



LIQUIDITY RATIO ROBUSTNESS OF AMBO FARMERS' COOPERATIVE UNION, AMBO, OROMIYA REGIONAL STATE, ETHIOPIA

*Dr.A.Mahendran

*Assistant Professor, Department of Cooperatives, Ambo University, Ambo, Ethiopia.

ABSTRACT

To ensure a better financial performance in a fund operating organization is a sine-quo-non of its prudent financial management. The be-all and end-all of financial management is to get an appreciative and desirable financial result. In a conceptual-frame, financial performance can be visualized as a state of financial affairs of an enterprise and the financial management can be viewed as the operational function of a business that is responsible for obtaining and effectively utilizing funds needed for efficient operations. The financial management may be construed as the input and the financial performance may be considered as the output. Finance and Financial management plays an important role in all types of organization. Sound financial planning and management is the most vital requirement for successful management. Financial management also plays an important role in cooperative enterprise. A study of business failures in cooperatives would reveal that majority of such failures resulted from the lack of proper financial management. This study is aimed at Liquidity Ratio Robustness of Ambo Farmers' Cooperative Union, Oromia Regional State, Ambo, during the period from 2012-13 to 2016-17, based on relevant official records. The researcher pursued the study with the objective to examine the liquidity ratio robustness of the union. The study used secondary sources of data. The secondary data were obtained from annual reports of the union. The first objective was achieved through analyzing the appropriate liquidity ratio and average. Accordingly, the overall results of the study were underpinned around the balance sheet items such as assets, liabilities, income, expenditure accounts. The results were drawn for each of the objective set for the study. Accordingly, the analysis of the liquidity robustness was poor performance, in its day-to-day operations. To conclude, it would be appropriate to recommend that Ambo Farmers' Cooperative Union has to be very much critical in efficiently managing its assets for gearing up surplus generation and in enhancing its current assets and internal owners' equity.

Keywords: Liquidity Ratios, Current Ratio, Quick Ratio and Absolute Liquidity Ratio.

1.1 INTRODUCTION

The financial performance measurement has relied on financial or accounting-based measures, despite the drawbacks associated with such an approach. Specifically, the use of financial measures alone has serious limitations because of their inherently backward-looking nature, their limited ability to measure operational performance and their tendency to focus on the short-term (Kaplan and Norton, 2001). The reliance on financial measures alone, therefore, to present the true picture of organizational performance, is in itself backward looking, especially when organizations/institutions are confronted with increasing expectations from a variety of stakeholders. As a result, an organization requires more from its measurement financial performance than ever before.

The economic development emerging out of globalization, liberalization and privatization has resulted in the creation of very competitive environment. This prevailing environment of completion, the role for public sector is declining and private sector is rising very strong. Hence, cooperative sector have no option but to compete with these highly professionalized institution..

Finance is the life blood of a business. Circulation of blood is necessary for maintaining life in human body (Ramachandran R & Srinivasan R: 2010). In the same way, finance is absolutely necessary for the survival and smooth running of business. Finance is necessary to promote a business, purchase fixed assets, buy raw materials, produce goods and market them. Every business activity requires finance. Without finance, the business would come to a halt. Therefore, finance is the fundamental requirement for any business enterprise, to carry on operations and achieve the goals. It has been rightly stated that business needs money to make more money. Finance may be defined as the provision of adequate amount of money when it is required. As a management function, it has a wider meaning. Finance function is concerned with the procurements of funds and their effective utilization.

The growth and development of a nation heavily depends on the effective role of cooperative sector-involving changes economically as well as socially. As a continuous process associated with the challenges of persistent poverty, unemployment and degradation of natural resources, the active role with the healthy operations of financial institutions is ever desire to fulfill the aspirations of people as well as the objectives of nation.

1.2 REVIEW OF LITERATURE

Several individual researchers had studied a few facets of fund working capital robustness selected areas. 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.

Federal Nagarit Gazeta (2004), point out that, cooperative provides for the establishment of cooperatives, according to their nature, at different levels into four-tier structures: the primary societies i.e, the lowest level which is supposed to ten formed by ten or more persons who live, work within a given area, and who have common interest the secondary level i.e. district and regional unions formed by two or more primary level cooperative societies, tertiary level i.e. federation of different unions at regional and or inter-regional level; and the quaternary level or cooperative league i.e. the confederation of all level cooperatives in the country at the national level.

Tsgay Behane (2008), his study on financial performance of the cooperatives was not highly encouraging. For instance the liquidity ratio in the three years was fluctuation and mostly it was below the standard. This shows that the cooperatives ability to meet their financial obligations with in the periods was not in good position.

FAO (2012), discussed that, cooperatives in the economy Cooperatives are present in all countries and all sectors, including agriculture, food, finance, health care, marketing, insurance and credit. It is estimated that one billion individuals are members of cooperatives worldwide, generating more than 100 million jobs around the world. In agriculture, forestry, fishing and livestock, members participate in production, profit-sharing, cost-saving, risk-sharing and income-generating activities, that lead to better bargaining power for members as buyers and sellers in the market place. The International Year of Cooperatives in 2012 celebrates the unique role that this "business model with a social conscience" plays in our modern world. World Food Day 2012 shines a light on agricultural cooperatives in particular, and their contribution to poverty and hunger reduction. After all, of the estimated 925 million hungry people in the world today, 70 percent live in rural areas where agriculture is the economic mainstay. Agricultural and food cooperatives are already a major tool against poverty and hunger, but they could do much more. It is time to strengthen these organizations and facilitate their expansion while creating a favorable business, legal, policy and social climate in which they can thrive.

1.3 STATEMENT OF THE PROBLEM

Agriculture is the core driver for Ethiopia's growth and long-term food security. The stakes are high: 15 to 17 percent of the Government of Ethiopia's (GOE) expenditures are committed to the sector; agriculture directly supports 85 percent of the population's livelihoods, 43 percent of gross domestic product (GDP), and over 80 percent of export value.

Financial measurement is the formats financial area of measurement requiring detailed investigation although financial measurement in cooperatives organization were some distinct features the high debt-equity ratio is generally an advantage to the private enterprise as it enables them to pay higher rates of dividends on equity capitals; on the others hand, it is harmful to the cooperatives at maximizing the rate of dividends on paid-up capitals renders services to members cost. But unfortunately this is not realized by cooperatives management (**Tekalign, 2012**).

In agricultural cooperative problem of marketing system that affect the performance of financial measurement the financial instabilities that lead members dissatisfaction of cooperative in Ethiopia identified by (**Bezabih Emana, 2009**) that includes weak bargaining power, poor marketing skill, lack of market transaction cost, poor financial measurement. Lack of knowledge in cooperatives and poor infrastructure are the problem of agricultural cooperatives.

Haber & Rachel (2005), in their articles, financial performance measurement generally looks at firms' financial ratios (derived from their financial statements) such as liquidity ratios, activity ratios, profitability ratios, and debt ratios. Non-financial performance measurement is more subjective and may look at customer service, employee satisfaction, perceived growth in market share, perceived change in cash flow, and sales growth.

In view of the above stated problems the researcher wanted to measure the cash flow robustness of Ambo farmers' cooperatives union. The main purpose of this study to investigate the cash flow robustness of the union such as cash from operation, net cash used by Investing activities, net cash provided by financing activities.

1.4 OBJECTIVES OF THE STUDY

The specific objectives of the present study are:

1. To analyze the liquidity ratios in the AFCU, and
2. To offer suitable suggestions for the development of the AFCU.

1.5 SCOPE OF THE STUDY

The study deals with the liquidity ratio robustness of Ambo Farmers' Cooperatives Union. The study examines the liquidity ratio robustness of the Ambo Farmers Cooperatives Union based on five years (2012-13 to 2016-17) audited financial reports including balance sheet income statement of the Ambo Farmers Cooperatives Union.

1.6 SAMPLING FRAME AND TECHNIQUES

AFCU was purposively selected by the researcher for the study because of its long standing establishment, experience and availability of the required data for the study.

1.7 DATA SOURCE AND COLLECTION METHODS

For this study, quantitative data collected from the secondary sources of the union and employed in the analysis working capital robustness of AFCU. The financial statements considered basically are: Income Statement and Balance Sheet for a period of five years from 2012-13 to 2016-17 G.C.

1.8 METHODS OF DATA ANALYSIS

The collected data was analyzed by Statistical Package for Social Science (SPSS version 20). The average analysis is to capture the liquidity ratio robustness of the sample union, thereby addressing the objectives.

1.9 RESULTS AND DISCUSSIONS

1.9.1 RATIO ANALYSIS

The relationship between two figures expressed mathematically is called a 'Ratio'. It is a numerical relationship between two numbers which are related in some manner. Ratio analysis is technique of analysis and interpretation of financial statements. It is the process of determination and interpretation of various ratios for helping in decision making. Ratio analysis involves three steps.

1.9.2 LIQUIDITY RATIOS

It is extremely important for ambo farmers union to be able to meet its obligations as they became due otherwise, Lack of liquidity may prepaid the confidence of creditors and may also lead to poor rating. Liquidity ratios measure the ability of cooperative organization to meet its immediate obligation to its creditors. The major types of liquidity ratio which used for this study was a) Current ratio b) Quick ratio c) Absolute liquid ratio d) Networking capital level.

1.9.2.1 Current Ratio

Current Ratio is the relationship between the current assets and current liabilities and it can be worked out by dividing current assets by current liabilities. It measure the ability of performance farmers' cooperative union is meet or pay its short-term financial obligation or current liabilities out of the current assets therefore, it is also known as the ratio of current asset and current liabilities however, it is the primary measure of farmers' cooperative union liquidity. A low current ratio may be an indication of cooperative union inability to pay its short term financial obligation in the near future, while a high current ratio may indicate an excessive amount of current assets or inefficient asset utilization by management. **The standard range is above 2:1.**

Table 1.1
Current Ratio

(Br. in amount)

Years	Current Assets	Current Liabilities	Total
2012-13	579,892,123.50	538,720,625.26	1.07:1
2013-14	312,296,975.30	277,910,180.58	1.12:1
2014-15	336,159,584.40	300,571,973.51	1.11:1
2015-16	367,996,022.78	333,725,406.83	1.10:1
2016-17	455,297,650.00	406,657,676.97	1.11:1
Average			1.10:1

Source: Computed from Audited Financial Reports of the Ambo Farmers' Cooperatives Union

The above table reveals that current ratio of Ambo farmers' cooperative union ranges between 1.12 and 1.07 in the years 2013-14 and 2012-13. The current ratio during the study period has fluctuated; on an average it was 1.10:1 times. The quick ratio of the Ambo union was below the standard. Based on the overall average, it is concluded that the performance of the AFCU with regard to current ratio was not satisfactory.

1.9.2.2 Quick Ratio

The quick ratio is the ratio between the quick current assets and current liabilities. It measures the Ambo farmers' cooperative union's ability to pay off current liabilities immediately. **The optimum level is above 1:1.**

Table 1.2
Quick Ratio

(Br. in amount)

Years	Quick Assets	Quick Liabilities	Total
2012-13	35,805,913.33	538,720,625.26	0.06:1
2013-14	4,606,928.21	277,910,180.58	0.01:1
2014-15	18,277,911.81	300,571,973.51	0.06:1
2015-16	28,855,293.78	333,725,406.83	0.08:1
2016-17	42,499,839.64	406,657,676.97	0.10:1
Average			0.06:1

Source: Computed from Audited Financial Reports of the Ambo Farmers' Cooperatives Union

It could be observed from the above table that the quick ratio has fluctuated; on an average, it was 0.06:1 times. The quick ratio of the union was below the standard. Based on the overall average, it is concluded that the performance of the Ambo farmers' cooperative union with regard to quick ratio is not satisfactory.

1.9.2.3 Absolute Liquidity Ratio

This ratio establishes the relationship between absolute liquid assets to quick liabilities of performance of farmers' cooperative union. **The standard range is above 0.5:1.**

Table 1.3
Absolute Liquidity Ratio

(Br. in amount)

Years	Absolute Liquid Assets	Quick Liabilities	Total
2012-13	49,416,936.18	538,720,625.26	0.09:1
2013-14	57,455,816.00	277,910,180.58	0.20:1
2014-15	93,874,223.88	300,571,973.51	0.30:1
2015-16	92,071,449.04	333,725,406.83	0.20:1
2016-17	103,702,763.30	406,657,676.97	0.20:1
Average			0.19:1

Source: Computed from Audited Financial Reports of the Ambo Farmers' Cooperatives Union

From the table 4.9, it is understood that absolute liquid ratio of Ambo farmers' cooperative union has fluctuated. On an average, it was 0.19:1. The absolute liquid ratio of Ambo farmers' cooperative union ranges between 0.09 and 0.30 in the year 2012-13 and 2014-15 respectively. Absolute liquid (short-term solvency) ratio is below the standard of Ambo farmers' cooperative union during the study period, because the union is not in a position to meet its short term obligations.

1.9.2.4 Results of the Liquidity Ratios -Model-I

Table 1.4
Summary of Results of the Liquidity Ratios (Model-I)

S. No.	Computed Ratios	Adopted Formula	Parameter/Standard / Optimum Range	Results for the Selected Union	Remarks
I	Liquidity Ratios				
	1. Current Ratio	CA/CL	>2:1	1.10	Not Satisfactory
	2. Quick Ratio	QL/QL	>1:1	0.06	Not Satisfactory
	3. Absolute Liquidity Ratio	ALA/ALL	>0.50:1	0.19	Not Satisfactory

Source: A.Mahendran (2016), *Ratio Analysis in Cooperative Banks*, Paramount Publishing House, Hyderabad, India

The above table presents a summary of results of liquidity ratios representing the performance of AFCU. The summary incorporates the different liquidity ratios (the most prominent ones like liquidity types, current ratio, Quick ratio and Absolute liquidity ratios), formulae to compute them, parameter/standard/ optimum ranges for each of the ratio types computed, the average result of each ratio along with the resultant remarks.

Table 1.5
Summary of Liquidity Ratio Result (Model-I)

S. No.	Types of Ratios	Satisfactory	Not Satisfactory
1	Liquidity Ratios	---	3
Total		---	3

Source: A.Mahendran (2016), *Ratio Analysis in Cooperative Banks*, Paramount Publishing House, Hyderabad, India.

From the summary of the final ratio results furnished above, it could well be concluded that all three types (3) ratios were found not satisfactory. This indicates that the selected union's performance is not up to the mark from the perspective of liquidity ratio robustness carried out.

1.9.2.4 Results of the Liquidity Ratios -Model-II

Table 1.6
Summary of Liquidity Ratios Gradation (Model-II)

S. No.	Computed Ratios	Adapted Formula	Parameter Range*	Marks (Score) Range*	Actual Position	Marks Scored**
I	Liquidity Ratios					
1.	Current Ratio	CA/CL	> 2:1	100 (5)	1.10	25
			1.75:1 to 1.99:1	75 (4)		
			1.50:1 to 1.74:1	50 (3)		
			1.01:1 to 1.49:1	25 (2)		
			< 1:1	0 (1)		
2.	Quick Ratio	QL/QL	> 1:1	100 (5)	0.06	25
			0.75:1 to 0.99:1	75 (4)		
			0.50:1 to 0.74:1	50 (3)		
			0.01:1 to 0.49:1	25 (2)		
			< 0:1	0 (1)		
3	Absolute Liquidity Ratio	ALA/ALL	> 0.50:1	100 (5)	0.19	25
			0.40:1 to 0.49:1	75 (4)		
			0.30:1 to 0.39:1	50 (3)		
			0.01:1 to 29:1	25 (2)		
			< 0:1	0 (1)		

Source: *A.Mahendran (2016), *Ratio Analysis in Cooperative Banks*, Paramount Publishing House, Hyderabad, India.

****Total marks secured 25 out of 100**

The above table presents a summary of results of liquidity ratios representing the performance of AFCU. The summary incorporates the different financial ratios (the most prominent ones like liquidity, leverage, activities and profitability ratios), formulae to compute them, five divergent parameter ranges for each of the ratio computed, to arrive at gradation and rank using average.

Table 1.7
Summary of the Liquidity Ratios Graded and Ranked (Model-II)

Marks Secured	Gradation	Final Marks Scored (Based on Average)	Final Rank
91 to 100	1		
81 to 90	2		
71 to 80	3		
61 to 70	4		
51 to 60	5		
41 to 50	6		
31 to 40	7		
21 to 30	8	25.00	8
11 to 20	9		
00 to 10	10		

Source: *A.Mahendran (2016), *Ratio Analysis in Cooperative Banks*, Paramount Publishing House, Hyderabad, India.

It could be well concluded that the summary of gradation, final marks based on average, and the resultant ranking of the selected union. The selected union scored marks 25.00 out of 100 and was ranked eighth. This indicates that the selected union's ratios results were not up to the mark during the study period.

1.10 FINDINGS

The present study, "Liquidity Ratio Robustness of Ambo Farmers' Cooperative Union, Ambo, Oromiya Regional State, Ethiopia" is an analytical one. The study was conducted in Oromiya Regional State, Ethiopia. A decadal period was covered by this (2012-13 to 2016-17). Statistical tools like Percentage average used for the analysis. The major findings and conclusion are presented in the following paragraphs.

1.10.1 Current Ratio

Current ratio of Ambo farmers' cooperative union ranges between 1.12 and 1.07 in the years 2013-14 and 2012-13. The current ratio during the study period has fluctuated; on an average it was 1.10:1 times. The quick ratio of the Ambo union was below the standard. Based on the overall average, it is concluded that the performance of the AFCU with regard to current ratio was not satisfactory.

1.10.2 Quick Ratio

The quick ratio has fluctuated; on an average, it was 0.06:1 times. The quick ratio of the union was below the standard. Based on the overall average, it is concluded that the performance of the Ambo farmers' cooperative union with regard to quick ratio is not satisfactory.

1.10.3 Absolute Liquidity Ratio

It is understood that absolute liquidity ratio of Ambo farmers' cooperative union has fluctuated. On an average, it was 0.19:1. The absolute liquid ratio of Ambo farmers' cooperative union ranges between 0.09 and 0.30 in the year 2012-13 and 2014-15 respectively. Absolute liquid (short-term solvency) ratio is below the standard of Ambo farmers' cooperative union during the study period union is not in a position to meet its short term obligations.

1.11 CONCLUSIONS

Invariably in the selected union of this study conducted in the Ambo, Oromiya Regional State of Ethiopia. The 'KRA's (Key Result Areas) with reference to liquidity ratios of the selected union was not upto the mark during the study period.

1.12 RECOMMENDATIONS

Based on the above findings, the following recommendations are offered.

1. To improve the liquidity position, the union should be maintaining adequate cash reserves from the operating activities
2. The farmers should be providing with the agricultural loans in time by adopting the seasonal lending. The Primary Cooperative Farmers' Cooperative Union should be guided in lending and recovery.
3. A suitable method should be adopted to increase the daily transactions and loan should be given on which can be collected in time.
4. The audit should be undertaken regularly and audit department should insist on actions by the union on the objections raised in the audit department.
5. For timely and adequate dispensation of production credit, there must be coordination even from the time of credit planning.
6. The union should minimize their overdues. To achieve this, union has to follow their credit portfolio very closely taking necessary action even when the first installment of principal or interest is default by the borrower. For such follow up it is necessary to have a perfect and speedy information system. Effective steps should be takes to collect long over-dues and interest.
7. The union should have a proper policy of recruitment, promotions and increment to staff. The union employees can be trained in such a way that they can improve their talents; a cordial relationship should be maintained between the union employees and the customers.

1.13 LIMITATIONS

Taking into consideration the objectives of the study and its coverage both time span and the number of unions, the study is prone to some limitations. Such unavoidable limitations of the present work are:

The study was conducted in Oromia region of Ethiopia, covering in specific, the demographic, geographic, economic and the contributing factors for the measurement of financial performance of Ambo Farmers Union. These factors might differ from

region to region. Hence, the findings and conclusion arrived out of the study may or may not be applicable to the unions in other regions.

The data used in this study are mostly derived from balance sheets of the selected unit. Window-dressing in any financial aspects is not easily traceable.

The study is limited to Ambo Farmers' Cooperative Union only. Other unions were not addressed in Ethiopia.

1.14 SUGGESTIONS

Liquidity of a union is most essential for its survival in the market. Any day when there is not able to pay a cheque drawn on them across the counter ultimate effect will be a run on the union. Therefore it's most essential for every union to watch their inflows and out flows of funds in the form of repayment of loans by the borrowers by the union. For this purpose union should take necessary action in case the inflows and out flows for various periods like 15 days, 1 months, 2 months etc... 1 year, 2 years, 3 years.....10 years etc... are not matching, such maturities mismatch statement and the liquidity statement in specified formats by every union.

REFERENCE

Tekalign Dessalagu (2012), A Case Study of Financial Viability Assessment of Multi-purpose Agricultural Farmers Cooperative Union in Horo District, Horogudura Wellega Zone, ORS, Ethiopia (PG Unpublished Thesis).

Ramachandran R & Srinivasan R, (2010), Financial Management, Sriram Publications, 1-G, Kalyanapuram, Tennur, Trichy-17.

Mahendran A (2016), Ratio Analysis in Cooperative Banks, Rainbow Publications, Hyderabad.

Mahendran A (2016), Working Capital and Funds Flow Analysis in Cooperative Banks, Rainbow Publications, Hyderabad.

Kaplan R.S. (2001), Transforming the Balanced Scorecard from Performance Measurement to Strategic Management: Part I &II, Accounting Horizons (March), 87-104.

Haber & Rachal (2005), Financial Performance Measurement, Cooperative Society Perspective London, UK.

Bezabin Emana (2009), Cooperatives: a Path to Economic and Social Empowerment in Ethiopia, International Labour Office, Dar es Salaam: ILO, Coop Africa, Working Paper,9.

