

Analyzing of Financial Performance Through Camel Approach the Case of Weltane Ambo Saccos Union, West Shoa Zone, Oromiya Region ,Ethiopia

Mulunesh Geleta^a, A.Tamilarasu^b

^a M.A, ^bFaculty of Accounting, (ICDS) Ambo University, Ethiopia

Abstract

SACCOs are contouring considerable income for the development of nation economy, but in the study area the SACCOs is facing problems for the income generation activity hence the study focused on the Financial Performance Through CAMEL Approach the Case of Weltane Ambo SACCOs Union, for this purpose purposive sampling method were used to selectee the study unit and the study area, to attain and address the objectives of this study, secondary data were used to analyze the financial performance through CAMEL. The study was suggested the study units for the improvement of the Capital adequacy, Asset management, Quality management, Efficiency and the Liquidity of SACCOs

KEYWORDS: Financial Performance, Ratio Analysis, CAMEL, SACCOs

INTRODUCTION

Background of the Study

The SACCOs sectors are treated as the back-bone of an economy. In the same way, there are several types of SACCOs in different Countries. Most of them are in growing position in Ethiopia. As the most of the people in Ethiopia are Farmers, they prefer to deposit and take loans from the SACCOs. For this reason, the researcher has find out the performance of Weltane SACCOs in West Shoa Zone Oromia Regional State. To measure the performance, the researcher chooses CAMEL Rating Analysis system. CAMEL stands for: C Judgment of Capital Adequacy, A Judgment of Asset Quality, M Judgment of Efficiency and Quality of Management,E Judgment of the Volume and Level of Earnings, L Judgment of Strength and Level of Liquidity,

Statement of the problem

(Kennedy Garama Fujo and Abdullah Ibrahim Ali, 2016), expressed that, Financial performance is one of the key objectives for all organizations (including SACCOs).Financial performance is measured by use of many ratios and models like the return on investment, profit margin, efficiency ratios, liquidity ratios etc. Weltane Ambo SACCO union has similar problems in using its own resources to generate income, Credit management, financial innovation and liquidity management in its financial performance. The researcher focused to analyze the financial performance of Weltane Ambo SACCOs union, through CAMEL Approach.

Objectives of the study are;

- To analyzing the Capital Adequacy of WASACCOs union.
- To Asses Asset Quality of the WASACCOs union
- To examine the Management Efficiency of WASACCOs union
- To explore the Earning Capacity of WASACCOs union.

- To find out the Liquidity Performance of WASACCOs union.

LITERATURE REVIEW

CAMEL Model

The CAMEL Model was developed in 1979. This model is recommended by the US Federal Reserve and the Uniform Financial Institutions Rating System (UFIRS). This model was employed in the US financial institutions and then all around the world. This model consists of five indicators that are Capital adequacy, Asset quality, Management efficiency, Earnings & Profitability and Liquidity. The CAMEL framework emphasizes on the five parameters of the financial institution system by looking at its profit and loss statement to assess financial performance and balance sheet to assess the financial position of the financial institution. CAMEL model is basically a methodology commonly used to measure the performance of financial segment. The different researchers have analyzed the overall financial performance of major private sector in different countries through the application of CAMEL Model.

CAMEL rating system

The Uniform Financial Institution Rating system, commonly referred to the acronym CAMEL rating, was adopted by the Federal Financial Institution Examination Council on November 13 1979, and then adopted by the National Credit Union Administration in October 1987. It has proven to be an effective internal supervisory tool for evaluating the soundness of a financial firm, on the basis of identifying those institutions requiring special attention or concern. (**The United States. Uniform Financial Institutions Rating System 1997**).

RESEARCH DESIGN & METHODOLOGY

Description and Selection of the Study Area

Oromia is the largest region consists of 353,632km² of land mass in central and southern part of Ethiopia. It extended from the western to the eastern and to the southern of the country. The region has 20 administrative zones and 309 rural districts of varying sizes of land production potential, and 18 urban administrative councils, which have 46 urban towns of population. The region is cereal potential in the central and west, coffee in the west, coffee and chat in the central parts within the region, and live stocks are overall parts within the region but dominant in the southern parts specially, Borana and Guji zones. The area and the unit of study are were selected purposively.

According to the annual report of West Shoa cooperatives promotion Agency the cooperatives movement has promoted to two tires, primary and union, which operated in the West Shoa Zone.

Table 3.1: - Profile of Weltane Ambo SACCO union

S. No	Name	Type	Year of Establishment E.C	Woreda coverage	Members Qty.	
					Beginning	This year
1	Weltane Ambo	SACCO	2003	22	36	200

Source: - West Shoa cooperatives promotion Agency, 2018.

Findings, Conclusions and Recommendations

Capital Adequacy Ratio:

As per the findings of this study the ratio of capital adequacy demonstrated decreasing trend towards the gross capital to total assets ratio, it was eyewitness form 36 percent to 08 percent

Asset Quality Ratio

Regarding the results of asset quality ratio the union has good track towards the total advances to total asset ratio, it is also showed increasing trend, it also observed from the analysis the ratio starts from 61.52 percent to 94.35 percent,

Management Efficiency Ratio:

Return on asset ratio of the union showed from 0.06 percent to 0.03 percent for the study periods, it also noticed that the trend of this ratio is coming down for all the years,

Earnings capacity

Non Interest Income to total income ratio showed the deeply decreasing trend of the union for the study periods, it decreased from 160.75percent to 4.78 percent from the years.

Liquidity Analysis

The ratio of Liquidity assets to total assets, and Liquid assets to total deposits have been witnessed decreasing trend the union should have the optimum liquidity position, hence it has to maintain the optimum level of cash in hand, marketable security and cash at bank for the maintenance of the liquidity position of the union for the easy repayment of shorter solvency and short claims.

Recommendations

Based on the findings, the following recommendations or suggestion were forwarded.

The SACCO union has to maintain the optimum level of capital adequacy for the smooth running of the union by raising the amount of capital at the level of expectation by issuing the shares to the member's cooperatives.

The union is having enough equity it is also having capital adequacy position well and good, but it can also repay the debt which is bearing the interest charges for the union.

The union would have to maintain the increasing level of the total advances to total assets ratios, so that the advances will bring the interest income to the union for future.

WASACCO union would to increase the amount of investment in any form to get the return on investment for the future periods.

The union has to generate more income by reducing unnecessary expenses.

The union must involve the income generating activities of the union for the sustainable development of its own.

It is highly advised to the union to increase the return on total asset of the union by using all the assets effectively and efficiently to get the optimum return of the assets to maintain the earning capacity of the union.

It is suggested to the union to increase the interest income by providing more advances to the members union.

Conclusion

From the study it is also concluded that the dilapidated performing financial performance have to improve their position in terms of Capital adequacy, Asset quality, Management efficiency, Earning Quality and Liquidity to come at par with the SACCO union having good financial performance.

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