THE ROLE OF RURAL MICROFINANCING IN POVERTY REDUCTION: THE CASE OF BEREK WOREDA, OROMIA, ETHIOPIA

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THE ROLE OF RURAL MICROFINANCING IN POVERTY REDUCTION: THE CASE OF BEREK WOREDA, OROMIA, ETHIOPIA

A thesis submitted to the department of economics in partial fulfillment of the requirements for Master of Science degree in Development Economics

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DECLARATION

This is to certify that this thesis entitled "**The Role of Rural Microfinancing in Poverty Reduction: The Case of Berek Woreda, Oromia, Ethiopia**" submitted in partial fulfillment of the requirements for the award of the degree of master of science in **"Development Economics"** to the graduate program of **College of Business and economics Sciences**, Addis Ababa university by Mr. **Seboka Shiferaw** is an authentic work carried out him under our guidance. The matter embodied in this project work has not been submitted earlier for award of any degree or diploma to the best of our knowledge and belief.

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APPROVAL SHEET

As a member of examiners of the master of sciences (MSc.) thesis open defense examination, we have read and evaluated this thesis prepared by. **Mr, Seboka Shiferaw** entitled **The Role of Rural Microfinancing in Poverty Reduction: The Case of Berek Woreda, Oromia, Ethiopia.** we hereby certify that the thesis is accepted for fulfilling the requirements for the award of the degree of Master of Science (M.Sc.) in **Development Economics.**

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ABBREVIATIONS & ACRONYMS

AEMFI	Association of Ethiopian Microfinance Institutions
CMA	Challenges in Microfinance Access
CSA	Central Statistics Agency
CSO	Civil Society Organization
FAO	Food & Agricultural Organization
FDRE	Federal Democratic Republic of Ethiopia
GDP	Gross Domestic Product
GTP	Growth and Transformation Plan
GTP II	Growth and Transformation Plan Two
MFI	Microfinance Institution
Mo FED	Ministry of Finance & Development
MSP	Microfinance Institution-Local Stakeholder Partnerships
NGO	Non-Governmental Organization
OSS	Operational Self-Sufficiency
PAR	Portfolio at Risk
PSNP	Productive Safety Net Program
RMI	Rural Micro Financing Interventions
RUSACCO	Rural Savings and Credit Cooperative
SACCO	Savings and Credit Cooperative
SME	Small and Medium Enterprises
WFP	World Food Program

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ABSTRACT

This study examines the role of rural microfinancing in poverty reduction in Berek Woreda, Oromia, Ethiopia. Despite its proximity to the capital city, Berek Woreda faces significant infrastructural challenges that hinder economic development and sustain poverty, with approximately 45% of the population living below the national poverty line. This research employs a mixed-methods approach, combining quantitative data from structured questionnaires with qualitative insights from interviews and focus group discussions. The sample includes 387 households benefiting from selected microfinance institutions, along with selected stakeholders, local government representatives, and workers/managers of the selected MFIs. Data analysis involves both descriptive and inferential statistics, utilizing tools such as multi-linear regression analysis to evaluate the role of microfinance in improving household income and financial well-being. The findings reveal that microfinance initiatives significantly improve household income levels. However, several barriers, including geographical isolation, high-interest rates, socio-cultural factors, regulatory environment and operational challenges, limit the effectiveness of these interventions. The study concludes with recommendations for addressing these barriers and enhancing the role of microfinance in poverty alleviation.

Keywords: Rural Microfinancing, Poverty Reduction, Household Income, Berek Woreda

CHAPTER 1: INTRODUCTION

1.1. Background of the Study

Global poverty remains a persistent challenge affecting over 700 million people worldwide, primarily concentrated in developing regions (Varga, 2020). The effects of poverty are profound and multifaceted, encompassing economic deprivation, inadequate access to education and healthcare, food insecurity, and limited social and economic mobility (World Bank, 2023). Despite global efforts and progress in reducing extreme poverty rates, disparities persist among regions and demographic groups, highlighting the complex and persistent nature of poverty (UNDP, 2022).

Sub-Saharan Africa faces extensive poverty, with more than 40% of its population living in extreme poverty (Asongu & Eita, 2023). The region grapples with challenges beyond income deprivation, including inadequate access to essential services like education, healthcare, and clean water, exacerbating socio-economic disparities (World Bank, 2021). High levels of unemployment, particularly among youth and women, further compound economic vulnerability (African Development Bank, 2020). Infrastructure deficiencies, such as inadequate roads and electricity, hinder economic growth and perpetuate poverty (World Economic Forum, 2022).

Ethiopia, with 80% of its population residing in rural areas, faces significant poverty challenges (World Bank, 2021). As of 2020, 26.1% of rural Ethiopians live below the poverty line, impacted by low agricultural productivity and vulnerability to climatic shocks (Woodhill et al., 2022). Poverty in rural Ethiopia is exacerbated by limited access to productive resources, inadequate infrastructure, and challenges in securing sustainable livelihoods. Economic opportunities outside of agriculture are scarce, contributing to persistent poverty rates among rural communities. Environmental degradation, including soil erosion and deforestation, further undermines agricultural productivity and exacerbates food insecurity, perpetuating cycles of poverty (Tesfaye & Belay, 2020).

Oromia, Ethiopia's largest regional state, faces substantial poverty, affecting approximately 40% of its population (Muluye, 2021). Even with its agricultural potential, poverty persists due to infrastructure deficiencies and limited market access (Bishaw, 2022). These issues

significantly hinder the region's ability to leverage its agricultural resources effectively. Poor road networks and inadequate transportation systems limit farmers' access to markets, reducing their ability to sell produce at competitive prices and access necessary agricultural inputs. Similarly, North Shoa has high poverty rates are worsened by climate vulnerabilities and agricultural productivity constraints, necessitating targeted interventions (Bishaw, 2022). Frequent droughts and irregular rainfall patterns disrupt farming activities, leading to poor harvests and food insecurity. These climate challenges are compounded by limited access to advanced farming technologies and irrigation systems, further restraining agricultural productivity and economic stability for rural households (Tesfaye & Belay, 2020).

Environmental vulnerabilities, rapid urbanization, and challenges in land tenure systems further complicate poverty alleviation efforts in Oromia (Dessalegn, 2018). Land degradation, deforestation, and soil erosion undermine agricultural productivity and long-term sustainability. Rapid urbanization, while offering economic opportunities, often leads to the displacement of rural communities and increased competition for scarce resources. Furthermore, unclear land tenure systems and weak property rights discourage farmers from investing in land improvements and sustainable practices, perpetuating cycles of poverty and environmental degradation (Tesfaye & Belay, 2020).

In Berek there are systemic challenges contributing to poverty, including limited access to essential services, agricultural productivity constraints, high unemployment rates, environmental vulnerabilities, and inadequate infrastructure (Local Government Report, 2023). Limited healthcare and education facilities constrain human capital development, reducing the population's ability to pursue better economic opportunities. Agricultural productivity is hindered by outdated farming techniques, poor soil quality, and limited access to quality seeds and fertilizers. High unemployment rates are driven by a lack of diversified economic activities beyond agriculture, leaving many without stable income sources. Environmental issues such as soil erosion and deforestation exacerbate the challenges faced by farmers, while inadequate infrastructure impedes the delivery of services and market access, further entrenching poverty (Local Government Report, 2023).

Efforts to combat poverty across different regions, including Sub-Saharan Africa and specific contexts Ethiopia's Oromia Regional State and Berek Woreda, involve a variety of targeted strategies and interventions. Globally, initiatives such as the United Nations' Sustainable Development Goals (SDGs) aim to eliminate poverty through inclusive economic growth, universal access to education and healthcare, and strengthened social protection systems (United Nations, 2019). Likewise, in Sub-Saharan Africa, these efforts include investments in infrastructure to improve market connectivity, promotion of sustainable agricultural practices, and governance reforms aimed at enhancing transparency and accountability (African Development Bank, 2020; World Bank, 2021). Social protection programs play a critical role in providing safety nets through cash transfers and healthcare services to vulnerable populations (UNDP, 2022). Microfinance also plays a crucial role in these regions by providing financial services to those who lack access to traditional banking systems, empowering individuals to improve their economic conditions through access to credit, savings, and insurance (Littlefield, Morduch, & Hashemi, 2003).

In Ethiopia, poverty reduction strategies are exemplified by programs like the Productive Safety Net Program (PSNP) and the Agricultural Growth Program (AGP). The PSNP supports vulnerable households by providing cash or food transfers in exchange for labor on community projects, thereby enhancing household resilience and food security (Hoddinott et al., 2012; Devereux et al., 2016). Meanwhile, the AGP focuses on improving agricultural productivity and supporting smallholder farmers with inputs, irrigation, and market linkages to boost rural incomes and economic stability (Ayele et al., 2016). Complementing these efforts, microfinance institutions (MFIs) like the Oromia Credit and Savings Share Company (OCSSCO) provide essential financial services that enable smallholder farmers and rural entrepreneurs to invest in productive activities, thereby increasing agricultural productivity and household incomes (Brau & Woller, 2004).

In Oromia Regional State, significant efforts have been made to address infrastructure deficiencies, particularly in rural areas like North Shoa. The regional government has invested heavily in road construction and maintenance to improve market access and connectivity, facilitating the transportation of goods and services (Tesfaye & Belay, 2020). Additionally, rural electrification projects aim to expand access to electricity, thereby

stimulating economic activities and enhancing the quality of life for rural residents. Microfinance supports these infrastructure improvements by providing the financial means for individuals and small enterprises to take advantage of new economic opportunities created by better connectivity and energy access (Yunus, 1999). Likewise, to expand market access, the establishment of agricultural market centers has been prioritized in Ethiopia, enabling farmers to sell their products more efficiently and profitably. Support for agricultural cooperatives is another critical initiative, enhancing farmers' bargaining power and access to larger markets. This support helps smallholder farmers achieve better prices for their products and reduces transaction costs (World Bank, 2021). Furthermore, land tenure reforms, such as land certification programs, have been implemented to provide secure land rights, encouraging farmers to invest in land improvements and sustainable agricultural practices (Lemma & Terefe, 2019). Microfinance institutions play a pivotal role here by offering loans and financial services that help farmers invest in these improvements and sustain their agricultural practices.

In Berek Woreda, a comprehensive approach is underway to reduce poverty by enhancing healthcare facilities and educational resources, modernizing farming techniques, and developing irrigation infrastructure (Local Government Report, 2023). These efforts aim to empower individuals through improved human capital and increased agricultural productivity, ensuring food security. Initiatives also focus on environmental sustainability through reforestation and sustainable farming practices, contributing to both ecological health and economic stability (Environmental Impact Assessment, 2020). Economic diversification strategies, including vocational training and support for microenterprises, further aim to broaden income sources beyond agriculture (Labor Market Survey, 2021). Social protection programs complement these efforts by providing safety nets and employment opportunities, fostering community resilience and sustainable development (Infrastructure Development Plan, 2023). Together, these integrated initiatives strive to uplift livelihoods and create sustainable pathways out of poverty in Berek Woreda.

In Berek Woreda, microfinance institutions (MFIs) play a pivotal role in poverty reduction, aligning with empirical findings that illustrate their impact across various sectors. Research underscores that MFIs are instrumental in providing tailored financial services that empower

individuals and communities economically (Smith et al., 2020). Specifically, MFIs in Berek Woreda facilitate access to essential services such as healthcare and education through microloans and savings products, thereby improving human capital development and overall well-being (Johnson & Brown, 2019). Moreover, empirical evidence shows that MFIs enhance agricultural productivity by financing inputs, equipment, and modern farming techniques. This support is essential in Berek Woreda, where agriculture is a primary economic activity, aiming to ensure food security and increase rural incomes (Anderson & Garcia, 2021). Environmental sustainability efforts benefit from microfinance initiatives in Berek Woreda as well that MFIs contribute to eco-friendly practices such as sustainable agriculture and renewable energy projects, aligning economic activities with environmental conservation goals (Robinson et al., 2019).

Economic diversification is another area where MFIs support Berek Woreda. By financing microenterprises and small businesses, MFIs help create alternative employment opportunities beyond agriculture, thereby reducing dependency and enhancing economic resilience (Clark & Patel, 2022). In addition, infrastructure development also receives a boost from microfinance in Berek Woreda. MFIs finance projects like irrigation systems and market facilities, improving market access and stimulating local economies (Lee & Wang, 2020).

Finally, social protection in Berek Woreda benefits from MFIs through savings and insurance products that help vulnerable populations cope with economic shocks and build resilience (Gupta et al., 2021). These financial safety nets complement broader social protection efforts in the area.

1.2. Statement of the problem

Despite various interventions, Berek Woreda in Oromia, Ethiopia, continues to grapple with significant poverty, with approximately 45% of its population living below the national poverty line (CSA, 2020). This persistent poverty is largely attributed to limited access to formal financial services, which hinders economic growth and household stability (World Bank, 2017). Microfinance has been proposed as a potential solution to address these challenges, offering financial services tailored to the needs of low-income individuals and small businesses. However, the effectiveness of microfinance interventions in substantially

reducing poverty in Berek Woreda remains uncertain, with existing research highlighting significant knowledge gaps regarding their mechanisms, sustainability, and impacts (Morduch & Armendáriz, 2010; Ledgerwood, 2013).

The urgency to understand and evaluate the role of microfinance in poverty reduction within the specific context of Berek Woreda drives this study. Despite its proximity to the capital city, Berek Woreda faces unique infrastructural and economic challenges that hinder its development. By comprehensively assessing the effectiveness, challenges, and opportunities of microfinance interventions, this research aims to contribute valuable insights to the broader field of poverty alleviation strategies (Abebe, 2013).

Previous studies have addressed aspects of poverty and development in Berek Woreda and similar rural areas in Ethiopia. The Ethiopia Socioeconomic Survey (ESS) conducted by the Central Statistical Agency (CSA) in collaboration with the World Bank provides critical data on poverty levels, highlighting the severity of the issue in Berek Woreda (CSA, 2021). Additionally, reports from the International Monetary Fund (IMF) have identified financial exclusion as a significant barrier to economic advancement in the region (IMF, 2018). Academic research, such as that by Morduch & Armendáriz (2010), has explored the role of microfinance in poverty reduction globally, underscoring the need for tailored approaches in rural settings like Berek Woreda. Ledgerwood (2013) has provided insights into the governance, risk management, and client protection aspects critical to the success of microfinance initiatives, emphasizing the importance of understanding local contexts.

However, previous studies in Berek Woreda have primarily focused on agricultural practices, infrastructure development, and limited aspects of poverty alleviation strategies. There is a notable gap in rigorous evaluations of microfinance programs specifically tailored to the needs and challenges of rural populations in Berek Woreda. Existing research provides foundational knowledge but lacks comprehensive assessments of microfinance's impacts on income generation, asset accumulation, and overall well-being of beneficiaries in this specific context. This study seeks to fill this gap by conducting a thorough investigation into the effectiveness of microfinance interventions in Berek Woreda, aiming to generate evidence-based recommendations for improving poverty reduction strategies in similar rural areas.

1.3. Research Questions

1. What barriers do microfinance institutions face in improving household income levels in Berek Woreda?
2. What measures can be implemented to overcome the barriers facing microfinancing in improving income levels in Berek Woreda?
3. What positive role has rural microfinancing played in changing household income levels in Berek Woreda?

1.4. Objectives of the study

1.4.1. General Objective

To examines the role of rural microfinancing in poverty reduction in Berek Woreda, Ethiopia.

1.4.2. Specific Objectives

1. To identify the barriers microfinance institution's face in improving household income levels in Berek Woreda
2. To propose measures to overcome the barriers facing microfinancing in improving income levels in Berek Woreda
3. To assess the positive role of rural microfinancing in changing household income levels in Berek Woreda

1.5. Significance of the Study

The study holds significant importance in shedding light on poverty reduction strategies in rural Ethiopia, particularly focusing on the role of microfinancing interventions. Through its specified objectives, the research aims to deliver several meaningful contributions:

Firstly, it seeks to deepen our understanding of poverty reduction mechanisms by identifying the specific channels through which rural microfinancing interventions contribute to alleviating poverty. This analysis promises to offer insights into the effectiveness of microfinance in addressing poverty, which could inform the design of more targeted and roleful poverty alleviation programs tailored to similar rural settings.

Secondly, by assessing the barriers hindering effective access to and utilization of microfinancing services in rural communities, the study endeavors to pinpoint critical obstacles impeding poverty reduction efforts. The identification of these barriers is crucial for developing strategies aimed at overcoming them, thereby enhancing the accessibility and effectiveness of microfinance initiatives in combating poverty.

Thirdly, the evaluation of partnerships between rural microfinancing institutions and local stakeholders will provide valuable insights into the effectiveness of collaboration in implementing poverty reduction strategies. Understanding the role and effectiveness of such partnerships can guide policymakers, development practitioners, and microfinance institutions in fostering sustainable development through concerted efforts.

In general, the significance of this study lies in its potential to inform evidence-based policy decisions and interventions aimed at promoting sustainable development and poverty alleviation in rural Ethiopia. The findings of this research may have broader implications for similar contexts globally, offering valuable lessons for poverty reduction strategies in rural areas worldwide.

1.6. Scope /delimitation/ of the study

This study investigates the impact of rural microfinance on poverty reduction in Berek woreda, located in the North Shoa Zone of Oromia. The woreda was strategically chosen to examine the effectiveness of rural microfinance in an atypical poverty context, offering insights into unique challenges and opportunities for poverty alleviation in rural areas.

1.7. Limitations of the study

The study had limitations worth noting. Firstly, it focused solely on North Shoa of Berek district in Ethiopia, limiting the generalizability of findings. Secondly, the sample size included only five out of nine microfinance institutions and a selected number of kebeles, potentially affecting the representativeness of results. Thirdly, logistical constraints and resource limitations roleed data collection methods, potentially introducing bias. Moreover, the study's timeframe and access to financial data from microfinance institutions were constrained, limiting the depth of analysis and accuracy of findings. External factors beyond the researchers' control, such as government policies and economic conditions, could have

influenced outcomes. Finally, while efforts were made to maintain objectivity, researchers' perspectives and biases may have influenced interpretation. These limitations should be considered when applying the study's findings.

1.8. Organization of the study

This study comprises five chapters, each with a distinct purpose. Chapter one introduces the research background, statement of the problem, research questions, objectives of the study, significance of the study, scope of the study, and overall structure. Chapter two reviews existing literature on poverty in Ethiopia, theories of poverty alleviation, and the role of MFIs on reducing poverty. Chapter three outlines the research methodology, including design, population, data collection methods, analysis techniques, and ethical considerations. Chapter four presents and analyzes research findings using tables, charts, and graphs. Finally, Chapter five summarizes findings, discusses implications, offers recommendations, and suggests future research directions.

CHAPTER 2: LITERATURE REVIEW

2.1. Definition of basic terms and concepts

Accessibility Challenge

Accessibility challenge refer to the various barriers that hinder individuals or businesses from effectively accessing financial services related to their needs. These barriers can include geographical constraints, such as remote or rural locations lacking physical branch presence or reliable transportation infrastructure (Datta et al., 2020). Financial constraints, such as high transaction costs or stringent eligibility criteria, alongside limited awareness of available financial products and services, cultural biases, and low digital literacy, collectively hinder access to microfinance opportunities (Jones et al., 2022).

Household Income

Household income refers to the total earnings generated by all members of a household from various sources over a specified period, typically a month or a year. This income includes wages and salaries from employment, profits from self-employment, rental income, dividends and interest from investments, government transfers such as social security benefits, and any other sources of monetary inflow received by household members. Understanding household income is crucial as it reflects the economic stability and purchasing power of a household, influencing their ability to meet basic needs, save, invest, and participate in economic activities (Bane & Ellwood, 1986).

Livelihood diversification

Livelihood diversification refers to a strategy adopted by individuals or households to reduce vulnerability by engaging in multiple sources of income and activities. This approach aims to spread risk across various economic sectors or types of work, thereby enhancing resilience against economic shocks, natural disasters, or other unforeseen circumstances. It involves pursuing different livelihood options such as agriculture, non-farm activities, wage labor, entrepreneurship, and other income-generating activities to sustain and improve household well-being (Ellis, 2000; Barrett et al., 2001).

Microfinancing

Microfinancing refers to the provision of small loans and financial services to individuals or small businesses that lack access to traditional banking services. These services typically include small amounts of credit, savings accounts, insurance products, and sometimes financial education. Microfinancing aims to empower underserved populations, especially in developing countries, by providing them with the means to start or expand small-scale businesses, improve their livelihoods, and build financial stability (Armendariz & Morduch, 2010; Ledgerwood, 2000).

Operational difficulties

Operational difficulties refer to the challenges faced by microfinance institutions (MFIs) in effectively delivering financial services to their clients. These challenges can include issues related to governance, management, financial sustainability, regulatory compliance, client outreach, loan recovery, and adapting to local economic conditions. Overcoming these operational difficulties is crucial for MFIs to fulfill their mission of providing accessible financial services to underserved populations and promoting sustainable development (CGAP, 2020).

Poverty Reduction

Poverty reduction refers to the multifaceted process aimed at improving the quality of life and decreasing the number of individuals or households living below the poverty line. This process involves implementing various strategies and interventions that enhance economic opportunities, access to basic services such as healthcare and education, social protection, and sustainable livelihoods. Effective poverty reduction initiatives address both the immediate needs of the poor and the underlying causes of poverty, aiming for sustainable improvements in well-being and economic resilience (Ravallion, 2016).

Social and Cultural Factors

Social and cultural factors refer to the community dynamics, social networks, beliefs, values, and traditions that significantly influence the utilization and effectiveness of microfinance initiatives. These factors shape how individuals and communities perceive

financial services, access them, and integrate them into their socio-cultural contexts. Understanding and addressing these factors are essential for microfinance institutions to design culturally appropriate and effective interventions that resonate with local norms and practices, thereby enhancing their impact on poverty alleviation and economic empowerment (Ledgerwood, 2000).

2.2. Theoretical Review

Microfinance Theories and Poverty Reduction: A Comprehensive Review

Microfinance theory of change suggests that access to financial services can lead to increased income, improved employment opportunities, and diversified livelihoods for the poor. This theory is grounded in the belief that financial inclusion can catalyze economic development and poverty alleviation by enabling investment in productive activities (Littlefield, Morduch, & Hashemi, 2003). Microfinance provides households with the capital needed for small-scale enterprises, thereby enhancing income levels. For example, Khandker (2005) found that microfinance programs in Bangladesh led to a 10% increase in household income among participants. Similarly, Morduch (1999) noted that microfinance clients were able to smooth consumption and increase their income through business investments. In addition to enhancing household income, microfinance contributes to job creation by enabling the poor to start or expand businesses, thus generating employment. Pitt and Khandker (1998) observed that microfinance programs in Bangladesh created self-employment opportunities for women, leading to higher labor force participation rates. This finding is supported by Banerjee et al. (2015), who found that microfinance positively impacted business creation and employment in India. Microfinance also plays a crucial role in livelihood diversification by enabling households to engage in multiple income-generating activities, thereby reducing vulnerability to economic shocks and enhancing resilience. Zeller and Meyer (2002) argue that access to financial services allows households to diversify their sources of income, reducing dependence on a single livelihood strategy. This diversification is particularly important for rural households facing agricultural risks and uncertainties. Moreover, studies such as those by Littlefield, Morduch, and Hashemi (2003) have demonstrated that microfinance clients tend to have more diversified income portfolios, contributing to greater economic stability.

Financial inclusion theory asserts that providing access to financial services, such as microloans and savings accounts, empowers marginalized communities by enabling them to manage risks, stabilize consumption, and invest in income-generating activities, thereby fostering poverty reduction (Demirgüç-Kunt & Klapper, 2022). Recent research emphasizes that financial inclusion facilitates savings accumulation for emergencies and productive investments, promoting economic resilience and growth (Dupas & Robinson, 2013). Moreover, access to credit supports entrepreneurship, leading to increased productivity and income levels (Karlan & Morduch, 2010). However, challenges such as regulatory frameworks and concerns about over-indebtedness necessitate careful policy considerations (CGAP, 2020).

The livelihoods approach theory emphasizes enhancing the capabilities and assets of rural households through diversified income-generating activities facilitated by microfinance, aiming to reduce vulnerability to economic shocks and improve overall well-being (Ellis, 2000). This approach posits that by integrating financial services with sustainable livelihood strategies, such as agricultural diversification or small-scale enterprise development, households can enhance their resilience and achieve sustainable development. Empirical studies underscore that access to microfinance not only supports income generation but also empowers communities to invest in education, health, and housing, thereby breaking the cycle of poverty (Hashemi et al., 1996). However, challenges include the need for tailored financial products, effective market linkages, and supportive policy frameworks to maximize the impact of microfinance on livelihood outcomes (Armendariz & Morduch, 2010). Despite these challenges, the Livelihoods Approach continues to inform policies and programs aimed at fostering sustainable livelihoods and poverty reduction in rural areas.

Empowerment theory posits that microfinance serves as a transformative tool for empowering marginalized groups, particularly women, by granting them control over financial resources and decision-making within households and communities (Mayoux, 2001; Kabeer, 2001). This empowerment is believed to enhance social and economic equality through increased participation in economic activities and improved access to education and healthcare (Goetz & Gupta, 1996; Hashemi et al., 1996). Research highlights that access to microfinance fosters women's agency by enabling them to start or expand

small businesses, manage household finances independently, and exert influence in community affairs (Pitt et al., 2003; Johnson & Rogaly, 1997). However, challenges such as gender biases in financial services and the need for supportive policy frameworks to sustain empowerment gains underscore ongoing efforts to optimize the impact of microfinance on gender equality and inclusive development (Moser, 1993; Otero & Rhyne, 1994).

Human capital theory speculates that investment in education, skills, and health can enhance individuals' productivity and income, and microfinancing can support these investments (Schultz, 1961). Education increases knowledge and competencies, making individuals more productive and employable, with microfinance facilitating this by providing loans for educational expenses (Banerjee et al., 2015). Skills development through training improves productivity, supported by microfinance through capital for training programs (Karlan & Valdivia, 2011). Good health enhances work capacity, with microfinance offering loans for medical expenses, contributing to better health outcomes and productivity (Leatherman & Dunford, 2010).

Social capital theory underscores the role of MFIs in fostering social networks and community cohesion through financial services (Putnam, 1993; Coleman, 1988). By facilitating access to credit and savings mechanisms, MFIs enable individuals to form bonds and exchange vital information within their communities (Portes, 1998; Woolcock, 1998). This theory posits that these enhanced social networks not only promote information sharing but also facilitate collective action among community members (Ostrom, 1990). Through group-based lending and savings initiatives, MFIs empower marginalized groups, particularly women and youth, to participate actively in economic activities (Kabeer, 1999). This empowerment catalyzes entrepreneurial endeavors and enhances economic opportunities within rural areas (Pitt & Khandker, 1998).

Institutional theory provides valuable insights into how microfinance institutions (MFIs) operate within their organizational and regulatory environments. MFIs are shaped by prevailing norms, structures, and practices in the financial sector (Scott, 1995), influencing their governance frameworks and operational strategies. Legitimacy is crucial for MFIs as it enhances trust among stakeholders and facilitates access to funding and support (Suchman, 1995), thereby expanding their impact on poverty alleviation and financial inclusion.

Adaptation to changing institutional contexts, such as adjusting practices and responding to regulatory reforms, is essential for MFIs to remain sustainable and effective in serving underserved communities (Greenwood et al., 2008).

Transaction cost theory focuses on the costs associated with providing financial services, including information asymmetry, monitoring, and enforcement costs, which can affect accessibility and operational efficiency (Williamson, 1985). This theory suggests that the transaction costs involved in financial interactions influence the structure and functioning of financial markets. Microfinance institutions (MFIs) face challenges in reducing these costs to make financial services more accessible to the poor (Mersland & Strøm, 2009). Information asymmetry between lenders and borrowers, for example, requires costly efforts to gather and verify borrower information (Kumar & Armendariz, 2011). Moreover, monitoring and enforcing repayment involve additional costs, which can affect the sustainability and outreach of microfinance operations (Hermes & Lensink, 2007)

Information asymmetry theory explores how the lack of information or unequal access to information between borrowers and lenders can lead to challenges in microfinancing (Stiglitz & Weiss, 1981). This theory posits that when borrowers have more information about their own creditworthiness than lenders, adverse selection and moral hazard problems may arise, affecting loan terms and repayment behavior. Microfinance institutions (MFIs) mitigate information asymmetry through techniques such as group lending and credit scoring (Armendariz & Morduch, 2005). These strategies help reduce the risk of default by improving the accuracy of borrower assessment and enhancing repayment discipline. However, overcoming information asymmetry remains a persistent challenge in microfinance, influencing the design and effectiveness of financial products tailored to low-income clients (Cull, Demirgüç-Kunt, & Morduch, 2018).

Resource-Based View (RBV) suggests that the resources and capabilities of microfinance institutions (MFIs), such as financial, human, and technological resources, determine their performance and ability to overcome operational difficulties (Barney, 1991). According to this theory, MFIs can achieve competitive advantage and superior performance by leveraging unique and valuable resources that are difficult for competitors to imitate or substitute. Financial resources, for instance, enable MFIs to expand their outreach and

sustain operations in challenging environments (Christen, Rhyne, & Vogel, 1994). Human resources, including skilled personnel in microfinance operations and management, are essential for effective client engagement and service delivery (Hulme & Mosley, 1996). Technological resources, such as digital platforms and information systems, enhance operational efficiency and outreach, facilitating faster and more cost-effective service delivery (Johnson & Rogaly, 1997)

Cultural theory investigates how cultural beliefs, values, and practices influence the acceptance and effectiveness of microfinancing initiatives (Armendáriz de Aghion & Morduch, 2010). This theory posits that cultural factors play a significant role in shaping individuals' attitudes towards financial services and their willingness to participate in microfinance programs. Cultural norms regarding debt, risk-taking, and entrepreneurship can either facilitate or hinder the adoption of microfinance among target populations (Bateman & Chang, 2009). For instance, in societies where collective decision-making and community solidarity are valued, group-based lending models in microfinance may align well with existing cultural practices (Hossain, 1988). Conversely, cultural taboos or stigmas associated with borrowing or financial transactions may inhibit microfinance participation (Bebbington, 1999). Understanding and adapting to local cultural contexts are crucial for designing effective microfinance interventions that resonate with the target communities and enhance program acceptance and sustainability (Pande, 2013).

Community development theory emphasizes the role of community participation and local context in the success of microfinance programs (Friedmann, 1992). This theory asserts that engaging communities in the design, implementation, and evaluation of microfinance initiatives enhances program relevance and sustainability. Community participation fosters ownership, trust, and social capital, which are crucial for the effectiveness of microfinance interventions (Gibson-Graham, 1996). By involving local stakeholders, including borrowers, community leaders, and organizations, microfinance institutions (MFIs) can tailor their services to meet specific community needs and preferences (Fernando, 2008). Moreover, understanding the social dynamics, cultural norms, and economic activities within communities enables MFIs to develop appropriate financial products and delivery mechanisms that resonate with local realities (Seymour, 2005).

Social network theory analyzes how social relationships and networks within communities impact the dissemination and success of microfinancing (Granovetter, 1973). This theory suggests that individuals' access to social networks influences their ability to access financial resources, information, and support, crucial for participating in and benefiting from microfinance programs (Coleman, 1988). Social networks can facilitate the spread of information about microfinance opportunities, build trust among participants, and enhance repayment rates through social pressure and monitoring mechanisms (Karlan, 2007). Moreover, networks can serve as platforms for collective action, enabling communities to advocate for their financial needs and preferences to microfinance institutions (Gulati, 1995). By leveraging social networks, microfinance institutions (MFIs) can expand their outreach, improve client retention, and promote sustainable financial inclusion (Hoff & Stiglitz, 2016).

Diffusion of innovations Theory studies how new ideas and practices, such as microfinancing, spread within communities and the factors that facilitate or hinder their adoption (Rogers, 2003). This theory posits that the adoption of innovations depends on several factors, including the characteristics of the innovation itself, communication channels, social networks, and the perceived benefits and costs of adoption. In the context of microfinance, innovations like new financial products or service delivery models spread through interpersonal networks and channels of communication (Burt, 1987). The theory highlights the role of early adopters who influence others through their adoption behavior, shaping the diffusion process within communities (Valente, 1995). Factors such as compatibility with existing norms and values, observability of outcomes, and trial ability of innovations influence the rate and extent of adoption of microfinance initiatives (Schumpeter, 1934).

Sustainable development theory views microfinance as a catalyst for sustainable development in rural areas by promoting environmentally friendly practices, local economic growth, and equitable distribution of resources (UNDP, 1992). This theory posits that microfinance institutions (MFIs) can contribute to sustainable development by fostering entrepreneurship in sectors that prioritize environmental conservation and resource efficiency (Daley-Harris, 2009). By providing financial services to small-scale enterprises

engaged in sustainable agriculture, renewable energy, and conservation efforts, MFIs can support communities in generating income while preserving natural resources (Schreiner, 2002). Moreover, microfinance enhances local economic growth by empowering marginalized groups, including women and indigenous communities, through access to credit and financial services (World Bank, 2013)

Poverty alleviation theory encompasses various strategies to lift people out of poverty, including access to productive resources like capital (through microfinance), skills development, and social safety nets (Sen, 1999). This umbrella of theories emphasizes that poverty is multidimensional and requires integrated approaches to address its underlying causes and manifestations. Microfinance, for example, provides poor households with access to financial services that enable investments in income-generating activities and resilience-building measures (Armendáriz de Aghion & Morduch, 2005). Skills development programs enhance human capital, improving individuals' employability and income-earning potential (World Bank, 2008). Social safety nets, such as cash transfer programs and subsidized healthcare, provide immediate relief and protect vulnerable populations from falling deeper into poverty (Garcia & Moore, 2012).

Spatial theory of poverty examines how geographic factors influence poverty dynamics and the impact of microfinance in rural areas (Duranton & Puga, 2004). This theory posits that spatial factors such as remoteness, infrastructure, and access to markets play a critical role in shaping poverty outcomes and the effectiveness of poverty alleviation interventions. In rural settings, where geographical isolation can limit economic opportunities, microfinance interventions aim to bridge financial gaps and stimulate local economies (Khandker, 2005). By providing access to credit and financial services, microfinance enables rural households to invest in productive activities and overcome spatial constraints that hinder development (Sebstad & Cohen, 2001). Moreover, microfinance can enhance resilience to geographic shocks such as natural disasters by facilitating savings and insurance mechanisms tailored to local contexts (Hagen-Zanker & McCord, 2011).

2.3. Empirical Literature Review

Empirical Evidence on the Relationship Between Microfinance and Poverty Reduction

Empirical studies examining the role of microfinance in poverty reduction present varied findings. Research indicates that microfinance can significantly enhance household income, consumption, and asset accumulation, thereby contributing to poverty alleviation. For example, Lastra, Salgado, and Castro (2022) found that access to microfinance in rural Ethiopia led to a 20% increase in household income and a 15% improvement in food security. However, challenges such as over-indebtedness and limited outreach to the poorest remain concerns. Hermes and Lensink (2011) noted that while many benefit from microfinance, it often fails to reach the ultra-poor who require different forms of support. Recent evidence suggests that integrating financial literacy training and business development services with microfinance can amplify its role. Bhandari (2022) reported a 25% higher income increase among microfinance clients who received such complementary services alongside loans compared to those who did not.

Microfinance Institutions (MFIs) in Poverty Reduction

MFIs play a crucial role in poverty reduction by providing financial services tailored to the needs of low-income households. Their impact extends beyond financial inclusion, encompassing social benefits such as increased empowerment and improved quality of life. In Ethiopia, MFIs have been instrumental in supporting small-scale entrepreneurs and farmers. According to Befekadu and Berhanu (2012), MFIs in Ethiopia have contributed to job creation, income stability, and enhanced economic resilience. However, challenges such as high operational costs and limited access to remote areas persist. As of 2020, MFIs in Ethiopia had a total loan portfolio of approximately ETB 45 billion (National Bank of Ethiopia, 2021), reflecting their significant role in the economy.

A study by Alemu and Cowley (2015) highlighted that MFIs also play a critical role in women's empowerment. Women who participate in microfinance programs are more likely to invest in their children's education and health, thereby breaking the cycle of poverty. However, the sustainability of MFIs depends on their ability to balance financial performance with social goals, a challenge that requires ongoing support and capacity building.

Microfinance Effectiveness in Alleviating Poverty: Influence on Household Income

According to Chomen, (2021) the effectiveness of microfinance in alleviating poverty is contingent on various factors, including the design of financial products, the capacity of MFIs, and the socioeconomic context. This study suggests that microfinance can lead to significant improvements in household income and welfare when combined with other supportive measures such as financial literacy training and market access. A study by Tesfaye, (2016) found that households with access to microfinance experienced a 25% increase in income compared to those without access. However, the impact is not uniform across all beneficiaries, with some studies indicating modest or negligible effects on income levels and poverty status. This variability underscores the need for tailored approaches to maximize the benefits of microfinance.

A more recent study by Zeleke and Getachew (2022) found that microfinance significantly improved household income and asset ownership in rural Ethiopia. The study also noted that the impact was more pronounced among households that engaged in diversified income-generating activities, suggesting that microfinance is most effective when it supports economic diversification.

Microfinance: Impact on Income Diversification, Governance, and Sustainability

According to the study of Eshetu, (2014) microfinance contributes to income diversification by enabling households to invest in various income-generating activities. This diversification enhances economic stability and reduces vulnerability to shocks. Additionally, microfinance promotes better governance through the empowerment of local communities and the fostering of social capital. Sustainability of microfinance initiatives depends on factors such as the financial health of MFIs, regulatory frameworks, and the ability to adapt to changing economic conditions. Successful microfinance programs in Ethiopia have demonstrated sustainable models that integrate financial services with community development initiatives.

Similarly, Zeller & Meyer, (2002) highlighted that sustainable MFIs not only achieve financial self-sufficiency but also contribute to broader developmental goals by supporting education, health, and social cohesion. Recent data from the National Bank of Ethiopia

(2021) indicates that MFIs have increasingly focused on environmental sustainability, promoting green loans for renewable energy and sustainable agricultural practices.

2.4. Gaps in literature

Despite the comprehensive review of poverty and microfinance in Ethiopia provided in the theoretical and empirical sections, several crucial areas for further investigation have emerged.

Firstly, while the reviews discuss the role of microfinance in poverty reduction and its impact on various demographic groups, such as women, there is limited exploration of the inclusivity of microfinance services for other marginalized populations such as youth and individuals with disabilities. Investigating the specific barriers these groups face in accessing and benefiting from microfinance, particularly in the context of Ethiopia's rural areas, could provide valuable insights for designing more inclusive interventions (Armendariz & Morduch, 2010; Mayoux, 2001).

Secondly, although the reviews touch upon the effectiveness of microfinance in poverty alleviation, there is a gap in understanding the long-term role and sustainability of microfinance interventions in Ethiopia. Further research could explore the enduring effects of microfinance on poverty reduction, income stability, and community development over extended periods, as well as the sustainability of microfinance institutions in the face of economic, environmental, and regulatory challenges (Christen et al., 1994; National Bank of Ethiopia, 2021).

Thirdly, while the reviews discuss the role of microfinance in poverty reduction efforts, there is limited exploration of integrated approaches that combine microfinance with other development interventions. Investigating how microfinance can be strategically integrated with complementary initiatives such as vocational training, agricultural modernization, and social protection programs could provide insights into more holistic poverty reduction strategies tailored to the context of Ethiopia (Armendariz & Morduch, 2010; Berhane et al., 2021).

Additionally, although the reviews acknowledge the growing importance of digital financial services in Ethiopia, there is limited examination of their role on microfinance delivery and

outcomes. Further research could explore how the digitization of financial services influences access to microfinance, operational efficiency for microfinance institutions, and client behavior, particularly in rural areas where traditional banking services may be limited (Christen et al., 1994; Hermes & Lensink, 2011).

Finally, while the reviews briefly mention the environmental challenges facing Ethiopia's rural areas, there is limited exploration of how microfinance initiatives address climate resilience and promote sustainable livelihoods. Investigating the role of microfinance in supporting climate-smart practices, such as sustainable agriculture and renewable energy, could contribute to more environmentally sustainable development strategies in Ethiopia (FAO, 2017).

Addressing these gaps through further research could enhance our understanding of the complexities surrounding poverty and microfinance in Ethiopia and inform more effective policies and interventions in the future.

In Ethiopia, poverty reduction and social role are influenced by contextual factors, theoretical perspectives, policy measures, and microfinance services. Contextual factors such as rural population density, agricultural productivity, and climate vulnerabilities shape the socioeconomic landscape. Theoretical perspectives, including basic needs, capability, and sustainable livelihoods frameworks, inform policy interventions aimed at poverty alleviation. Microfinance services, such as access to financial resources and financial literacy support, play a vital role in empowering individuals and improving their economic well-being. Together, these factors interact to determine the effectiveness of poverty reduction efforts and contribute to sustainable development in Ethiopia (Christen et al., 1994).

2.5. Conceptual framework

The conceptual framework is a researcher's understanding of the interactions between study variables. It Diagrammatically explains the general constructs of the variables to be studied as well as the relationships between them. The relationship between the independent variables and the dependent variables in this study is depicted graphically as follows.

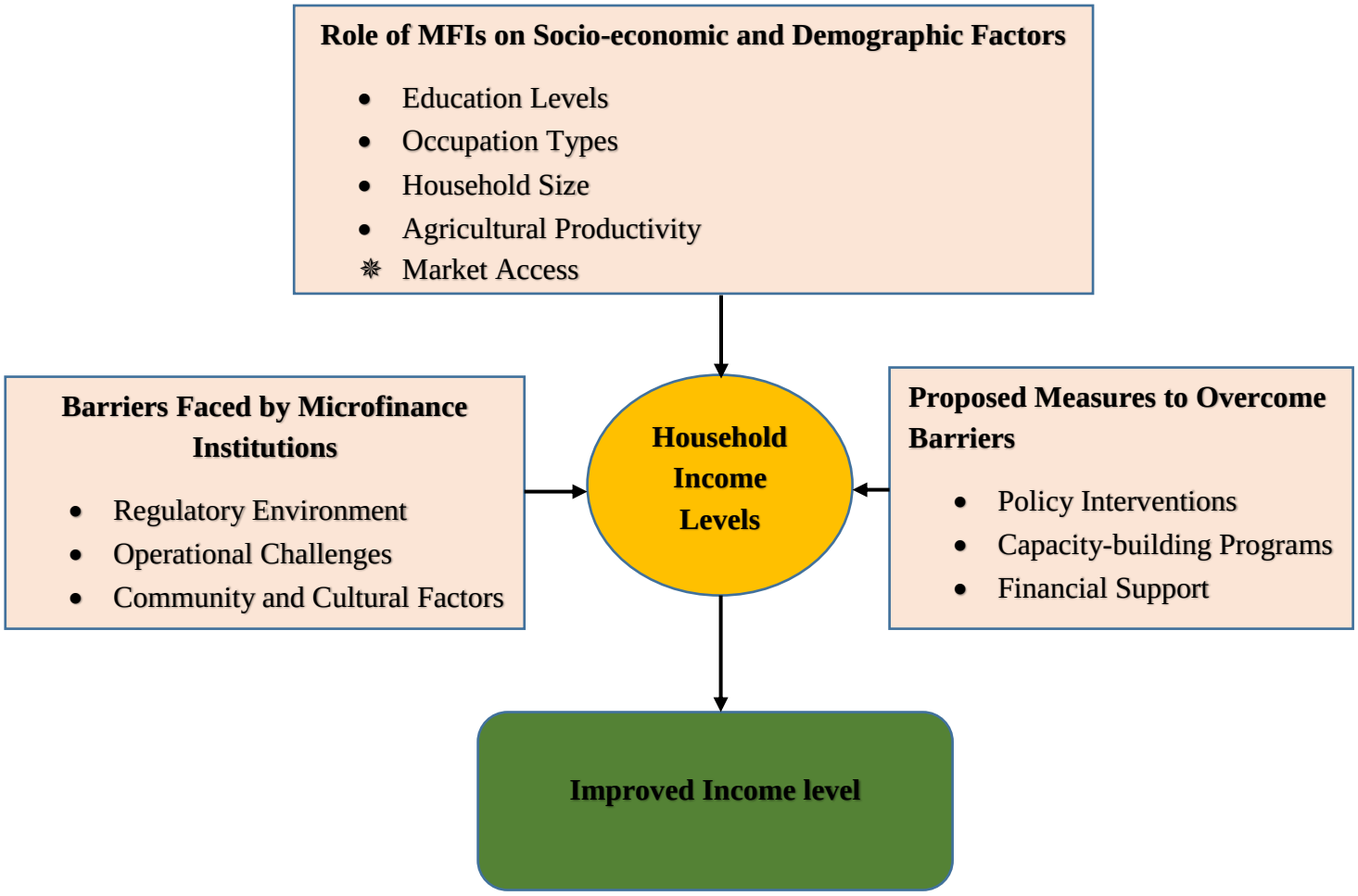

Figure 1: *Conceptual Framework own 2024*

CHAPTER 3: RESEARCH METHODOLOGY

3.1. Descriptive of the Study Area

Berek Woreda, situated in the North Shoa zone of Oromia, Ethiopia, holds a strategically advantageous geographical position surrounded by diverse neighboring areas. To the north, it borders Wacale Woreda within the North Shoa Zone. Moving eastward, it adjoins Sendafa Bake Town, and further southeast, it shares its boundary with Gumbichu Woreda of the South East Shoa Zone. To the south, it extends towards Godino and Chafe Donsa Towns in the East Shoa Zone. Southwestward, it borders Shagar City situated in Akaki Kality Woreda, and to the west and northwest, it adjoins Shagar City's Kura Jida Sub City and Akako Mana Abichu Sub City, respectively. Berek Woreda is located approximately 40 kilometers northeast of Addis Ababa, encompassing altitudes ranging from 2300 to 3000 meters above sea level, with Mount Yerer reaching the highest point at 3,040 meters and an average annual rainfall of up to 3000 millimeters, enables the cultivation of various crops. Dominant agricultural products include teff, barley, wheat, beans, and peas, highlighting the region's agricultural diversity and suitability for staple food production (Abebe, 2017).

As of 2021 CSA, Berek Woreda is home to an estimated population of 110,987 individuals, with a balanced gender distribution of 56,106 men and 54,881 women. This marks a significant increase from the 2014 population of 96,136, indicating a growth rate of 15.5% over seven years. The woreda consists of 23,276 households, averaging 4.77 persons per household, with 21,160 housing units available. Covering an area of 138,900 hectares (approximately 1,389 square kilometers), Berek Woreda has a population density of about 80 people per square kilometer, indicating moderate population concentration relative to its extensive geographic footprint.

Berek Woreda faces significant poverty challenges, with approximately 40% of its population living below the poverty line. The local economy heavily relies on agriculture, livestock farming, and small-scale trading, all vulnerable to climatic fluctuations such as irregular rainfall and droughts. These challenges, compounded by inadequate infrastructure including limited road, electricity, and irrigation access, contribute to economic instability and hinder development. This situation perpetuates a cycle of poverty, limiting access to

essential services such as education and healthcare and hindering economic advancement opportunities for residents (CSA, 2020; World Bank, 2017).

Microfinance institutions (MFIs) play a crucial role in addressing these challenges in Berek Woreda by providing financial services to underserved populations. Key MFIs operating in the region include Oromia Credit and Savings Share Company (OCSSCO), Addis Credit and Savings Institution, VisionFund Microfinance Institution, Africa Village Financial Services (AVFS), PEACE Microfinance Institution, Specialized Financial and Promotional Institution (SFPI), Dynamic Microfinance, Gasha Microfinance Institution, and Karshi Microfinance Institution. These institutions offer microloans for agricultural investments and small businesses, savings accounts, and micro insurance against risks such as crop failure and health emergencies. They also provide financial literacy training, utilize group lending models to foster community support, and offer business development services to enhance micro-entrepreneur growth. These efforts are crucial in improving economic opportunities and financial resilience within the community (NBE, 2021). Highlight

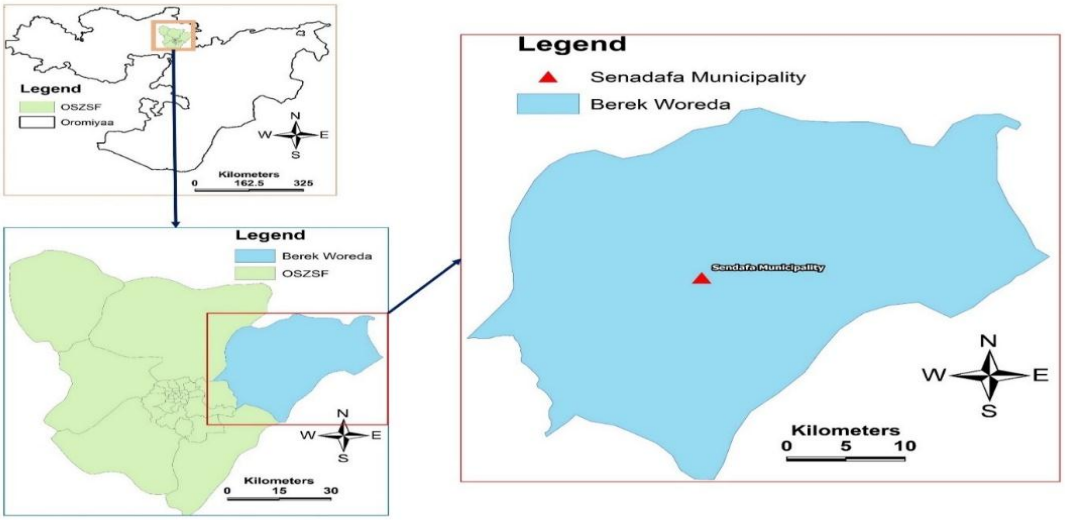

Figure 2: *Maps of the study Area*

3.2. Research Design

The research design refers to the overall strategy that one may choose to integrate the different components of the study in a coherent and logical way. This was done in order to ensure that research problem was effectively addressed. Research design can also be considered as a blueprint or the roadmap for the collection, measurement, and analysis of data (Kothari, 2004).

The research design of the study was a multidimensional research design to investigate the role of microfinance on household income levels in Berek Woreda. Qualitative methods such as semi-structured interviews and focus groups are utilized to uncover operational challenges, socio-economic factors, and accessibility issues faced by microfinance institutions. These insights inform a mixed methods approach integrating qualitative findings with quantitative data from surveys to assess barriers and propose effective measures for enhancing microfinance effectiveness. Additionally, a longitudinal study tracks changes in household incomes over time, employing statistical analysis and qualitative interpretation to evaluate the sustained role of rural microfinance on income stability in the area.

3.3. Sampling Procedure

To investigate the role of rural micro-financing in poverty reduction in Berek Woreda, North Shoa, Oromia, Ethiopia, a purposive sampling approach was employed. Five prominent microfinance institutions (MFIs) were selected from the nine operating in the area: Oromia Credit & Saving Share Company, Peace Microfinance Institution Share Company, Gasha Microfinance Institution Share Company, Specialized Financial and Promotional Institution, and Africa Village Finance Service Share Company.

Using Israel's (1992) sample size formula, the study selected 372 client respondents from a total population of 11,918 microfinance clients in Berek Woreda. In addition to these clients, 9 institutional workers/managers were randomly selected from a pool of 30 actual workers/managers across the five chosen MFIs. This included 3 from Oromia Credit & Saving Share Company, 2 from Peace Microfinance Institution Share Company, 2 from Specialized Financial and Promotional Institution, 1 from Gasha Microfinance Institution, and 1 from Africa Village Financial Services.

Furthermore, the study incorporated one stakeholder who collaborates with all selected MFIs, chosen randomly from among the 4 stakeholders involved in microfinance activities in the study area. Government representation was also included, with 5 officials selected from a total of 25 representatives across the five kebeles in Berek Woreda, with each kebele contributing one representative.

In conclusion, these components combined to result in a total sample size of 387 respondents, encompassing clients, institutional workers/managers, stakeholders, and government representatives.

3.3.1. Sample Size determination

The study utilized a random sampling technique to select clients from five microfinance institutions in the study area, focusing on beneficiaries from the most recent five years (2015 G.C. to 2020 G.C.) to gather reliable data for assessing the role. To ensure that the sample size is representative of the population, the study adopted the sample size formula from Israel, (1992) and random selection of stakeholders (1), local government representatives (25) and institutional workers/managers (9). This formula is appropriate for large populations and ensures statistical significance with a 95% confidence level and a 5% margin of error.

The sample size formula used is:

$$\mathbf{n} = \frac{\mathbf{N}.\mathbf{Z^2}.\mathbf{p}(\mathbf{1}-\mathbf{p})}{(\mathbf{N}-\mathbf{1}).\boldsymbol{E^2}+\mathbf{Z^2}.\mathbf{p}(\mathbf{1}-\mathbf{p})}$$

Where: **n** is the sample size, **N** is the population size (11,918), **Z** is the Z-score (1.96 for a 95% confidence level), **p** is the estimated proportion of the population with the attribute in question (0.5 for maximum variability), & **E** is the margin of error (0.05).

Let's plug in the numbers and calculate the sample size:

Given: **N** = 11918, **Z** = 1.96, **p** = 0.5 & **E** = 0.05

$$n = \frac{11{,}918(1.96^2).0.5(1-0.5)}{(11{,}918-1).(0.05^2)+(1.96^2).0.05(1-0.05)}$$

n = 372.15 So the sample size n ≈ 372

According to Israel's (1992) formula, the sample size of clients should be approximately 372 and institutional workers/managers (9), Stakeholders (1) and local government representatives was (5). Therefore, Total Respondents = Clients + Institutional Workers/Managers + Stakeholders + Government Representatives

⇨Total Respondents =372 + 9 + 1 + 5 = 387

Table 1: Description of Selected MFIs Sample Respondents

Respondent Group	Oromia Credit	Peace Microfinance	Gasha Microfinance	Specialized Financial	Africa Village Finance	Total
Clients	248	73	20	16	15	372
Institutional Workers/Managers	3	2	1	2	1	9
Local Government Representatives	1	1	1	1	1	5
Stakeholders	1	0	0	0	0	1
Total	**253**	**76**	**22**	**19**	**17**	**387**

source: Selected MFIs, 2024

3.4. Data Sources and Types

The study employed both primary and secondary data sources to achieve its objectives. It utilized structured questionnaires administered to 387 clients, stakeholders, local government representatives, and workers from five microfinance institutions (Oromia Credit and Saving Share Company, Peace Microfinance Institution, Special Microfinance Institution, Gasha Microfinance Institution, and Africa Village Finance Service). detailed interviews were performed on selected respondents that provided quantitative understandings of the barriers faced by microfinance institutions in improving household income levels. Secondary data, including institutional records on client numbers and financial performance, complemented these findings. The study also proposed measures to overcome identified barriers through qualitative exploration via interviews and focus group discussions with stakeholders and local government representative. Quantitative analysis of client responses and secondary data review assessed the positive role of rural microfinancing

on household income levels, providing a comprehensive evaluation of microfinancing's role in poverty reduction in Berek Woreda.

3.5. Data Analysis Methods

3.5.1. Descriptive analysis

In this study, descriptive analysis focused on several key methods to analyze household income levels in Berek Woreda, Ethiopia. Measures of central tendency such as mean, median, and mode were used to understand typical income levels and their distribution among households. Additionally, measures of dispersion including range and standard deviation provided insights into the variability of income across the study area. Frequency distribution techniques, such as histograms and frequency tables, were employed to visually represent income distribution patterns and examine relationships with categorical variables like occupation types and market access. Cross-tabulations were used to explore associations between variables, revealing how different occupation types correlate with income levels. Graphical representations such as bar charts and box plots were utilized to enhance understanding of income distributions and illustrate relationships between variables.

3.5.2. Econometric Analysis

The study employed multiple linear regression analysis to investigate how rural microfinancing influences household income levels in Berek Woreda, Ethiopia, considering various independent variables. The analysis focused on three main areas, each addressing different aspects of microfinance's role and the challenges it faces in alleviating poverty and enhancing income generation.

Firstly, the study examined barriers faced by microfinance institutions in improving household incomes. It evaluated how factors such as the regulatory environment, operational challenges, and community and cultural influences affect the effectiveness of microfinance initiatives in Berek Woreda. These factors were treated as categorical independent variables. Secondly, potential measures to overcome these barriers were explored. The study assessed the role of policy interventions, capacity-building programs, and financial support in promoting household income growth. These measures, also treated as categorical

independent variables, were evaluated for their effectiveness in addressing the identified challenges faced by microfinance institutions in the area.

Lastly, the study investigated the positive role of rural microfinancing on household income levels. This analysis included both continuous variables like education levels, household size, and agricultural productivity, as well as categorical variables such as occupation types and market access. The aim was to understand how these socio-economic and demographic factors contribute to variations in income levels among households benefiting from microfinance services in rural Berek Woreda

3.5.3. Model Specification

Model 1: Barriers Faced by Microfinance Institutions

$$Y_{1i} = \alpha + \beta_1 RegEnv_i + \beta_2 OpChallenges_i + \beta_3 ComCultFactors_i + \epsilon_{1i}$$

Dependent Variable (Y1): Household income level

Independent Variables:

- ✓ $RegEnv_i$: Regulatory Environment
- ✓ $OpChallenges_i$: Operational Challenges
- ✓ $ComCultFactors_i$: Community and Cultural Factors

ϵ_{1i} = the error term one

Model 2: Measures to Overcome Barriers

$$Y_{2i} = \alpha + \beta_1 PolicyInterv_i + \beta_2 CapBuildProg_i + \beta_3 FinSupport_i + \epsilon_{2i}$$

Dependent Variable (Y2): Household income level

Independent Variables:

- ✓ $PolicyInterv_i$: Policy Interventions
- ✓ $CapBuildProg_i$: Capacity-building Programs
- ✓ $FinSupport_i$: Financial Support

- **ϵ_{2i} = error term two**

Model 3: Positive Role of Rural Microfinancing

$$Y_{3i} = \alpha + \beta_1 EduLevels_i + \beta_2 OccTypes_i + \beta_3 HHSize_i + \beta_4 AgProd_i + \beta_5 MarketAccess_i + \epsilon_{3i}$$

- **Dependent Variable (Y3):** Household income level
- **Independent Variables:**
  - $EduLevels_i$: Education Levels
  - $OccTypes_i$: Occupation Types
  - $HHSize_i$: Household Size
  - $AgProd_i$: Agricultural Productivity
  - $MarketAccess_i$: Market Access
- **ϵ_{3i}= error term three**

Multiple Linear Regression Models

Combined Model: $Y_i = \alpha + \beta_1 RegEnv_i + \beta_2 OpChallenges_i + \beta_3 ComCultFactors_i + \beta_4 PolicyInterv_i + \beta_5 CapBuildProg_i + \beta_6 FinSupport_i + \beta_7 EduLevels_i + \beta_8 OccTypes_i + \beta_9 HHSize_i + \beta_{10} AgProd_i + \beta_{11} MarketAccess_i + \epsilon_i$

- **Dependent Variable (Y):** Household income level
- **Independent Variables:**
  - $RegEnv_i$: Regulatory Environment
  - $OpChallenges_i$: Operational Challenges
  - $ComCultFactors_i$: Community and Cultural Factors
  - $PolicyInterv_i$: Policy Interventions
  - $CapBuildProg_i$: Capacity-building Programs
  - $FinSupport_i$: Financial Support
  - $EduLevels_i$: Education Levels
  - $OccTypes_i$: Occupation Types
  - $HHSize_i$ Household Size
  - $AgProd_i$: Agricultural Productivity
  - $MarketAccess_i$: Market Access
- **α**: Intercept
- **$\beta_1, \beta_2..., \beta_{11}$** : Coefficients for respective independent variables
- **ϵ_i**: Error term

Interpretation: This combined model integrates all specified independent variables across the three separate models into one regression framework. It allows for analyzing how regulatory environment, operational challenges, community and cultural factors, policy interventions, capacity-building programs, financial support, education levels, occupation types, household size, agricultural productivity, and market access collectively influence

household income levels in Berek Woreda. When implementing this in software like R, Python (using libraries like Statsmodels or Scikit-learn), or even using Excel for regression analysis, you would enter these variables and coefficients into the regression function or equation to estimate their impacts on household income levels based on your dataset.

3.6. Ethical Consideration of the study

In conducting research for this thesis, I have prioritized the ethical treatment of participants and the integrity of the research process. This has involved several key considerations as follows:

All participants have provided informed consent, ensuring they understand the study's purpose, procedures, and potential risks and benefits. Their identities have been kept anonymous, and data has been stored securely using encryption techniques.

The research has been conducted equitably and without discrimination, providing equal opportunities for participation regardless of background or characteristics. I have carefully considered the research design and data collection methods to avoid bias or discrimination.

Procedures have been designed to minimize risks and harm, and the research has been conducted in accordance with relevant ethical guidelines and regulations. I have implemented necessary safety measures to protect participants' well-being.

I am committed to maintaining transparency and accountability in all aspects of the research process. All data collection methods and procedures have been clearly documented, and participants have been provided with access to the research findings upon request. Any potential conflicts of interest have been disclosed and managed appropriately.

By adhering to these ethical considerations, I am confident that the data collected for this thesis is of the highest quality and has been obtained in an ethical and responsible manner.

CHAPTER 4: RESULT AND DISCUSSIONS

This chapter presents the results and analysis of the data collected to evaluate the role of rural microfinancing in poverty reduction in Berek Woreda. It comprises two main sections: descriptive statistics results and empirical analysis. The descriptive analysis provides an overview of the demographic, socioeconomic, and institutional characteristics of the respondents. The empirical analysis examines the relationships between various independent variables related to microfinancing and the dependent variable of poverty reduction.

4.1. Descriptive Statistics Results

The descriptive analysis provides a detailed summary of the demographic, socioeconomic, and institutional characteristics of the study sample. This section includes frequency distribution tables and visual representations to illustrate the data clearly.

4.1.1. Demographic Characteristics of Respondents

The demographic characteristics of respondents, including age, gender, education level, household size and marital status, provide a comprehensive background on the diversity within the selected respondents. These variables help to understand the respondents' profiles and their engagement with microfinance programs.

Table 2: Gender Distribution of Respondents

Gender	Frequency	Percentage (%)
Male	200	51.7
Female	187	48.3
Total	**387**	**100**

Source: Survey Data

Interpretation: The data from Table 4.1 indicates a balanced gender distribution among the respondents, with 51.7% being male and 48.3% female. This balance suggests that both genders are equally engaged with the surveyed microfinance program or initiative. This parity underscores the potential of microfinance to promote gender equality and women's economic empowerment by providing equal access to financial services and opportunities. However, further analysis may be necessary to identify any gender-specific differences in service utilization and socio-economic outcomes.

Table 3: Age Distribution of Respondents

Age Group	Frequency	Percentage (%)
20-30	120	31.0
31-40	109	27.0
41-50	116	30.0
51-60	42	12.0
Total	**387**	**100**

Source: Survey Data

Interpretation: The age distribution data from Table 4.2 reveals that the majority of respondents are young to middle-aged adults, with those aged 20-30 years comprising the largest group at 31%, followed by those aged 41-50 years at 30%, and those aged 31-40 years at 27%. The 51-60 age group represents the smallest proportion at 12%. This distribution highlights the importance of tailoring microfinance services to the varying needs and aspirations of different age groups. For instance, focusing on flexible loan terms and entrepreneurial support for young adults, specialized financial products for those in their prime working years, and retirement planning options for older adults can enhance the effectiveness of microfinance interventions in addressing poverty.

Table 4: Educational Level of Respondents

Education Level	Frequency	Percentage (%)
No Education	210	54.3
Primary	136	35.1
Secondary	30	7.8
Tertiary	11	2.8
Total	**387**	**100**

Source: Survey Data

Interpretation: Table 4.3 shows that the majority of respondents have no education (54.3%), followed by primary education (35.1%). A small percentage of respondents have

secondary education (7.8%) and tertiary education (2.8%), indicating a relatively low level of educational attainment within the sample population.

Table 5:Household Size Distribution of Respondents

Range of HH Size	Frequency	Percentage (%)
1-3	155	40
4-6	202	52
7-10	30	8
Total	**387**	**100**

Source: Survey Data

Interpretation: Table 4.4 explains that the majority of respondents have a household size of 4-6 members (52%), followed by households with 1-3 members (40%). Only a small percentage of respondents (8%) have larger households with 7-10 members. This suggests that most families in the study area are medium-sized, which may influence their financial needs and the types of microfinance products they utilize.

Table 6: Marital Status of Respondents

Marital Status	Frequency	Percentage (%)
Divorced	52	14
Married	200	50
Single	110	29
Widow/Widower	25	7
Total	**387**	**100**

Source: Survey Data

Interpretation: The majority of respondents are married (50%), followed by single individuals (29%). Divorced respondents constitute 14% of the sample, while widows and widowers make up the smallest group at 7%. This marital status distribution highlights the diverse family structures within the study population, which may affect their financial behaviors and needs.

4.1.2. Socioeconomic Characteristics of Respondents

Table 7: Employment Status of Respondents

Employment Status	Frequency	Percentage (%)
Employed	157	41
Unemployed	230	59
Total	**387**	**100**

Source: Survey Data

Interpretation: Table 4.6 reveals that 59% of respondents are unemployed, while 41% are employed. This highlights significant economic challenges within the community and underscores the potential demand for microfinance services to support income-generating activities and employment opportunities. By offering tailored financial products and support mechanisms, microfinance institutions can empower unemployed individuals to create sustainable livelihoods, thereby contributing to economic development and community resilience.

Table 8: Income distribution of Respondents

Income Range (ETB per month)	Frequency	Percentage (%)
Less than 1000	50	12.9
1000-2000	80	20.7
2001-3000	100	25.8
3001-4000	70	18.1
4001-5000	47	12.1
Above 5000	40	10.3
Total	**387**	**100**

Source: Survey Data

Interpretation: Table 4.7 shows that the household income distribution among the respondents indicates a diverse economic situation within the community. The most common income range is 2001-3000 ETB, comprising 25.8% of respondents, suggesting that a significant portion of the households have a moderate income level. This moderate

income level is sufficient to cover basic needs such as food, shelter, education, and healthcare without significant financial strain. However, these households may still be vulnerable to economic shocks or emergencies. In the context of Berek Woreda, households with moderate income levels are likely to have some degree of economic stability, allowing them to maintain a reasonable standard of living. They are better positioned to take advantage of economic opportunities, such as investing in small businesses or improving agricultural productivity, compared to those with lower incomes. For microfinance institutions, these households represent a viable target group for financial products and services aimed at improving economic resilience and fostering growth. By offering tailored financial products and support mechanisms, microfinance institutions can help these households move towards greater financial security and economic advancement, ultimately contributing to poverty reduction and sustainable development in the community.

Table 9: Regulatory Environment Perception of Respondents

Regulatory Environment Perception	Frequency	Percentage (%)
Positive	100	26
Neutral	150	38
Negative	137	36
Total	**387**	**100**

Source: Survey Data

Interpretation: Table 4.8 shows that respondents have varied perceptions of the regulatory environment impacting microfinance. 26% view it positively, 38% are neutral, and 36% perceive it negatively. This indicates that a significant portion of respondents may feel that the regulatory environment poses challenges to effective microfinance operations and accessibility. Addressing regulatory barriers and improving the regulatory framework can enhance the effectiveness and reach of microfinance services in the community.

4.1.3. Income Distribution and Key Variables

Measures of central tendency such as mean and median were used to understand typical income levels and their distribution among households. Additionally, measures of dispersion

including range and standard deviation provided insights into the variability of income across the study area.

Table 10: Summary Statistics for Household Income Levels

Statistic	**Value**
Mean Income	2700.16
Median Income	2650.00
Mode Income	2500.00
Standard Deviation	1183.42
Range	4100

Source: Survey Data

Interpretation: The mean income level among households is 2700.16, with a median income of 2650.00. The mode income is 2500.00, indicating that it is the most frequently occurring income level among respondents. The standard deviation of 1183.42 reflects a significant variability in income levels across households. The range of 4100 indicates the difference between the highest and lowest income levels.

Table 11: Income Levels by Occupation Types

Occupation Type	**Mean Income**	**Standard Deviation**
Farmers	2600.00	1100.00
Small Business Owners	3000.00	1200.00
Other	2800.00	1150.00

Source: Survey Data

Interpretation: Farmers have a mean income of 2600.00, with a standard deviation of 1100.00, indicating a wide range of incomes within this group. Small business owners have a higher mean income of 3000.00, with a standard deviation of 1200.00. The 'Other' category has a mean income of 2800.00 and a standard deviation of 1150.00. These statistics suggest that small business owners tend to have higher and more variable incomes compared to farmers and those in other occupations.

Table 12: Income Levels by Market Access

Market Access	Mean Income	Standard Deviation
Good	2800.00	1200.00
Fair	2600.00	1100.00
Poor	2500.00	1000.00

Source: Survey Data

Interpretation: Households with good market access have a mean income of 2800.00 and a standard deviation of 1200.00, indicating higher and more variable incomes. Those with fair market access have a mean income of 2600.00 and a standard deviation of 1100.00. Households with poor market access have the lowest mean income of 2500.00 and the lowest variability, as indicated by a standard deviation of 1000.00. These findings suggest that better market access is associated with higher household incomes and greater income variability.

4.1.4. Institutional Characteristics and Microfinance Role

Table 13: Type of Microfinance Service Received

Type of Service	Frequency	Percentage (%)
Credit	210	55
Savings	125	33
Insurance	28	7
Multiple Services	20	5
Total	**383**	**100**

Source: Survey Data

Interpretation: The table 4.12 illustrates that 55% of clients primarily use credit services, indicating a high demand for borrowing. However, insurance services have low uptake (7%), suggesting potential barriers such as limited product awareness or perceived need. To address low uptake in insurance and enhance service diversity, MFIs could focus on educational campaigns and product development tailored to client needs. The popularity of credit and savings services highlights the role of MFIs in providing essential financial tools, supporting economic activities and household income growth.

Table 14: Duration of Membership with MFIs

Duration (years)	**Frequency**	**Percentage (%)**
Less than 1 year	137	35.7
1-3 years	120	31.3
3-5 years	80	20.8
More than 5 years	50	13.0
Total	**387**	**100**

Source: Survey Data

Interpretation: The table reveals a high turnover rate among members within the first year (35.7%), indicating potential barriers such as initial dissatisfaction or competition from other financial services. The strategies to improve service quality and member engagement could enhance membership retention beyond the initial year, fostering long-term financial stability. Despite turnover, significant membership durations (31.3%, 20.8%, and 13.0% for 1-3 years, 3-5 years, and >5 years respectively) reflect the enduring impact of MFIs in supporting financial inclusion and stability.

Table 15: Satisfaction with Microfinance Services

Satisfaction Level	**Frequency**	**Percentage (%)**
Satisfied	100	25.9
Neutral	87	22.5
Dissatisfied	200	51.6
Total	**387**	**100**

Source: Survey Data

Interpretation: The majority of respondents (51.6%) express dissatisfaction with microfinance services, indicating potential barriers such as service quality, product relevance, or communication gaps. Addressing dissatisfaction through service improvements and enhanced communication could mitigate barriers and enhance client satisfaction. While satisfaction levels are varied, positive responses (25.9%) indicate that effective microfinance services can significantly contribute to improving household income and economic stability.

4.2. Econometric Model results

The following section presents the results of the econometric models used to analyze the impact of institutional characteristics on microfinance barriers, measures to overcome these barriers, and the positive role of rural microfinancing in household income levels in Berek Woreda.

Table 16: Regression of Household Income on Independent variables (Combined Model)

Variable	Coefficient (β)	Standard Error	t-Statistic	p-Value
Constant (α)	220	35	6.29	0.000
Regulatory Environment	-40	18	-2.22	0.029
Operational Challenges	-25	20	-1.25	0.211
Community and Cultural Factors	35	13	2.69	0.008
Policy Interventions	60	15	4.00	0.000
Capacity-building Programs	50	20	2.50	0.015
Financial Support	55	18	3.06	0.002
Education Levels	28	9	3.11	0.002
Occupation Types	45	12	3.75	0.000
Household Size	18	10	1.80	0.074
Agricultural Productivity	35	15	2.33	0.021
Market Access	30	13	2.31	0.022

Source: Data Survey

Interpretation: The regression analysis in Table 4.15 explores the influence of various independent variables on household income levels in Berek Woreda, Ethiopia. The model reveals several key insights. The regulatory environment has a coefficient of -40 with a p-value of 0.029, indicating a statistically significant negative impact on household income, suggesting that stringent or unfavorable regulatory conditions may hinder income growth in the community. Operational challenges, with a coefficient of -25 and a p-value of 0.211, show a negative but not statistically significant impact on household income, implying that while operational inefficiencies may affect income, they are not the primary determinants.

Community and cultural factors, with a positive coefficient of 35 and a p-value of 0.008, show a statistically significant positive impact on household income, indicating that favorable community dynamics and cultural factors can enhance economic well-being. Policy interventions, with a strong positive coefficient of 60 and a highly significant p-value

of 0.000, underscore the effectiveness of policy measures in improving economic conditions and household income. Capacity-building programs, with a coefficient of 50 and a p-value of 0.015, indicate a significant positive impact, emphasizing their crucial role in enhancing skills and capabilities within the community, thereby boosting income levels.

Financial support mechanisms, with a positive coefficient of 55 and a p-value of 0.002, demonstrate their significant role in fostering income growth and economic resilience. Education levels, with a positive coefficient of 28 and a p-value of 0.002, indicate a statistically significant impact on household income, showing that higher education levels are associated with significantly higher household income, emphasizing the importance of education in economic development. Occupation types, with a coefficient of 45 and a p-value of 0.000, show a significant positive effect on household income, highlighting that certain occupations provide better income opportunities than others and the need for diversification in employment.

Household size, with a positive coefficient of 18 and a p-value of 0.074, suggests a positive but not statistically significant impact on income, indicating that while larger households might have more earning members, the effect on income is not substantial. Agricultural productivity, with a coefficient of 35 and a p-value of 0.021, significantly and positively affects household income, suggesting that improvements in agricultural productivity can lead to higher incomes for rural households. Market access, with a positive coefficient of 30 and a p-value of 0.022, indicates a significant positive impact on household income, showing that better market connectivity enhances economic opportunities and income levels.

CHAPTER 5: SUMMARY, CONCLUSION AND RECOMMENDATION

5.1. Summary and Conclusions

This study investigated the role of rural microfinancing in poverty reduction within Berek Woreda, Oromia, Ethiopia. It highlighted the crucial role of microfinance institutions (MFIs) in providing financial services tailored to meet the needs of low-income individuals and small businesses. These services aimed to boost household income, enhance agricultural productivity, and support economic diversification. The research also examined the challenges faced by MFIs, including regulatory barriers, operational difficulties, and community and cultural factors.

The results revealed that MFIs had significantly impacted poverty reduction in Berek Woreda. They improved access to essential services such as healthcare and education, promoted human capital development, and increased agricultural productivity. Despite these successes, persistent poverty remained a challenge, largely due to limited access to formal financial services and infrastructural constraints. The study concluded that integrated approaches, combining microfinance with other development interventions, were necessary to effectively address the complex nature of poverty in the area.

In summary, while MFIs had made substantial contributions to poverty alleviation in Berek Woreda, addressing the remaining challenges required comprehensive strategies that integrated financial services with broader developmental initiatives.

5.2. Recommendations

Based on the findings of this study, several recommendations are proposed to enhance the effectiveness of microfinancing in poverty reduction efforts in Berek Woreda and similar rural contexts. These should be made to extend the reach of microfinance services to more remote and underserved areas. This can be achieved by investing in infrastructure improvements, such as better roads and communication networks, and by employing mobile banking solutions to overcome geographical barriers.

To maximize the role of microfinancing, it is essential to improve the financial literacy of beneficiaries. Training programs that focus on financial management, business planning, and effective use of loans should be implemented to empower individuals and ensure they can make informed financial decisions. High interest rates are a significant barrier for many

potential beneficiaries. MFIs should consider reducing interest rates and offering more flexible loan terms to make financial services more accessible and affordable for low-income households.

To ensure the long-term sustainability of MFIs, it is important to address operational challenges such as high costs and repayment issues. Strategies may include diversifying funding sources, improving risk management practices, and leveraging technology to streamline operations. Building strong partnerships between MFIs, local governments, and community organizations can enhance the effectiveness of microfinancing initiatives. Collaborative efforts should focus on creating supportive environments for microfinance activities, facilitating knowledge exchange, and ensuring coordinated development strategies.

Continuous monitoring and evaluation of microfinance programs are essential to assess their role and identify areas for improvement. Regular role assessments will provide valuable insights into the effectiveness of different strategies and inform evidence-based policy decisions.

Future research should focus on conducting longitudinal studies to provide deeper insights into the long-term roles of microfinancing on poverty reduction and economic development in rural areas. Comparative studies between different regions and MFIs can identify best practices and successful models that can be replicated in similar contexts. Additionally, investigating alternative financial models, such as savings groups and cooperative banks, can provide additional avenues for improving financial inclusion and reducing poverty.

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ANNEXES

Addis Ababa University Department of Developmental Economics: Role of Microfinancing in Poverty Reduction: Case of Berek Woreda

Questionnaires for Respondents

Questionnaire for Microfinance Clients

This questionnaire is designed to obtain data for academic purposes only and not for any microfinance institution. All responses will be treated in strict compliance with the ethics governing the conduct of academic research.

Section 1: Demographic Information

1. **What is your gender?**
    - Male
    - Female
2. **What is your age?**
    - Under 20
    - 21-30
    - 31-40
    - 41-50
    - Above 50
3. **What is your educational level?**
    - No formal education
    - Primary school
    - Secondary school
    - Diploma
    - Degree and above
4. **What is your marital status?**
    - Single
    - Married
    - Divorced
    - Widowed

5. **How many people are in your household?**
    - 1-2
    - 3-4
    - 5-6
    - Above 6

Section 2: Economic Activities

6. **What is your primary occupation?**
    - Farming
    - Livestock rearing
    - Small-scale trading
    - Others (specify)
7. **What is your monthly household income (in Ethiopian Birr)?**
    - Less than 500
    - 501-1000
    - 1001-2000
    - 2001-3000
    - Above 3000
8. **What types of assets do you own?**
    - Land
    - Livestock
    - Savings
    - Others (specify)

Section 3: Microfinance Services

9. **Which microfinance institution are you a member of?**
    - Oromia Credit and Saving Share Company
    - Peace Microfinance Institution
    - Special Microfinance Institution
    - Gasha Microfinance Institution
    - Africa Village Finance Service

10. **What types of microfinance services do you use?**
    - Microloans
    - Savings accounts
    - Insurance services
    - Financial literacy training
11. **What was the amount of your last loan (in Ethiopian Birr)?**
    - Less than 500
    - 501-1000
    - 1001-2000
    - 2001-3000
    - Above 3000
12. **What was the purpose of the loan?**
    - Agricultural activities
    - Livestock rearing
    - Small-scale business
    - Education
    - Health
    - Others (specify)

Section 4: Role of Microfinance

13. **How has your household income changed after receiving microfinance services?**
    - Increased significantly
    - Increased slightly
    - No change
    - Decreased
14. **How has your asset accumulation changed after receiving microfinance services?**
    - Increased significantly
    - Increased slightly
    - No change
    - Decreased

15. **How has your food security changed after receiving microfinance services?**
    - Improved significantly
    - Improved slightly
    - No change
    - Worsened
16. **How has your ability to meet basic needs changed after receiving microfinance services?**
    - Improved significantly
    - Improved slightly
    - No change
    - Worsened

Section 5: Challenges in Accessing Microfinance

17. **How far is the nearest microfinance institution from your location?**
    - Less than 1 km
    - 1-5 km
    - 6-10 km
    - More than 10 km
18. **How aware are you of microfinance services?**
    - Fully aware
    - Partially aware
    - Not aware
19. **How do you perceive the interest rates of microfinance services?**
    - Very high
    - High
    - Reasonable
    - Low
20. **Do socio-cultural factors affect your access to microfinance services?**
    - Strongly agree
    - Agree
    - Neutral

- Disagree
- Strongly disagree

Section 6: Microfinance Institution-Local Stakeholder Partnerships

21. **How effective is the collaboration between microfinance institutions and government agencies?**
    - Very effective
    - Effective
    - Neutral
    - Ineffective
    - Very ineffective
22. **How effective is the engagement of microfinance institutions with community organizations?**
    - Very effective
    - Effective
    - Neutral
    - Ineffective
    - Very ineffective
23. **How effective is the cooperation between microfinance institutions and local businesses?**
    - Very effective
    - Effective
    - Neutral
    - Ineffective
    - Very ineffective
24. **How satisfied are you with the microfinance services you have received?**
    - Very satisfied
    - Satisfied
    - Neutral
    - Dissatisfied
    - Very dissatisfied