THE CONTRIBUTION OF PRODUCT DEVELOPMENT TO THE GROWTH OF MICROFINANCE INSTITUTIONS IN UGANDA; CASE STUDY OF KAZO-ANGOLA SACCO KAWEMPE DIVISION

BY

MUKIIBI JOHN

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A RESEARCH DISSERTATION SUBMITTED TO THE COLLEGE OF ECONOMICS AND MANAGEMENT IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF BACHELORS DEGREEOF ARTS IN ECONOMICS AT KAMAPALA INTERNATIONAL UNIVESITY

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DECLARATION

I **MUKIIBI JOHN**, hereby declare that this research report is my own that I conducted on the contribution of product development to growth of microfinance institutions in Uganda Case study of Kazo Angola and it has never been submitted to this university or any other institution of higher learning for any reward.

SIGNATURE ....   **DATE**. 05/09/2019 ....

MUKIIBI JOHN

APPROVAL

This research report has been submitted as a partial fulfillment of the reward of bachelor's degree of arts in economics with guidance and supervision and its now ready for submission and examination as a university supervisor.

SIGNATURE .... **DATE** 13/04/2019...........................

MADAM NAKAWUNGU FARIDAH

DEDICATION

I dedicate this research report to my dear mum, Mrs. Nangamba Agnes and my father the late Mukiibi John Baptist who sewed the first seed of civilization into me, along with formal education, and who, by God's grace, have seen it grow to this level of Education. I also dedicate it to my dear sisters Nanukiibi ,Nakitende ,Mirembe, Julian, Sanyu, Prossy,Shaniter, brothers, Magara , Ssemakula, Robert, Bosco and friends Morris, Joel, Wembabazi, Dan, Damali, Sarah, who have kept my morale up in pursuit of this course.

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Special thanks go to my supervisor, Ms.Nakawungu Faridah, for the patience, encouragement, criticism and constant guidance to me all through the course, i pray to God to reward you what you desire most.

Finally and most important, I would like to thank the Almighty for the divine intervention that saw me through the many ups and downs since I started my life and particularly during this course. Thank you all once again

LIST OF ACRONYMS

SACCO	:	Savings and credit cooperatives
NPD	:	New product development.
MFIs.	:	Microfinance institutions

DEFINITION OF KEY TERMS

Microfinance : This is defined as the provision of saving, loans, insurance, transfer payments and other financial products targeted to low income clients according to Cohen and Monique (2001).

Product development : This defined as the process by which the institutions create new interests in goods and services of the existing market. (Kolter 2008).

Growth : Is the process of increasing the sizes of national economies, the macro-economic indications, especially the GDP per capita, in an ascendant but not necessarily linear direction, with positive effects on the economic-social sector. It's also defined as the increase in consumption and production of goods and services.

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ABSTRACT

The research was conducted on the general objective of examining the contribution of product development to growth of microfinance institutions, case study of Kazo Angola. Specific objectives included the product development strategies adopted by MFI, growth performance indicators of MFI and relationship between product development and growth of microfinance institutions.

The researcher used both primary and secondary data. The primary data was got from Kazo Angola Sacco employee and clients (past, present and non-beneficiaries) and from management. The information was obtained by use of self-administered questionnaires and interviews. Secondary data was obtained from published materials, which included journals, textbooks magazines, internal reports and newspapers. The study came up with the several conclusions and recommendations such increase on the product portfolios offered to the rural people and spreading further to the areas by MFIs.

The study concluded that process of product development is an influential factor to the growth and development of the microfinance industry in Uganda. The researcher recommended that the management of MFIs should stretch further to rural areas so as to be able to serve the needs and wants of the rural business men. Cost benefit analysis should be considered when such a decision is being embarked on so that both parties can equally benefit from the venture.

CHAPTER ONE

1.0 Introduction

This chapter consists of the back ground of the study, problem statement, and objectives of the study, research questions, research hypothesis, and scope of the study and significances of the study

1.1 Background of the study.

1.1.1Historical back ground

` In the early 1990s the term "micro credit "was replaced by "microfinance" which included not only credits but also other financial services for poor people (Helms, 2011, 4). The transformation process then typically allows MFIs to mobilize client deposits as an additional source of refinance and offer additional non-credit products such as insurance consultancy during product development (Frank, 2010, 2).

This process began in earnest around the early to mid-1980s and has since gathered an impressive momentum. Today there are thousands of MFIs providing financial services to an estimated 100 - 200 million of the world's poor (Christen et al., (1995)). What began as a grass-roots "movement" motivated largely by a development paradigm is evolving into a global industry informed increasingly by a commercial/finance paradigm.

The rise of the microfinance industry represents a remarkable accomplishment taken within historical context. It has overturned established ideas of the poor as consumers of financial services, shattered stereotypes of the poor as not bankable, spawned a variety of lending methodologies demonstrating that it is possible to provide cost-effective financial services to the poor, and mobilized millions of dollars of "social investment" for the poor (Mutua, et al. (2010)

Cohen and Monique (2012) defined microfinance as the provision of loans, savings, insurance, transfer services and other financial products targeted at low income clients. Access to production and consumption credit through microfinance is a key policy strategy for product development and growth, therefore microfinance institutions enable the poor to access informal and formal financial markets and also boost a culture of saving. They also lead to innovations of lending methodologies that are suitable for the poor such as group lending or progressive loans instead of collateral. Microfinance has demonstrated its potential to assist the poor to make significant strides towards reducing their vulnerability, improving their livelihoods, paying for basic health care and financing their children's education (Littlefield et al., 2013).

1.1.2Theoretical back ground

The study will be mainly based on two theories; Silber's constrains theory and Kane's innovation theory.

Kane (1984) sees financial innovation as an institutional response to financial costs created changes in technology, market need, and political forces, particularly laws and regulations.

1.1.3 Contextual background.

In this study the growth of micro finance institutions will be determined by product development. The independent variable in this study will be product development. This is defined as the process by which the institutions create new interests in goods and services of the existing market. (Kolter 2013).

The dependent variable in this study will be the growth of micro finance institutions.This is defined as the provision of saving, loans, insurance, transfer payments and other financial products targeted to low income clients according to Cohen and Monique (2011).

Product development refers to the process of by which institutions create new interests in goods and services of existing market or for the new clients (Kotler*et al.*, 2013). Traditionally, most microfinance institutions have offered uniform credit products for the entire customers. This traditional product usually relies on the stepped lending methodology where loan terms and conditions are set to minimize risk and cost of the incurred by institution. The supply driven approach is now being replaced by a more market and client driven approach resulting from added competition that comes out from entrance of formalized commercial bank into the micro enterprise market, increasing client dropout's rates that result from inflexibility of current product offering.

According to Norse (2011), there is a need for saving and insurance services for the poor and not just credit products. Therefore microfinance institutions also need to provide tailor lending services and products instead of providing rigid loan product. He also argues that before any product development project is started, it's important to make sure that the institution is prepared for the work and challenges that are associated within the process of product development

According to Philip (2013) product development is abroad field of endeavor dealing with the design, creation and marketing of new product development, this discipline is focused on developing systematic methods for guiding all the processes involved in getting a new product to the market. Therefore, microfinance have demonstrated their potential to assist the poor to make significant stand towards reducing their vulnerability, improving their live hood, paying for basic health care and financing their children education, as result of the growing numbers of needs of clients the market are becoming extremely competition and client have an ever widening choice of financial service provider to choose from.

In Zambia, according to Chiuma (2016), the services and products that can be provided under the Micro Finance Regulations (MFRs) are restricted to the provision of credit facilities. He argues that this restriction may stifle service and product innovation in the microfinance sector. While microfinance is widely celebrated as a possible solution to the financing problems of smaller firms and micro businesses, there is remarkably little examination of the connection between microfinance and product development (Nugroho and Miles, 2014). It's based on this background that the researcher will intend to find out the contribution of product development to growth of microfinance.

1.1.4 Conceptual background

Microfinance

This is defined as the provision of saving, loans, insurance, transfer payments and other financial products targeted to low income clients according to Cohen and Monique (2011).

Product development

This defined as the process by which the institutions create new interests in goods and services of the existing market. (Kolter 2013).

Growth

Is the process of increasing the sizes of national economies, the macro-economic indications, especially the GDP per capita, in an ascendant but not necessarily linear direction, with positive effects on the economic-social sector? It's also defined as the increase in consumption and production of goods and services.

1.2 Statement of problem.

Ideally, Microfinance is one of the practical development strategies and approaches that should be implemented and supported to resolve the failures of the credit markets and solidarity sentiments prevail amongst the members who constitute microfinance groups.

Currently, the governments realize that resource-poor rural households need affordable credit to enhance household incomes, the formal financial institutions failed to reach the poor because they adhere to string gent collateral requirements, and the credit disbursement and recovery procedures are not suitable for their economic environment.

There for the fact that microfinance institution response to market competition has been largely in terms of developing new products that meet the needs of the clients and also developing proper delivery systems so as clients easily access the products. Despite of efforts in product development, microfinance institutions have a low growth this is due the limited awareness of the clients about the existing products and services provided by micro finance institutions. According to Robison (2001) over 90% of the populations in developing countries have no access to financial services and also the repayment rate of MFI continues to be extremely week. It's upon this that the researcher will intend to find out the contribution of product development to the growth of microfinance.

1.3 General objective

The study will aim at examining the contribution of product development to the growth of microfinance institution in Uganda.

1.4 Specific objectives.

i. To find out the product development strategies adopted by microfinance institution.
ii. To find out the growth in microfinance.
iii. To find out the relationship between product development and growth of microfinance institution.

1.5 Research questions.

i. What product development strategies have been adopted by microfinance institution?
ii. What are the growth indicators in microfinance institution?
iii. What is the relationship between product development and growth of microfinance?

1.6 Research hypothesis.

H_A: There is a significant relationship between product development and the growth of micro finance institutions.

1.7 The Scope of the Study.

The study will contain:

1.7.1 Geographical Scope

The study will be carried out at Kazo-Angola Sacco in Kawempe division in Kampala district.

1.7.2 Time Scope

The study will be within three months starting in May to July 2019 with in which its expected to be concluded the study

1.7.3Theoretical scope

The study will be mainly based on two theories; Silber's constrains theory and Kane's innovation theory. These theories will provide the existing literature on the relationship between product development and growth of micro finance institutions.

1.7.4 Content scope

The study will help the researcher to find out product development strategies, growth indictors and the relationship between product development and growth of microfinance institutions.

1.8 Significance of the study.

The study will be of great importance to policy makers such as microfinance support Centre since it brings out product development strategies and growth indicators.

The study will enable microfinance institution to effectively expand the existing financial products that fit client demand.

The study will be a source of information to academicians who will be in the need also to discover about the contribution of product development to microfinance.

As a student of economics and a policy analyst, it will be partial fulfillment for award of bachelor's degree in economics at Kampala International University.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction.

This chapter presents the conceptual review of the study, theoretical review of the study, contextual review of the study.

2.1 Theoretical review.

The study is based on two theories that is Silber's constrains theory and Kane's innovation theory.

Silber's constraints theory of innovation

Silber's (1975) attributes financial innovation to attempts by profit maximizing firms to reduce the impact of various types of constrains that reduce profitability. The theory points out that the purpose of profit maximization of financial institutions is the key reason of financial innovation. Moreover, their decrease in profitability, which can be attributed to external competition or government regulation, has provided these firms with the necessary motivation to increase profitability. Silber considers the main historical causes of innovation by US banks as a response to a reduction of their utility or adversity in innovation the interest rate ceiling, Where banks tried to indogenize exogenous items of the balance sheet (Certificate of Deposit and bank rated commercial paper); decline in the market for particular assets; a declining growth rate of resources of funds (new products in order to get new sources of funds) and an increase of the risk of a particular assets or of all assets due to the economic environment are reason for financial innovation.

On the hand, success innovations are extensive use of cost reducing information technology and elaborate new finance theories in the financial sector and several new products designed to cope with the rising yield of assets in order to attract new funds.

Generally, Silber proposes that the three possible ways a financial institution could innovate, by indogenizing an exogenous item of the balance sheet, introducing an existing financial instrument from another country and thirdly as the mixture of the ways above, taking the form of modification of an existing instrument .The importance of Silber's theory is that, by using the concept of financial innovation, he provides us with a wider spectrum of potential reason contributing to the innovation process that helps to improve the performance of financial institutions. The suggestion in the work of Silber, is that investment in innovation is a rational response to an un favorable competitive position (Silber, 1983)

Kane's theory of Innovation

Kane (1984) sees financial innovation as an institutional response to financial costs created by changes in technology, market need, and political forces, particularly laws and regulations. Financial industry is special, it has stricter regulations and financial institutions have to deal with these regulations in order to reduce the potential risks to minimum. Kane's theory where an institution responds to the changes in its operating environment is the rise of the shadow banking system in the US Economics believes the current financial current crisis was triggered by the shadow banking system. Because shadow banking institutions don't receive traditional deposits like a depository bank, they have escaped most regulatory limits and laws imposed on the traditional banking system. Members are able to operate without being subjected to regulatory oversight for unregulated activities.

An example of an unregulated activity is a credit default swap (CDS). This parallel banking system essentially caused the credit market to freeze, due to lack of liquidity in the banking system. These entities which make up the shadow banking system include hedge funds, ''borrowed short term in the liquid market and then purchased long term, illiquid risky assets''. Banks cannot operate in such a manner but since the existing legislation were only designed to regulate banks; investment vehicles like hedge funds came up with risky innovative technique in a bid to minimize their operational cost.

Kane approaches innovation as an arbitrage instrument trying to take advantage of regulation lags. Innovation takes the form of product substitution in order to circumvent regulation sometimes by just rearranging contracts and by just simply moving along different financial systems. He defines regulation's burden as a form of taxation imposed on banks. Banks' main concern during the 1970s was to avoid it. In order to attract customers despite the regulative burden, they used a mixture of means initially covering non-monetary benefits to indirect benefits and at the end mainly monetary advantages.

But on the other hand regulators developed their own defenses and adopted new approaches resulting in the emergence (Kane 1984). His contribution is essential for the better understanding of the existence of dialectic between financial institutions (banks) and exogenous factors that leads to permanent evolution under the process of financial innovation.

2.2. Conceptual framework

INDEPENDENT VARIABLE
PRODUCT DEVELOPMENT

DEPENDENT VARIABLE
GROWTH OF MICRO FINANCE INSTITUTION

Insurance Increase in the revenue
Developing new products
Saving
Lending services

Clients

lending capacity of finance institutions
Reduction on volatility of profits.

Source: Microfinance Institutions Data

According to the conceptual framework above growth of micro finance institutions depends on product development. This shows that in order to increase on the number of clients, increasing the revenues obtained by financial institutions depends on the new products brought on market by micro fiancé institutions.

Also in order for micro finance institutions to increase the lending capacity and also reduce on volatility of profits new products must be brought on market.

2.3 Conceptual reviews

In this section much emphasis is put on explaining the objectives of the study and this was elaborated in the subsequent discussion.

2.3.1The product development strategies adopted by the microfinance institutions.

Product strategy is a strategic approach to developing and enhancing products to fit the needs of the market and going about activities to optimize sustainable sales of the product in the most profitable manner.

In this present economic environment where technological advances happen very quickly and products life cycle is cut short, companies need a strategy for new product development, but also need to know the factors that determine the market success of new products, (Roenrich, 2004).

The process of new product development (NPD) is risky due to alarming failure rates and the large amounts of venture capital required in the process of implementing it (Cooper, Edgett, and Klein Schmidt, 2004).

Identifying the factors contributing to the new product success remains vital managerial concern not only because successful new products are major source of improved financial and market performance, but also because they point previously undiscovered opportunities in business (Swink, 2000)

Among the managers it's widely accepted that three main factors impact new product development success which is time, quality and expense (Bayus, 1997, Clark and Fujimoto, 1991). Speed to market also is referred to as the development cycle time, is the time between idea generation and new product launch and this therefore should be enough to effectively market the new product. (Griffin, 1993).

Product quality refers to customer perceptions of superiority relative to competing alternatives therefore the financial institutions are required to develop products which are demand driven and tailor made to clients they serve. (Sethi, 2000).

		Product		
		Existing	**Modified**	**New**
Market	**Existing**	Sell more of our existing products to our existing types of customers (***Market penetration***)	Modify our current products and sell more of them to our existing customers (***Product modification***)	Design new products that will appeal to our existing customers (***New product development***)
	Geographically Modified	Enter and sell our products in other geographic areas (***Geographic expansion***)	Offer and sell modified products to new geographical markets	Design new products for prospects in new Geographic areas.
	New	Sell our existing products to new types of customers (***Segment invasion***)	Offer and sell modified products to new types Of customers	Design new products to sell to new customers (***Diversification***)

Source: Microfinance Institutes

Breadth of outreach refers to number of users of the financial products, length of outreach refers to the time frame in which the MFIs produces the loan and the scope of outreach refers to the number of financial contracts offered by the MFIs.

It is argued that length of a loan matters in the outreach of the poor, because if the microfinance institutions support the poor only in the short run it will hamper the social welfare of the society in the long run. In the case that when the client of the microfinance institution knows that he/she will not receive additional loan in the future they would have no incentive to borrowers to repay their loan (Navajas et al., 2000.)

Financial sustainability of microfinance. (Profitability)

According to Gibbons, David S, Meehan, Jennifer W (.1999). Financial sustainability of MFIs can be defined as its capacity to cover all its expenses by its revenue and to generate a margin to finance its growth and this is the same as profitability in the long run

Meyer (2002) stated that the financial unsustainability in the MFI arises due to low repayment rate or un-materialization of funds promised by donors or governments. Therefore, the financial institutions need to ensure proper repayment to ensure proper financial sustainability in their operations.

MFIs that have achieved true financial self-sufficiency have also tended to loan to borrowers who were either slightly above or slightly below the poverty line in their respective countries (Navajas et al., (2000)).

According to some (Christen et al. 1995; Otero and Rhyne 1994), outreach and financial sustainability are complimentary this is because as the number of clients increase MFIs enjoys Economies of scale and hence reduce costs which help them to be financially sustainable.

It is widely known today that providing loans to micro-entrepreneurs has a relatively attractive potential to generate profits and growth. In some areas, like Asia, Africa and Latin America the profitability of MFIs is already squeezed by greater competition in the industry (Lascelles, 2008).

Meyer (2002) indicated, "Measuring financial sustainability requires that MFIs maintain good financial accounts and follow recognized accounting practices that provide full transparency for income, expenses, loan recovery, and potential losses.

Jang and Park (2011) worked to find out relationship between microfinance institution profitability and growth. They argued that increasing profit also increases growth, but the profitability is impeded by an increase in growth.

Profitability is measured by the return on assets (ROA) which measures how well the firm uses its assets to generate the profits and return on equity (ROE) which measures the ability of financial institution to earn profits from the money invested by shareholders, the ROE and ROA give a long term view on the profitable performance of financial institution. (Vijayakumar and Devi, 2011).

Relationship between product development and growth of microfinance.

According to Ramanujam&Varadarajan (2009), the nature of the organization changes when it enters new products markets as this creates a number of new administrative linkage mechanisms. In general, financial institution pursues product development to exploit underutilized resources within the institution and to take advantage of imperfections of markets, which creates new opportunities for growth.

According to Stiroh (2008), product development and diversification increases microfinance institution revenue and reduces volatility of profits. Moon (2009) suggests that product development improves cost efficiency through lower risk from diversification if it occurs, and lowers the required risk premiums on un-insured debt. Financial institutions may also have higher average revenues if the institutions use some of the gains from product development to make higher risk investments (Hughes and Mester, 2008).

According to Jacquemin and Berry (2009), there is a linear positive relationship between product and diversification and financial performance of financial institution, therefore product development and diversification leads to the increase in growth of microfinance institution.

Cotugno and Stefanelli (2012) confirmed a positive relationship between product diversification (development) and bank performance and identical results are obtained with respect to the geographical diversification.

Morgan and Stolyk (2009) suggested that product diversification and development increases the lending capacity of financial institutions and the banking system, but it does not increase the profits of individual banks or reduce the risk in their portfolio.

MFIs offer a variety of products including micro loans, savings and other deposit products, remittances and transfers, payment services, insurance, and any other financial product or service that a commercial bank does not offer to low-income clients in the banking system (Hoque and Chisty, 2011). The products therefore cater for needs of various clients with promotes growth of MFI industry inform of outreach.

Technological innovations, product development and ongoing efforts to strengthen the capacity of African MFIs are needed to reduce costs, increase outreach, and boost overall profitability (Lafourcade, et al, 2005). Consequently, the MFIs should develop viable financial products relevant to the target market

CHAPTER THREE
METHODOLOGY

3.0 Introduction.

This chapter describes the research methodology that was used to show the relationship between product development and the growth of MFIs. This chapter highlights the research design, area of study population, sample size, instrument for data collection, procedure for data collection and data analysis.

3.1 Research design

The study was descriptive in nature using both qualitative and quantitative research designs were used in which quantitative method was used for opinions confirmed by statistical data. Qualitative design was used to cater for narrated opinions of responds.

3.2Area of study

The research study was conducted in Kazo- Angola in Kawempe division, Kampala district. Kawempe division constitutes many parishes which include Kagoma, Maganjo, and Makerere among others. This is located 5 Kms off Kampala-Bombo road. This area was chosen because it has very many low income earners that have benefited from the microfinance services for very long period of time.

3.3 Study population

Study population refers to the totality of all elements in the study. The study population included sample population of 58 respondents from Kazo-Angola sacco staff, management and clintes in kawempe division kampala district.

3.4Sample Size and Design

In the study, a stratified random sampling technique was used to reach the respondents in Kawempe division. The sample size of the study was established using the Yamane's (1967) formula given a finite population and the degree of precision (reliability) desired by the study. The Yamane's formula states;

$$n = \frac{N}{1+Ne^2}$$

Where; n is the sample size, N is the known population of the study and ε is the permissible error.

$n=\frac{58}{1+58*0.05^2}$=50 respondents

From the population of 58 respondents, 50 respondents were sampled which account for 86.2% of the total study population. Sampling was done in a way that respondents from different parts of Kawempewere represented in the sample proportionally to their respective individual population sizes. The study therefore involved conducting random sampling technique in each section of the departments. n= $\frac{Ni}{N} X\, ni$ Where; $n_i$is the sample size for each part, N_i is the population size of each part, N is the total populationof the study. Population will consist of 58 respondents.

Table 3.4.1: Showing population and sample size.

Category	Population of the study	Sample size
Managers	6	6
Staff	20	17
Clients	31	27
Total	58	50

3.5 Data collection methods and instruments

The study used the interviewing and questionnaire methods using tools such as questionnaires and interviews. The open and closed ended questionnaires were used so that it gave freedom of choice to the respondents.

3.5.1 Questionnaires

The researcher used this method to collect from respondents who were easily reached to some days. The questionnaires contained both open and closed ended questions basing on the study objectives which were structured and unstructured question. This was used because it's quick in the process of collecting data.

3.5.2 Interviews

The research was carried out using interview guide questions and this covered all questions relating to product development. This method was favorable to respondents who found it difficult to fill the questionnaires and those who didn't know how to read. This was conducted through the face to face format, via telephone using set questions.

3.6 Sources of Data

The study was conducted basing on two sources, Primary and Secondary data.

3.6.1 Primary sources

The researcher gathered data from the self-administrated questionnaires, interviews and observation; therefore, this enabled the researcher to get firsthand information from various respondents of the Sacco including managers, clients and staff. The information was obtained using semi-administered questionnaires and interviews.

3.6.2 Secondary data

This study also obtained data and information from published materials, which include journals, textbooks magazines, internal reports and ageing portfolio reports. These included minutes, internal and credit officers' reports of Sacco. Therefore, the study used existing literature to gather relevant data needed in the study. Bryman and Bell (2003) further explain that secondary data is a useful quantitative source for evaluating historical or contemporary confidential or public records, reports, government documents and opinions.

3.7 Data processing and Analysis

After the collection of raw data, it was complied, edited and entered in the computer for further analysis.

3.7.1 Data processing

The quantitative raw data from the questionnaires was coded on the coding sheet and assign each a number to each answer which the respondent had provided cons responding to the question on the coding sheet.

3.7.2 Data Analysis

Data analysis was an interactive process which was concurrent from the starting point of data collection; data was analyzed using suitable computer packages such as Spss, Excel. The study has frequency tables to analyze the characteristics of the sample. Also descriptive statistics about variables were displayed

CHAPTER FOUR

4.0 General Background Information

This section presents the general characteristics of the respondents. These include the, gender, age brackets, educational level and position of the respondents. These are Presented in the subsequent sections.

4.1 Bio data of respondents

In the study of 50 respondents 30 of them were women and 20 were men, these included both the clients and specifically the staff members of Kazo Angola Sacco. This showed that at Kazo Angola Sacco gender sensitivity is taken as a priority.

Table4.1: Gender distribution

Gender	Frequency	Percentage
Male	20	40
Female	30	60

Source: Primary source

The table above indicates that the respondents that were interviewed 30 of them were women and 20 of the respondents were men. This basically showed that the institution is gender sensitive and this was fulfilling its objective of empowering women in kawempe division.

4.1.1 Age brackets of the respondents

The study sought to know the age of the respondents and it examined the age of both the clients and the staff of the institution who access and provide the institution services respectively.

Table4.1.1: Age distribution.

Age	Frequency	Percentage
18-24	25	50
25-30	10	20
31-35	10	20
Above 36	5	10

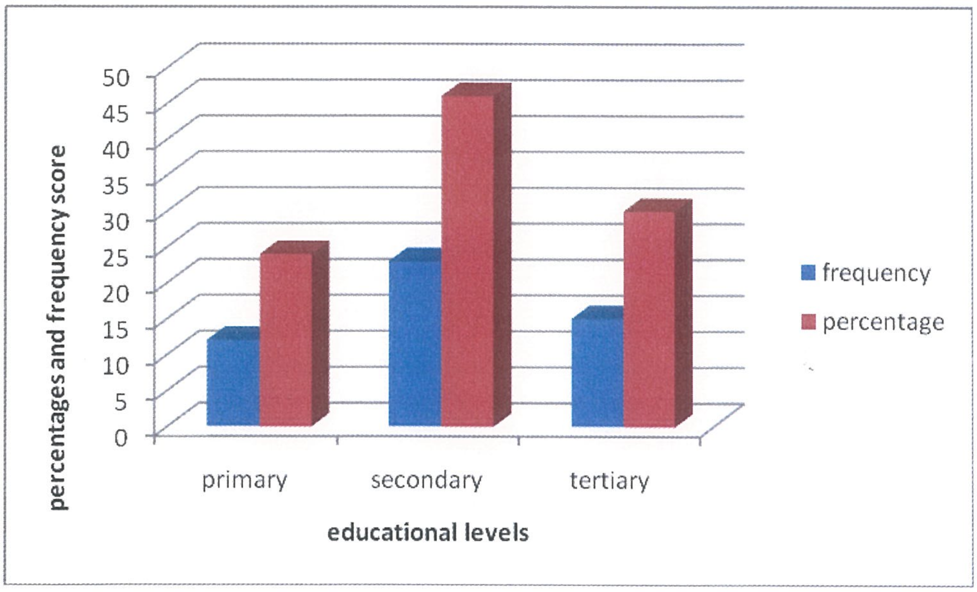
Source: Primary source

The table 4.1.1 shows that 25 of the respondents were aged 18-24, 10 of the respondents were aged 25-30, 10 were also felling between 31-35 and 5 of the respondents were above 36 years of age. This study therefore targeted the right respondents since the institution has the legal obligation to enter into agreements with employees and clients who are 18 years of age and above. This showed the majority of the respondents were in the youthful category since the future of any financial institution lies in this age group.

4.1.2 Educational background of the respondents

The study sought to find out the educational levels of the respondents, the respondents had different levels of education namely primary, secondary and tertiary level as shown in the figure below.

Figure 1: Education level



Source: Primary data

From the figure1 above its clear that the 23(46%) of the respondents were secondary dropouts while 12(24%) of the respondents were primary leavers and 15(30%) of the respondents had attained tertiary education. This implies that majority of the institution workers and clients are semi-literate therefore there is great need to train the staff effectively before engaging in service provision for better results.

4.1.3 Duration of the stay at the institution

The study sought to know the period various respondents had stayed at the institution so they were asked to indicate their period and these were as follows.14(28%) had stayed at the institution between 1-5 years,23(46%) had stayed at the institution between 6-10 years and

13(26%) had stayed at the institution for more than 10 years. This showed that at least most of the staff members had stayed for 10 years implying the institution ability to retain its staff and clients. This was presented in the table below.

Table4.1.3: response on duration of stay

Duration of stay	Frequency	percentage
1-5	14	28
6-10	23	46
Above 10	13	26

Source: Primary data.

4.2 Product development strategies adopted by the institution

The study sought to find out the various product development strategies adopted by Kazo Angola Sacco in Kawempe division.

4.2.1 Period taken to develop a new product

The study sought to know the period it takes the institution to develop a new product and therefore the respondents were asked to indicate for how it takes the institution to carry out product development. The respondent indications were presented in the table4.4 below.

Table 4.2.1: response on Period taken to develop a new product

Period taken to develop a product(years)	Frequency	percentage
1-5	16	32
6-10	25	50
Above 10	9	18

Source: Primary data

The study shown that 16(32%) indicated that it takes the institution 1-5 years to develop a new product,25(50%) indicated that it takes 6-10 to develop a new product and 9(18%) indicated that it takes over 10 year to develop a new product. The majority of the respondents stated between 6-10 years and this is an ideal period to develop a new product due to the completion within the microfinance industry.

4.2.2 Nature of the products developed.

The study sought to know the nature of products developed by the institution, therefore the respondents indicated as follows. 28(56%) stated that the products are demand driven, 10(20%) indicated that the products were flexible and 12(24%) indicated that the products are accessible. This implied that majority of the products developed in the institution depend on the demands of clients, this is shown in the table below.

Table 4.2.2: Response on Nature of the products

Product nature	Frequency	Percentage
Demand driven	28	56
Flexible	10	20
Accessible	12	24

Source; Primary data

4.2.3Strategies Mfi uses in developing new products.

The study sought to know the strategies the institution is using during product development. Various staff members were interviewed and they indicated as presented in the table.

Table 4.2.3: Response on Strategies used in developing a product.

Strategies used in product development	Frequency	percentage
Proper resource allocation	15	30
Consumer financial education	14	28
Carrying out market research	12	24
Ensuring proper levels of resources	7	14
Designing new products for prospects in new geographic areas.	2	4

Source: Primary data.

From the table4.6 above , it was discovered that most of the staff members indicated that proper source allocation as proper strategy in the process of product development and respondents were 15(30%), consumer financial education were14(28%), carrying out market research were 12(24%), ensuring proper levels of sources were 7(14%) and designing new products for prospects in the new geographic areas were 2(4%).This implies that the institution has to ensure that the resources are properly used like according to Clark (1991) proper resource allocation is vital key in product development.

4.2.4 Challenges faced by the institution in product development.

The study sought to find out the challenges faced by the institution during product development. The respondents were asked to indicate the various challenges according to their individual feelings and result was as follows as presented in the table below.

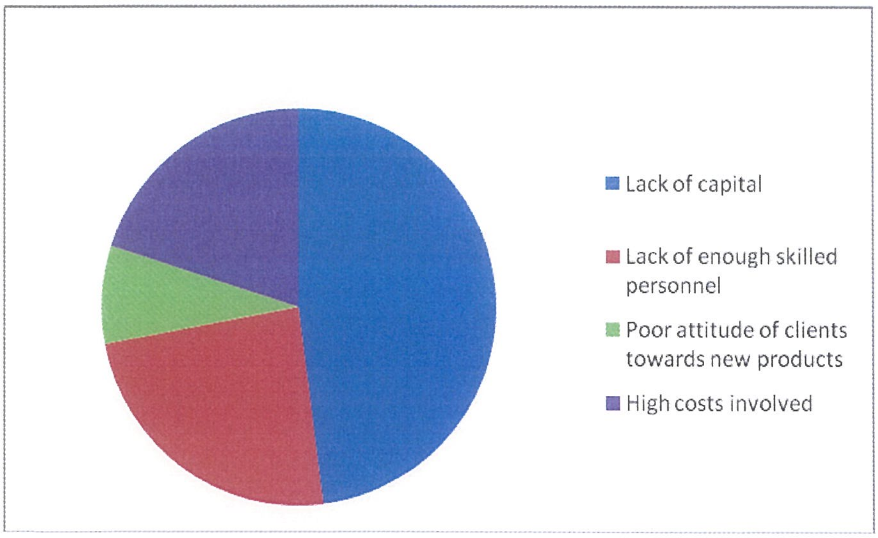
Table4.2.4: Response to challenges faced.

Challenges faced	Frequency	percentage
Lack of capital	24	48
Lack of enough skilled personnel	12	24
Poor attitude of clients towards new products	4	8
High costs involved	10	20

Source: Primary data

From the table above most of the respondents said that lack of capital was a major problem and these were 24(48%), 12(24%) indicated lack of enough skilled personnel,4(8%) indicated poor attitude of clients towards new products and 10(20%) indicated that the high cost involved as the challenge. The implication is that the major challenge facing the institution is lack of enough capital during product development.

Figure 2: Challenges faced during product development.

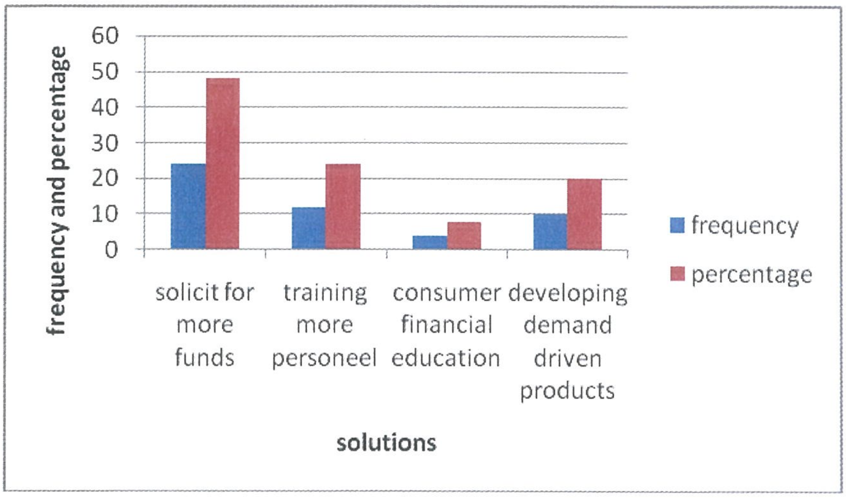


Source: Primary data.

4.2.5 Ways to improve the process of product development.

The study sought to find out the ways to improve the product development process and the indications of the respondents were as follows. 24(48%) indicated soliciting for more funds from government bodies.12(24%) indicated training more skilled personnels,4(8%) said that ensuring proper consumer financial education and 10(20%) indicated developing demand driven products. This is shown in the figure below.

Figure 3: Response to ways of improving product development



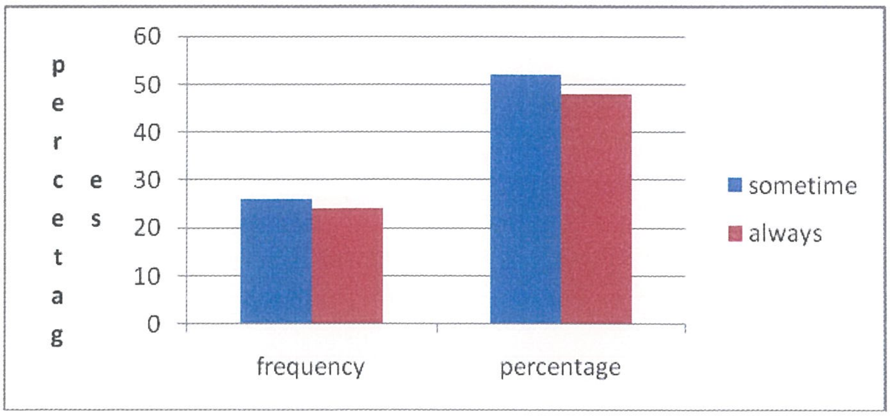
4.3 The growth performance indicators in microfinance.

The study sought to find out the growth performance indicators in microfinance and therefore the study sought to find out whether the institution attains its targets , describe its rate of growth and various growth performance indicators.

4.3.1 Does institution attains its target?

The study sought to find out the whether the institution was attaining its set targets and respondents indicated as follows. 26(52%) indicated that the institution always attains its targets and 24(48%) indicated that the institution sometimes attains its targets.

Figure 4: Response to attaining target.



Source: Primary data.

4.3.2 Rate of growth of the institution.

The study sought to rate the growth of the institution and respondents indication were as follows. 24(48%) described the rate as high, 16(32%) described the rate as moderate and 10(20%) described the rate of growth as low. This implication indicated that the institution growth is high due to its demand driven products it develops. This is presented in the table below.

Table4.3.2: Response to the rate of growth

Rate of growth	Frequency	Percentage
High	24	48
Moderate	16	32
low	10	20

Source; Primary data.

4.3.3 Growth performance indicators in MFIs.

The study sought to find out the growth performance indicators and respondent indications were as follows.12(24%)indicated that number of clients served by MFI, 6(12%) said capacity of MFI to cover its expenses by its revenue,6(12%) said the capacity of MFI to generate a margin to fiancé its growth,8(16%) said the level of capital owned by the MFI, 10(20%) said that the number of services provided by MFI and 8(16%) said that the size of the loan given to clients. This implied that major performance indicator is number of clients served by the MFI; this is presented in table below.

Table 4.3.3: Response to growth performance indicators.

Growth performance indicators	Frequency	Percentage
Number of clients served by MFI	12	24
Capacity of MFI to cover all its expenses by its revenue	6	12
Capacity of MFI to generate a margin to finance its growth	6	12
Level of capital owned by the MFI	8	16
Number of services provided by MFI	10	20
Size of the loans given to clients	8	16

Source: Primary data.

4.4 The relationship between product development and growth of microfinance institutions.

The study sought to find out the relationship between product development and growth of microfinance institutions in Uganda. The major contributors were client base after product development, the default rate and the relevancy of product development in promoting growth in MFIs.

4.4.1 Clients joining the institution after product development.

The study sought to find out the number of clients joining the institution after product development and these were the respondents indications.9 (18%) indicated that number of clients who joined were between 0-500, 12(24%) indicated that clients were between 500-1000, 15(30%) indicated that clients were between 1000-1500 and 14(28%) indicated that clients were above 1000.This implied that indeed product development increases the clientele base within the institution.

Table .4.4.1: Response on clients joining the MFI after product development

Clients joining the MFI after product development	Frequency	Percentage
0-500	9	18
500-1000	12	24
1000-1500	15	30
Above 1000	14	28

Source: Primary data.

4.4.2 The default rate of the MFI after product development.

The study sought to find out the default rate among clients after the institution has engaged in product development. The respondents indication were as follows, 25(50%) indicated that default rate is 5% and below, 17(34%) indicated default rate as 17% and 8(16%) indicated that the default rate is 15%. This implied that as the institution engages it's self in product development, the level of default among clients reduces.

Table :4.4.2 Response to the default rate of MFI after product development

Default rate	Frequency	Percentage
15%	8	16
10%	17	34
5% and below	25	50

Source: Primary data.

4.4.3 Relevancy of product development in promoting growth of the institution.

The study sought to find out the relevancy of product development to growth of MFI and these were the respondent's views.

Table4.4.3: Response to relevancy of product development in promoting growth of MFI

Relevancy of product development	Frequency	percentage
Product development increases MFI revenue	5	10
Product development reduces volatility of profits	10	20
It improves cost efficiency	6	12
Its helps MFI to attain social mission	2	4
It increases the lending capacity of MFI	20	40
It reduces the dropout rate of clients of MFI	4	8
It enable MFI to attain competitive advantage	3	6

Source: Primary data.

Basing the table4.12 above, product development increased MFI revenue was stated by 5(10%) respondents, 10(20%) stated that its relevancy is that it reduces volatility of profits,6(12%) indicated that it improves cost efficiency,2(4%) stated that it helps the MFI to attain its social mission, 20(40%) said that product development increases the lending capacity of MFI while 4(8%) stated that it reduces the dropout rate of clients

CHAPTER FIVE

ANALYSIS OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter discusses the findings of the study, the conclusions and recommendations in relation to the study objectives. The discussion explains the findings of the study in support or in contrast to the literature after which conclusions and recommendations are drawn.

5.1 Product development strategies adopted by microfinance institutions.

The finding after the study revealed that Kazo Angola sacco takes between6-10 years to develop a new product as according to the 25% of the respondents that were interviewed and therefore this is an ideal period for MFI to develop a new product. The study findings revealed that new products developed the MFI are demand driven as stated by56% of the respondents, thus this finding is supported by Dunn (2002) and Cohen(2002) who argues that microfinance institutions need to be more client focused and also provide a mixture of financial products tailored to the varied needs and wants of the poor consumers.

The finding further revealed that the one of major strategy in product development is proper resource allocation which had 30% of the respondents and this is supported by Clark (1991) who argues that the proper levels of resources allocation is required to enter a development expense for the project to advance from concept creation and development of commercial product within the financial institution .The study revealed that the consumer financial education was ranked second as it had 28% of the respondents.

The study finding also revealed that lack of enough capital was the major challenge affecting the process of product development within the microfinance institutions. This is because it had 48% of the respondents; this was followed by the lack of skilled personnel within the microfinance industry. Therefore the during the process of product development MFI should solicit for more funds and this is supported by cooper (2004) who argues that the process of new product development (NPD) is risky due to alarming failure rates and the large amounts of venture capital required in the process of implementing it .

5.2 The growth indicators in microfinance.

The study revealed that the 56% of the respondents indicated that the institution sometimes it attains its targets, 48% of the respondents indicated that the institution always attains its targets and none of the respondents indicated never .Therefore basing on the majority respondents it implied that the institution sometimes attains its targets.

The study revealed that 48% of the respondents indicated that the institution has a high growth rate, 32% of the respondents indicated that the growth rate is moderate and 20% of the respondents indicated the growth rate as low. This revealed that institution products are highly useful to the clients and hence a high growth rate.

The study revealed that that number of clients served by the MFI is the most popular growth performance indicator since it had 24% of the respondents and this is supported byCracknell (2005), who urges that branches should be located in areas that allow the institution to provide accessible, frequent and convenient services to its customers. This enables MFIs to ensure effective outreach maximization.

5.3 Relationship between product development and growth of microfinance institutions.

The study revealed that product development increase the clientele base of the MFI as indicated by 30% of the respondents who stated that clients joining fall between 1000-1500 and this was followed by 28% who indicated clients joining to be over1500.This indeed indicated that product development greatly promotes growth. This is supported by Cull, Demingul and Monduch (2017), who stated that effectively conducted systematic product development will result into products which are popular with the clients hence this reduces client drop outs, attract new clients and contribute to the long growth of microfinance.

The study revealed that product development reduces the rate of default within the institution. This is because majority of the respondents 50% of them revealed that after product development default rate reduced to 5% and below.34% of the respondents indicated that it reduced to 10% and only 16% indicated that it reduced to 15%.This reveals that product development indeed reduces the default rate.

The study revealed that the major relevancy of product development is that it increases the lending capacity of microfinance institutions as indicated by 40% of the respondents. This basically supported by Morgan and Stolyk (2016) who suggested that product diversification and development increases the lending capacity of financial institutions and the banking system, but it does not increase the profits of individual banks or reduce the risk in their portfolio. The finding revealed that product development reduces volatility of profits as indicated by 20% of the respondents while increases microfinance revenue was indicated by10% of the respondents and this is supported by Stiroh (2014),who states that product development and diversification increases microfinance institution revenue and reduces volatility of profits.

5.4 Conclusion.

Micro Financing is becoming increasingly important to poor countries like Uganda as an engine of growth and development and it is therefore important that policy makers accord more attention to it than ever before in order that the current and potential 'beneficiaries' can actually stand to improve on their welfare and also to ensure the development of entire microfinance industry.

Since micro finance institutions are proving important to the less developed societies, it is paramount that various product development strategies be formulated to pave a way forward for introduction of better new products for the clients thus propelling the clients from the current status to greater heights.

5.5 Recommendation.

The management of MFIs should stretch further to rural areas so as to be able to serve the needs and wants of the rural business men. Cost benefit analysis should be considered when such a decision is being embarked on so that both parties can equally benefit from the venture.

The management of MFIs should increase on the product portfolios offered to the rural people. The existing product portfolios do not cater for all the needs and wants of the rural people. The marketing department should endeavor to research on the clients' desired options and be able to work according to them during product development process.

The management of MFIs should endeavor to sensitize their clients so as to secure that the clients perfectly know the benefits of the newly developed financial product.This calls prior training and briefing of clients especially during periodic group meeting of clients.

5.6Areas for further Research

The researcher recommends further research in the following ways.

The contribution of product development on Microfinance sustainability.

The impact of product development on outreach maximization of microfinance institutions.

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APPENDICES

APPENDIX I: RESEARCH QUESTIONAIRE

Dear respondents I am **Mukiibi John** a student from Kampala International University pursuing a bachelor s degree of arts in economics. Am carrying out a research on "The contribution of product development to the growth of Microfinance institution" I request you kindly to be part of the study by answering the questions correctly and briefly; this is an academic research your response will be kept confidential.

SECTION A: DEMOGRAPHIC DATA

Instruction (Tick the appropriate option or write the most suitable answer)

1 What is your gender?

Male ☐ Female ☐

2 What is your level of education?

Primary ☐ Secondary ☐ Tertiary ☐

Others specify ……………………………………………………………………………………

3 What is your age group?

18-25 ☐ 26-30 ☐ 31-35 ☐ 36 and above. ☐

4 What is the duration of your stay at the institution?

1 to 5 years ☐ 6 to 10 years ☐ above 10 years ☐

SECTION B: THE PRODUCT DEVELOPMENT STRATEGIES ADOPTED BY MICROFINANCE INSTITUTION.

5) For how long does it take the institution to develop a new product?

☐ 1-5 years ☐ 6-10 years ☐ 1-15 years

6) What is the nature of products developed by the institution?

☐ Demand driven ☐ Flexible ☐ Accessible

Others specify……………………………………………………………………………………

……………………………………………………………………………………………………..

7) What are the strategies the institution is using during product development?

☐ Proper resource allocation ☐ Carrying out marketing research

☐ Consumer financial education ☐ Ensuring proper levels of resources

☐ Designing new products for prospects in new geographic areas

Others specify……………………………………………………………………………………

8). what are the challenges faced in product development in this organization?

☐ Lack of enough capital ☐ Lack of enough skilled personnel

☐ Poor attitudes of clients towards new products ☐ gh costs involved

Others specify…………………………………………………………………………………

9). what can be done to improve the process of product development

……………………………………………………………………………………………………

SECTION B: THE GROWTH INDICATORS IN MICROFINANCE.

10). Does this company attain its targets?

☐ Sometimes ☐ Always ☐ Never

11). How do you describe the rate of growth in this organization?

☐ High ☐ Moderate ☐ Low

12). what are the growth indicators in microfinance institutions?

☐ The number of clients served by a microfinance institution

☐ The capacity of the microfinance to cover all its expenses by its revenue

☐ The capacity of the microfinance to generate a margin to finance its growth

☐ The level of capital owned by the microfinance

☐ The number of services provided by the microfinance

☐ The size of the loan given to the people

SECTION C: THE RELATIONSHIP BETWEEN PRODUCT DEVELOPMENT AND GROWTH OF MICROFINANCE INSTITUTION

13) How many clients have joined the institution after product development?

☐ 0-500 ☐ 500-1000

☐ 1000-1500 ☐ above 1500.

14) What is the default rate of the institution after product development?

☐ 5% and below ☐ 10% ☐ 15%

15) How relevant is product development in promoting the growth of this institution?

☐ Product development increases microfinance institution revenue

☐ Product development reduces volatility of profits

☐ Product development improves cost efficiency

☐ Financial product might help the microfinance institutions to attain their social mission

☐ Product development increases the lending capacity of financial institutions

☐ Developing new products reduces dropout rate of clients in microfinance institutions