ratio or some variation of it of use when underwriting the policy to determine insurability. Profitability of banks essentially depends on the volume of credit. Credit to deposit ratio reveals the extent of deposit utilized for meeting the credit needs of the banks. Credit business carries high risk as well as high return.

IJBARR
E- ISSN -2347-856X
ISSN -2348-0653

Table 1.3,Credit to Deposit Ratio(Br. in amount)

Year	Credit	Deposit	Ratio
2013/14	2,079,719,046	4,465,039,064	46.57
2014/15	3,644,115,624	5,450,097,267	66.86
2015/16	6,566,040,876	7,368,004,706	89.11
2016/17	5,851,657,783	8,488,327,234	68.94
2017/18	14,711,523	25,392,151	57.93
Average	**3,631,248,970.4**	**5,159,372,084.4**	**65.88**

Source: Computed from audited financial statement of cooperative bank of oromia.

As it is indicated on the above table credit to deposit ratio is decreasing from 2013-14 to 2017-18. The credit to deposit ratio of the bank is 65.88 percent in five years. Change in the volume of loan business causes a change in the size of profits. In these respects, the credit to deposit ratio is satisfactory when it is compared with the level of standard of credit to deposit ratio. A higher credit deposit ratio indicates the higher deployment of deposits for credit business and higher will be the productivity of funds.

7.1.4 Liquid Asset to Total Liability

Liquidity is the ability to pay all contractual obligations of the bank, notably lending and investment commitments and deposit withdrawals and liability maturates. In the normal course of business the ability to funds in assets and meet obligations as they come due. All the items that can easily be turned into cash were viewed as liquid assets. These assets include cash on hand, reserve account with NBE, deposit with local banks, settlement account with national bank, deposits with foreign banks. A lower ratio indicates to lower levels of liquidity. An ongoing process to ensure that cash needs can be met at reasonable cost in order for a bank to maintain the required level of reserves and to meet expected and contingent cash needs Good management information systems, analysis of net funding requirements under alternative circumstances, diversification of funding sources, and contingency planning are crucial elements of sound liquidity management.

Table 1.4,Liquid Asset to Total Liability Ratio(Br. in amount)

Year	Liquid Asset	Total Liability	Ratio
2013/14	3,002,487,824	5,841,478,790	51.39
2014/15	1,757,413,229	6,259,995,680	28.07
2015/16	2,322,975,836	10,051,156,315	23.11
2016/17	2,133,870,835	9,466,401,571	22.54
2017/18	7,676,779	27,512,333	27.90
Average	**1,844,884,900.6**	**6,329,308,937.8**	**30.60**

Source: Computed from audited financial statement of cooperative bank of oromia

The ratio of liquid asset to total liability indicated on the table 4.9 shows that, The average value of the liquid asset to total liability ratio indicates 30.60 percent which is satisfactory because of satisfy the required standard value which is >25 percent. The risk of loss to a bank resulting from its inability to meet its needs for cash or from inadequate liquidity levels, which must be covered from funds.

8. Major Findings

The present study, “Integrated Ratio Assessment 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

IJBARR
E- ISSN -2347-856X
ISSN -2348-0653

like average and ratio were used for analysis. The major findings and conclusion are presented in the following paragraphs.

8.1 Deposits to Total Liability

The deposit to total liability of the bank decreases from 2013-14 to 2017-18 this is not appreciable for the bank because deposit is stable sources of funds of the bank. However the overall values of total liability shows 81.51 percent which so good. Higher ratios indicate more reliance on deposits. The ratio of deposits to total liability of the bank was satisfactory.

8.2 Investment to Total Deposit

The investment to deposit ratio of cooperative bank of oromia shows flexible trends in the study period and the overall average value the bank was 13.88 percent which is below standard. The required standard is >25 percent however the performance of the bank was 13.88 percent therefore the ratio of investment to deposit of the bank is not satisfactory.

8.3 Credit to Deposit Ratio

The credit to deposit ratio was decreasing from 2013-14 to 2017-18. The credit to deposit ratio of the bank is 65.88 percent in five years. In these respects, the credit to deposit ratio is satisfactory when it is compared with the standard. But decreasing amount of credits to deposits decreasing amount return on credits.

8.4 Liquid Asset to Total Liability

The average value of the liquid asset to total liability ratio indicates 30.60 percent which is satisfactory because the required standard value is >25 percent. But high liquidity position has also its own effect because; when money kept without use in the bank profitability will be decrease.

Table 1.5,Result of Integrated Ratio Assessment Approach

S. No	Name of the Ratios	Ratios Result	
		S	**NS**
Integrated Approach Ratios			
1.	Deposits to Total Liabilities	**S**	**-**
2.	Investments to Working Capital	**-**	**NS**
3.	Credit to Deposits	**S**	**-**
4.	Liquid Asset to Total Liability	**S**	**-**
Total		**3**	**1**

S: Satisfactory; NS: Not Satisfactory

9. Conclusions

Funds management is the coordination and control of all sources of funds in cooperative banks. Deposits to total liability, credit to deposit and liquid Asset to total liability were an explanatory variable that the bank made satisfactory performance except investments to working capital ratio. If the bank concentrates to increase cost of deposits and speedy recovery of debts, it has good future both in increasing its own profitability and also can serve more efficiently. Hence, the overall performance of the CBO is good. If the benefits are properly toiled and utilized it has a bright future both to the community and to the nation.

IJBARR
E- ISSN -2347-856X
ISSN -2348-0653

10. Suggestions

1. The bank has to increase interest bearing and increase non-interest bearing deposits which help the bank to stabilize its sources of funds.
2. The investment to deposits ration of the bank is below the required standard the bank has to increase the amount investment from deposits collected by the bank in order to get required return on investment. The national bank directive which enforce them to invest 27 percent of the loan disbursed by them in NBE (National Bank of Ethiopia) bills bearing at 3 percent per annum with maturity period of five years. Even though, the such regulation is important for the liquidity of the bank, it has side effect the on bank, it highly increase the liquidity the bank and the not doing a high return business in where it is needed. Thus, let the cooperative bank of oromia do its business freely.

References

1. Abdul Kuddus K.A &ZakirHussain A.K, Cooperative Credit and Banking, (Limra Publications: 2010) Janannathan Nagar, Arumbakkam, Chennai-06.
2. Jyoti G and Suman J, A study on Cooperative Banks in India with special reference to Lending Practices, International Journal of Scientific and Research Publications, Volume 2, Issue 10, October 2012, ISSN 2250-3153, 2012, pg 23-26.
3. Maheswari, Funds Management in Selected Cooperative Banks, Doctoral diss., Department of Commerce, S. K. University, Anantapur (A.P.) 515 003. 2012, pg 10-23.
4. Mane M. J. (2011), Performance of Sangli DCC Bank Limited Sangli. Indian Streams Research Journal. Vol. 1, Issue II / pp 151-155
5. National bank of Ethiopia, (2013), Licensing and supervision of Banking business, reserve requirement, 6th Replacement, directives NO. SBB/55/2013.
6. Padmlnl, F. I., (1997) “Funds Management of District Cooperative Banks in Kerala” Department of industrial and fishery Cochin university of science and technology Cochin- 682 022, Kerala.
7. Peter R and Daniel G., Fund Management Risk Control, Staple Inn Actuarial Society on 21 February 1995, Page 10-28.
8. Raja S., An Evaluation of Financial Performance of the Madurai District Central Cooperative Bank Ltd, Indian Cooperative Review, 2005, January.
9. Ramachandran R & Srinivasan R, Financial Management, (Sriram publications:2010) 1-G kalyanapurm, Tennur, Trichy-17.
10. Ramachandran R & Srinivasan R, Management Accounting (Sri ram publications: 2012) 1-G kalyanapurm, Tennur, Trichy-17.
11. Ravichandran K &Nakkiran S, Theory and Practice of Cooperation, Abhijeet Publications: 2009) 2/46 Tukhmeerpur Extension, Delhi-110094.
12. Vhokto K.B and Kartik C.M., Fund Management Practices of the Selected Nationalized Commercial Banks in Bangladesh University Review, Vol. 6 No.1, January–June, 2012, Pg 243-249.
13. www.coopbankoromia.com.et.
14. www.nbe.gov.et.