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RESEARCH PAPER

Assessment of Financial performance of Saving and Credit Cooperative Unions: - Through PEARLS

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Abstract

The purpose of this study is to evaluate the financial performance of SACCOS in West Shoa Zone, through PEARLS. To accomplish the objective of this study, a quantitative research design was employed. The researchers used secondary data of Waltane SACCO's audited financial statements that fulfill the criteria of data available from the union's office covering the period of 2007-2011. PEARLS model of evaluating the financial performance of SACCOS is used to analyze the evaluation of financial performance. The research results show the union is strong regarding the protection of depositors' money and the effective financial structure of the union indicates mutable results. E1, E5, and E9 are slightly fluctuating above or below the standard. But, E3 and E7 are as per the standard. As the Asset's quality is concerned, except A3 all selected indicators are strong and in line with the standard. The result show that selected indicators of the Rates of return and Cost are all in line with standard except R4. Liquidity of the union show fluctuating results L1 is up to the standard, L2 is fairly in line with the standard and L3 met the standard only in 2010 and 2011. The result for sign of growth of the union indicates that all selected indicators are in line with the standard except S6. There should be an alternative source of funds for unions to have enough money to provide the loan requirement. The liquidity of the union should also be provided with very careful attention.

Keywords: Cooperative, Financial performance, PEARLS, Saving and credit cooperative

Introduction

According to the International Cooperative Alliance, (ICA, 1995), Cooperative is an "autonomous association of persons united voluntarily to meet their common economic, social, cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise." Cooperatives are based on the values of self-help, self-responsibility, democracy, equality, equity, and solidarity. In the practice of their originators, cooperative members believe in the ethical values of honesty, openness, social responsibility, and caring for others. By founding a cooperative society, people pool their resources together on a self-help basis to advance their economic, social, and cultural desires and share gains and losses equally (ILO, 1966).

As defined by (Lari, 2009), Savings and Credit Cooperatives (SACCOs) are types of cooperatives whose objective is to pool savings for the members and in turn, provide them with credit facilities. Besides that, SACCOs do have also other objectives to encourage thrift among the members and also to encourage them on how to properly manage money and proper investment practices. Based on their area of operation SACCOs are classified into two categories and called Urban SACCOs (USAACCOs) and Rural SACCOS (RSACCOs). There are also other types of SACCOs like traders, transport, and community-based. Indeed, SACCOs, with their diverse products and services, have given a new meaning to the financial sector in Ethiopia. The most popular service of SACCOs is saving, which has been the surest way to break the vicious cycle of poverty and is fundamental to sustainable economic development (Gazette, 2016). According to the World Council of the Credit union, a credit union is a member-owned financial cooperative, democratically controlled by its members, and operated to maximize the economic benefit of its members by providing financial services at competitive and fair rates. Access to affordable, reliable, and self-sustainable financial services improves lives on many different levels. Credit unions work to expand services to people of all income levels.As per the report from (WOCCU, n.d.), in Ethiopia, there are about 20, 851 credit unions with a total member of 4,767,963. The total saving during the period is 482 million and the loan provided to their members is 124 million with a total asset of 635 million. As per the report, the penetration rate is 9.38%.

Financial institutions play a vital role in the economic resource allocation of countries. They channel funds from depositors to investors continuously. They can effectively do so if they generate the necessary income to cover the operational cost they incur in the due course. In other words, for sustainable intermediation function, these institutions need to be profitable (Aburime, 2005). Beyond the intermediation function, financial performance has critical implications for the economic growth of countries. Good financial performance rewards the shareholders for their investment. This, in turn, encourage additional investment and brings about economic growth. On the other arrow, poor financial performance can lead to institutional failure and crisis which have negative repercussions on economic growth (Flamini, 2009). The performance of firms can be affected internally or externally. While internal factors are individual characteristics that affect the financial institution's performance, macroeconomic factors are external to the institutions (Al-Tamimi, 2010). (Hansen, 2005) assert that financial performance is an essential measure to management as it is an outcome that has been achieved by an individual or a group of individuals in an organization related to its authority and responsibility, not against the law, and conforming to the moral and ethics. Such performance is the function of the ability of an organization to gain and manage the economic resources in several different ways to develop a competitive advantage. (Karbhari, 2004) contend that high financial performance reflects management effectiveness and efficiency in making use of the company's resources, and is often expressed in terms of growth of sales, turnover, employment, or stock prices. According to (Thachappilly, 2019), financial performance forms an important part of the SACCO business and it is crucial for their survival. Successful financial performance in the SACCO has a positive connotation with the capacity to manage financial issues effectively. (Reichel, 2005), states that there is a positive association between financially related activities (such as planning and financial control) and the successful financial performance of SACCOs. (Ladzani, 2011) perceives financial performance as the lifeblood of small-scale organizations, since without them, no growth decisions can be made. In a country where the financial sector is dominated by SACCOs, any failure in the sub-sector has an immense implication on the economic growth of the country. This is because any bankruptcy that could happen in the subsector has a contagion effect that can lead to crises and bring overall financial crisis and economic tribulations (Ladzani, 2011).

The purpose of this study is to evaluate the financial performance of Waltane SACCOS Union that meet the criteria of data availability and to analyze using PEARLS model with a secondary data covering from 2007-2011.SACCOs play an indispensable role in economic development as part of the financial system. According to the report from FCA (2017), there are about 19,805 Primary SACCOS in Ethiopia. This number covers about 25% of the total other primary cooperatives in the country. Besides, there are about 115 SACCOS Unions throughout the country (FCA, 2017).

RUSACCOs in Tigray region are weak in terms of their financial structure and profit generating capacity. They invested much of their resources in a less productive or profitable assets and finance their assets using much capital from members' share capital which cannot be used for loan disbursement, instead of saving deposits. (Ghebremichael, 2014)

SACCOs are now a vibrant instrument comprised by the Government towards increasing financial inclusion especially now that financial transactions are inclining towards a cashless economy. In light of this, various scholars such as (Hakelius, 2006), (Hannah Kiaritha, 2013), (Unal VU, 2009), (Bhuyan, 2007), (Nyoro JK, 2007), (SA, 2009), (Pollet, 2009), (Ayalew, 2013), (Fitsum, 2016) have conducted studies on financial performance of various sectors movement and using various variables namely; competition from commercial banks; members' royalty and active participation; financial, organizational, educational factors, membership, and legislative support; members satisfaction and members participation; economic factors, management committee, and staff members; voice and effective representation of SACCO's respectively as key issues contributing to the financial performance and survival of SACCOs. To my acquaintance there is no a research conducted on evaluating the financial performance of SACCOs through PEARLS in West Shoa Zone of Oromia Regional State, Ethiopia. Therefore, this study tries to fill the gap in the existing literatures and above all the financial performance of Waltane SACCO Union by using the key factors that affect the performance through PEARLS. The main purpose of this study is to assess the financial performance of Waltane SACCOs Union trough PEARLS.This study was designed to address specifically the Protection, efficiency, asset quality, rate of return, liquidity and sign of growth of Waltane Ambo SACCOS Union.

Materials and Methods

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Type of Research Design

To understand the performance of the SACCO union better in this study, the researchers employed a quantitative research approach. To accomplish this task, the researchers were used the descriptive technique where the study begins with the quantitative approach initially to collect and analyze secondary data of the sampled SACCO union to generalize results. Therefore, in this study, the quantitative strategy was implemented with much higher concern.

Type and Source of data

To address the research objectives a PEARLS model was considered that it's the most appropriate. Many different financial ratios and "rule of thumb" have been promoted for financial institutions worldwide, but few have been consolidated into an evaluation program that is capable of measuring both the individual components and the system as a whole. Since 1990, the World Council of Credit Unions, Inc. has been using a set of financial ratios known as "PEARLS" (Richardson, 2002). To achieve the objective, the researchers used secondary data. The secondary data for this study was obtained from the Audited financial statement of the union. for five years from 2007-2011.

Selection of the study area

The study area was West Shoa Zone and is selected based on the nearness to our work area because the research is conducted by self-sponsor. Waltane SACCO Union is selected because it's the only union in the area.

Sample Selection

The union is the only in the study area, therefore, the union was selected without any statistical sampling method and it was selected purposively. Out of a total of 44 ratios sated as a standard to measure financial performance by WOCCU, we have selected 24 based on the significance and compatibility to our country.

Method of Data Analysis

Method of data analysis employs quantitative approach by making use of quantitative analysis. The secondary data are collected and summarized in an excel database containing the variables identified. After that ratios were calculated based on the summarized excel data and analyzed by using the PEARLS model (Sathyamoorthi, 2016).

Result and Discussion

In this chapter, the researchers present the main result and discussions using the quantitative approach. This chapter presents the assessment of the financial performance of WAltane SACCOs union in West Shoa Zone.

Table 1: - Protection Indicators

Indicators of Protection	**Proposed Standard**	**2007**	**2008**	**2009**	**2010**	**2011**
P_1: - Allowance for loan losses/Allowances Required for Loans Delinquent >12 Months	100%	100%	100%	100%	100%	100%
P_3: - Total charge-off of delinquent Loans>12 Months	100%	100%	100%	100%	100%	100%
P_6: - Solvency	>110%	287%	277%	350%	362%	328%

The indicators in this section measure the adequacy of the provisions for loan losses. Allowance for loan losses/Allowances required for loans delinquent >12 months (P1) is used to measure the union's adequacy of the allowances for loan losses when compared to allowance required covering all loans delinquent over 12 months. The result of allowance for loan losses to allowance required for loans delinquent for a period of greater than 12 months shows that Waltane SACCO union has complied with the WOCCU model in provision for allowance required for loans delinquent standard. The WOCCU model gorged that any savings and credit union should provide 100% allowances for loan past due for more than 12 months. P1 is 100% in all the study periods which means Waltane SACCO union has adequate provision to cover the delinquent losses.

The second protection measurement that was used for this particular study is the Total charge-off of delinquent Loans>12 Months (P3). This ratio measures the total charge-off of all delinquent loans >12 months. P3 shows that the total charge-off of delinquent loans over 12 months of the union is in line with the standard that is given by WOCCU to cover the adequacy of the allowances for loan losses. According to the WOCCU model, the total charge-off of delinquent loans over 12 months should be 100%, there is no delinquency in the union during the study period.

The third protection indicator used in this study is solvency (P3). As per the model, the solvency ratio should be greater than 110%. Waltane's solvency during the study period is greater than the standard. The result shows that there are ups and downs on the values from year to year, in 2007 the value is 287%, in 2008 it's decreased to 277%, then in 2009 it's increased to 350% then in, 2010 it's increased to 362% and in 2011 decreased to 328%. Even though it's fluctuating from period to period it's by far greater than the standard stuffed by WOCCU. From this result, we can say that the union is solvent enough to pay the members share and saving deposits upon liquidation.

Effective Financial Structure

The financial structure of the credit union is the single most important factor in determining growth potential, earning capacity, and overall financial strength. The following idyllic targets were purposively selected to ponder the performance of waltane SACCO union.

Table 2: -Indicators of Effective Financial Structure

Indicators of Effective Financial Structure	Proposed Standard	2007	2008	2009	2010	2011
E1: - Net Loans/Total Assets	Between 70-80	69%	116%	98%	82%	79%
E3: - Financial Investment/Total Assets	Max. 10%	2%	2%	1%	3%	4%
E5: - Saving Deposits/Total Assets	70-80%	40%	45%	38%	38%	42%
E7: - Member Share Capital/Total Assets	Max. 20%	11%	8%	6%	5%	4%
E9: - Net Institutional Capital/Total Assets	Min. 10%	13%	11%	8%	8%	8%

The first indicator for effective financial structure used for this study is Net Loans/Total Assets (E1). The result net loans to total assets (E1) of Waltane SACCO union in the year of 2011 (table 2), indicates the union was in line with the proposed standard which reflects the union was funding a loan out of its total assets that is within the range. WOCCU's standard states that, out of total assets of the union 70-80% should be members deposit saving but, this criterion was achieved only this year. In the year 2007, it's a little bit below the standard and it implies that members deposit savings is not enough to provide loans to members so, the union should find another source of funds like borrowing from externals to satisfy member's loan claim. However, in the years 2008,2009 and 2010 net loan to total assets ratio are above the standard. Especially in 2008 it's by far discerned from the gap stated by WOCCU. This is an implication that shows, the total assets of the union are by far less than the net loan during the period and therefore, the union cannot provide loans to its members from saving deposits. If there is not enough amount of assets to provide loans, then the union should go to take borrowing from other funding sources like banks and give loans to its members by having additional interest to members. While we consider the overall performance of the union as net loans to total assets, we can say it approaching but not in the given range and the difference is very large for the year 2008.

As presented in the table above, financing investments to total assets (E3) of the union is within the standard. As per the result, this ratio is in line with WOCCU's standard with increasing rates and this implies that the investment can be increased but it cannot be greater than 10%. So, during the study period, the minimum financing investment to total assets ratio is 1% during the year 2009 and the maximum is in 2011 which is 4%. As this ratio is increased the ability of the union to pay its loan is also increased and it can secure to its members that they will have a continues loan delivery guarantee but, it should not be greater than the stated amount because if its greater than the standard the union's total asset is going to be tied up too long-term investment and it creates a shortage of cash in the union and the union will not be capable of delivering enough amount of loan to its members.

The percentage of total assets financed by member savings deposits were still below the 70 -80% targets (E5) in the study periods. There are unstable saving deposits to total asset ratios (unhealthy percentage) suggests that members are saving to borrow money; the union no longer able to offer competitive rates on members saving; the effects of implementing new savings products were yet to be felt which implies also that Waltane saving and credit union has no effective marketing programs and the union was doing on the wrong way on achieving financial independence during the periods of study. For this purpose, if we consider it year by year, in 2007 only 40% of the total assets are members deposit and in the next year, it was increased by 5%. In 2008 though there is an improvement it's far from the standard of WOCCU. In 2009 and 2010 there are a similar amount of saving deposits to total assets which is 38% and its minimum ratio that is achieved by the union during the study period. The maximum of this ratio is scored in 2011, which is 42% and this is also by far from the standard. As saving a deposit to total assets ratio is decreased the union's capability to provide loans to its members is also decreased.

The result for member share capital to total asset (E7) of the union is within the standard but it's far from it, which means the WOCCU standard says the maximum of this ratio should be 20%. As it's indicated in table 3, the maximum of this ratio is obtained during 2007 (11%). This reveals that out of the total assets of the union 11% is member's saving and therefore, the majority of the union's asset is from liability might be from members saving or outside borrowing. The minimum amount is 4% in 2011. As this ratio is decreased implies that the union went to search for other sources of finance may be a bank, because in E5 the result reviled that saving a deposit to total assets ratio is below standard, for this reason, the majority of the assets of the union is borrowed assets.

Another ratio that is used to measure the effective financial structure of the union and selected for this study is the net institutional capital to total assets (E9) ratio. The maximum amount obtained for this ratio is 13%, but the form is decreasing and this implies that the union is depending on external loans rather than members share capital and saving deposits. If we look at the WOCCU standard it says it should be a minimum of 10%, but the union achieved this only in 2007 and 2008; in the years 2009, 2010, and 2011 the value of this ratio is 8% and it's below the standard.

Asset Quality

The indicators of asset quality measure the percentage of non-earning assets that negatively impact profitability and solvency. They are loan delinquency, non-earning assets, and the financing of non-earning assets.

Table 3: - Indicators of Asset Quality

Indicators of Asset Quality	**Propose Standard**	**2007**	**2008**	**2009**	**2010**	**2011**
A1: - Total loan delinquency/Total Loan Portfolio	<=5%	0	0	0	0	0
A2: - Non-Earning Assets/Total Assets	<=5%	1%	1%	5%	0%	0%
A3: - Net Institutional Capital/Non-Earning Assets	>=200%	294%	640%	44%	250%	208%

As it's indicated in the table above total loan delinquent to the total loan portfolio is fully matched with WOCCU's standard. The standard says that this ratio should be less than or equal to 5%, but throughout the study period the result is shown zero. This is implying that there is no loan delinquent within the study period and therefore almost all the assets of the organization are invested in earning activities. This reveals that the quality of the assets of the Waltane SACCO union is going in line with the standard prescribed by the WOCCU model and Waltane SACCO union has efficient credit management to control delinquency and also the union has effective portfolio management which helps to maintain the financial health. The reason behind the delinquent ratio becomes far below the WOCCU benchmark is from the obtained data of Waltane SACCO union there has not been any delinquency revealed so far in the study periods. However, this does not mean that they are free from delinquency.

Another indicator of asset quality measurement is non-earning assets to total assets ratio (A2). This ratio is used to measure the percentage of the total assets not producing income. Such assets should not exceed 5 percent of the total assets of a financial cooperative. In the case of WAltane SACCO union (Table 3) percent of such assets are in line with WOCCU standard which is 5 percent of its total assets during the study period. The proportion of nonearning assets has below the standard in each year during the study period particularly in the years 2010 and 2011 it's zero and this implies that the union's assets are majorly earning assets. The maximum amount of this ratio is obtained in 2009 and its 5% of the total. The minimum amount that is found from the study for this study purpose is 1% in 2007 and 2008. In general, non-earning assets should be financed with zero cost funds. We can also measure assets quality by using net institutional capital to non-earning assets (A3). This ratio is used to measure the percentage of non-earning assets that are financed with institutional capital, transitory capital, and liabilities without interest.

As it is indicated on the table above the highest amount of net institutional capital to non-earning assets was obtained in the year 2008 which is 640% and it's very far from the standard (>= 200%). This implies that during this year the union has invested almost all of its assets and they become earning assets. The result of A2 above indicated that the non-earning assets to total assets ratio were 1%, therefore, the union was good this period on in investing its assets. The minimum amount of this ratio was obtained in 2009 and it's 44%. This is too far from WOCCU's standard and this implies that during this period the investment of non-earning assets by the union was poor compared to the rest of the period. The result from A2 above also show a similar result to this, it says out of total assets of the union, non-earning assets were 5% which is the maximum limit stated by the union. In the rest of the years 2008, 2010, and 2011 we can say that the ratio of net institutional capital to non-earning assets is fair and within the given range. In general, while reducing the percentage of non-earning assets is important, the financing of those assets is just as important.

Rates of Return and Cost

The first ratio that has been selected to measure rates of return and cost for this study is liquid investment income to average liquid investment (R2). The purpose of this ratio is to measure the yield on short-term investments.

As per the result from the financial statement of the union and presented in the table above R2 is in a good position while compared to the standard by WOCCU. The highest ratio for this is maintained by the union in the year 2010 and 2011 which is 11%, this implies that out of average liquid investments that the union has about 11% is converted to income from liquid investments.

Table 4: - Indicators of Rates of Return and Cost

Indicators of Rates of Return and Cost	Proposed Standard	2007	2008	2009	2010	2011
R2: - Liquid Investment Income/ Average Liquid Investment	Highest rate	6%	10%	9%	11%	11%
R4: - Non-Financial Income/ Average Non-Financial Investment	Min. 10%	5%	11%	290%	11%	12%
R6: - Borrowed Fund/Average Borrowed Fund	>inflation	74%	88%	96%	86%	79%
R8: - Gross Margin/ Average Total Assets	Sufficient Income	7%	9%	8%	8%	8%
R9: - Operating Expenses/ Average Total Assets	<10%	4%	6%	6%	6%	6%
R12: - Net Income/ Average Total Assets	<10%	3%	3%	2%	2%	2%

The standard normally allows us to have the highest rate of this ratio; as per the standard, this ratio is also an increasing pattern except that in 2009 its 9%. The minimum of this value results in 2007 amounted to 6%. So, as per the result, the overall yield that the union has during the study period is best.

Another way through which we can measure rates of return and cost is by using the ratio of liquid investment income to average liquid investment (R4). As per WOCCU's standard except 2007, all the years in the study period are out of it, in 2007 the calculated value is 5% while the standard says a Minimum of 10% this implies that the union has earned acceptable income from its liquid investment. But in the next years, the result is out of the box and even in 2009, it's very extreme and this might be because of the reason that during this year the union has earned more income from liquid investments than ever.

Borrowed fund to average borrowed fund (R6), can also be used in determining rates of return and cost. The main purpose of this ratio is to measure the yield or cost of all borrowed funds. The maximum amount that was obtained for the borrowed fund is 96% in 2009 (table 4), this implies that during 2009 the union has taken more loans while compared to the rest of the years within the study period. The minimum of this ratio was obtained in the year 2007 and its amount is 74%, this implies that relatively the union has taken fewer loans in this year compared to others. The result indicates that it's above the inflation rate for all the years (15.37%) and this is an implication for that the union's most assets are composed of borrowings rather than share capital and saving deposits by the members. Unlike commercial banks that try to minimize financial costs, credit unions should try to pay as a high rate as possible without jeopardizing the stability of the institution.

Gross margin to average total assets (R8) is used to measure the gross income margin generated, expressed as a yield on all assets, before subtracting operating expenses, provision for loan losses, and other extraordinary items. As it's shown in the table above, the minimum amount was registered in 2007 which is 7% and the maximum is registered in 2008 which is 9%. While the result obtained is compared to WOCCU's standard throughout the study period the result is acceptable and this implies the union's operation was best in this regard. The average total assets of the union can generate enough amount of gross margin before subtracting operating expenses and other related costs. Regarding generating gross margin from the average total assets of the union, we can say that the union was doing best.

Operating Expenses to average total assets ratio (R9) is an indicator used to measure rates of return and cost. This ratio is used to measure the cost associated with the management of all credit union assets. This cost is measured as a percentage of total assets and indicates the degree of operational efficiency or inefficiency. Then, as it's presented in table 3, starting from 2008 until 2011the union scored the same amount of operating expenses to average total assets ratio which is 6% and when we compare it to the standard (<10%) it's matched to the standard. This implies that within these four years the union's operating was increased at an equal amount while the asset of the union is remaining the same or decreasing. Whereas in 2007, R9 is only 4% it's far from the standard and it indicates that during this year average total asset of the union is much greater than the union's operating expenses. The overall result in this ratio indicates that until this day the union's ability to pay its operating expenses using its assets is best, so, we can say that the union is efficient.

Another way to measure rates of return and cost is net income to average total assets ratio (R12). This ratio is used to measure the adequacy of earnings and also, the capacity to build institutional capital. The result for this ratio is 3% in 2007 and 2008 and 2% in 2009, 2010, and 2011 (table 3), this is not the same with the standard satiated by WOCCU which is a minimum of 10%. This can imply that the union wasn't generating enough amount of net income using its average total assets. Even though there is a net income in the union during the study periods it's not up to expected or intended to generate income. Therefore, for this particular result shows that the union was inefficient.

Liquidity

The result Liquid Investments (+) Liquid Assets (-) Short-term Payables/Savings Deposits (L1) this ratio is used to measure the adequacy of the liquid cash reserves to satisfy deposit withdrawal requests, after paying all immediate obligations less than 30 days. The result shows that L1 is by far from the standard proposed by WOCCU. The standard states the minimum number of savings deposits should be 15%, but the result is not matching in all the study periods. The maximum of this ratio is recorded during the year 2009 which is amounted to 380% and this implies that during this year the savings deposits of the Waltane union are highly less than the amount of liquid investment plus liquid assets minus short-term payables divided by savings deposit. The minimum amount is recorded in 2008 which is 342%, we have the same reason as above for this one also except that the number here blows the previous one. In the years 2007, 2010, and 2011 the result lied between what is previously stated and this indicates there is a fluctuation in the L1 ratio in the union during the study period. Because of this most of the withdrawals and loan requirements are going to be satisfied by taking external loans, then this increased the liability of the union and also expenses of the union, then the profitability of the union is questionable. As per the result from this ratio we can say that the union was not liquid as well as not profitable as expected.

Another indicator of Liquidity is Liquid Reserves/Savings Deposits (L2). The liquid reserve requirement (L2) is out of the WOCCUs proposed standard.

The WOCCU's model proposed to maintain saving deposits as liquid assets equal to 10% after paying all short-term obligations less than or equal to 30 days and Waltane SACCO union did not maintain such liquidity reserve in any of the study periods (Table 1). This suggests Waltane SACCO union couldn't meet cash needed for withdrawals, however, this reflects also the union able to avoid the opportunity cost lost on idle liquid assets because funds in checking accounts and simple savings accounts earn negligible returns, in comparison with other investment alternatives. The result states that it's very approaching to the standard during the years 2007, 2010, and 2011 which is calculated to 13%, 11%, and 9% respectively and this indicates that during these periods the union was good on maintaining liquid reserves from savings deposits.

Table 1: - Indicators of Liquidity

Indicators of Liquidity	**Proposed standard**	**2007**	**2008**	**2009**	**2010**	**2011**
L1: - Liquid Investment + Liquid Assets - Short-term Payables/ Savings Deposits	Min. 15%	369%	342%	380%	377%	349%
L2: - Liquid Reserves/Savings Deposits	10%	13%	36%	251%	11%	9%
L3: - Non-earning Liquid Assets/Total Assets	<1%	1%	1%	5%	0%	0%

Whereas during the years 2008 and 2009 the result shows far from the standard and this implies that during this period the union was poor on maintaining its liquid reserves from savings deposits, especially in 2009 the gap is very huge that shows the liquidity reserve of the union is in danger.

Non-earning Liquid Assets to Total Assets (L3) is also one of the indicators of the liquidity of the unions. This ratio is used to measure the percentage of total assets that are invested in non-earning liquid accounts. As presented-on in table 5 above, in 2010 and 2011 the union invested less than the required amount in non-earning liquid assets and the amount is zero and this implies that during these periods the union was best performed. In the year 2009 L3 is 5% of total assets and this implies that during this period the union's performance was poor or underperformed. In 2007 and 2008 the result is 1%, even though the requirement says less than 1% the results during these periods reveal that is equal to 1% and this implies that during this period the performance of the union was average. So, the overall liquidity of the union is fair but the union needs to do more on savings deposits.

Sign of Growth

The gages of this section measure the percentage of growth in each of the most significant accounts on the financial statement, as well as growth in membership. In inflationary economies, real growth (After subtracting inflation), is a key to the long-run viability of the credit union.

Table 6: - Indicators of Sign of Growth

Indicators of Sign of Growth	**Proposed Standard**	**2007**	**2008**	**2009**	**2010**	**2011**
S1: - Current Loan Portfolio Balance/Loan Portfolio as of Last Year-end	**>S11**	100%	57%	269%	103%	137%
S5: - Total Current Savings Deposits/Total Savings Deposits as of Last Year-end	**>S11**	28%	80%	36%	47%	60%
S6: - Total Current Borrowed Funds/Total Borrowed Funds as of the Last Year-end	**<S11**	41%	57%	84%	50%	32%
S7: - Total Current Members Shares/Total Members Shares as of Last Year-end	**>S11**	72%	17%	15%	27%	30%
S10: - Current Number of Members/Number of Members as of Last Year-end	**>12%**	58%	16%	15%	13%	15%
S11: - Total Current Assets/Current Assets as of Last Year-end	**>15.37%**	31%	62%	59%	48%	45%

In table 6 above, selected indicators of the union as a sign of growth of Waltane SACCO union and are discussed one by one as follows:

The first ratio selected to indicate growth in the union is the current loan portfolio balance/loan portfolio as of last year-end (S1). This ratio is used to measure year to date growth of liquid investments. The result indicates that during the study period all the results of the period are in line with WOCCU's standard. The standard states that the loan portfolio should be between 70-80%of the total assets and as much as possible the union has to increase its loan provision to members. In 2007 the loan portfolio of the union was increased by 100% while compared to 2006 and it was increased by 57% in the next year (2008). In the year of 2009, the loan portfolio of the union was increased with the highest amount from the study period, and its 269%, and this indicates that during this period the requirement of the members for the loan was highly satisfied. In 2010 and 2011 the ratio found is 103% and 137% and this implies that during this period the union's growth regarding loan portfolio was increased but it less than in 2009. The overall result from this result indicates that the union is in a good position regarding the loan portfolio.

Another way through which we can measure the growth of credit unions is saving deposits and this ratio is stated as total current saving deposits to total deposits as of last year-end (S5). The main purpose of this ratio is to measure the year-to-date growth of savings. In 2007 the result is 28% this implies that the saving deposits of the union are increased while compared to 2006, but while compared to the standard it's below the standard which is S11, for this study S11 is 31%. In 2008 and 2011 saving deposits of the union was increased by 80% and 60% respectively and their result is also above the standard, whereas in 2009 and 2010 there is an increment is saving deposits of the union, but they are below the standard (table 6).

We can also measure the growth of the union by borrowed funds. Total current borrowed funds to total borrowed funds as of last year-end (S6). This ratio is used to measure the year-to-date growth of borrowed funds. The result indicates that the borrowed fund is also increased during the study period but there is up and down. The maximum amount obtained for this ratio is 84% during 2009 and it's above the standard and the minimum was obtained in 2011 which is 32%, while compared to the standard it's below the standard of WOCCU. These results imply that even though there is an increment on borrowed funds of the Waltane SACCO union but it's not up to the standard.

The total current member share to total member share as of last year-end (S7) is also one way through which we are going to measure the growth of the union. This ratio is used to measure the year-to-date growth of members share. The highest of this ratio was recorded during 2007 which is 72% and it's greater than the standard. The minimum increment in members' share was found in 2009 which is 15% and it's below the sated standard by WOCCU. In the rest of the years, the results found were 17%, 27%, and 30% for the years 2008, 2010, and 2011 respectively (Table 6).

The current number of members to the number of members as of last year-end (S10) is also one of the indicators of the sign of the growth of credit unions. This ratio is used to measure year to date growth in membership of the credit union. Throughout the study period, the result found is greater than the standard (table 6). But during 2007 the result found is 58% which is very exaggerated and this implies the number of members in 2006 is by far less than that of the current year. Since it indicates the growth of the union it's acceptable. WOCCU standard says that S10 should be greater than 12% and the minimum is scored in 2010, even though its minimum is increased while compared to the standard said. In the rest of the years, the result found is fair and comparable to the standard and this is an implication for that the union's growth in membership is best.

Total current assets to current assets as of last year-end ratio (S11), is one way through which we can measure the growth of the credit unions. The result originate is in line with the standard but it's not a healthy growth. During 2008 the result is 62% and this might indicate that most of the current assets are from borrowing; especially cash. The standard says that current S11 should be greater than inflation (15.37%), from the website of NBE. The minimum is 31% which is scored in 2007, this is also greater than the standard but it seems abnormal increment and an indicator that most of the current assets are borrowed assets; specifically, cash. In this regard, the union has looked at the main sources of their current assets and can be supported by solvency indicators.

Conclusion

This study has taken the PEARLS model to evaluate the financial performance of the Waltane SACCOs Union, in the West Shoa zone. The study employs secondary data ratios in analyzing the union's financial performance.The study result provides that the financial performance of the union was best in areas such as protection, asset quality, and the sign of growth. On another side, the result states that the union was good in areas like effective financial structure and rates of return & cost. Whereas, the study also reveals that the union's performance was bad regarding liquidity since the majority of the resources are from external sources.

Recommendations

As the result reveals that P1, P3, and P6 all are up to the standard that has sated by WOCCU the union should keep this maintainable and make safe the money of the members without incurring risk. The primary objective of evaluating protection is to ensure that the financial institution provides depositors a safe place to save their money.

As far as the indicators of effective financial indicators are concerned the study used E1, E3, E5, E7, and E9 to measure the profitability of the union. As per the result, E3 and E7 are in a good position and within the standard. The union shall keep these ratios up to standard as much as it can to maintain financial investments and members share capital. On the other hand, the study result shows that E1, E5, and E9 are fluctuating. Therefore, the union has to do more on areas like loans, saving deposits, and net institutional capital to increase them to the level needed.Assets quality is the main variable that affects institutional profitability. As we can observe it from the result, the quality of the assets of the union is in line with the standard of WOCCU and this should be kept for a life of the union since an extra of defaulted or delayed repayment of loans and high percentages of other non-earning assets have negative effects on credit union earnings because these assets are not earning income.

Profits and costs directly affect the growth rates of an institution. From the result, we recommend that the union has better preserve R2, R9, and R12, but the union has to pay very vigilant attention to R4 and R6 which are about non-financial income to average non-financial investment ratio and borrowed fund to average borrowed fund ratio. Because as non-financial investments and borrowed funds are enlarged profitability will be diminished. R8 of the union indicates the average value, so to bring it to the extent needed the union has to increase gross margin. The earning of the union from the total asset is not as expected, therefore, the union should raise it's earning in proportion to its total assets invested.Managing liquidity is an essential component of administering a savings institution. As far as Waltane SACCO union is concerned, liquidity measurements are destitute of all the results. The union has better take a very prodigious improvement on L1 and L2 which are about members' withdrawal and liquid reserves to savings deposit. Regarding L3, its relatively good while compared to two of the above but, a small arrangement is needed on this part to maintain non-earning liquid assets to total assets of the union.

Signs of growth reflect member-client satisfaction, appropriateness of product offerings, and financial strength. The union has used the sign of growth following the standard sated and the union has to excel that but, S6 has to be more emphasized to know exactly the growth in total current borrowed fund.

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