THE CONTRIBUTION OF MICROFINANCE INSTITUTION IN POVERTY REDUCTION IN INFORMAL SETTLEMENT IN KENYA: A CASE STUDY OF MATHARE SLUMS IN NAIROBI.

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A RESEARCH PROJECT SUBMITTED TO THE SCHOOL OF MANAGEMENT AND LEADERSHIP IN PARTIAL FULFILMENT OF THE REQUIREMENT FOR THE AWARD OF THE DEGREE IN BACHELOR OF MANAGEMENT AND LEADERSHIP TO THE MANAGEMENT UNIVERSITY OF AFRICA.

SEPTEMBER, 2018
DECLARATION
This project is my original work and has not been presented in any other university or institution for academic credit.

Signature:………………………..Date: ...........................................

FLORENCE MUENI
BML/12/00426/3/2015

This project has been submitted for examination with my approval as the appointed university supervisor.

Signature:.................................................................Date:.................................................................

Prof. Siringi Elijah Mirwoba PhD
The Management University of Africa
DEDICATION

With inconceivable love, I dedicated this project to all those who made it a success; my family and all those who selflessly supported this work.
ACKNOWLEDGEMENT

To the staff and the administration of the Management University of Africa, the teaching Staff fraternity who contributed in one way or the other in encouragement and kind support they offered. I acknowledge my class mates who offered constant support and encouragement while working on the project. I also appreciate their good gesture throughout the research period for their prompt and quick response and their support is not for granted my sincere gratitude goes to all my fellow students, lecturers, special mention to my supervisor Prof. Elijah Siringi Mirwoba for his continuous support. To all of you, I shall forever remain grateful.
ABSTRACT
The research study aim was to establish the contribution of microfinance institution in poverty reduction in informal settlement in Kenya with specific objectives being; to determine how microfinance products and services are accessible to the poor people of informal settlement in Mathare slums; to determine how strategies adopted for credit affects inhabitants of informal settlement in Mathare slums; to establish how lending process affects the poor people of informal settlement in Mathare slums; to establish how micro-saving services affects the poor people of informal settlement in Mathare slums. The study will add to the body of literature and researchers shall be able to use this research study as a reference to what they will do in future not forgetting that it was used as a source of literature review to their studies. This study was carried out using descriptive research design. The target populations of this study were 95 respondents comprised of senior managers, middle level managers and non-management staff. The study used stratified sampling technique which involved dividing the target population into strata. The researcher used secondary information sources which were obtained through reading relevant literature available in the library, various documents, publications and reports including, journals, and magazines. The research questionnaires were administered by the researcher himself. Respondent’s data was analyzed through frequency and descriptive statistics. Data was presented with aid of graphs and pie charts. 98% of the respondents agreed that MFI products and services are used in poverty reduction, while 95% agreed that strategies adopted by MFI in poverty reduction are effective, and 98% agreed that MFI offer an incentive to save and finally all the respondents agreed that MFI offers lending process that has a positive effect on poverty eradication. The study has established that MFI have strategy of poverty reduction based on the findings that includes training their clients in business and financial management skills that foresters growth and development of SMEs, offering loans at reduced rates and encouraging micro saving among informal settlement dwellers. This will boost their financial base that will make them have strong borrowing power against their saving. The study recommends that the management of MFI should consider longer loan repayments period for informal settlement dwellers instead of biweekly and monthly repayments, this will ease the pressure on people living in slums because they will have adequate and humble time accumulate cash to repay the loans without stress.
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ABBREVIATIONS AND ACRONYMS

BFI : Banking and Financial Institutions
IFC : International Finance Corporation
MFIs : Microfinance Institutions
MSMEs : Micro, Small and Medium Enterprises
NGO : Non-Governmental Organization
SACCOS : Savings and Credits Cooperatives
## OPERATIONAL DEFINITION OF TERMS

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<th>Term</th>
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<tr>
<td><strong>Regulator</strong></td>
<td>A body that is legally mandated to supervise and to provide guidelines for operations of profitable Microfinance institution in Kenya (Akanji, 2009).</td>
</tr>
<tr>
<td><strong>Poverty Alleviation</strong></td>
<td>Increased monetary value of produced items and services provided by borrowers and non-borrowers (Graham, 2010).</td>
</tr>
<tr>
<td><strong>Income</strong></td>
<td>Earnings of household generated from IGAs (Awasthi, 2010).</td>
</tr>
<tr>
<td><strong>Poverty</strong></td>
<td>The lack of the incomes required to authorize contribution in the customs, activities and diets commonly approved by society (Townsend, 2009).</td>
</tr>
<tr>
<td><strong>Poverty Line</strong></td>
<td>It is considered to be the level of income that is inadequate in a given country (Ravallion, 2012).</td>
</tr>
<tr>
<td><strong>Poverty Trap</strong></td>
<td>It is a condition where poverty is persisted because of mechanisms beyond ones control (Azariadis &amp; Stachurski, 2005).</td>
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CHAPTER ONE
INTRODUCTION

1.0 Introduction
This chapter outlines the study background, statement of the problem, objectives of the study, research questions, significance and scope of the study which explores the contribution of microfinance institution in poverty reduction in informal settlement in Kenya.

1.1 Background of the study
UN Millennium project (2012) indicates that poverty is caused by inequality, political instability, week institutions and gender disparities. The development can only take place where people are empowered, socially, economically and politically. The major problem in developing countries is poverty. Statistics in FAO report (2015) estimates that around 1.2 billion live in abject poverty and more than eight and fifty million people do not have sufficient food for an active and healthier life. According to Ahmed (2014) the world population that live in less than one dollar, 1.089 billion live in developing countries and 431million live in third world countries developing. In developing countries the poor are heterogeneous and the dynamics does exist with a clear diference between momentary and incurable poverty with respect to Africa region (Vecchi, 2008). The components of total poverty is made up of purely incurable that is momentary and static poverty is part and parcel that is likely to the inter-temporal variability. The selcuisiveness of the process underlying incurable and momentary poverty is considered essential in understanding the extent to which each poverty type may distort programmes that government has put in place to fight poverty (Malik, 2013).

In 2008, the government then launched a lasting expansion strategy, Kenya Vision 2030 (Republic of Kenya, 2008). This policy document proposes a variety of investments programmes for reduction of poverty in education and health sectors. Despite these policy efforts, poverty remains pervasive in the country. According to K.I.H.B report (2005-2006), national absolute poverty was 45.9 percent while absolute informal settlement poverty stood at 49.1 percent. (Government of Kenya, 2007). According to this report, North Eastern and Central provinces have pockets with the highest and lowest poverty incidences, respectively. The continued high incidence of poverty in Kenya has created the essential for experimental
studies besides the creation of new information on strategies to reduce poverty. So far, poverty reduction strategies fail for a number of reasons, key among these is due to lack of implementation of the formulated poverty reduction plans (Mathenge & Tschrley, 2010). While the policy makers have focused on reducing the national aggregate poverty incidences, it is important to note that the poor are not poor all times, and there is movement in and out of poverty.

MFI main objectives is provision of the financial services to less fortunate people in the society with the aim of providing them with credit, through these institution the less fortunate can obtain loans that are security free, lower interest rate and provision of financial and business training for SMEs. The MFI also develop financial products in line micro saving, micro insurance and micro mortgage that are inclined towards the poor (Carr & Tong, 2012). In all over the world MFI have been accepted as the most effective strategies for alleviation of poverty in informal settlement and in developing countries. Studies have shown that microfinance has played an important role in the global arena more particularly in eradication of poverty, there for stakeholders and policy makers are involved on how MFI can be easily available to the poor families.

1.2 Statement of the Problem
Despite of the government of Kenya effort in turning around the informal settlement economy and improving social status, reducing hunger and poverty of the informal settlement people, the continued high incidence of poverty in Kenya has created the essential for experimental studies besides the creation of new information on strategies to reduce poverty. So far, poverty reduction strategies fail for a number of reasons, key among these is due to lack of implementation of the formulated poverty reduction plans. According to Muyanga and Bundi (2007) its estimated that people living in informal settlement areas 35% are extremely poor and majority can not meet the basic needs because the enitre earning is devoted to buying food stuff. The decline in countryside economy is a clear indication that Kenya has not fully achived the goal of improving the leaving standards of the informal settlement families. Challenges that face informal settlement economy in Kenya are the development approach that is faced with poor policy focus. The major challenge that kenya’s informal settlement sector development approach has been facing is narrow policy focus, the
poilcy in the last decade has only been focusing on casual labour and have not considered other factors such as social capital and entrepreneurship in informal settlement areas.

According to Karuri (2008) government recognises the role played by MFI in the national economy growth especially in informal settlements and informal settlement economies, lack of access to income keep people in the slums stuck in poverty. Evidence shows that there is efficacy of MFI in poverty elimination especially in the slums the underlying issue is that if MFI was good how comes poverty still exists there for the aim of the study was to establish the contribution of microfinance institution in poverty reduction in informal settlement in Kenya with reference to Mathare slums as study case.

1.3 Objective of the study
The underlying objective of this study was to establish the contribution of microfinance institution in poverty reduction in informal settlement in Kenya with reference to Mathare slums as study case.

1.3.1 Specific objectives
i. To determine how microfinance products and services are accessible to the poor people of informal settlement in Mathare slums

ii. To determine how strategies adopted for credit affects inhabitants of informal settlement in Mathare slums

iii. To establish how lending process affects the poor people of informal settlement in Mathare slums

iv. To establish how micro-saving services affects the poor people of informal settlement in Mathare slums

1.4 Research Questions
i. To what extent does microfinance products and services accessible to the poor people of informal settlement in Mathare slums

ii. Does strategies adopted for credit affects inhabitants of informal settlement in Mathare slums
iii. To what extent does lending process affects the poor people of informal settlement in Mathare slums

iv. To what extent does micro-saving services affects the poor people of informal settlement in Mathare slums

1.5 Significance of the study

1.5.1 Community based organizations

The outcome of this study will enable the community to learn from these groups’ activities and enable them to engage positively in similar activities that will lead to their economic empowerments thus leading to the economic growth of the community and thus contribute to improved standards of living for the community.

1.5.2 Scholars and Researchers

This study will thus make special contribution to the existing knowledge, address and provide the background information to research organizations, individual researchers and scholars who will want to carry out further research in this area to identify gaps in the current research.

1.5.3 Policy Makers and MFI management

MFIs in general, being those in the money lending business the outcomes will also assist the MFIs review their work process, in redesigning their products to encourage more clients. The study will be of significance to policy makers for it will enable the government to understand and appreciate the importance of poverty alleviation in Kenya and also help those policy makers to develop and implement regulations and policies that will promote growth and development of MFI to boost economic growth and job creations.

1.6 Scope of the study

This research was confined to Microfinance institution operating in Mathare slums Nairobi County. This will give enough ground to generalize the findings. The researcher also believes that this will provide adequate population and sample for the study and therefore give reliable results and findings. However, the study was carried out during the month of May 2017 to July 2017.
1.7 Chapter Summary
The chapter provides study background foundation for the proposed study and the setting required to put the research problem in to proper context and understanding in line with study objectives and research questions. The chapter outlines the background of the study from an international perspective to a local perspective, the statement problem has been clearly explained and research gaps established, the section is inclusive of research study objectives, research questions, significance and study scope. This chapter has formed the basis for the guiding principle upon which literature was reviewed, theories established, methodology developed, research carried out and analysis made.
CHAPTER TWO
LITERATURE REVIEW

2.0 Introduction
This chapter outlines the empirical works, research gaps to be filled, summary and the theoretical context of the research. The researcher has also reviewed literature which is related to and consistent with the objectives of the study, is reviewed. Explanation of the existing theories and analysis of the past established knowledge which will outline the organized understanding of the major issues and past studies in the related field of study.

2.1 Theoretical literature review
Theoretical literature establishes the philosophies that already exist, their relationship with study variables and help in development of study questions to be asked and tested (Meyer & Rowan, 2009).

2.1.1 Human Capital Theory
Human Capital Theory views humans as economic units acting as their own economy. The labour market is determine by the number of skills workers that are available at a particular time. The importance of skilled workers has developed and spread human capital theory. Human capital theories has determinants such as education, training and mobility that explain the differences in income, albeit still with role played by other factors such as economic institutions and social norms. According to Lydall (2008) there are variations in the combination of education, intelligence and environment at the individual level that account for circulation of personal income. Human capital theory cannot be reconciled with the large wage different between men and women, through social prejudice. Poor families in many developing and developed countries have been associated with under investment in education.

Human capital theory view on poverty through individuals income even though hereditary differences brought about by increasing spending on education for the less fortunate people in the society. According to Scott (2010) educating adults has an important role in for those with low skills and had not benefited from normal school system. Studies have shown that investing in ones education entails financial and emotional costs which can be very expensive and only a few individuals are willing to incur due to low paying jobs. From a different point
of view not investing on education or skills one risks perpetuating low pay which is a recipe for poverty (Pemberton, 2013).

In this study human capital theory involves the preparing for the unexpected and planning for the unknown. The basic purpose of human capital theory is to minimize the adverse consequences of catastrophe and occurrences. Human capital theory was adopted in this study because it describes and explains how changes in technological advancement, social values and regulations that affect decision regarding Micro-finance institution service provision.

2.1.2 Minority Group Theory

From the empirical studies of poverty that’s where this theory originated from. The word related with studies that identified the characteristics of groups associated with poor people in the society (Morazes & Pintak, 2007). The theory raises the social question but listed the immediate causes of primary poverty, which included demise of family bread winner, incapacity of family bread winner trough an accident, sickness and old age, dismissal of family bread winner from employment, low salaries earning and having extremely large families. The theory according to Rowntree identify the poverty cycle as children, young families and old people having the highest risk on plunging in to poverty. There are no endeavors that relates this group to the qualifying membership conditions and range of issue that support system of employment, wage system and source support for institutions that values that compensate people who are unable to work or excluded from earning a living (Primus, 2006).

Political influences ways in which conditional welfare affects minimum income for the old, the sick, the disable and the unemployed. Scholars indicated that minority group has an important place in evolution theory and the description of minority group is a major objective of this research study, the process where groups are given low resources can be of negative impact of other groups that are disqualified from receiving other reputable services from the government which are made possible for economic growth that makes a gradual fall in to deficiency devoid of being unequivocal perception beside the group (Ravallion et al., 2009).
2.2 Empirical Literature Review

2.2.1 Micro Finance Services and Products

Micro-finance refers to the monetarist conveniences designed for provision of the requirements for the less fortunate and low income individuals, particularly in developing countries, with a view to fighting poverty and financial exclusion (Robinson, 2001). Mwawana (2011) described financial exclusion as the inability of low income people to access mainstream services of finance. MFI products and services tend to have less monetary value compared to the ordinary financial service providers. MFI provides micro saving, soft loans, insurance and remittances for individual members. The main purpose of this services include financial needs for individuals, households and SMEs that are paid after a given period of time especially for the less fortunate. MFI uses nontraditional methods that include group lending (Bhavya, 2009).

Micro-finance as an economic process can flourish successfully in particularly difficult economic conditions, including lack of infrastructure, deficient macroeconomic policies, and low levels of national growth. All these statements speak to the Kenyan situation, where micro-finance is hugely popular with low-income people under the present economic conditions. Youths make up the bulk of these low income earners and most are unable to access financial services as the majority live in informal settlement areas. According to Brown (2009) microfinance institution offers financial services that include saving, soft loans, insurance and remittances for individual members never the less in the business today MFI still focus with providing micro credit that target the less fortunate with the believe of improving their household income.

Rutherford (2010) argued that, there is already the impression in the global arena that MFI are the ultimate poverty reduction tool. Therefore the government officials and other stakeholders sees microfinance as the only suitable way to eliminate poverty in the informal settlement and slums. Several studies have questioned the relevance of microfinance as poverty reduction tool; Anand (2014) describe debt is not an effective way of helping the less fortunate people in enhancing their economic situation, he’s explanation is that there are other constrains that face SMEs that include technology, price, market access, competition and business risk. The same is echoed by Graham (2010) who also explains that credit it’s not always constrained for
SMEs but other factors such as social services, business development and range of financial requirements. Iceland (2006) indicates reasons for being poor are subject for research and discussion. Poverty has negative effects on individuals and families, from being unhealthy children who lack basic education. The second level has economic consequences which decreases the purchasing power of the poor families hence hinders economic growth which results to reduced standard of living. Thirdly poverty has serious political and social consequences, poor family’s feels neglected buy the society which provokes crime and social disorder, reduces public confidence in public institutions.

According to Moore (2009) poor people are subjected to lower life expectancy which eventually leads to children heading families. Drug abuse and risk of homelessness is caused mainly by poverty. Poor families are venerate to all kinds of diseases including HIV/AIDS, TB, Malaria; measles among others, poor health is highly related to poverty levels. Issues of concerned have emerged for policy makers are the rising level of unemployment which has negative impact on economic growth. Gutierrez (2007) has identify the positive impact depends with employment opportunity and better wages generated, it is noticeable that employment and earning opportunity is affected by wage reductions. MFI main goal is to break the brutal poverty chain by adding liquidity in the vicious chain and also to enforce economic empowerment that leads to family’s well-being which they also believe that MFI can improve poor people life through micro credit.

2.2.2 Strategies adopted for credit

In this study, the term micro-finance was narrowed down to imply micro-credit, which by definition aims to help poor and low-income people to raise their income by running a revenue generating activity. This service is therefore usually limited to business purposes only. Ledgerwood (2008) defined micro-credit as micro-loans given to underprivileged debtors that don’t have security, unemployed and bad credit history. He sees micro credit as the arm of microfinance which has a range of financial services to the poor people. Informal settlement dwellers are trapped in poverty because most of the startup capital it’s always money borrowed from families, friends and unlicensed money lenders. Yunus (2008) argued that, micro-credit has unique doctrines that recognized it from other credit available in the market. MFI are a creation of alternatives to shylocks that take advantage of clienteles. Micro
finance began in early 1980 as NGOs that were operated by private subsidies and partly being funded by governments. The commercialization of micro credit societies began in 1984 officially in Indonesia with formation of unit desa in the bank of Rakyat, they offered microloans based on current interest rates in the market and the main principle was lending individuals not groups, the use and implementation of group borrowing was based on economics of scale. The advantages of group lending it purely depend upon the payments of group members when one of them doesn’t pay it affect other group members.

Vrajlal (2009) stated that, micro-finance can and will always reduce poverty levels through employment creation and being a source of income to families or households which improves living conditions in informal settlement which also empowers women. In developed countries such as Canada and US micro credit helps beneficiaries to graduate from welfare programes. According to critics micro credit has not make people have more income but it has sinked them into more credit and it has even led to people commit suicide, even at times the loan money is not used for its purpose but for buying food, and it does not empower women nor improve education and health. According to (Victoria, 2006) micro credit has expedited growth and creation of business, create employment and its does not grantee increased income after payments of loans and interest. Micro credit is major factors that influence the success of SMEs that is influenced by the growth of a given economy. Yunus (2008) explains that when accessing credit several factors comes in play they include saving, loans facilities, enterprise development, management training, welfare support and provide avenues for marketing channels.

2.2.3 Micro Saving

Dowla (2006) defined micro-saving as a way in which small deposit services are provided to low income households and are designed to favour people with less money in order to grow their saving, the minimum balance is always never considered. Micro finance has an important component that is referred to as micro saving, there have been a notion that poor people cannot save with the emergence of micro saving the poor have also an opportunity to save via micro finance. Stemper (2007) indicates that saving has an important aspect of know the clients history especially when evaluation their applications for loans and are also used as security against the loans. According to Bhavya (2009) savings act as a venue for achieving
sufficiency for SMEs and financial independence, nearly all micro enterprise fail to fully develop to SMEs due to inadequate capital.

Cull (2007) explains that lack of capital is a main limitation in expansion. Capital is determined by personal saving, informal settlement dwellers always have a challenge accumulating savings that can work as base to capital. Studies shows mostly in sources of capital from personal and self-generated finances or soft loans from friends and families. According to Dowla (2006) the importance of saving for microfinance has advantages that members could borrow against their savings. The dilemma that faces micro enterprise is weather to save or borrow but the micro finance has no clear programmes that facilitate saving for the less fortunate people in the society. Micro enterprise that uses own savings for business start-up are not endangered of bankruptcy and helps them to avoid debt trap this can be concluded that micro saving is an integral part of SMEs development.

2.2.4 Lending Process

Micro finance institutions have various models they use to provide financial services to the less fortunate in the society. According to Yunus (2008) the global analysis of lending micro banks are grouped in three main areas that include individual, group and village models of banking. The objective of group lending is when members are having a hard time to repay what the owe other group members will put pressure on them to repay or the group will be forced to pay the loan. Yunus explains that groups are not a critical feature of structure design. As the outcome clients may prefer other models like village and individual banking. Individual lending is based on giving credit to a person who is not or does not belong to any group that is responsible for the repayment of the loan. Village banking originated from Latin America in the 80s with the main aim of providing building loans to women who are poor. Village banking comprises between ten to thirty members who meets either weekly or bi weekly to provide themselves with services such as loans for business expansion, contributions towards saving and provision of mutual support and for personal empowerment.

Ledgerwood (2008) describes the objective micro finance service provider is provision of financial service to the poor that are targeted to empower women, reduce poverty, provision of services to disadvantage members of the society, help in business growth for the existing enterprises, to create employment and to encourage new business to grow this is either direct
or indirect. Direct targeting involves allocation of funds to provide credit to a specific sector of the population like the less fortunate while indirect targeting involves designing services that don’t include the poor that are customs to higher interest rates, bigger loan size, group guarantees and holding of meeting regularly that are compulsory in order to qualify for loans and for repayments.

According to Dunford (2009) small sized loans, higher interest rates, shorter loan duration, frequency of repayments and meeting attendance of group members are factors that make the program unappealing to people with other sources of credit, never the less easier finance option are not available to the less fortunate people in the society, the demand for credit is always high that unappealing features of the group based poverty borrowing. Micro finance institution targets more women compared to men that form the bigger chunk of people that make poorest segments of the society that are more responsible for family burden. Studies show that when there are an increase in women income the entire house hold and community benefits. Rogaly and Johnson (2010) micro finance intervention leads to empowering women by increasing their incomes and control over the same income, provision of skills and trade knowledge and increase the chances in decision making.

2.3 Summary and Research Gaps

MFI main objectives is provision of the financial services to less fortunate people in the society with the aim of providing them with credit, through these institution the less fortunate can obtain loans that are security free, lower interest rate and provision of financial and business training for SMEs. The MFI also develop financial products in line micro saving, micro insurance and micro mortgage that are inclined towards the poor (Carr & Tong, 2012). In all over the world MFI have been accepted as the most effective strategies for alleviation of poverty in informal settlement and in developing countries. Studies have shown that microfinance has played an important role in the global arena more particularly in eradication of poverty, there for stakeholders and policy makers are involved on how MFI can be easily available to the poor families.

The government of Kenya is yet to improve the welfare of informal settlement people, the declining trends in informal settlement economy is a cleary indication. Studies in poverty in Kenya have been conducted by (Manda, 2011) they indicated in their findings that policy
failure is the reason for poverty growth despite the effort the government is putting in place to combat the vice. The ineffectiveness of this policy implementation is due to weakness of implementing institution. Government policies only focus on foreign investment, trade and privatization policies among others. Studies on determinants of poverty have been done such as Nyangena (2004), Nyangena and Sterner (2008) and all these studies had links in informal settlement livelihoods with capital structure. Therefore this study have tried in providing insights and filling the research gaps that already exist.

2.4 Conceptual Framework

Figure 2.1: Diagram showing the relationship between theories, independent and dependent variables

2.5 Operationalization of Variables

2.5.1 MFI Products and Services

MFI Products and Services in this study was measured using questionnaires that was administered to target population and through reading relevant literature. Micro-finance as an economic process can flourish successfully in particularly difficult economic conditions, including lack of infrastructure, deficient macroeconomic policies, and low levels of national growth.
2.5.2 Strategies Adopted
Strategies adopted in this study was measured using questionnaires that was administered to target population and through reading relevant literature. Micro-credit is micro-loans given to underprivileged debtors that don’t have security, unemployed and bad credit history. Micro credit is the arm of microfinance which has a range of financial services to the poor people. Informal settlement dwellers are trapped in poverty because most of the startup capital it’s always money borrowed from families, friends and unlicensed money lenders.

2.5.3 Micro Saving
MFI Products and Services in this study was measured using questionnaires that was administered to target population and through reading relevant literature. Micro-saving is a way in which small deposit services are provided to low income households and are designed to favour people with less money in order to grow their saving, the minimum balance is always never considered. Micro finance has an important component that is referred to as micro savings.

2.5.4 Lending Process
Lending process in this study was measured using questionnaires that was administered to target population and through reading relevant literature. Lending in micro banks are grouped in three main areas that include individual, group and village models of banking.

2.6 Chapter Summary
The study has reviewed study variables lending process, micro saving, micro credit and MFI products and services and has established significant relations in study variables and poverty alleviation by Micro-finance institution. The study selected the past activities that fall within the objectives of the study; that gave a clear account of all past theoretical undertakings that determined the to establish the contribution of microfinance institution in poverty reduction in informal settlement in Kenya and this chapter provides a theoretical and conceptual basing from which a methodology for research is developed, an analytical framework chosen, relevant data collected and consequent analyses carried out towards drawing conclusions on to establish the contribution of microfinance institution in poverty reduction in informal settlement in Kenya with reference to Mathare slums as study case.
CHAPTER THREE
RESEARCH DESIGN AND METHODOLOGY

3.0 Introduction
Research methodology offers an explanation into what type of research this study is all about. It also defines the population of the study and the specific sampling techniques to be used, data analysis and collection methods. The chapter also includes design, pilot study, validity, reliability and ethical consideration.

3.1 Research Design
A general layout that the researcher uses to respond to research questions is referred to as research design. Orodho (2005) defines research design as general layout that is used to answer research questions. This study adopted descriptive research design, According to Cooper and Schindler (2008) describe descriptive design as process of finding out, what, where and how an incident occurred. Descriptive research design is appropriate for studies that have specific issues where problems have been defined (Mugenda & Mugenda, 2003). The issues in the study being the contribution of microfinance institution in poverty reduction in informal settlement in Kenya, are thus geared to address the essential why, who, when, what, and how questions in the research. The study seeks to describe a situation through the study of variable relationships. The study describes and defines the subject matter by profiling issues under study (Cooper & Schindler, 2008).

It also helped the researcher to critically analyse the problem in question with a view of drawing more detailed and specific information about the subject that can be useful to the management. Most often than not, it is used as a precursor to more statistical research as it gives some valuable pointers as to what variables are worth testing quantitatively.

3.2 Target Population
Borg and Grall (2009) described target population as common set of study units which the researcher had resulted generalized wishes to generalize results. Target populations are units that have observable characteristics that the study uses to generalize the finding. The research study targets were 95 MFI staff that operates in Mathare informal settlement that includes Faulu Kenya, Kenya women microfinance bank and SMEP microfinance bank ltd.
### Table 3.1: Table showing research study population

<table>
<thead>
<tr>
<th>Category</th>
<th>Target Population</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Senior Managers</td>
<td>10</td>
<td>11</td>
</tr>
<tr>
<td>Middle Level Managers</td>
<td>25</td>
<td>26</td>
</tr>
<tr>
<td>Non-Management Staff</td>
<td>60</td>
<td>63</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>95</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

### 3.3 Sample and Sampling Technique

A sample is defined as subject of a population that has been selected to reflect or represent characteristics of a population (Kothari, 2009). Cooper and Schindler (2008) a sample frame is a set of information used to identify a sample population for statistical treatment, the sample frames includes identifying information on characteristics of the individual to aid in data analysis and allow for division of frames. Johnson and Turner (2009) define a sample frame as the set of source materials from which the sample is selected. Their definition also include the purpose of sampling frames which provide a means for choosing the particular members of the target population that are to be interviewed in the research study. The study used stratified sampling technique which involved dividing the target population of 95 respondents into strata and the sample size used was 95 respondents. This method is appropriate since it gave all the respondents from each of the three strata, equal chance to participate. Participants were stratified into the following categories senior managers, middle level managers and non-management staff as tabulated in table 3.2 below.
Table 3.1: Table Showing Research Sample Size

<table>
<thead>
<tr>
<th>Category</th>
<th>Target Population</th>
<th>MFI</th>
<th>Number of respondents</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Senior Managers</strong></td>
<td>10</td>
<td>Faulu Kenya</td>
<td>3</td>
<td>11</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Kenya Women Microfinance Bank</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>SMEP</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Microfinance Bank Ltd</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Middle Level Managers</strong></td>
<td>25</td>
<td>Faulu Kenya</td>
<td>9</td>
<td>26</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Kenya Women Microfinance Bank</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>SMEP</td>
<td>8</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Microfinance Bank Ltd</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Non-Management Staff</strong></td>
<td>60</td>
<td>Faulu Kenya</td>
<td>20</td>
<td>63</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Kenya Women Microfinance Bank</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>SMEP</td>
<td>20</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Microfinance Bank Ltd</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>95</td>
<td></td>
<td>95</td>
<td>100</td>
</tr>
</tbody>
</table>
3.4 Instruments

The researcher used questionnaires to collect data especially primary data as outlined by Kothari (2004). A questionnaire is an instrument of research that contains questions on the variables of the study. The researcher used questionnaires which are more efficient and economical tool for descriptive and preventive research for the sample size that is chosen. This way it was easier to identify the level by which the respondent agreed or disagreed (Kothari, 2004). The study used secondary data for literature review; these materials used included books, journals, reports, journals, and magazine and internet literature. The research collected primary data for this study report and used secondary data for literature review.

3.5 Pilot Study

The pilot study aims at establishing the validity and reliability of instruments of research (Cooper & Schindler, 2008). The study adopted content validity to measure the degree to which data was to be collected using questionnaires. The pilot testing was conducted using the questionnaire on 10 MFI staff. The pilot group was done through random sampling. According to Cooper and Schindler (2008), a pilot study should be ten percent of the main study.

3.5.1 Validity

The researcher used both content and faces visibility to ascertain strength of the questionnaire. Validity is the correctness and capacity of interpretations founded on the study results. The research conducted the pilot study to validate the study questionnaire. Gillham (2008) explains that understanding and expertise covered by the test items that represent a larger area of same dynamic.

3.5.2 Reliability

According to Denzin and Lincoln (2005) a reliability test of research instruments is one that consistently produces the expected results. Kothari (2009) points out that instrument reliability refer to the level of internal consistency or the stability of the measuring devices. According to Dane (2010) a questionnaire has the same expectation-that is reliably does what it is designed to do every time is used. If the questionnaire is consistent over time and yields similar results each time it is used, it is reliable. They say that because of economy in time
and labour, the procedure for extracting an estimate of reliability should be obtained from the administration of a single test. The researcher can use the questionnaire and administer the questionnaire to 10 respondents from the target population randomly. The researcher shall wait 2 weeks and then repeat the questionnaire to the same respondents.

3.6 Data Collection Procedure
Primary data presented the actual information that was collected for the purpose of the study and questionnaires were used for these purpose, that was self-administered and hand delivered to the target respondents with the questionnaire having it picked by the researcher for data analysis. The study used secondary data for literature review; these materials used included books, journals, reports, journals, magazine and internet literature.

3.6.1 Questionnaires
Questionnaires are a list of standard questions prepared to fit a certain inquiry. The questionnaires will contain both closed ended questions so as to facilitate structured responses for the rating of various attributes whilst open ended questions which will help to provide additional respondents information. According to Arodho (2005) questionnaires measures likelihood of straight, even and blunt answers. This can be superior to an interview because social communion operates strongly in a face of situation that may prevent the person from expressing what he feels to be socially or professionally unacceptable views. The study used likert-type format of questionnaires.

3.7 Data Analysis and Presentation
Descriptive statistics were used for data analysis. Specifically, means, averages and proportions were used in the study. The data analysis tools were simple tabulations and presentations of the report using spread sheets. The data was presented using tables, charts and graphs; Data was first coded then organized into concepts from which generalization was made of entire population. Data will then be tabulated and frequencies calculated on each variable under study and interpretations made from the field findings. Percentages will then calculate and interpretation made.
3.8 Ethical Consideration
The researchers undertake various steps to ensure that the study adheres to research ethical standards. Research introduction letter was obtained from the participating institutions, Management University of Africa and MFI in Mathare slums.

3.8.1 Informed consent
The researcher ensured that the principle of informed consent is properly applied and the researcher explained to the respondents the expectations of the study and they were asked to ask questions where there was a misunderstanding to avoid hang-ups while responding to questionnaires.

3.8.2 Voluntary participation
The researcher sought consent from respondents before administering the questionnaires to the target population and the respondents were sent a consent form in order to participate in the research study and they were free to opt out of the study at their own will.

3.8.3 Confidentiality
The researcher granted the respondents of utmost confidentiality of the responses that they were provided and apart from the finding being meant for an examinable project at Management University. That data shall not be availed to any other party.

3.8.4 Privacy
The researcher accorded respondents the right to privacy when participating in the research. Any participant can join the study and neither the researcher nor the study design nor the publication of the results would ever identify any participant in the study. The researcher abided to various guidelines for human subject research to protect the study participants who chose to participate in the research study. The rights of the people that who participate in the study were protected.

3.8.5 Anonymity
The respondents were picked without any discrimination and were required to return the questionnaires in a drop box that even the researcher received anonymized responses.
3.9 Chapter Summary
The chapter outlines the methodology adopted for this study by offering an explanation into what type of research this study is all about. It also defines the population of the study and the specific sampling techniques to be used data analysis and collection methods, study design, pilot study, validity, reliability and ethical consideration.
CHAPTER FOUR
RESEARCH FINDINGS AND DISCUSSIONS

4.0 Introduction

The section of the chapter provides research study findings as outlined in the study questionnaires in order to meet the study objectives. The chapter is sectioned into respondent’s demographic information, responses on study variables and limitations of the study that was to establish the contribution of microfinance institution in poverty reduction in informal settlement in Kenya with reference to Mathare slums as study case.

4.1 Presentations of Research Findings

4.1.1 Response Rate

This refers to response by the respondents which was administered through questionnaires from each strata, as per the sample size as shown in the below. The response rate determination was important because it clearly enabled the researcher to know the exact number of questionnaires that would be valid for analysis.

Table 4.1: Table Showing Response Rate

<table>
<thead>
<tr>
<th>Category</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Complete Questionnaires</td>
<td>84</td>
<td>88%</td>
</tr>
<tr>
<td>Incomplete Questionnaires</td>
<td>11</td>
<td>12%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>95</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>
The researcher distributed a total of 95 questionnaires to the respondent and 88% of the questionnaires were completely filled up while 12% were incomplete. This gave a response rate of 88% that was used to analyze the study variable. Orodho (2008) explain 50% reaction is satisfactory and 60% is good awhile any response above 70% is perfect for the research. The response rate determination was important because it clearly enabled the researcher to know the exact number of questionnaires that would be valid for analysis as shown in table 4.1 and figure 4.1

### 4.1.2 Demographic Information

#### Table 4.2: Table showing gender of the respondents

<table>
<thead>
<tr>
<th>Category</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>38</td>
<td>45%</td>
</tr>
<tr>
<td>Female</td>
<td>46</td>
<td>55%</td>
</tr>
<tr>
<td>Total</td>
<td>84</td>
<td>100%</td>
</tr>
</tbody>
</table>
As shown in table 4.2 and figure 4.2 the genders of the respondents were as follows, male were represented by 45% while female were 55%. This shows that all genders had almost equal representation in the study but female were slightly more than 50% in the study and all their opinions counted.

**Table 4.3: Table Showing Respondents Age Brackets**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>18 - 23 Years</td>
<td>8</td>
<td>10%</td>
</tr>
<tr>
<td>24 - 29 Years</td>
<td>18</td>
<td>21%</td>
</tr>
<tr>
<td>30 - 35 Years</td>
<td>22</td>
<td>26%</td>
</tr>
<tr>
<td>36 - 40 Years</td>
<td>24</td>
<td>29%</td>
</tr>
<tr>
<td>41 Years and Above</td>
<td>12</td>
<td>14%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>84</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>
As indicated in table 4.3 and shown in figure 4.3; 10% of the respondents were had their age fall between 18-23 years old, 21% belonged in the ages between 24-29 years old years, 26% were aged between 30-35 years old, 29% are aged between 36-41 years while 14% were aged 84 Years and above. The response represents a good dispersion of the respondents in the age bracket but a majority was aged between 24-29 years.

Table 4.4: Table showing the level of education of the respondents

<table>
<thead>
<tr>
<th>Variable</th>
<th>F</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Doctorate</td>
<td>8</td>
<td>5%</td>
</tr>
<tr>
<td>Post graduate</td>
<td>18</td>
<td>21%</td>
</tr>
<tr>
<td>Graduate</td>
<td>36</td>
<td>43%</td>
</tr>
<tr>
<td>Diploma</td>
<td>26</td>
<td>31%</td>
</tr>
<tr>
<td>Secondary</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>Primary</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>84</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>
The response as indicated in figure and table 4.4 indicates that most of the respondents had graduate degree at 43%, 21% were post graduates while 5% had doctorate and 31% had diploma and none indicated secondary education and primary education. This can be interpreted to mean that the respond educations level is adequate to answer and interpret research questions.

Table 4.5: Table showing respondents position held in the firm

<table>
<thead>
<tr>
<th>Variable</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Senior Level Management</td>
<td>8</td>
<td>10%</td>
</tr>
<tr>
<td>Middle Level Management</td>
<td>26</td>
<td>33%</td>
</tr>
<tr>
<td>Non-Management Staff</td>
<td>44</td>
<td>56%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>84</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>
As shown above in table 4.5 and figure 4.5 respondents were asked to indicate their positions held in the organization; 56% of the respondents indicated that they are non-management staff, 33% were in middle level management and 10% were in senior level management. The research findings indicated that the respondents are in a better position to understand the variables under study.
4.2 Main Issues of the Study

4.2.1 MFI Products and Services

Table 4.6: Table showing respondents' view on the effects of MFI products and services in poverty reduction

<table>
<thead>
<tr>
<th></th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Undecided</th>
<th>Disagreed</th>
<th>Strongly Disagreed</th>
</tr>
</thead>
<tbody>
<tr>
<td>MFI offers business and financial training programs to their members in informal settlement.</td>
<td>30 36%</td>
<td>52 62%</td>
<td>2 2%</td>
<td>0 0%</td>
<td>0 0%</td>
</tr>
<tr>
<td>MFI offers financial products and services such as money transfer, mobile banking, banking, saving, loans, credit cards and insurance to informal settlement people.</td>
<td>52 62%</td>
<td>32 38%</td>
<td>0 0%</td>
<td>0 0%</td>
<td>0 0%</td>
</tr>
<tr>
<td>MFI offers business development services that help informal settlement dwellers that are marketing, business training and advisory, use of technology and financial analysis</td>
<td>28 33%</td>
<td>36 43%</td>
<td>4 5%</td>
<td>10 12%</td>
<td>6 7%</td>
</tr>
<tr>
<td>MFI offers non-financial services focusing on literacy training, health and nutrition among others</td>
<td>36 43%</td>
<td>32 38%</td>
<td>6 7%</td>
<td>10 12%</td>
<td>0 0%</td>
</tr>
<tr>
<td>MFI offers communal investment obligatory to women and youth groups in the informal settlement</td>
<td>30 36%</td>
<td>52 62%</td>
<td>2 2%</td>
<td>0 0%</td>
<td>0 0%</td>
</tr>
</tbody>
</table>
Respondents were asked to indicate views on the effects of MFI products and services in poverty reduction and the response were as tabulated in table 4.6. The first view sought was if the MFI offers business and financial training programs to their members in informal settlement 36% of respondents strongly agreed, 62% agreed and 2% were undecided. Second view sought was if MFI offers financial products and services such as money transfer, mobile banking, saving, loans, credit cards and insurance to informal settlement dwellers 62% strongly agreed and 38% agreed. Third view was if MFI offers business development services that help informal settlement dwellers that are marketing, business training and advisory, use of technology and financial analysis 33% strongly agreed, 43% agreed, 5% were undecided and 12% disagreed while 7% strongly disagreed. The fourth view sought was if MFI offers non-financial services focusing on literacy training, health and nutrition among others 43% strongly agreed, 38% agreed while 5% were undecided and 12% disagreed and finally if MFI offers communal investment obligatory to women and youth groups in the informal settlement 36% strongly agreed while 62% agreed and 2% were undecided.

The findings agrees with Mwawana (2011) described financial exclusion as the inability of low income people to access mainstream services of finance. MFI products and services tend to have less monetary value compared to the ordinary financial service providers. MFI provides micro saving, soft loans, insurance and remittances for individual members. The main purpose of this services include financial needs for individuals, households and SMEs that are paid after a given period of time especially for the less fortunate. MFI uses nontraditional methods that include group lending. According to Brown (2009) microfinance institution offers financial services that include saving, soft loans, insurance and remittances for individual members never the less in the business today MFI still focus with providing micro credit that target the less fortunate with the believe of improving their household income.
Respondents were asked to use a five point likert scale to indicate views on the effects of MFI products and services in poverty reduction and the response were as tabulated in table 4.6 and shown in figure 4.6. The first view sought was if the MFI offers business and financial training programs to their members in informal settlement. 36% of respondents strongly agreed, 62% agreed and 2% were undecided. Second view sought was if MFI offers financial products and services such as money transfer, mobile banking, banking, saving, loans, credit cards and insurance to informal settlement people. 62% of respondents agreed and 62% strongly agreed. The third view sought was if MFI offers business development services that help informal settlement dwellers that are marketing, business training and advisory, use of technology and financial analysis. 43% of respondents agreed and 43% strongly agreed. The fourth view sought was if MFI offers non-financial services focusing on literacy training, health and nutrition among others. 12% of respondents disagreed and 42% strongly disagreed. The fifth view sought was if MFI offers communal investment obligatory to women and youth groups in the informal settlement. 7% of respondents strongly disagreed and 7% disagreed.
loans, credit cards and insurance to informal settlement dwellers 62% strongly agreed and 38% agreed. Third view was if MFI offers business development services that help informal settlement dwellers that are marketing, business training and advisory, use of technology and financial analysis 33% strongly agreed, 43% agreed, 5% were undecided and 12% disagreed while 7% strongly disagreed. The fourth view sought was if MFI offers non-financial services focusing on literacy training, health and nutrition among others 43% strongly agreed, 38% agreed while 5% were undecided and 12% disagreed and finally if MFI offers communal investment obligatory to women and youth groups in the informal settlement 36% strongly agreed while 62% agreed and 2% were undecided.

The findings agrees with Mwawana (2011) described financial exclusion as the inability of low income people to access mainstream services of finance. MFI products and services tend to have less monetary value compared to the ordinary financial service providers. MFI provides micro saving, soft loans, insurance and remittances for individual members. The main purpose of this services include financial needs for individuals, households and SMEs that are paid after a given period of time especially for the less fortunate. MFI uses nontraditional methods that include group lending. According to Brown (2009) microfinance institution offers financial services that include saving, soft loans, insurance and remittances for individual members never the less in the business today MFI still focus with providing micro credit that target the less fortunate with the believe of improving their household income.
4.2.2 Strategies adopted

Table 4.7: Table showing respondents’ view on the strategies adopted by MFI in poverty reduction.

<table>
<thead>
<tr>
<th></th>
<th>n</th>
<th>%</th>
<th>n</th>
<th>%</th>
<th>n</th>
<th>%</th>
<th>n</th>
<th>%</th>
<th>n</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>MFI targets and empowers youth and women</td>
<td>30</td>
<td>36%</td>
<td>52</td>
<td>62%</td>
<td>2</td>
<td>2%</td>
<td>0</td>
<td>0%</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>group in slums areas.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MFI creates opportunity for youths and</td>
<td>46</td>
<td>55%</td>
<td>22</td>
<td>40%</td>
<td>4</td>
<td>5%</td>
<td>0</td>
<td>0%</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>women for jobs creation through training</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>and provision of business loans</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MFI provide assistant to existing SMEs</td>
<td>42</td>
<td>40%</td>
<td>46</td>
<td>55%</td>
<td>4</td>
<td>5%</td>
<td>0</td>
<td>0%</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>in informal settlement through top up</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>loans and financial advise</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MFI provide chamas with banks accounts</td>
<td>32</td>
<td>38%</td>
<td>52</td>
<td>62%</td>
<td>0</td>
<td>0%</td>
<td>0</td>
<td>0%</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>and uses also mobile banking to encourage</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>banking after official banking time</td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>MFI lowers interest rates to an optimum</td>
<td>30</td>
<td>36%</td>
<td>52</td>
<td>62%</td>
<td>2</td>
<td>2%</td>
<td>0</td>
<td>0%</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>level</td>
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<td></td>
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<td></td>
</tr>
</tbody>
</table>
Respondents were asked to use a five point licket scale to indicate strategies adopted by MFI in poverty reduction and the response were as tabulated in table 4.7 and shown in figure 4.7. The first view sought was if MFI targets and empowers youth and women group in slums areas 36% of respondents strongly agreed, 62% agreed and 2% were undecided. Second view sought was if MFI creates opportunity for youths and women for jobs creation through training and provision of business loans 55% strongly agreed, 40% agreed and 5% were undecided. Third view was if MFI provide assistant to existing SMEs in informal settlement...
through top up loans and financial advice 40% strongly agreed, 55% agreed and 5% were undecided. The fourth view sought was if MFI provide *chamas* with banks accounts and uses also mobile banking to encourage banking after official banking time 38% strongly agreed and 62% agreed and finally if at MFI lowers interest rates to an optimum level 36% strongly agreed while 62% agreed and 2% were undecided.

Vrajlal (2009) stated that, micro-finance can and will always reduce poverty levels through employment creation and being a source of income to families or households which improves living conditions in informal settlement which also empowers women. In developed countries such as Canada and US micro credit helps beneficiaries to graduate from welfare programes. According to critics micro credit has not make people have more income but it has sunked them into more credit and it has even led to people commit suicide, even at times the loan money is not used for its purpose but for buying food, and it does not empower women nor improve education and health. According to Victoria (2006) micro credit has expedited growth and creation of business, create employment and its does not grantee increased income after payments of loans and interest. Micro credit is major factors that influence the success of SMEs that is influenced by the growth of a given economy. Yunus (2008) explains that when accessing credit several factors comes in play they include saving, loans facilities, enterprise development, management training, welfare support and provide avenues for marketing channels.
### 4.2.3 Micro Saving

Table 4.8: Table showing respondents view on the micro saving as model used by MFI in poverty reduction.

<table>
<thead>
<tr>
<th></th>
<th>Strongly Agree</th>
<th>Agree</th>
<th>Undecided</th>
<th>Disagreed</th>
<th>Strongly Disagreed</th>
</tr>
</thead>
<tbody>
<tr>
<td>n %</td>
<td>n %</td>
<td>n %</td>
<td>n %</td>
<td>n %</td>
<td>n %</td>
</tr>
<tr>
<td>Microfinance institutions offers an incentive to save</td>
<td>30 36%</td>
<td>52 62%</td>
<td>2 2%</td>
<td>0 0%</td>
<td>0 0%</td>
</tr>
<tr>
<td>Microfinance institutions in targeting the poor to reduce poverty through the culture of micro saving</td>
<td>52 62%</td>
<td>32 38%</td>
<td>0 0%</td>
<td>0 0%</td>
<td>0 0%</td>
</tr>
<tr>
<td>Microfinance institutions aid surviving SMEs and reassure the expansion of the existing ones</td>
<td>36 43%</td>
<td>32 38%</td>
<td>6 7%</td>
<td>10 12%</td>
<td>0 0%</td>
</tr>
<tr>
<td>Microfinance institutions look on how the client is doing rather than profitability</td>
<td>30 36%</td>
<td>52 62%</td>
<td>2 2%</td>
<td>0 0%</td>
<td>0 0%</td>
</tr>
</tbody>
</table>
Figure 4.8: Figure showing respondents view on the micro saving as model used by MFI in poverty reduction.

Respondents were asked to use a five point licket scale to indicate views on the micro saving as model used by MFI in poverty reduction and the response were as tabulated in table 4.8 and shown in figure 4.8. Microfinance institutions offers an incentive to save 36% of respondents strongly agreed, 62% agreed and 2% were undecided. Second view sought was Microfinance institutions in targeting the poor to reduce poverty through the culture of micro saving 62% strongly agreed and 38% agreed. The third view sought was if Microfinance institutions aid surviving SMEs and reassure the expansion of the existing ones 43% strongly agreed, 38% agreed while 5% were undecided and 12% disagreed and finally if Microfinance institutions look on how the client is doing rather than profitability 36% strongly agreed while 62% agreed and 2% were undecided.

According to Bhavya (2009) savings act as a venue for achieving sufficiency for SMEs and financial independence, nearly all micro enterprise fail to fully develop to SMEs due to
inadequate capital. Cull, Demirguc-Kunt and Morduch (2007) explain that lack of capital is a main limitation in expansion. Capital is determined by personal saving, informal settlement dwellers always have a challenge accumulating savings that can work as base to capital. Studies shows mostly in sources of capital from personal and self-generated finances or soft loans from friends and families. According to Dowla (2006) the importance of saving for microfinance has advantages that members could borrow against their savings.

4.2.4 Lending process

Table 4.9: Table showing respondents view on the lending process as poverty reduction measure

<table>
<thead>
<tr>
<th>Statements</th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Undecided</th>
<th>Disagreed</th>
<th>Strongly Disagreed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Microfinance institutions offer loans to start ups business for individual and groups</td>
<td>30 36%</td>
<td>52 62%</td>
<td>2 2%</td>
<td>0 0%</td>
<td>0 0%</td>
</tr>
<tr>
<td>Microfinance institutions facilities personal unsecure loan even for slum dwellers</td>
<td>52 62%</td>
<td>32 38%</td>
<td>0 0%</td>
<td>0 0%</td>
<td>0 0%</td>
</tr>
<tr>
<td>Microfinance institutions encourage Group leading</td>
<td>46 55%</td>
<td>32 38%</td>
<td>6 7%</td>
<td>0 0%</td>
<td>0 0%</td>
</tr>
<tr>
<td>MFI encourage group leading because it makes members to encourage one another for repayments</td>
<td>30 36%</td>
<td>52 62%</td>
<td>2 2%</td>
<td>0 0%</td>
<td>0 0%</td>
</tr>
</tbody>
</table>
Respondents were asked to use a five point licket scale to indicate views on the effects of Lending process on performance of insurance and the response were as tabulated in table 4.9 and shown in figure 4.9. The first view sought was if microfinance institutions offer loans to start ups business for individual and groups 36% of respondents strongly agreed, 62% agreed and 2% were undecided. Second view sought was microfinance institutions facilities personal unsecure loan even for slum dwellers 62% strongly agreed and 38% agreed. Third view was if microfinance institutions encourage group leading 55% strongly agreed, 38% agreed while 5% were undecided and finally if MFI encourage group leading because it makes members to
encourage one another for repayments 36% strongly agreed while 62% agreed and 2% were undecided.

The findings are in line with Yunus (2008) who indicated that the global analysis of lending micro banks are grouped in three main areas that include individual, group and village models of banking. The objective of group lending is when members are having a hard time to repay what the owe other group members will put pressure on them to repay or the group will be forced to pay the loan. Ledgerwood (2008) describes the objective micro finance service provider is provision of financial service to the poor that are targeted to empower women, reduce poverty, provision of services to disadvantage members of the society, help in business growth for the existing enterprises, to create employment and to encourage new business to grow this is either direct or indirect.

4.3 Limitations of the study

Most of respondents were reluctant to disclose information with regards to the study for fear of being reprimanded by the management who are responsible for handling issues related to the matter under study. In this case, the researcher guaranteed the respondents of the privacy of the data that they provided and sought authority from management to undertake research in the firm. The constraint of suspicion facilitated poor cooperation from respondents. Occasionally, the research encountered respondent who did not cooperate. The researcher also anticipates that respondents may not be willing to give out unbiased information due to fear of victimization. The above limitations was addressed by the researcher who personally talk to the respondents and explain that the research is purely for academic purposes and the identity of the respondents would not be revealed under any circumstance and the management is aware about the research.

4.4 Chapter Summary

This research report endeavors to ease the predicament of reporting an illustrative study examining and the contribution of microfinance institution in poverty reduction in informal settlement in Kenya a case study of Mathare slums. The findings were therefore influenced by both males and females. Data analysis was through descriptive method. Data has been presented in form of graphs and tables. This chapter has outline data presentation from the information collected from the field, the data is presented in form of tables and figures and the
information has been described using descriptive statistics and the study has established the relationship between independent variable and dependent variable.
CHAPTER FIVE
SUMMARY, RECOMMENDATIONS AND CONCLUSION

5.0 Introduction
In the section contains summary of research outcomes, recommendations and conclusion of the research study are outlined in this section in relation to study variables. Conclusion is made based on the study findings on the contribution of microfinance institution in poverty reduction in informal settlement in Kenya a case study of Mathare slums in Nairobi.

5.1 Summary of Findings
Out of 95 questionnaires that were distributed 88 percent response rate was achieved. The gender characteristics of respondents are dominated by females 55 % against males who are 45%. 10% of the respondents were had their age fall between 18-23 years old, 21% belonged in the ages between 24-29 years old years, 26% were aged between 30-35 years old , 29% are aged between 36-41 years while 14% were aged 42 years and above. Most of the respondents had graduate degree at 43%, 21% were post graduates while 5% had doctorate and 31% had diploma. 56% of the respondents were non-management staff, 33% were in middle level management and 10% were in senior level management.

5.1.1 MFI Products and Services
Respondents were asked to indicate view on the effects of MFI products and services in poverty reduction and the response .The first view sought was if the MFI offers business and financial training programs to their to members in informal settlement 98% of respondents were in favor and 2% were undecided. Second view sought was if MFI offers financial products and services such as money transfer, mobile banking, banking, saving, loans, credit cards and insurance to informal settlement dwellers 100% agreed. Third view was if MFI offers business development services that help informal settlement dwellers that are marketing, business training and advisory, use of technology and financial analysis 76% were in favor, 5% were undecided and 12% disagreed while 7% strongly disagreed. The fourth view sought was if MFI offers non-financial services focusing on literacy training, health and nutrition among others 43% strongly agreed, 38% agreed while 5% were undecided and 12% disagreed and finally if MFI offers communal investment obligatory to women and youth groups in the informal settlement 36% strongly agreed while 62% agreed and 2% were
undecided. The findings agrees with Mwawana (2011) described financial exclusion as the inability of low income people to access mainstream services of finance. MFI products and services tend to have less monetary value compared to the ordinary financial service providers. MFI provides micro saving, soft loans, insurance and remittances for individual members. The main purpose of this services include financial needs for individuals, households and SMEs that are paid after a given period of time especially for the less fortunate. MFI uses nontraditional methods that include group lending. According to Brown (2009) microfinance institution offers financial services that include saving, soft loans, insurance and remittances for individual members never the less the business today MFI still focus with providing micro credit that target the less fortunate with the believe of improving their household income.

5.1.2 Strategies Adopted by MFI

Respondents were asked to indicate strategies adopted by MFI in poverty reduction and the responses were as follows. The first view sought was if MFI targets and empowers youth and women group in slums areas 98% of respondents agreed and 2% were undecided. Second view sought was if MFI creates opportunity for youths and women for jobs creation through training and provision of business loans 95% agreed and 5% were undecided. Third view was if MFI provide assistant to existing SMEs in informal settlement through top up loans and financial advice 95% strongly agreed and 5% were undecided. The fourth view sought was if MFI provide chamaas with banks accounts and uses also mobile banking to encourage banking after official banking time 100% agreed and finally if at MFI lowers interest rates to an optimum level 98% agreed and 2% were undecided.

Vrajlal (2009) stated that, micro-finance can and will always reduce poverty levels through employment creation and being a source of income to families or households which improves living conditions in informal settlement which also empowers women. In developed countries such as Canada and US micro credit helps beneficiaries to graduate from welfare programes. According to Victoria (2006) micro credit has expedited growth and creation of business, create employment and its does not grantee increased income after payments of loans and interest. Micro credit is major factors that influence the success of SMEs that is influenced by the growth of a given economy. Yunus (2008) explains that when accessing credit several
factors comes in play they include saving, loans facilities, enterprise development, management training, welfare support and provide avenues for marketing channels.

5.2.3 Micro Saving
Respondents were asked to indicate views on the micro saving as model used by MFI in poverty reduction and the response were. Microfinance institutions offer an incentive to save 98% of respondents agreed and 2% were undecided. Second view sought was Microfinance institutions in targeting the poor to reduce poverty through the culture of micro saving 85% were favor. The third view sought was if Microfinance institutions aid surviving SMEs and reassure the expansion of the existing ones 83% agreed while 5% were undecided and 12% disagreed and finally if Microfinance institutions look on how the client is doing rather than profitability 98% agreed and 2% were undecided. According to Bhavya (2009) savings act as a venue for achieving sufficiency for SMEs and financial independence, nearly all micro enterprise fail to fully develop to SMEs due to inadequate capital. Cull, Demirguc-Kunt and Morduch (2007) explain that lack of capital is a main limitation in expansion. Capital is determined by personal saving, informal settlement dwellers always have a challenge accumulating savings that can work as base to capital. Studies shows mostly in sources of capital from personal and self-generated finances or soft loans from friends and families. According to Dowla (2006) the importance of saving for microfinance has advantages that members could borrow against their savings.

5.1.4 Lending process
Respondents were asked to indicate views on the effects of lending process on poverty eradication and the response were as follows the first view sought was if microfinance institutions offer loans to start ups business for individual and groups 98% of respondents agreed and 2% were undecided. Second view sought was microfinance institutions facilities personal unsecure loan even for slum dwellers 100% agreed. Third view was if microfinance institutions encourage group leading 95% agreed while 5% were undecided and finally if MFI encourage group leading because it makes members to encourage one another for repayments 98% agreed and 2% were undecided. The findings are in line with Yunus (2008) who indicated that the global analysis of lending micro banks are grouped in three main areas that include individual, group and village models of banking. The objective of group lending is
when members are having a hard time to repay what they owe other group members will put pressure on them to repay or the group will be forced to pay the loan. Ledgerwood (2008) describes the objective micro finance service provider is provision of financial service to the poor that are targeted to empower women, reduce poverty, provision of services to disadvantage members of the society, help in business growth for the existing enterprises, to create employment and to encourage new business to grow this is either direct or indirect.

5.2 Recommendations

The study had the following recommendations

The management of MFI should consider longer loan repayments period for informal settlement dwellers instead of biweekly and monthly repayments, this will ease the pressure on people living in slums because they will have adequate and humble time accumulate cash to repay the loans without stress.

The management of MFI should reconsider the issues of using collateral as basis for acquiring loans, this is because most if not all informal settlement dwellers don’t poses property that they can use as security for securing loans. The management should reconsider introducing alternative methods for securing loans that are favorable to slum dwellers.

The central government and all stakeholders should ensure that interest rates are favorable for informal settlement dwellers and they should encourage special banks accounts for slums dwellers that not only charge low interest rates but also encourage the culture of saving and that give attractive interest rates.

The management of MFI should make lending process easier especially for chamaas and other youth and women groups and should eliminate handle’s that makes it had to access loans. Trainings and business financial and management skills should be one of the major services MFI offer to informal settlement dwellers, encouraging use of mobile and online banking. It is therefore recommended that MFIs should be flexible, that is in both group and or individual lending be allowed.
5.3 Area of Further Study

The study suggests that a comparable research should be done in other informal settlement outside the Nairobi County especially in informal settlement areas to validate the finding of the current study.

5.4 Conclusion

MFI have strategy of poverty reduction based on the findings that includes training their clients in business and financial management skills that foresters growth and development of SMEs, offering loans at reduced rates and encouraging micro saving among informal settlement dwellers this will boost their financial base that will make them have strong borrowing power against their saving. The MFI plays an important role in social and economic development of slums residence, the study has established that utilization of MFI services has empowered the residents of Mathare slums through improving access food, shelter, education, water and health services by improving the saving culture and business expansion. The challenges facing MFI in slums is the loans acquisition which is affected by higher interest rates and lack of collateral security which is a requirement for accessing loans, shorter loans repayments period.
REFERENCES


Pemberton, T (2013). *Assessment of strategies adopted by microfinance institutions to*
survive and grow in the banking industry. A survey of selected MFIs in Kenya


Robinson L. (2011) *empowering woman through microfinance*, UNIFORM.


APPENDIX I:

LETTER OF INTRODUCTION

Dear Respondent,

My name is Florence Mueni. I study at Management University of Africa as part of requirement to graduate with a degree in Management and Leadership. I am conducting a study titled: **THE CONTRIBUTION OF MICROFINANCE INSTITUTION IN POVERTY REDUCTION IN INFORMAL SETTLEMENT IN KENYA: A CASE STUDY OF MATHARE SLUMS IN NAIROBI.** For this reason, I humbly request you to assist in filling the attached questionnaire to the best of your knowledge. The information that you will provide is strictly for academic and shall not be used for any other purpose and your names shall not appear in this study. Your input will go a long way to facilitate this research study.

Thank you

Yours Faithfully,

Florence Mueni

Management University of Africa
APPENDIX II:

QUESTIONNAIRE

Instructions

Tick the appropriate response. Where the question is opened, write in the space provided

1. What is your gender
   Male { } Female { }

2. What is Your Age?

   18yrs - 24yrs ( ) 25yrs - 29yrs ( ) 30yrs - 35yrs ( ) 36yrs - 40yrs ( ) 41yrs and Above ( )

3. Indicate your Education Level

   Primary ( ) Secondary ( ) Collage ( ) Graduate ( )
   Post graduate ( ) Doctorate ( )
   Any other ......................................................

4. Your Current Position in the Organization

   Senior Management ( ) Middle-Level Management ( ) None Management ( )

SECTION B

MFI Products and Services

5. Kindly indicate your view on the effects of MFI Products and Services in poverty alleviation in informal settlement and use the scale provided for the best answer possible

<table>
<thead>
<tr>
<th></th>
<th>Strongly Agree</th>
<th>Agree</th>
<th>Undecided</th>
<th>Disagreed</th>
<th>Strongly Disagreed</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>MFI offers business and financial training programs to their to members in informal settlement.</td>
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</tbody>
</table>
MFI offers financial products and services such as money transfer, mobile banking, banking, saving, loans, credit cards and insurance to informal settlement people.

MFI offers business development services that help informal settlement dwellers that are marketing, business training and advisory, use of technology and financial analysis.

MFI offers non-financial services focusing on literacy training, health and nutrition among others.

MFI offers communal investment obligatory to women and youth groups in the informal settlement.

### STRATEGIES ADOPTED

6. Please give your view on the effect of strategies adopted by MFI for poverty alleviation and use the scale provided for the best answer possible.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Undecided</th>
<th>Disagreed</th>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>MFI targets and empowers youth and women group in slums areas.</td>
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<tr>
<td>2</td>
<td>MFI creates opportunity for youths and women for jobs creation through training and provision of business loans</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>MFI provide assistant to existing SMEs in informal settlement through top up loans and financial advise</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>4</td>
<td>MFI provide <em>chamaas</em> with banks accounts and uses also mobile banking to encourage banking after official banking time</td>
<td></td>
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<tr>
<td>5</td>
<td>MFI lowers interest rates to an optimum level.</td>
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</table>
LENDING PROCESS

7. Kindly indicate your view on the effects of lending process in poverty alleviation in informal settlement and use the scale provided for the best answer possible

<table>
<thead>
<tr>
<th></th>
<th>Strongly Agree</th>
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<tr>
<td>1</td>
<td>Microfinance institutions offer loans to start ups business for individual and groups</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Microfinance institutions facilities personal unsecure loan even for slum dwellers</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Microfinance institutions encourage Group leading</td>
<td></td>
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<tr>
<td>4</td>
<td>MFI encourage group leading because it makes members to encourage one another for repayments</td>
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</tbody>
</table>

MICRO SAVING

8. Kindly indicate your view on the effects of micro saving in poverty alleviation in informal settlement and use the scale provided for the best answer possible

<table>
<thead>
<tr>
<th></th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Undecided</th>
<th>Disagreed</th>
<th>Strongly Disagreed</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Microfinance institutions offers an incentive to save</td>
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<tr>
<td>2</td>
<td>Microfinance institutions in targeting the poor to reduce poverty through the culture</td>
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<tr>
<td>3</td>
<td>Microfinance institutions aid surviving SMEs and reassure the expansion of the existing ones</td>
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</tr>
<tr>
<td>4</td>
<td>Microfinance institutions look on how the client is doing rather than profitability.</td>
<td></td>
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<td></td>
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</tr>
<tr>
<td>5</td>
<td>Microfinance institutions offers an incentive to save</td>
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</table>

Thank you for Participation