

SAVINGS AND THE PERFORMANCE OF MICRO FINANCE INSTITUTIONS

A CASE STUDY OF FINANCE TRUST LIMITED UGANDA

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**THE RESEARCH REPORT SUBMITTED TO THE COLLEGE OF ECONOMICS AND
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UNIVERSITY

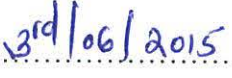
MAY, 2015

DECLARATION

I YEKO SHARON declare that this research report is my original work and has never been submitted to any university for any award.

Where the works of others has been cited, acknowledgement has been made


Signature.....

Date.....

APPROVAL

I certify that this research report was done by the candidate under my supervision as his University Supervisor.

SUPERVISOR; Dr STANLEY KINYATA

SIGNATURE..... 1 3rd June 2015 

DATE..... 3rd June 2015

DEDICATION

I dedicate this research report to my parents for their full support during my period of carrying out my studies.

For my beloved brothers and sisters, may God bless you all.

ACKNOWLEDGEMENT

The task of completing this work has been tireless and expensive both in terms of money and time and depended upon very many people for assistance, encouragement and guidance.

I thank god for sustaining me through the exercise

I am indebted to Kampala International University and in particular the faculty of business and management for allowing me to carry out research. I would like to thank my supervisor Dr. Stanley Kinyatta for the guidance, technical support and for taking his time to go through the work.

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CHAPTER ONE

INTRODUCTION

1.0 Introduction

This chapter consists of the background to the study, the statement of the problem, the purpose of the study, scope of the study, research questions, scope of the study and its significance.

1.1 Background of the Study

Micro finance institutions carry on the business of financial institutions on commercial basis, which entails, among others, acceptance of deposits/savings, and withdrawal by cash, cheque or otherwise participation in inter-bank clearing systems on behalf of the customers **(Microfinance Support Center Journal, 24th November 2006)**

Personal and business savings and revenue stream comprise, transactional products which include products associated with various points of contacts channels with clients such as automated teller machines(ATMS) and branches, including deposit taking activities, electronic banking and cheque accounts.**(Grave,1999)**

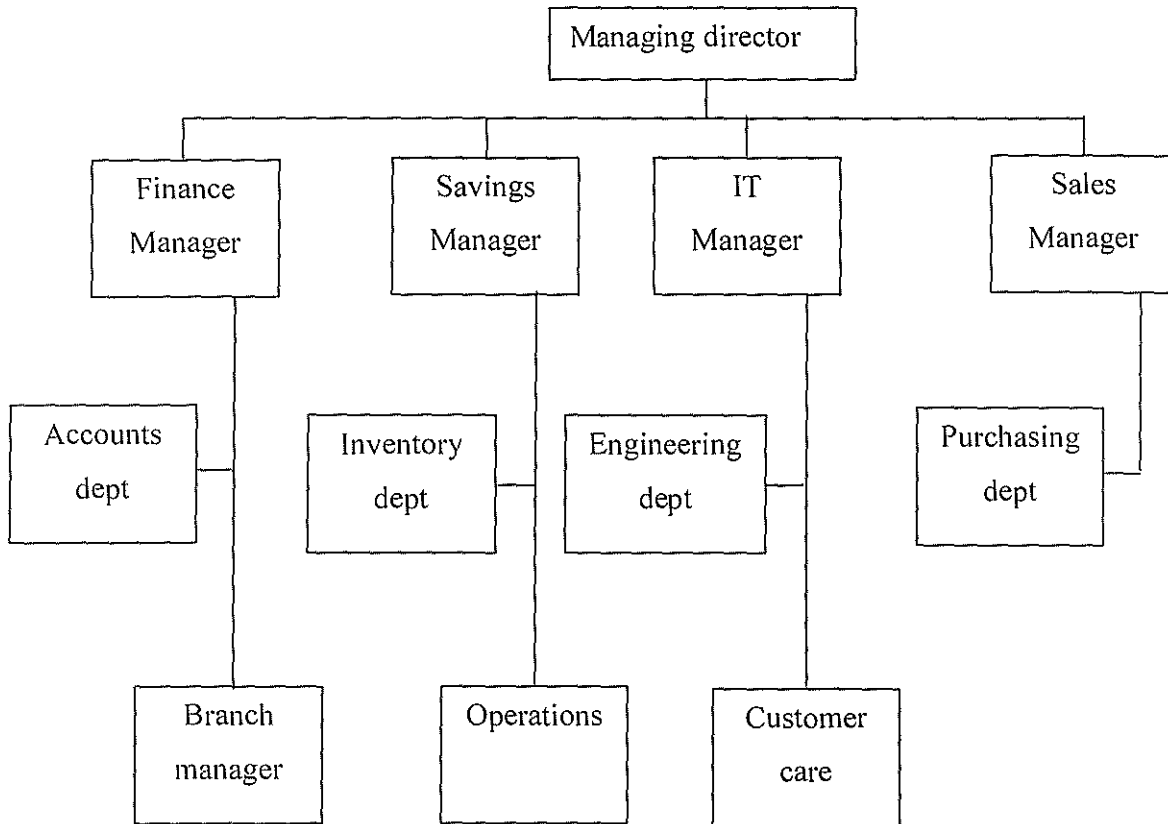
Hence for micro finance institutions to realize the net impact of saving on the growth of their market share they ought to adopt the following strategies, among others, introduction of a new and unique saving product, including personal asset loans pegged to it, the refinement of residential and mortgage finance, the re-introduction of current accounts and their related services, the introduction of executive and private banking to facilitate customized solutions to individuals, the introduction of visa debit cards which allow globe access to card holders when traveling. It also creates a financial interface to tourists visiting Uganda via the technology installed on all automated teller machines and the introduction of the point of sale services which aims to revolutionize the Manner in which business will be conducted. This will increase the security and integrity of transactions. **(Altman, 2005)**

in a bid to boost the clients savings culture in order to improve on the performance, micro finance institutions need to formulate modalities that will favor the institution, customers and other stake holders, socially,politically,economically, legally and technically since savings is pivotal to this cause. These institutions categorize savings accounts according to their functions

as personal and business banking (PBB) and corporate and investment banking (CIB). (Graw, 2007)

1.1.2 Background of the case study

Flowchart Showing Organizational Structure for Finance Trust Limited (Uganda)



Finance trust limited is a saving and lending institution; since it was founded it has spread its wings to other regions countrywide.

Finance trust limited, is headed by the managing director(MD)assisted by four directors which include; country financial controller, savings manager, sales department manager and director of information technology, with a total staff complement in excess of 80.particular emphasis is has been placed on infrastructure investment and the company is extremely well resourced with modern office facilities, a fully integrated ICT network, comprehensively equipped with efficient mobile service teams, large range of products and training facilities which are used for both internal external training courses.

1.2 Statement of the Problem

Most financial institutions have continued to record growth in their savings volumes by creation of programs, systems and guidelines to better their performance.(Edward 1996).The banking sector earnings and government project funds as it can be evidenced from the branch performance of financial trust limited(MDI) . The problem is low savings which affects the performance of employees and this can be through the bank not offering good services to the customers like not issuing attractive interest rates to customers.

1.3 Purpose of the Study

This study was geared towards finding out the effect of savings on the performance of micro finance institutions despite that bank of Uganda

(BOU) to withdraw all government project funds from financial institutions

1.4 Objectives of the Study

To identify the saving products of microfinance institutions

To establish other factors that contributes to the performance of a Microfinance institution

To determine the relationship between savings and performance of Microfinance institutions.

1.5 Research Questions.

What are the saving products for microfinance institutions?

What are other factors that contribute to the performance of Micro finance institutions'?

What is the relationship between savings of the performance of financial institutions?

1.6 Scope of the Study

1.6.1 The Geographical Scope

The study was carried out on focusing on microfinance institutions in Uganda specifically microfinance institutions (MDI) mainly in Jinja road Kampala.

1.6.2 The Subject Scope

The study was centered on finding out the effect of savings on the performance of micro finance institutions.

1.6.3 The Time Scope

The research took four month that is from Feb to May

1.7 The Significance of the Study.

A thriving level of performance is almost comparable to high levels of efficient and effective savings mobilization accordingly;

The study will help microfinance institution predicting the future and management planning for better day today running of the institution by establishing the relationship between the two variables.

To the researcher the study will be presented to Kampala International university (KIU) in partials fulfillment of the program Requirement leading to the award of the program requirement Leading to the award of bachelor of business administration (BBAHONS)

To future researchers the study provides useful literature that can be referred to incase the dwelt on the similar and related topic. It further attempts to determine a nostrum for further research.

1.8 The Organization of the Study

The report carried out on the study consists of five chapters.

The first chapter was an introduction convening the back ground of the study; the study objectives, research questions, the scope of the study and significance of the study.

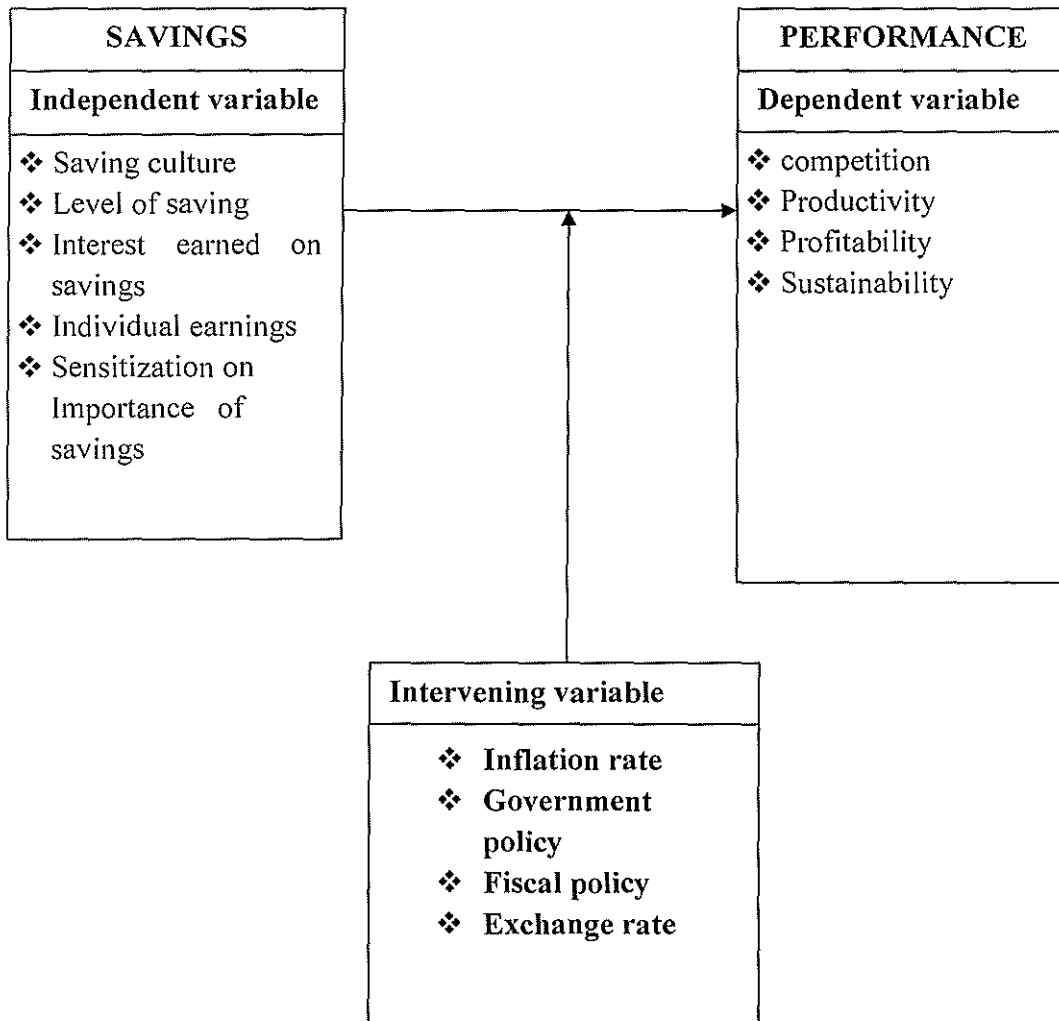
Chapter two entailed all reviews of literature related to the study, from studies and observations made by scholars or persons with the strong understanding of the subject matter

Chapter three gives the research methodology that shows the design used, research population, sampling technique, sample size, methods of data collection.

Chapter four covers the a summarized presentation; analysis and interpretation of findings, that is the findings from chapter three are resented and summarized

Chapter five as made up of basic conclusion of chapter four, recommendations' were made for the areas that need improvement, suggestion were made for the areas that needed further research and appendices were made.

1.9 Conceptual Frame Work



NOTE:

The above illustration explains the relationship between independent, dependent and intervening variables of research topics.

The independent variable such as savings and level of savings influence the performance of microfinance institution for example dependent variable high profitability and sustainability rely on savings that are made by the micro finance institution

On the other hand, intervening variables are those that like both the dependent and independent variables therefore helping the independent variable attain the dependent variable.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

The chapter covers all the reviews of literature related to the study. It is from study's and observations made by other scholars with more concrete understanding of the object. The chapter discusses the different saving products, other factors that contribute to the performance of microfinance institutions and the relationship between savings and performance of microfinance institutions.

2.1 Savings Overview

Uganda's financial services industry which comprises of the banking insurance, microfinance and investments sectors, remains dominated by the banking sector which has been described as generally sound and well capitalized. According; connote the sum /amount of money set aside by the person and businesses for future transactional precautionary or investment motive. Uganda has currently 15 commercial banks, over 80 forex bureaus, 20 insurance companies, 6 credit institutions and over 100 microfinance institutions, (Larry, 2007)

2.2 Savings Products in Micro Finance Institution

Microfinance institutions are engaged in the business of banking and they provide a wide array of related financial services in the areas of personal, business, corporate and investment banking. They are licensed financial institutions and the members of Uganda cooperative and savings unions. (Baku, 2004)

Additional bank of Uganda realized the need to regulate more effectively the micro finance institutions. In this regard the microfinance deposit taking institutions act was enacted in 2003 and implementing regulation passed in 2004. (Majnoni, 2002)

With the above mentioned act and regulations in place the system, now has institutions in Uganda that demonstrate experience in providing financial services that will be capitalized and have clean supervisory records.

Microfinance savings products are segmented into personal and businesses banking (PBB) and corporate and investment banking. With the full support structure for both units /products. The financial support function manages certain group overheads are not recoverable from business segments activities and taxes not allocated to business segments and inter- segment eliminations. (Leaven, 2005).

2.2.1 personal and Business Banking

This provide banking and there financial services to personal customers and small and medium size enterprises (SMES). It has a significant customer base in Uganda, which is being served several of representation. Furthermore here are several automated teller machine (ATMS) available to customers which utilize at the minimum rate of 10000 transactions per month. (Bath, 2009)

Personal and Banking Revenue Streams Comprise;

- i. Mortgage lending, which provides residential accommodation Loans to personal customers so as they can acquire decent Accommodation for themselves.
- ii. Vehicles and assets finance what undertakes the provision of Vehicle finance to personal customers and the provision of vehicle and equipment financing to businesses
- ii. Transactional products which include products associated with various points of contact channels with clients such as automated Teller machines (ATMS) and branches including deposit taking Activities, electronic banking and cheque accounts.
- iv. Branch assurance, which provide short and long term insurance Products to customers, manly through third parties and planning Services.

Personal and business banking (PBB) is currently laying the Foundation to increase its market share by making increase use of Market segmentation. It intends o achieve this by introducing the following products; (weicher, 2004).

- a. New finance and personal asset loans.
- b. The refinement of residential and mortgage finance
- c. The re-introduction of current accounts and their related services
- d. The introduction of executive and private banking to facilitate Customized solutions to individuals.

e. Smart debt cards, which will allow global access to card holders

When travelling. It also creates functional interface for tourists Visiting Uganda via the technology installed on automated teller Machines (ATM).

f. The introduction of point of sale devices which aims revolutionized the manner in which the business will be conducted.

2.2.2 Corporate and Investment Banking

This provides commercial and investment banking services to multinational, regional corporate and local corporate in addition to international development organizations, multilateral agencies, the public sector in Uganda and Ugandans development partners. Microfinance institutions share in respect to provision of services to regional clients is growing due to the increased level of cooperation with the east African region and its development partners. (Wallace, 2008)

The microfinance institution believe that that their proactive approach to providing customers with corporate and investment banking services allow them to actively seek opportunities in gaining market and increasing its income generating capacity. (Graw, 2003)

Corporate and investment banking (CIB) develops customer products for its clients and is empowered to provide such services by having access to advanced banking systems. In addition the relationship with other financial institutions allow further flexibility in adapting current products to the needs of individual clients. Corporate and investment banking (CIB) is therefore, able to access world class of transactions. Corporate and investment banking (CIB) revenue streams comprises ; (Madwa, 2006)

Global markets; which include foreign exchange, fixed income, derivatives, equities and commodities trading business, securitization, debt origination and money markets funding units.

Banking and trade finance, which include corporate lending and transactional banking business, trade finance business and property -related lending.

iii) investment banking, which includes project finance, structure lending as well as advisory and other services provided to corporate clients wishing to raise financing on the debt capital markets.

In the financial year ended 31 December 2009, corporate and investment banking contributed 45% to the overall reported income of micro finance institutions .this contribution remained in line with contribution of the prior reporting year of 31 December 2008. The business units achieved an annual growth of 15%based on current six- month reporting period ended June 30 2010(Christopher, 2009).

Finance trust limited (MDL) balance sheet reflects in overall customer lending to deposit ratioof33%, indicating capacity to increase the level of lending and generate increase income from the activity. It targets gearing ratiois60%.the year on year grow this percentage utilizatinfrom2008-2009 indicates that such at target can be achieved under the prevailing market conditions in Uganda. (Berglof, 2001)

2.2.3 Savings Related Benefits Accruing To Microfinance Institutions.

) Interest Income

This includes coupons earned on fixed income investment and trading securities and accrued discount and premium on treasury bills and other discounted instruments .interests for all interest bearing instruments on accrual basis using effective yield method bases on actual purchase price. (William, 2007)

i) Fees and Commission

There are service fess for service operation and maintenance loan commitment fees for loan that are likely to be drawn are deferred (together with related costs)and recognized when the facility ia been approved. Fees commission are generally recognize in accrual basis when services as been provided.(stephen,2003)

ii) Transaction of Foreign Currencies

This covers foreign exchange gains and loss resulting from the settlement of such transactions and from the transaction of the year ended exchange rates of monetary assets and liabilities lominated in foreign currency are recognized in the profit and loss account .transaction in foreigh currencies during the period converted into functional currency using the exchange rates prevailing at the dates of transaction. (Hill, 2005)

In order to assist financial institutions to mitigate credit risk to which they are exposed the financial statement act empowered bank of Uganda to establish or authorize the purpose of disseminating credit information among financial institutions for their business. The credit reference bureau (CRB) regulations were issued in August 2005 and the process of licensing the credit reference is in advanced stages. (Alman, 2000).

2.3 Other Factors That Contribute to the Performance of Microfinance Institutions;

The performance of microfinance institutions in Uganda is not solely through savings activities but also has some contributing factors that include among others;

2.3.1 Financial assets.

Microfinance institutions classify their financial assets into the following categories, financial assets at fair value through profit and loss, advances and receivables held to maturity investment and available to sell of assets management determines the appropriate classification of its investments at initial recognition. (Keterina, 2002)

2.3.1.1 Financial assets at fair value through profit or loss.

This category has got two sub categories; financial assets held for trading, and this designated at fair value through profit and loss inception. A financial asset is classified in this category if it is acquired primarily for the purpose of selling in the short term or if so designated by management. Derivatives are also categorized as held for trading. (Milindwa, 2009)

2.3.1.2 Loans, advances and receivables.

Loans, advances and receivables are not derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the financial institution provides money, goods or services directly to a debtor with no intention of trading and receivables. (Cochran, 2004)

2.3.1.3. Held to maturity

Held to maturity investments are not derivatives financial assets with fixed or determinable payments of fixed maturity that management has the positive intention and ability to hold to maturity. Where the bank sells more than a significant amount of held to maturity assets the entire will have to be re-classified as available for sale. (Laeven, 2007)

2.3.1.4 Available for sale

Available for sale investments are those non derivative financial that are not classified under any of the categorized purchases and sale of financial assets at fair value through profit and loss, held to maturity and available for the asset are recognized to trade to date on which the bank commits to purchase or sale financial assets are initially recognized at fair value, plus for all financial assets except those carried at fair value through profit or loss, transaction cost. Financial assets are derecognized when the rights to receive cash flows from the financial statement have expired or when the bank has transferred substantially all risks and rewards of ownership (Gunther, 2005)

Loans, advances and receivables are held to maturity, investments are carried at amortized cost using effective controlled method .available for sale of financial assets and financial assets at fair value. Gains and loss arising from changes in the fair value of the financial asset at fair value through profit and loss are included in the profit and loss accounting the period which the arise. (Jeffrey, 2006)

2.3.1.5 Impairment of financial assets

A financial asset or group of financial assets is impaired and impairment loss are incurred if and only, there is objective evidence of impairment as a result of one or more extents that occurred after initial recognition of assets (“a loss event”) and that loss event (or events) has an impact on estimated future cash flows of financial assets or group of financial assets that can be reliably estimated. Objective evidence that financial asset or group of financial assets is impaired includes observable data that comes to the intention of the bank about the following loss events;(Msdwa, 2008)

- i. significant financial difficulty
- ii. A breach of contract
- iii. The company granting to the borrower, for economic or legal reasons relating to the borrowers financial difficulty, a concession that the lender would not consider others.
- iv. It becomes probable that the borrower will enter the bankruptcy or other financial recognitions
- v. The disappearance of the active market for the financial asset because of financial difficulties.

- vi. Observable data indicating that there is measurable decrease in estimated future cash flows from the group of financial assets Since the initial recognition of those assets although the decrease Cannot yet be identified with individual financial assets in the Group.
 - a. Adverse changes in the payment of borrowers in the group or;
 - b. National or local economic conditions that correlate with default of the assets in the group.
 - c. Assets carried out at amortized costs.
 - d. Assets carried at fair value.

2.3.2 Property Equipment

Microfinance institution also own property and equipment like; leasehold buildings, furniture and fittings, motor vehicles computer equipments and office furniture .the asses residual values and useful life and reviewed and adjusted if appropriate at each balance sheet date. The bank accesses at each reporting date whether there is an indication that item of property, plant and equipment and office equipment is impaired. If any indication exists, the bank estimates the recoverable amount of relevant assess .an impairment loss is the amount by which the asset carrying the amount exceeds the recoverable amount. The recoverable amount this high of tan assets recognized for fair value less cot of sell and value and use. For the purpose of assessing impairment assets are grouped at the lowest level for which the are separately identifiable cash flows (cash generating activities).

Gains and loss on disposal of property and equipment are determined by reference of there carrying amount and are taken into account in determining operating profit. Repairs and renewals are charged to the profits and loss when the expenditure is incurred.

2.3.3 Income Tax.

Income tax expense is the aggregate of the charge to the profit and loss account in respect of current income tax and deferred income tax. Current income tax is the amount of income tax payable on the tax profit for the year determined in accordance with the income tax act.

And Deferred income tax is provide in fill , using the liability method , for all temporary differences arising between the tax bass of assists and liabilities there carrying values for

financial reporting purposes . however if the deferred income tax arises from initial recognition of an assets r liability in a transaction other than the business combination that at the time of transaction affects neither accounting or taxable profit or loss, it is not accounted for. Deferred income is determined using tax rates that has been enacted or substantively enacted at the balance sheet date and are expected to apply when the related deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that is probable that future tax profits will available against which temporary differences can be utilized.

2.3.4 Leases.

Leases in which the significant portion of the risks and rewards of ownership are retained by the lesser are classified as:

Operating leases. All other leases are classified as finance leases

i) The Company as a lessee

To date all leases entered into by the company are operating leases.

Payment made under operating leases are charged to profit and loss

Account on straight line basis over the period of the lease.

ii)The company as a leader .

When the assets are leased out under a finance lease, the present value of the lease payment s is recognized as receivable. The defERENCE between the gross receivables and the present value of the receivables recognized as unearned finance income. Lease income is recognize over the term of lease using net investment method (before income tax), which reflects the constant periodic rate of return. To date finance trust limited (MDL) has not leased out any asset under operating and finance lease.

2.3.5 Employees

The human resource function sare very important component of any financial institution. Flourishing financial institutions associated to skill, well trained and motivated employees. The

regular contribution by micro finance institution and employees constitute net periodic costs for the year in which they are due and as such are included in staff costs.

2.3.6 Borrowings

The human resource are recognize initially at fair value being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortized costs. Any difference between proceeds net of transactions costs and redemption value is recognize in the profit and loss account over the period of borrowing using effective interest method.

2.3.7 Offsetting

Financial assets and liabilities are offset and net amount reported in the balance sheet when there is legally enforceable right to set out the recognize amounts and there is an intention no settle on net basis, or realize the asset and settle the liability simultaneously.

2.3.8 Sale and Purchase Agreements

Securities sold subject to purchase agreement which are classified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or pledge the collateral ; the counter party liability is included in amount due to other banks , deposits from banks ,there depositor deposit due to customers ,as appropriate.

Securities purchased under agreement to resell are recorded as loans and advances to other banks or customers as appropriate. The difference between sale and purchase prices treated as interest and accrued over the life f the agreement using the effective interest method. Securities lend to counter parties are also retained in the financial statement.

2.3.9 Acceptance and Letters Of Credit

Acceptance and letters of credit are accounted for as off-balance sheet transactions and disclosed the contingent liabilities.

2.4 Intangible Assets Goodwill

Goodwill represents the excess of cost of an acquisition over the fair value of the bank share of net asset of the acquired subsidiary /associate at the date of acquisition

Goodwill on acquisition of subsidiaries is reported in the balance sheet as intangible assets.

At each balance date the bank assesses whether there is any indication of impairment .if search indication exists, an analysis is performed to assess whether the carrying amount of good will is fully recoverable write down is made if carrying amount exceeds the recoverable amount.

2.4.1 Computer Soft Ware Development

Being endowed with best computer software is a good enhancement to performance of micro finance institutions. However costs associated with maintaining computer soft ware programs are recognized as expenses incurred.

Expenditure which enhances or extends the performance of computers software programmed beyond their original specification is recognize as a capital improvement and added to the original cost of the soft ware. Computer soft ware development costs recognized assets are amortized using the straight line method over useful lives, not exceeding a given period

2.4.2 Provisions

Provisions are recognized when the microfinance institution has the present legal or constructive obligation as a result of past events, where it is probable that an outflow of resources to settle the obligation, and the reliable estimate of the amount of obligation can be made employee entitlements to annual leave and long service. Leave recognize when the accrual to employees. A Provision is made of estimated liability for annual leave and long service leave as a result of services rendered by employees up to balance sheet date

2.5 Share Capital

2.5.1 Share issue costs

Incremental external costs directly attributed to the issue of new shares as deducted from equity net of any related income taxes

2.5.2 Dividends on ordinary shares

Dividends on ordinary shares are recognized in equity in the period in which they are declared or paid.

2.6 The Relationship between Savings and the Performance of Micro Finance Institutions

By their nature, micro finance institutional activities are principally related to the use of financial instruments including derivatives. The bank accepts savings from customers at both fixed and

floating rates and for various periods, and seeks to earn above average interest margin by investing these funds in high quality assets. The micro finance institution seek to increase this margins by consolidating short term funds and lending long periods at high rates ,while maintaining sufficient liquidity to meet all claims that may fail due to ;

The institutions seek to raise its interest margins by obtaining the above margin average, net of allowances through lending to retail borrowers with average of credit standing such exposures involve not just on balance sheet loans and advances, the banks also enters guarantees and other commitments such as letters of credit and performance and other bonds.

The banks also trade in financial instruments where they take advantage of short term market movements in equity and bonds and in current interest rate and commodity prices. The board places trading units on the level of exposure that can be taken in relation to both overnight and intra-day market positions.

Foreign exchange and interest rate exposures associated derivative are normally offset by entering into counterbalancing positions there by controlling the variability in the net cash amounts required to liquidate market positions.

2.6.1 Capital Adequacy:

Microfinance institutions monitor the adequacy of its capital using ratios established by the Bank of Uganda which ratios are broadly in line with those for the bank for internal settlement. These ratios measure capital adequacy by comparing the banks eligible capital with its balance sheet assets, off balance sheet commitments and market and other risk positions at weighted amounts to reflect the relative risk.

The market risk approach covers the general market risk and the risk is upon the positions in currency and debt and equity securities. Assets are weighted according to broad categories of national credit being assigned the risk weighting according to amount of capital deemed to be necessary to support them. for categories of risk weights (0%-20%-100%) which are applied in certain asset categories have intermediate weight off balance sheet credit related commitments and forwards are taken in account by applying different categories of credit conversion factors design to covert these items, equivalent amounts are then weighted for credit risk using the same percentages as for the balance sheet assets.

2.6.2 Credit Risk

The bank takes on the exposure to credit risk, which is the accounted party will be unable pay amounts in full when due .impairment provision are provided for the loss that has been incurred at the balance sheet the significant changes in the economy or in the health of the particular industry segments that represents concentration of banks portfolio could result in loss that are different from those provided for the balance sheet date. Management there for carefully manages its exposure to credit risk.

The banks structure the level of credit risk they undertake by placing limits on the amount of risks accepted in relation to one borrower or group 9f borrowers and to industry segments. Such risks are monitored n a resolving basis and subject to annual and more frequent review. Limits on the level of credit risk by product industrial sector and by country are approved by board of directors.

The exposure to one borrower including banks are further restricted by sub limits covering on and off balance sheet exposure and daily delivery risks limits in relation to trading items such as forward foreign exchange contracts .actual exposures against limits on monitored daily.

Exposure to credit risk is managed through regular analysis of the ability of the borrowers and potential borrowers to meet interest and capital repayment obligation and by changing lending limits where appropriate exposure to credit risk is also n part by obtaining collateral, corporate and personal guarantees, but a significant position is personal lending where no such facilities can be obtained.

2.6.3 Credit Related Commitment

The primary purpose of this instruments to ensure that the finds are available to customers as required guarantees and stand by letters of credit which present irrevocable assurance that the bank will make payments n equivalent that the customer cannot meet the obligation of third parties , carry the same credit risk as loans .documentary and commercial letter of credit , which are written undertaking by the bank on behalf of customers authorizing a third party to draw drafts on the bank up to stipulated amount under specific terms and conditions are collateralized by the underlying segments of goods to which they relate and therefore carry less risk than direct borrowing .

Commitments to extend credit represents unused portion of authorization to extend credit in form of loans guarantees or letters of credit. with respect to credit risk on commitment to extend credit ,the company is potential exposed to loss in an amount equal to total unused commitments ;however the likely amount of loss is less than the total unused commitments ,as most commitments to extend credit are contingent upon customers maintaining specific credit standard . the institution monitor the term to maturity of credit commitments because of long term commitments generally have a greater degree of risk than short term commitments.

2.6.3 Concentration of Risk

Economic sectors risk concentrations within the customer loan and deposit portfolios.

2.6.4 Currency Risk

The micro finance institution takes on exposure to the affect of fluctuation in the prevailing foreign currency rates on its financial position and such cash flows. The assets and liability committee sets limits on the level of exposure by currency and in total for both overnight and intraday positions which are monitored daily.

2.6.5 Interest Rate Risk

Microfinance institutions take on the exposure to effects of fluctuation in the prevailing levels of market interest rates on both its fair value and cash inflows risk. interest margins may increase as a result of search changes but may reduce to create losses in the event that unexpected movement arise the asset and liability committee sets limits on the level of mismatch of interest rate reprising that may be undertaken , which is monitored daily

2.6.6 Liquidity Risk

Microfinance institutions are exposed to daily calls on its available cash resources from many deposits, current accounts, maturing deposits and calls on cash settled contingencies. The institutions do not maintain cash resources to meet all of these needs as experience shows that the minimum level of re-investment of matching funds can be predicted with high level of certainty. The asset and liability committee sets limits on the minimum proportion of maturing funds available to meet search calls and on the minimum level of inter-bank and other withdraw at unexpected levels of demand.

The matching and controlled miss- matching of the maturities and interest rates of assets and liabilities is fundamental to the management of the company. It is unusual for banks ever to be completely matched since business transacted is often of uncertain terms and different types. An unmatched position potentially enhances profitability but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace at acceptable costs, interest bearing the liabilities as they mature are important factors in assessing liquidity of the company and it exposes to changes in interest rate and exchange rate.

2.6.7 Fair values of Financial Assets and Liabilities.

The fair value of the banks financial assets and liabilities approximate the respective carrying amounts due to the general short periods of contractual reprising or maturity dates as set out above. Fair values are based on discounted cash flows using a discounted rate used upon the borrowing rate that directors expect would be available to the company at the balance sheet.

2.6.7 Critical Accounting Estimates and Judgment in Applying Accounting Policies:

Microfinance institutions make estimates and assumptions that affects the reported amounts of assets and liabilities within the next financial year estimates and judgments are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances like;

- i) Fair value of derivatives.
- ii) Impairment of available for sale equity investments.
- iii) Held to maturity investment.

Microfinance institutions turnover is derived substantially from the business of banking and related activities and companies net interest income, fees and commission income, trading income and other income. These revenues are showed in profit and loss account and accompanying notes and represents the most appropriate equivalent of turn over compared with other forms of business enterprise. Interest income is suspended when loans are considered non performing as assets by a bank of Uganda regulatory requirements and is excluded from interest income until it's received.

CHAPTER THREE METHODOLOGY

3.0 Introduction

The researcher in this chapter presented the background from which data was collected and analyzed. Basically this chapter constituted the type of data the tools that were used, how much data was collected and the means of collection, how it was processed and how the findings were presented

3.1 Research Design

This was in respect with the objectives of the study and it was categorized into both analytical and descriptive form which the research adopted the qualitative technique

3.2 Research population

Population study refers to the study of a group of individuals taken from the general population who share common characteristics such as age sex and the health conditions. Population according to American heritage science dictionary (2005) it is the group of individuals of the same species occupying the same geographical area, population can be small and closed as on the island or rift valley, the study population was 70.

3.3 Sampling technique

According to the free encyclopedia (2013) define as the process by which interference is made while examining a part. The researcher will use sampling techniques like simple random sampling technique. This is an individual from the population is chosen in order to give an individual the chance of being chosen and this eliminates biasness and collusion in the community. As according to (amin, 2005) the researcher will also use snow ball technique. According to Wilson mizner(2003) is anon probabilistic sampling technique that is used by researchers to identify potential subjects in the studies where subjects are hard to locate and advantages include chain of referral process, allows the researcher to research population that is difficult to sample when using other sampling methods ,the researcher technique is cheap ,simple and co-efficient and it is good in using in areas where respondents are hard to find, purposive sampling will also be used by a researcher. Marshal (1998) defines it as sampling technique where the researcher chooses the size of the sample based on who they think would be appropriate for the study.

3.4 Sampling size

The researcher acquired data through documentary review of relating to the study. This method was considered appropriate and adequate because of the nature of the research which was centered on reviewing literature already existing on the related problems being studied.

3.5 Sample Size.

According to Kish (1965) defines sampling size as the act of choosing the number of people and observation to include statistical samples. The sample size used in the study is determined based on the expense of data collection, and the need to have sufficient statistical power. The researcher will use 20 branch managers,, 10 branch accountants, 20 cashiers,20customer relations officers. The sample size will be got using the solvens formula.

Solvens formula is applied as follows,

$$n = \frac{N}{1 + N(e)^2}$$
$$n = \frac{70}{1 + 70(0.05)^2}$$
$$n = \frac{70}{1 + 70(0.05)^2}$$
$$n = \frac{70}{1 + 70(0.0025)}$$
$$n = \frac{70}{1 + 70(0.0025)}$$
$$n = \frac{70}{1 + 0.175}$$
$$n = \frac{70}{1.175}$$

$$n = 59.57$$

$$n = 60$$

3.6 Methods of data collection

3.6.1 Interview

According to Holsteins (2002) an interview sin the conversation between two or more people where questions are asked and by the interviewer illicit facts from the interviewee, it tells the

perspective of such event, the researcher will use structured interviews and this is the statistical method of collecting data surveys and involves the researcher asking questions and the respondent will answer them and the question can be both closed ended and open ended questions. This means it is cheaper since it does not take time to give a feedback,. According to James (1997), interviews are preferred because they improve on the understanding and creditability of the study and they lead to deeper understanding of the topic under the study .this method will be used since it allows free expression and provide first hand information is got directly from primary sources without any alteration.

3.6.2 Questionnaire

According to (Bulmer 2002) this is a research instrument consisting of a series of questions and other prompts for the purpose of gathering information from respondents and the researcher chooses to use the structured questionnaires and this is where the researcher will write questions in the piece of paper and will send them to the respondent who will fill and give back the filled questionnaire which the researcher will later analyze and present the primary data because it is cheap, it does not require much efforts from the questionnaires verbal or telephone surveys and often has standardized answers that make it simple to compile data. Questionnaires are the use full way of collecting information of a later sample of people. According to James (1997) as the case with the study, questionnaires will contain both open and close ended questions so as to get clear answers.

3.7.3 Procedures of data collection..

The researcher will get the letter of introduction from the department of business studies Kampala international university to help him to carry out research later administered to the respondent, questionnaires' and interviews will be done personally. The researcher will do under the supervisor of ne of the lecturers assigned from Kampala international university. The guide will help in setting up appointment with interviewees in town. Task optimally

3.8 Data analysis

The researcher will use tables, codes and edited collected data to remove mistake. The results will be analyzed using quantitative method. Quantitative data will be analyzed using themes and quantitative data through frequently distribution and use the percentage to derive the final meaning report.

CHAPTER FOUR

SUMMARY PRESENTATION AND ANALYSIS OF FINDINGS

4.0 Introduction

These chapter entails a summarized version of the presentation and findings that is well analyzed of chapter three

4.1 Respondents Personal /Bio-Data

The respondents were a sample of staff from Finance Trust Limited (MDL) which happened to be our case study area. The researcher chooses at least staff in each department of the organization abreast with core data n the subject matter of study and I was gender balanced.

4.2 Respondents Education Background.

The education back ground of the respondent varied from different departments as shown below

Table4.2.1

LIO	DEPARTMENTAL STAFF	DEPARTMENT	NO	PRIMARY	SECONDARY	TERTIARY
/05/15	Branch managers	Management	20	-	-	20
/05/15	Branch accounts	accounts	10	-	-	10
/05/15	Credit officers	operations	20	-	-	20
/05/15	Cashier/teller	finance	10	-	-	10
	Total		60			60

Source; Primary Data from Finance Trust Limited (MDL)

The researcher sampled five branch managers at the management level, five branch accountants in the accounts department, ten credit officers who are attached to operations and ten cashiers/Teller in finance with balance gender and optional departmental mix.

However the researcher under this category noted that at least all the departmental staff in this category must have at least a tertiary level of education as a minimal requirement

4.3 The Savings Products and Performance of Microfinance Institutions

4.3.1 Mortgage finance lending which provides residential accommodation loans to personal customers has contributed to the performance of micro finance institution.

	Sample size	Strongly agree	%	Agree	%	Strongly Disagree	%	Disagree	%	uncertain	%	total
Female	20	16	80	4	20	-	0	-	0	-	0	100
Male	10	6	60	4	40	-	0	-	0	-	0	100
Students	20	14	70	6	30	-	0	-	0	-	0	100
Others	10	8	80	2	20	-	0	-	0	-	0	100
	60	44	73.33	16	26.67	-	0	-	0	-	0	60

Response figure, 4.3.1.1

Source; primary data from finance trust limited (MDL)

77.14% of them agreed that mortgage finance lending contributes to the performance of micro finance institution while the remaining 22.85% just agreed to it .they attributed this to the refinement of residential and mortgage finance.

4.3.2. Vehicle and asset finance which undertakes the provision of vehicle finance to personal customers and the provision of vehicle and equipment finance to business has got no impact on the performance of micro finance institutions

Response figure 4.3.2.1

Departmental staff	Sample size	Strongly agree	%	Agree	%	Strongly Disagree	%	Disagree	%	uncertain	%	Total
Branch managers	20	-	0	-	0	20	100	-	0	-	0	100
Branch accounts	10	-	0	-	0	8	80	2	20	-	0	100
Credit officers	20	-	0	-	0	12	60	8	40	-	0	100
Cashier/tellers	10	-	0	-	0	5	50	5	50	-	0	100
Total	60	-	0	-	0	45	75.00	15	25.00	-	0	60

Source primary data from finance trust limited (MDL)

There was a strong disagreement to the time of 78.57% of the respondent to this question with 21.42% disagreeing on it. They urged about this saving vehicle and asset financing is a new financing and personal loan product which increase market share by making increase use of market segmentation.

4.3.3.1 Transaction products which include products associated to various points of contract channels with clients such as automated teller machines (ATMs) and branches including deposit taking activities, electronic banking and cheque accounts have greatly contributed to the performance of micro finance institutions.

Response 4.3.3.1

Department/Staff	Sample size	Strongly agree	%	agree	%	Strongly Disagree	%	Disagree	%	uncertain	%	total
branch managers	20	18	90	2	10	-	0	-	0	-	0	100
branch accountant	10	7	70	3	30	-	0	-	0	-	0	100
credit officers	20	14	70	6	30	-	0	-	0	-	0	100
cashiers/tellers	10	9	90	1	10	-	0	-	0	-	0	100
total	60	48	80.00	12	20.00	-	0	-	0	-	0	60

Source; finance trust limited primary data

82.85% of the respondents to the question strongly agree that the transaction products greatly contribute to the performance of micro finance institution while 17.15% of them just agreed to the same question. The response was because they say such the product allows global access to clients in this category to transactions any time and place they would need.

4.3.4 Bam assurance which provides short and long term insurance products to customers, mainly through third parties and financial planning services has got a negative effect on performance of microfinance institutions

Response figure 4.3.4.1

Department	Sample size	Strongly agree	%	Agree	%	Strongly Disagree	%	Disagree	%	Uncertain	%	Total
Branch manager	20	-	0	-	0	13	65	7	35	-	0	100
Branch accountants	10	-	0	-	0	9	90	1	10	-	0	100
Credit officers	20	-	0	-	0	18	90	2	10	-	0	100
Shifters	10	-	0	-	0	7	70	3	15	-	0	100
Total	60	-	0	-	0	47	78.3	13	21.67	-	0	60

Source; finance trust limited primary data

31.5% of the respondents to the question strongly disagreed that transaction products greatly contribute to the performance of microfinance institutions while 18.5% of them just disagree to the same question .This response was because financial planning services does not give a negative effect but rather a positive effect to on the performance of micro finance institutions because the increase savings and increase demand for loans in micro finance institution.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATION

5.0 Introduction

This chapter gives the outlay of the summary from the findings, conclusion based on concrete observation, recommendation for actions on observed problems while giving possible, strength and weakness of the recommendation made and lastly suggesting areas for further research as per the identified weakness on research findings.

5.1 Findings

On application of all the methodologies in the research, they research found out that the companies performance had been based on the following

- The education background of the respondent varied from different departments the branch managers, credit officers, cahiers and then followed by branch accountants. The researcher noted that at least the all the different departmental staff in this category must have at least obtained a tertiary level of education as a minimal requirement.
- Mortgage finance lending provide residential accommodation loans to personal customers have contributed to the performance of microfinance institutions .most f the respondents agreed that mortgage finance lending contributes to the performance of micro finance institutions, while a few jus agreed to. It was attributed to the refinement of residential and mortgage finance.
- Vehicle and asset finance under takes the provision of vehicle finance to the personal customers and the provision of vehicle and equipment finance to business has got an impact on the performance of microfinance institutions.
- Transactional products which include products associated with various point of contracts channels with clients search as automated teller machines (ATMS) and branches including deposit takings activities ,electronic banking and cheque accounts have greatly contribute to the performance of microfinance institutions.

- Bam assurance which provides short and long term insurance products to customers, mainly third parties and financial planning services has got a negative effect on the performance of microfinance institutions.

5.2 Conclusion

Savings in finance trust limited situated in Kampala Uganda, has an impact on the organization's performance. It is the management teams that promote the efficiency and effectiveness of savings therefore ensuring efficiency and high productivity.

Finance trust limited has recruited reasonable qualified and experienced workers .this has enabled the company to effectively execute his tasks country wide and therefore increase performance level though it is still below the 100% level.

Though there is limited staff in finance management, it has segregated most of its activities to ensure accuracy and reliability of records in the company when its books of accounts are read at the end of the financial year. The company has maintained its performance based on ensuring its continuous compliance with the financial and accounting concepts adopted by the management rendering finance rust limited a fast paced, entrepreneurial business. Finance trust drive for financial performance and social responsibility today can be seen in its deep roots as shown in its timeline.

5.3 Recommendations

The following areas if well considered, will improve the organization performance basing on savings management;

- There is need to strong and seriously scrutiny of microfinance institutions records on savings.
- All deposit vouchers may be authorized before savings are made and pre- audit must be exercised.
- The microfinance institutions should sensitize the public on the importance of savings through throughout.

The areas that the researcher suggested required more emphasis included;

- Evaluation of savings system at finance trust limited
- Proper management of institutions savings to obtained design organization performance.

5.3.1 Areas for Further Studies.

- Interest rate ceiling and performance of microfinance institutions.
- Internal control systems and savings in microfinance institutions. Internal control systems and performance of microfinance.

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APPENDICES

Appendix A: Qualitative Questionnaire

I am YEKO SHARON pursuing bachelor's degree of business administration in Kampala International University, I am carrying out some research but I would like to ask you some questions about savings products and other services that you offer. The aim is to discover the effect of savings on performance of microfinance institution in Uganda

I will ask you about the perception of saving products and other services in that sector are your opinion, if any, tick in the boxes beside

SECTION A

1.1 Respondent of Bio-Data

FULL

Name.....

Sex.....

Department.....

Branch.....

Address.....

1.2 RESPONDENTS EDUCATION BACKGROUND

NO	DEPARTMENT STAFF	DEPARTMENT	PRIMARY	SECONDARY	TERTIARY
	Branch managers	management			
	Branch accounts	accountants			
	credit officers	operations			
	Cashiers/tellers	finance			
	Total				

SECTION B

1.3 What Are the Savings Products in Microfinance Institutions?

1.3.1 Personal and Business Banking (Pbb) Products.

Mortgage lending which provides residential accommodation loans to personal customers has led to performance of microfinance institution.

- Strongly agree
- Agree
- Strongly disagree
- Disagree
- Uncertain

Vehicle and asst finance which undertakes the provision of vehicle finance to personal customers and provision of vehicle equipment finance to business has got no impact on performance of microfinance institutions.

- Strongly agree
- Agree
- Strongly disagree
- Disagree
- Uncertain

Transactional products, which include products associated to various points of contacts channels with clients such as automated teller machines (ATMS) and business including deposit taking activities, electronic banking and cheque accounts have greatly contributed to performance of microfinance institutions.

- Strongly agree
- Agree
- Strongly disagree
- Disagree
- Uncertain

Bank assurance, which provide short and long term insurance products to customers, mainly through third parties, and finance planning services has got negative effect on the performance of microfinance institutions.

- Strongly agree
- Agree
- Strongly disagree
- Disagree
- Uncertain

1.3.2 CORPORATE AND INVESTMENT BANKING PRODUCTS

microfinance institutions pay little attrition to global markets ,which includes foreign exchange, fixed income ,derivatives ,equities and commodities ,trading business, securization ,debt origination and money market funding units this leading to less profitability.

- Strongly agree
- Agree
- Strongly disagree
- Disagree
- Uncertain

banking and trade finance ,which includes the corporate lending and transacting banking businesses ,trade finance business and property -related lending is a vital attribute to the performance of microfinance institutions.

- Strongly agree
- Agree
- Strongly disagree
- Disagree
- Uncertain

microfinance undertake investment banking activities ;which includes project finance, structured lending as well as advisory and other services provided to corporate clients wishing to raise financing on debt capital markets in order to boost on their performance.

- Strongly agree
- Agree
- Strongly disagree
- Disagree
- Uncertain

1.4 What Are The Other Factors That Contribute To The Performance Of Microfinance Institutions?

Interest, incomes and expenses have got a significant contribution to the performance of microfinance institutions.

- Strongly agree
- Agree
- Strongly disagree
- Disagree
- Uncertain

Microfinance institutions performance is due to the contribution from fees and commissions income.

- Strongly agree
- Agree
- Strongly disagree
- Disagree
- Uncertain

Translation of foreign currencies has no contribution to the performance of microfinance institutions.

- Strongly agree
- Agree
- Strongly disagree
-

Disagree
Uncertain

Microfinance institutions own financial assets which jeopardize their performance.

Strongly agree
Agree
Strongly disagree
Disagree
Uncertain

The impairment of financial assets has affected the performance of microfinance institutions.

Strongly agree
Agree
Strongly disagree
Disagree
Uncertain

Property and equipment pool owned by microfinance institutions have got a significant impact on their performance.

Strongly agree
Agree
Strongly disagree
Disagree
Uncertain

Income tax deduction reduces on the gross profit on microfinance institutions hence affecting the performance of microfinance institutions.

Strongly agree
Agree
Strongly disagree
Disagree
Uncertain

Accounting for losses is an important practice with enormous positive contribution to the performance of microfinance institutions.

- Strongly agree
- Agree
- Strongly disagree
- Disagree
- Uncertain

Microfinance institution operates employee benefits schemes in terms of pensions and salaries which have got a negative impact on profit and loss account.

- Strongly agree
- Agree
- Strongly disagree
- Disagree
- Uncertain

Derivatives financial statements which comprise solely forward foreign exchange contracts and swaps have contributed to the performance of the institutions.

- Strongly agree
- Agree
- Strongly disagree
- Disagree
- Uncertain

Off the balance sheet items are contingent liabilities with negative impact on the performance of microfinance institutions.

- Strongly agree
- Agree
- Strongly disagree
- Disagree
- Uncertain

Goodwill represents the excess of the cost of an acquisition over the fair value of the banks share of the net date of acquired subsidiary/associate at the date of acquisition.

- Strongly agree
- Agree
- Strongly disagree
- Disagree
- Uncertain

Costs associated with maintaining computer soft ware programmers' and other equipment reduce on the profits thus leading to decline in performance.

- Strongly agree
- Agree
- Strongly disagree
- Disagree
- Uncertain

Provisions are made to curb the risks of losses from failures arising from given endeavors hence minimizing on risk losses.

- Strongly agree
- Agree
- Strongly disagree
- Disagree
- Uncertain

Incremental external costs are directing attributable to the issue of new share and are deducted from equity net of any related income taxes.

- Strongly agree
- Agree
- Strongly disagree
- Disagree
- Uncertain

SECTION D

1.5 The Relationship between Savings and the Performance of Microfinance Institutions.

Microfinance institutions use ratios to measure capital adequacy by comparing the banks eligible capital with its balance sheet, off sheet commitments and markets and other risk positions at weighted amounts to reflect their relative risk.

- Strongly agree
- Agree
- Strongly disagree
- Disagree
- Uncertain

Microfinance institutions make impairment provisions of losses that have been incurred at balance sheet in order of mitigate credit risk.

- Strongly agree
- Agree
- Strongly disagree
- Disagree
- Uncertain

Microfinance institutions always strike a balance between economic sector risk concentrations within the customer loan and deposit portfolios.

- Strongly agree
- Agree
- Strongly disagree
- Disagree
- Uncertain

The asset and liability committees in microfinance institutions set limits on the level of exposure by currently and in total both overnight and intra-day positions.

- Strongly agree
- Agree
- Strongly disagree
- Disagree
- Uncertain

in bid to curb the effect of interest rate risk the assts and liability committees in microfinance institutions set limits on the level of mismatch of interest rate pricing the may be undertaken, which is monitored daily.

- Strongly agree
- Agree
- Strongly disagree
- Disagree
- Uncertain

Microfinance institutions set limits on the minimum proportion of maturing funds available to cash and to minimum level of inter-bank and other borrowing facilities that should be in place to cover withdraws at an expected levels of demand.

- Strongly agree
- Agree
- Strongly disagree
- Disagree
-

Uncertain

Fair values of financial assets and liabilities are based on discounted cash flows using a discounted rate based upon the borrowing rate that directors expect would be available to the institutions for the balance sheet .

- Strongly agree
- Agree
- Strongly disagree
- Disagree
- Uncertain

Microfinance institutions make estimates and assumptions that affect the reported amounts of assets and liabilities within the following financial year.

- Strongly agree
- Agree
- Strongly disagree
- Disagree
- Uncertain

APPENDIX II; INTERVIEW

1. What are the examples of corporate and investment banking?
- 2 what factors contribute to the performances of micro finance institution?
- 3 what is the relation ship between savings and the performance of microfinance institution?
- 4 what are the problems faced by microfinance institutions in Uganda?
- 5 what are the factors that contribute to the performance of micro finance institutions?
- 5 what are the savings product in micro finance institution?

APPENDIX B: TIME FRAME

TIME FRAME WORK	
period	Activity
Feb	Proposal writing
March	Collection of literature and corrections
May	Submission of the approval
May	pilot study , data collection and data analysis
May	Report writing, approval and submission

APPENDIX IV; BUDGET

ITEMS	UNIT COST	TOTAL COST
Typing and printing	200 per page	50000
binding	8000 per copy*3	24000
transport	20000	40000
communication		10000
Data collection		100000
meals	30000	30000
stationeries	20000	20000
miscellaneous	40000	40000
Grant total		314000