



**COLLEGE OF AGRICULTURE AND NATURAL RESOURCE  
DEPARTMENT OF AGRICULTURAL ECONOMICS**

**SENIOR RESEARCH PAPER ON THE ROLE OF SAVING AND  
LOAN ASSOCIATIONS IN POVERTY REDUCTION IN CASE OF  
ARORESAWOREDA, EAST SIDAMA ZONE, SIDAMA REGION, ETHIOPIA.**

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## ACRONYMS

ACSI	Amhara credit and saving institution
CGAP	Consultative group to assist the poor
FDIC	Federal deposit insurance corporation
MF	Macro finance
MFI	Macro finance institution
NBE	National bank of Ethiopia
NGO	Non-government organization
OPBA	Oxford Provident Building Association
ORDA	Organization for the rehabilitation and development
SMFI	Sidama micro finance institution
SAIF	saving association insurance fund
WB	World Bank
ADLI	Agriculture Development Led Industry Policy

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## **Abstract**

Poverty is the main challenge and the fundamental issues of economic development in Ethiopia. To alleviate the problem of the country, Saving and loan association have a significant contribution to have the lively hoods of many people through the provision of financial and supporting services to the poor people participate in the social, economic and political activities of the societies. The study focus on role of saving and loan association in poverty reduction. Data collected by using both primary and secondary sources of data. The data was collected from the total of 93 respondent through questionnaires. The study indicated that the income, saving and loan levels of the majority of the respondents have increased after memberships of the institutions. Encouraging result has also been shown in the enhancement of the women's decision making with respect to the capacity to work on their own and improve their lives. Even though saving and credit institution (SMFI) has vital role on the economic poverty, illiteracy, high pupation growth and low level of women participation, but this are major problems in the study area. Besides to in inefficient amount of fund and unfair decision of management in the institutions are also the major problems. Finally, based the finding of the study important recommendation such as expanding adult education, family planning improving women participation in area and providing sufficient amount of saving and credit to member as well as introducing good management system in the institution are made.

### **Key words**

Poverty Reduction ,Saving and Loan Associations, Microfinance, Economic Development, Aroessa Woreda ,Financial Inclusion

## **1 INTRODUCTION**

### **1.1 Background of the Study**

Poverty remains a persistent global challenge, encompassing not only a lack of income and resources but also limited access to education, healthcare, and other fundamental necessities (World Bank, 2020). Among the strategies for poverty alleviation, saving and loan associations play a vital role. These associations foster a culture of savings, which is essential for building resilience and breaking the cycle of poverty (Hughes & Duncombe, 2012). By encouraging regular savings contributions, members gain a sense of ownership and control over their financial resources, enabling them to plan for the future, manage emergencies, and invest in income-generating opportunities.

Additionally, saving loan associations provide access to credit for members who would otherwise have limited or no access to formal financial institutions (Besley et al., 2014). This access empowers individuals to invest in income-generating activities, such as small businesses or agricultural ventures, which can uplift households and communities from poverty. The collective nature of these associations often reduces barriers to credit access, as members support one another, fostering a more inclusive financial ecosystem (Karlan & Zinman, 2011).

Furthermore, saving loan associations serve as platforms for knowledge sharing, skill development, and social cohesion (Kuriakose et al., 2016). Members gain financial management skills and entrepreneurial knowledge through training and peer interactions, contributing to community development and empowerment.

In Ethiopia, a country characterized by diverse regions and a predominantly rural population, poverty remains a significant challenge, affecting a substantial portion of the population and hindering socio-economic development (World Bank, 2020). Poverty in Ethiopia is not limited to a lack of income but also encompasses limited access to essential services. Addressing these challenges requires a comprehensive approach that includes financial inclusion through saving loan associations.

These community-based organizations operate on the principles of collective savings and cooperative lending (Admassie & Bedi, 2014). They empower individuals by pooling financial resources, facilitating savings, and providing access to credit for income-generating activities. In Ethiopia, particularly in rural areas where traditional banking services may be scarce, saving loan associations have gained prominence as vital sources of credit for small businesses and agricultural ventures.

The specific context of Aroressa Woreda in the Sidama region of Ethiopia reveals significant poverty rates, making it crucial to understand the role of saving loan associations in poverty reduction. This study aims to investigate their impact on individuals and communities, taking into account the unique socio-economic characteristics and challenges of the region. By examining the role of these associations, the research contributes to existing knowledge on effective strategies for poverty eradication in Aroressa Woreda and similar contexts globally.

## **1.2 Statement of the problem**

The goal of this research is to examine the role of saving and loan associations in alleviating poverty in Aroressa Woreda, Ethiopia. Despite their potential for significant impact, various factors hindered the effectiveness of these financial institutions. Approximately 44% of Ethiopia's population lived in poverty, primarily due to reliance on agriculture and frequent natural disasters (World Bank, 2020). Many banking institutions were unwilling to serve low-income individuals, which discouraged them from seeking formal financial solutions (MEDIC Team, 2016). Low education levels further restricted the ability of rural populations to access and effectively utilize credit, thereby weakening overall economic development (Muhammad Said, 2017).

Moreover, existing literature often overlooked the specific impacts of saving and loan associations on rural populations, focusing instead on urban settings or broader trends (Admassie & Bedi, 2014). This creates a significant research gap, as the unique socio-economic challenges faced by rural communities in Aroressa Woreda are not well understood. Consequently, there is insufficient exploration of how educational barriers and demographic factors interact to influence the success of these financial institutions in alleviating poverty. This study sought to identify key factors

influencing the success of saving and loan associations and provide recommendations for improving financial literacy and access to services, ultimately enhancing poverty reduction efforts in the region.

### **1.3 Research question**

This study was try to answer the following questions

- How can SMFI micros financing activities effect on poverty indicators of its clients?
- what are the role of men and women and their advantages by participating institution?
- How to assess the constraint that limits the society to accept more loans?

### **1.4 Objective of the study**

#### **1.4.1 General objective**

The general objective of the study is to examine the role of saving and loan association on the poverty reduction in Aroresa Woreda.

#### **1.4.2 The specific objective**

The study aims to achieve the following specific objectives:

- To assess the effect of micro financing activities on poverty reduction of its customers.
- To evaluate the role of women and men participation in microfinance institution and benefits from the institution.
- To identify the constraints that limits the society to accept more loans

### **1.5 Significance of the study**

Finding of the study will be help Sidama micro finance institution to evaluate their contribution towards poverty alleviation. In addition; the findings of the study can be useful for the researcher as a resource of information on the contribution of MFIs in alleviating urban poverty. It is arguing that microfinance as a development strategy is able to give room for men and women participation in socio economics development. This resulting in significance increases in house hold income, asset ownership and cash saving of men and women microfinance client and also both of them participate in household decision making. Even though, there are formal and informal source of loan and saving in the study area, the study focuses on the formal sources of saving and loan association.

### **1.6 Scope of the study**

The study area of this paper was focus on the problems of aroresa woreda for example poor people live in aroresa do not have access the basic education so that they do not have experience to understand and manage even low level of business activity. The researcher focuses on aroresa woreda, because it is very difficult and costly to assess the whole area. In relation to the role of saving and loan associations in poverty reductions, particularly the identifications of women and men participations

## **2. LITERATURE REVIEW**

### **2.1 THEORETICAL LITERATURE**

#### **2.1.1 Concept and Definition of credit**

Credit defined as the power or ability to obtain goods and service in exchange for a promise to repay for them latter, in similar manners credit is the power or ability to obtain money by the borrowing process in return for a promise to repay the obligation in the future (anbess, 2013).

A financial institution (FI) is a company engaged in the business of dealing with financial and monetary transactions such as deposits, loans, investments, and currency exchange. Financial institutions encompass a broad range of business operations within the financial services sector including banks, trust companies, insurance companies, brokerage firms, and investment dealers. Virtually everyone living in a developed economy has an ongoing or at least periodic need for the services of financial institutions. (Adam hayes, 2019)

Informal institutions are adopted when there is a gap between formal intuitions and “practical interests and desires”. As Tsai points out: “adaptive informal institutions and the creators of informal adaptations have convergent interests. By definition, this means that while local state and non-state actors benefit mutually from the resulting adaptive informal institutions, those arrangements transgress existing formal institutional mandates (Tsai, 2007).

A development-orientated institutional perspective needs to emphasis more explicitly the role of informal institutions in shaping formal ones (such as the law). It is therefore necessary to further analyses the ways in which informal institutions (customs) gradually change the actions and interactions of agents in all sorts of social organizations (households, groups and villages, as well as firms and governments).(CassonM.C&DellaGiusta 2010)

Access to credit service has a significant positive effect on individual’s productivity level. This suggests that lack of access to credit service may deny low income and poor societies. This means credit is could significantly influence poor societies and

empowering individuals to tap economic opportunities. In addition it constitutes and integration of the process of commercialization of the economy and is conveyed sense means of addressing poverty, Saving and loan association are the key input in every development programs this is true for both rural and urban development is not provided to the development it cannot be achieved access to capital markets necessary in financing the adoption of New technologies (Anbes, 2013).

According to Eurasia science (2016) Microfinance is the provision of broad range of financial service such as deposits, loan, payment service, money transfers, and insurance to pure and loan income household and, there micro enterprise. Micro finance is increasingly being considered as one of the most effective tools of reducing poverty. It has a significant role in abridging the gap between the formal institutions the rural poor by

- ✓ Improve the quality of life of the poor by providing access to financial and support service
- ✓ Mobilize resource in order to provided financial and support service to the pole
- ✓ Create opportunity for self-employment for the under privileged
- ✓ Access to commercial funding for formal market
- ✓ Potential to reach remote area and free of observation regulation.
- ✓ Activities and outreach objective for poverty alleviation. The objectives of institution productivity through which an agricultural and non-agricultural economic and stimulating the region economic growth going priority to rural and reposition of client and so on. (GetanehGobezie, 2007)

### **2.1.2 The evaluation of saving and loan association**

Where saving banks began purely as a save repositories for house hold at all saving and loan association where created from the every out set to provide house hold with credit, the 19<sup>th</sup> and 20<sup>th</sup> centuries were periods of rapid urbanizations both in Europe and in America. The growth of cities created a tremendous need for mortgage finance. To fill this need various private groups began to organize building and loan

association called building societies in England and Canada. The first institution in the USA was oxford provident building association (OPBA), found in Philadelphia in 1931. (Peters, Rose, 2006)

Saving and loan association went through their first period of rapid growth in the 1920's their asset rose from \$ 2.8 billion of in 1992 to 7.4 billion in 1928,the number of association rose from 8600 to over 21000(maroon, 2004).

### **2.1.3 Loan association for economic contribution**

For countries like, Ethiopia, where poverty is speeded throughout the country the development of credit and saving (macro \_finance) institution is crucial for the society. Saving and credit have played a great role on economic development of the country, specifically poor country among those role income generation and unemployment reduction are the main one (merikoha 2004).

### **2.1.4 Income generation**

Different rural area countries are organized and borrowing starting with an extremely small loan association and participation on different business activities and earn profit (marquis 2013).

Mixed results of microfinance projects around the world support what CGAP emphasizes as the link between microfinance and financial inclusion: poor households need access to the full range of financial services to generate income, build assets, smooth consumption, and manage risks financial services that a more limited microcredit model cannot provide. The term microfinance in its traditional sense is no longer adequate in addressing the needs of the poor, and, as extensive studies have proved it, can have an adverse impact on individuals and communities where a mere extension of funds deepens inequality and weakens long-term opportunities for the financial wellbeing of poor individuals and families.(Elena Mesropyan 2018)

### **2.1.5 Unemployment reduction**

Saving and credit association development program for the launching this model at rural areas, the societies are advantageous not only by earning loan and saving but

also in that areas they get the opportunity of employment, thus it makes to reduce un employment. Saving and credit association have direct and indirect impact on socio-economic development by promoting and supporting entrepreneurial development, creating productive employment, raising incomes and helping to reduce poverty.UN (2009)

## **2.1.6 Type of saving**

### ***2.1.6.1 Compulsory individual saving***

A client can save any amount but a minimum of birr 2 per client is compulsory collection made at center meeting place on the data and condition agreed up on during developing group by law and center. That means place, time and amount, withdrawal up to 50% of the deposit, from the account at a time is possible. (Merikoha 2004).

It is positive imposed up on loan. Every loan client is required to deposit an upfront saving of at least 50% of the total amount of the credit she/he applied for she/he is also obliged to save 1% of the balance as a monthly ongoing saving. The movement she/he has repaid aim of her/his debts, she/he can with draw her/his saving.(ACSI April,2009)

### ***2.1.6.2 Voluntary individual saving***

Members and non-members can save as voluntary individual saving. Client of non-client can also come to office and save by his name any amounts during office working hours. With draw is possible during working hours. Voluntary saving is in turn composed mainly of saving deposit/pass book saving and time deposit. With pass book saving account, clients receive a record book where their deposit and withdrawal are entered, so they can keep track of their transaction. Passbook account holders can easily deposit money and earn interest income. Time deposits are the one that allow clients to lock in to an interest rate for specific period of time. (Mekonnen yelewumwosen 2004)

This can be practiced by any one irrespective of loan under voluntary saving one can use pass book saving ,private account, joint account ,micro account, fixed timed deposit, on -interest bearing saving /government and non-government savings. Muday

bank (piggy bank) a small metallic box by which a client saves money home. (ACSI April, 2009.)

### ***2.1.6.3 Center saving***

Center saving is contribution to be made by each member of center. Center saving collection is made at center level and center meeting place. Penalties for disobeying group and center by law will be deposited in this account. Withdrawal from this account is not possible until the center dissolved. However, the members can withdrawal contribution from his /her center saving it his /her member ship. (UN, 2013)

### ***2.1.6.4 Group saving***

Group saving is deduction of 10% of loan disbursed to in individual group saving serve as collateral group saving is affected disbursement withdrawal from this account is impossible. Group saving will be maintained in a group account for three consecutive years. At the end of third years, it will be transferred to compulsory individual saving account and then after group saving will be transferred to this account at the end of every year. Group saving has proven to be one of the most effective, low cost mechanisms to provide basic financial services to the poor. They are safe, sustainable and profitable. Repayment rate are the highest in the microfinance industry. Group saving is a member-owned institution composed of small number of people who save together and take small loans from those saving. It is more transparent, structured and democratic version of the informal financial services. (BILL&MELINDA GATES 2018)

## **2.1.7 Types of loan**

A loan deemed in arrears when the monthly payment of the loan outstanding balance is overdue up to six month. (Marquis 2013).

### ***2.1.7.1 Doubtful loan***

Loan is deemed doubtful loan when the monthly payment of the loan outstanding balance is overdue for 6\_12 months (marquis 2013).

### **2.1.7.2 Bad loan loss**

A group whose member defaulted will not be granted further Loan (marquis 2013). A loan is deemed bad loan when the loan or outstanding balance has been over due for more than one year and the borrower has no capacity to make further payment. A group whose member defaulted will not be granted further loan (marquis 2013).

### **2.1.8 Liabilities of saving and loan association**

Saving deposit provide the bulk of fund available to the saving and loan industry however, there has been a significant shift in deposit mix in recent years from saving account earning the lowest interest rate to deposit earnings high or more flexible returns particularly important among the never higher yield deposit plans offered by the industry are money market deposit accounts now and super now were authorized for banks and saving and loan association in 1982. both of these deposit accounts are draft able by check and carry interest rates that change with market condition (marquis, 2010).

One of UN fortunate effects these newer deposit is that saving and loans today are faced with a costlier and at times amore volatile deposits base one of the most important consists of advance (loans) from the federal home loans system which provide extra liquidity in periods when deposit withdrawal are heavy or when loan deemed exceeds loan deemed incoming deposit. Thrift institution continues to make widening use of secured assets issued against a growing list to home mortgage and conductor installment loans to supplement their deposit how and keep funding costs down (MSRWUID, 2010).

### **2.1.9 Trend in revenues and costs of saving and loan association**

During themed 1980's and early 1995, saving association was of darkest periods in their long history. Many saving association were unprofitable or hand very little not worth federal deposit insurance corporation (FDIC), which purchased size able amount of questionable industry assesses industry former deposit insurance fund (SAIF), managed by FDI The SALF continuous to protect savings loan association deposits (up to 100000) to day (meirkohn, 1994),

### **2.1.10 Regulatory issues of saving and loan association**

Currently, MFI in Ethiopia are subject to restriction on the size and terms of their loan birr 5000 and one year respectively. A single borrower limit is a standard regulatory measure to guard against imprudent behavior by handing financial institution in general to insure some degree of diversification of their loan port folio (GebrahiwotAgeba, 9.54)

### **2.1.11 The credit Delivery model**

The model largely drew on the experience of German bank targeting beneficiaries is one the stipulation of the credit agreement signed between LDS and the governments (BefikeduDegefa, 1999 and BerhanuNega 1999).

### **2.1.12 SMFI mission and lending methodologies**

The primary mission of Sidama micro finance inistitution to improve the economic situation of low income, productive poor people in the sidama region and through increased access to lending and saving service.it will maintain cost effectiveness service delivery, and integrates its activities with government and NGOs working towards achieving food security and poverty alleviation in the region

There are deferent objective of SMFI for instance

- Promote agricultural and non agricultural economic activities.
- Poverty alleviation and stimulating the region economic growth, giving priority to rural and remote communities.
- Significantly increase client's income and asset position.
- Promoting sustainable financial services, both operational and financial.
- Increased food security both for the industrial and agricultural employees, providing adequate food (at low price).
- Increased input availability for the industry sector (and at low price),
- Increased agricultural income provides wider market opportunity for industrial goods.
- To increase the culture of saving among all community members

- To collect the regions fragment and unused financial resources and channel of lending

## **2.2 EMPIRICAL LITERATURE REVIEW**

Different studies in different disciplines used different approaches to assess the role of saving and loan association in poverty reduction. Hanks, (2004) studied the role of three micro credit institutions in Bangladesh on selected house hold level. The study found that the most important effect of borrowing from a microcredit program is its impacts on per capital expenditure. The study also pointed out that the participation in group based micro finance shows positive and significant impact for school involvement; asset holdings, consumption, nutrition status and house hold net worth of borrowers in all three programs.

The study conducted by Ebisa et al. (2013), shows that the mean amount of loans extended by 30 microfinance institutions in the country is 2.2938, whereas the mean borrowing customers equal an amount of 8.2434. As it is indicated in this study the R square value is 0.913 implying that 91.3% of the variations in the amount of loans extended by 30 microfinance institutions in the country are explained by the number of borrowing clients. On the other hand, the Pearson correlation indicates strong positive linear relationships between number of borrowing clients and amount of loans extended. The total number of active borrowing clients of the microfinance institutions in Ethiopia reached over 2.4 million customers in 2011 whereas the total credit extended by all microfinance institutions amounted to Birr 6.9 billion. Of the total credit granted, the share of the three largest Microfinance institutions is Birr 5.1 billion.

Birhanu (2015) revealed that Microfinance has enabled the clients to generate income that could be spent on better facilities, which could improve the living standard of clients. Clients have got more chance of getting meals per day than non-clients. The result indicates that more clients have enjoyed diet improvement than no clients. Clients have got more chance of improving their diet in comparison to non-clients. Considering school age children and actual enrollment, the result does not show significant difference between the two groups. The program has improved ability of clients to respond the demand for medical care. The study found difference in Ebisa et

al. (2013) revealed that lack of skilled personnel is the common problem in Ethiopian Microfinance Institutions. This situation is more exacerbated by high turnover of experienced personnel either for the need for better jobs or hate to work in rural areas with minimal facilities provided as compared to urban areas which offer better living conditions. There is also a problem of using modern core finance technologies for many of MFIs specially those microfinance institutions operating in remote rural areas having poor infrastructure development. As a result, there are problems of non-standardized reporting and performance monitoring system. On the other hand, MFIs face challenges of obtaining loans in the existing financial market, particularly from banks, which hampers strive for addressing various needs of clients.

According to Muhammad (2010), focus on the challenges and opportunities face microfinance sector in Pakistan, his study resulted that numerous challenges are ahead of microfinance sector like improper regulations, increasing competition, innovative and diversified products, profitability, stability, limited management capacity of micro finance institutions (MFIs).

Dahir (2015) in his study on the challenges facing microfinance institutions in poverty eradication in Mogadishu, he found that the major challenges that face microfinance institutions range from default risk inherited from borrowers and lack of understanding the concept of microfinance by the clients to inadequate donor funding where the microfinance institutions do not have enough adequate capital from donor to meet the needs of the microfinance beneficiaries in order to help those who need assistance of the microfinance. On the other hand, the challenges facing microfinance institutions include insufficient support from government. Other challenges include insufficient support from government, limited management capacity of microfinance institutions, less attraction on financial sustainability of MFIs and lack of adequate loan or equity capital to increase loan-able funds.

Elly (2015) also studied on the role of MFIs for poverty reduction and revealed that there is a positive contribution of microfinance institutions to the social development, in which there is better access to health, education and basic services and greater social respect. The contribution of education level and entrepreneurial skills has positive impact to poverty reduction. From the finding obtained it has been found that

microfinance institutions has a positive impact to poverty reduction in which there is increase in income, better living conditions and better access to basic needs. Lastly study found that challenges facing entrepreneurs are short time for loan repayment, low amount offered by MFIs, expensive collaterals and high interest rates responsiveness of demand for medical care between the two groups.

Gash (2017) found that, across 53 studies, Savings Groups have had consistent positive impact on member's savings, access to credit, food security, business investment, resilience, solidarity among group members, asset accumulation and consumption, and may contribute to a reduced incidence of gender-based violence and early marriage (Vandergaag et al. 2017; Gash 2017; IPA 2012).

Anthony and Isaac (2012) tried to examine the impact of microfinance on poverty alleviation. Based on the result, they found that microcredit loans housing index and estimated income positively impacted beneficiaries' welfare. At the same time, family size tends to reduce it, and the researchers concluded that access to the credit allowed the beneficiaries to take advantage of economic opportunities by providing a fundamental basis for planning and expanding business activities.

Asghar et al. (2012) conducted a study to assess the impact of microfinance by the Punjab Rural Support Program (PRSP) on poverty alleviation in district Sialkot's rural areas, Pakistan. The study's findings revealed that loan participation positively impacts the beneficial income, most of the beneficiaries shifted upward from the low class to the lower middle class.

Urassa and Kwai (2015) studied the contribution of SACCOs in income poverty reduction in Tanzania by examining activities undertaken by SACCOs that can lead to reduction of income poverty. They used descriptive method and multiple linear regression method to draw conclusion. Using multiple regression method the study assessed independent variables like education level, habit of saving, household size and whether clients received any entrepreneurial training against household income as dependent variable. The findings have shown the impact of SACCOs in income poverty reduction is significant which imply that SACCOs play a critical role in

income poverty reduction. Any addition training to members, the more they gain skills of operating projects efficiently.

Christensson (2017) investigated the relationship between access to microfinance institutions and poverty reduction on a State level in Nigeria. The study utilized the ordinary least square regression, and their results show a negative relationship between the number of microfinance institutions and the poverty levels. Thus, the study concluded that microfinance institutions decrease the poverty levels in Nigeria.

Kasali (2020) analyzed the impact of microfinance loans on poverty alleviation in Southwest Nigeria using primary research. The study adopted a stratified sampling technique to collect cross-sectional data through a structured questionnaire. The Propensity Score Matching (PSM) methodology was utilized to analyze the results. The study revealed that microfinance loan has favourable contributions to poverty alleviation in the study area, but there is still a need for government aid. Governments should support the MFIs with funds that would be disbursed at concessionary interest rates. The availability of more infrastructural facilities and a more enabling environment would effectively spur the establishment of more MFIs in rural areas

This implies that an increasing number of microfinance institutions in poor areas can reduce the poverty levels in a country.

Mhlanga et al. (2020) used simple regression analysis where financial inclusion was the basis to find if smallholders are getting funding, and access to financial institutions and credit facilities. The results showed that if farmers are financially included, there is a positive impact on poverty reduction. The study was based on smallholder farmers' values and level of financial inclusion. The study discovered that, to tackle poverty, especially among the smallholder farmers, it is vital to ensure that farmers participate in the financial sector through saving, borrowing, and taking out insurance, among other services

Microfinance program improves job opportunities. It creates and expands business activities. Two major studies have assessed the economic impact of Gram mean bank on rural households. First, the study was under taken by Hossain (2002) in the mid 1990s. It was based, on structured survey of 975 borrowers in 15 villages. House hold level information was collected from a random sample of 200 households in five villages and 80 households in two control villages. The study produced several types

of evidences indicating the positive impacts on the economic status of gram mean bank borrowers. The loans had generated new employment, which reported that they were unemployed before joining the program. Incomes in member households were 43% higher than in target group households in the control villages the study also reported increases in per capital food consumption in member households and more in housing and education. Joanna Ledgerwood (2002) pointed that successful micro finance institutions contributing to poverty reduction are particularly effective in improving the status of the middle and upper segments of the poor. However, clients below the poverty line were worse off after borrowing.

Even though operations of micro finance institutions in Ethiopia are a recent phenomena, studies have been undertaken on different aspects including impacts of the services of the institutions for example, Fiona Merchant (2001), Brihanu (2005) and Telfair (2000) concluded that micro finance scheme in Ethiopia has a positive impact on household nutrition, asset accumulation and net welfare of the program participants.

Another case study of Dedit Credit and Saving Institution (DECSI) by Meehan (2002) analyzed the impact of micro credit provision at household level in rural Tigray. The study came up with the finding that credit provisions have had a positive impact on alleviating poverty in the study area. The impact was absorbed at least in the short term by increasing economic activities and income levels of the beneficiaries but diminishes to sustain a long run positive impact. Therefore, positive impact at household level appeared to be highly correlated with the continuous access to credit. The study identified important factors determining effectiveness of the programs such as differential in the initial income, type of economic activity in which the clients are engaged, sex and dependence on vulnerable agriculture.

Brihanu (2005), from his study of micro credit and poverty alleviation in Ethiopia, identified that more than (70%) of the respondents under this study reported the positive contribution towards employment creation, income generation, improved access to health and educational facilities as well as household nutrition.

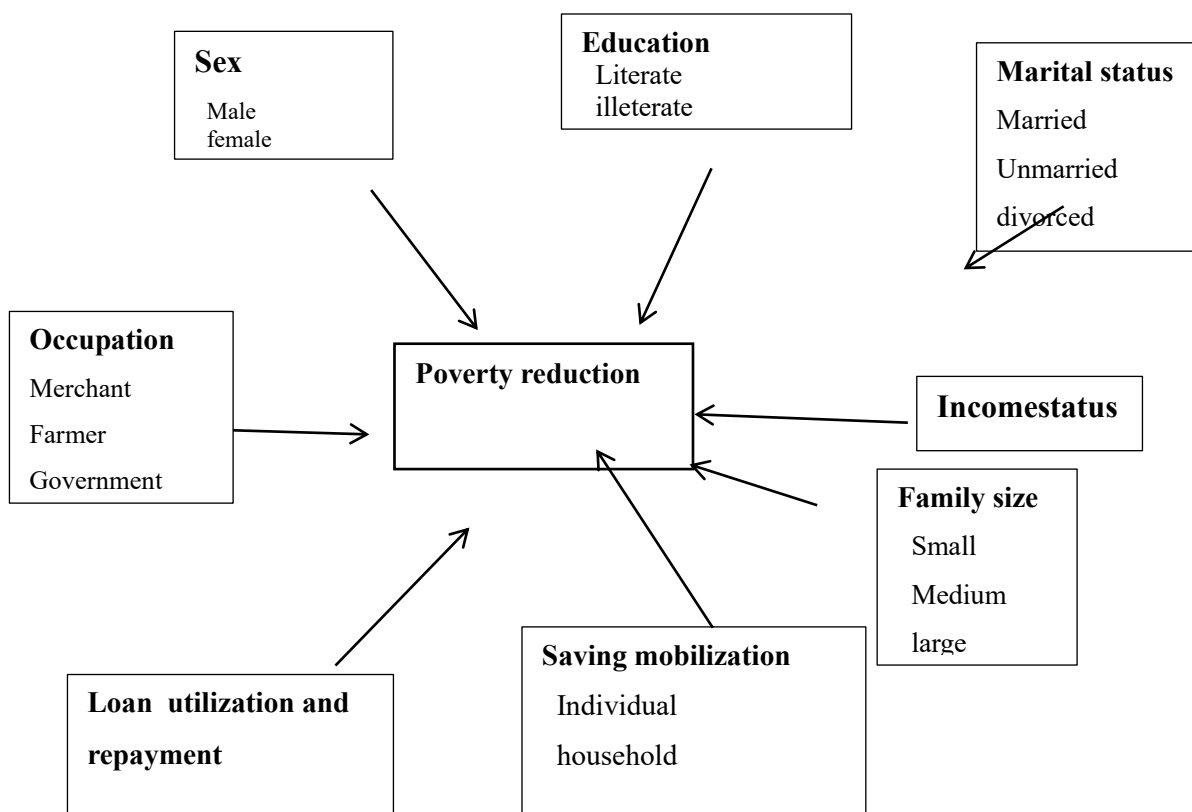
Teferi (2000) also argued the positive contribution on the average monthly total income of the program participants from his study of micro finance and the poor in

Tigray.

Brhanu (1999) and Telfair (2000) found that the performance of saving mobilization from the clients was not satisfactory since the majority of the respondents have no saving accounts after the loan scheme even though there seems to raise the number of saving accounts of the clients. From the study of Brhanu (2005) and Teferi (2000), is possible to estimate the performance of loan repayment rate of ranging between 79%and 98%

Brhanu, Teferiand mengistu (2002) concluded that the credit and saving institutions interventions among poor women in Ethiopia has made some positive effects that made a difference on the socioeconomic empowerment of the women clients.

### 2.3 CONCEPTUAL FRAME WORK



### **3. CHAPTER THREE**

#### **3.1 METHODOLOGY OF THE STUDY**

##### **3.1.1 Description of the study area**

**Aroresa** is a woreda in Sidama Region of Ethiopia. Located at the eastern tip of the Sidama Zone that extends into the Oromia Region like a peninsula, Aroresa is bordered on the south and southeast by that Region, on the northwest by Bensa, and on the north by Chere. The major town in Aroresa is Mejo.

The town is located about 554 km away from Addis Ababa and 181 km from the regional capital city, Hawassa. Aroresa woreda is located at 6°19'60"N longitudes and 39°18'30"E latitude and lies at an altitude of 1800 m above sea level. The mean annual temperature of the area is 30.2°C and the mean annual rainfall is 1333 mm.

Aroresa is one of the Woredas in Sidama region. The current population of the Woreda is estimated to be 220,332 of which the rural population comprises 418,135 and urban population of 18,537. Estimated population of Aroresa woreda is 194,835 consisting of 95,469 men and 99,366 female. The total area of the Woreda is estimated to be 640 km<sup>2</sup>. In Aroresa there are 3 distinct agro-ecological zones; 12% of the Woreda is classified as Dega (highlands), 71% as Woina dega (midlands), and 17% dry Kolla (lowlands) situated about 7000 feet above sea level. Mixed type of farming is the main source of income. The main economic activities of the town are cash crop mainly coffee, agro processing industry (Dry and wet coffee processing industry) and small and medium trade as well as commercial activities.<sup>8</sup> The major types of crops grown include maize, haricot bean, root crops (sweet potato, and enset) and cash crops such as coffee, khat, and fruit trees. Coffee, enset, and fruit are perennial crops in the area and their productivity and production depends on the availability of the required amount of rain in addition to other required inputs.

Based on the 2007 Census conducted by the CSA, this woreda has a total population of 170,240, of whom 85,453 are men and 84,787 women; 2,979 or 1.75% of its population are urban dwellers. The majority of the inhabitants will be Protestants, with 94.22% of the population reporting that belief, 1.97% will be Muslim, 1.01% observed traditional religions, and 1.01% practiced Ethiopian Orthodox Christianity.

### **3.1.2 Data types and sources**

The study used both primary and secondary sources. The primary data was gathered through interviews and questionnaires of the responds to by Sidama Micro Finance in institutions (SMFI) clients in mejo Town. Secondary data was gathered from various, book, occasional papers journals, producing, reported. The study was used qualitative and quantities data types. The quantities data research relies on field data collect by using, structured questionnaires that include questions on different issues in practice and the analyses of in SMFI economy. Basic information was collected on demographic and socio-economic situation of survey respondents. Qualitative data was gathering from interviews with relevant bodies.

### **3.1.3 Data collection techniques**

The study used primary data collections from the people by using interviews and structured questions and secondary data collections from different published and unpublished documents were used.

### **3.1.4 Sampling method and sample size**

The study was applied simple random sampling techniques because the study area has homogeneous characteristics such as culture, norms, value and languages. The techniques of data collection are preferred to avoid bias and ambiguity with data collection and cost minimization. Since the collection of data from the whole population is very difficult, costly and time consuming. It would have preferred to use this sampling method based on the availability of time and cost. There are 16 kebeles in study area, but from the target population of the study areas the researcher was selected 3 kebeles. This kebeles namely mejo 01, bube bore and sebo with the members of kebeles 300, 400, 600 respectively (Mejo town MFI, 2016). the researcher will be selected this kebeles depend on distance, area more known by researcher, focus on poor people living area and determine the sample size for total of 1300 members of selected kebeles;

To determine the sample size the researcher was used Yamane formula (1967).

$$n = \frac{N}{1 + N(e)^2} \text{ Where } n = \text{Total no of respondent}$$

$$N = \text{Total no of population of select kebeles}$$

e= laves of precession which equals to 10%

$$n=1300/1+1300(0.1)^2$$

$$n=93$$

To determines sample size for each kebeles

$$n_i=n(N_i)/N \quad N=\text{total population selected kebeles}$$

$N_i$ =population for in kebeles

$N_i$ =sample of  $i^{\text{th}}$  kebeles

$$n_1=93*300/1300=21$$

$$n_2=93*400/1300=29$$

$$n_3=93*600/1300=43$$

$$\text{Total } (n_1+n_2+n_3) =21+29+43=93$$

Hence, out of the total number of house hold 1300 members, a sample size of 93 was taken.

### 3.1.5 Method of data Analysis

After the appropriate data was collected the researcher analyzed by using different tools such as table, pie charts, histogram and bar graph .Data interpretation are the final work for the study. The reasonable explanation of the problem to interpret, the researcher was used both qualitative and quantitative method. After necessary data was collected the data are edited, classified and illustrated with statement

### 3.1.6 Econometric analysis

logistic regression provides a suitable framework for analyzing binary outcomes

$$\text{logit}(P) = \beta_0 + \beta_1 \text{ED} + \beta_2 \text{SX} + \beta_3 \text{MRTSTTS} + \beta_4 \text{FMLSZ} + \beta_5 \text{OCCPN} + \beta_6 \text{LNUTRP} + \beta_7 \text{SVGMBL} + \beta_8 \text{INCSTTS} + \epsilon$$

### DEPENDENT VARIABLE

**Poverty Reduction(PR)** ; is the dependent variable, measured as a binary variable (0 = not poor, 1 = poor)

### INDEPENDENT VARIABLE

**Education(ED):** is a categorical variable, with three categories: illiterate, literate, and primary education. Positive relationship with poverty reduction (i.e., higher education levels are expected to reduce poverty) .Regression analysis can be conducted to

examine the relationship between education levels (illiterate vs. literate) and poverty, controlling for other relevant factors such as income and occupation (World Bank, 2018).

**Sex (SX):** is a categorical variable, with two categories: male and female. Gender disparities can impact poverty levels, with women often facing greater vulnerability and limited access to resources. Female respondents are expected to be more likely to be poor than male respondents (UNDP, 2019). Logistic regression or propensity score matching could be employed to analyze the relationship between gender (male vs. female) and poverty, considering variables such as income and education.

**Marital Status (MRTSTTS):** is a categorical variable, with three categories: married, unmarried, and divorced. Marriage can have both positive and negative effects on poverty, depending on factors such as spousal income and household dynamics. Married respondents are expected to be less likely to be poor than unmarried or divorced respondents. (Mogues et al).

**Family Size (FMLSZ):** is a categorical variable, with four categories: 0, 1-3, 4-7, and >8. Larger family sizes are expected to increase poverty. Larger family sizes can increase the risk of poverty due to higher resource requirements, but they can also provide opportunities for pooling resources and sharing costs (World Bank, 2018). Panel data analysis or fixed-effects regression can be employed to assess the relationship between family size and poverty, controlling for other relevant factors such as income and education.

**Occupation (OCCPN):** is a categorical variable, with three categories: merchant, farmer, and government employee. Government employees are expected to be less likely to be poor than merchants or farmers. Different occupations can have varying income levels and access to resources, thereby influencing poverty levels (UNDP, 2019).

**Loan Utilization and Repayment (LNUTRP):** is a continuous variable, measured as the amount of loan utilized and repaid. Higher loan utilization and repayment are expected to reduce poverty. A positive relationship between loan utilization and timely repayment can contribute to poverty reduction. When loans are effectively utilized for income-generating activities, individuals or businesses can improve their financial situation, increase their income, and potentially escape poverty. Repayment of loans allows financial institutions to continue providing loans to other individuals, stimulating economic growth Banerjee, et al (2015).

**Saving Mobilization (SVGMBL):** is a continuous variable, measured as the amount of savings mobilized. Positive saving mobilization can play a crucial role in poverty reduction. When individuals or households save a portion of their income, they can build assets, invest in productive ventures, and create a buffer against future financial shocks. Higher saving mobilization is expected to reduce poverty. Accumulating savings helps individuals move out of poverty by providing them with resources to invest and generate income Karlan, et al (2014).

**Income Status (INCSTTS):** is a continuous variable, measured as the monthly income of the respondent. Higher income status is expected to reduce poverty. A positive relationship between income status and poverty reduction is evident. As individuals or households increase their income levels, they have a higher chance of escaping poverty. Higher incomes provide access to better nutrition, education, healthcare, and improved living conditions, ultimately leading to poverty reduction Ravallion, et al(2016).

$\beta_0$  is the intercept or constant term

$\beta_1, \beta_2, \beta_3, \beta_4, \beta_5, \beta_6, \beta_7,$  and  $\beta_8$  are the coefficients of the independent variables

$E_i$ : is the error term

## 4. CHAPTER FOUR

### 4.1 RESULT AND DISCUSSION

In this chapter the results and analysis of the study are presented by giving Particular emphasis on the role of saving and loan association in poverty reduction. The samples of study were taken from the members of SMFI. Both Primary and secondary source of data were used to answer the general as well as Specific objective of the study.

#### 4.1.2 Demographic and personal characteristics of respondent's

The following discretion of the characteristics of target population gives some Basic information about the sample population involved in the study such as sex, marital status, educational level, family size and occupation of the respondents.

**Table 4.1: characteristics of the respondents**

No	Item	Respondent
----	------	------------

		Description	No of repose	percentag e
1	Sex	Male	62	67%
		Female	31	33%
		Total	93	100%
2	Age	18-22	16	17%
		23-30	37	40%
		31-38	16	17%
		39-46	12	13%
		>46	12	13%
		Total	93	100%
3	Marital status	Married	59	63%
		Unmarried	25	27%
		Divorced	9	10%
		Total	93	100%
4	Educational background	Illiterate	50	54%
		Read write	6	6%
		1-8	25	27%
		9-12	9	10%
		>12	3	3%
		Total	93	100%

Source: own survey, 2025

#### **4.1.3 Sex of respondents**

The above table indicates that from a total of sample respondents, 67% were Males while 33% of the respondents are females. This shows that the most of the Beneficiaries are male in the institution because the cultures of the society favor Males and females have less access to control over family's resources.

#### **4.1.4 Age of respondents**

As indicated on the above table more or less the institutions provide loan service for working age group. Providing loan for adult is believed as reducing poverty because people under working age group are matured and capable of starting or expanding business which generate income for them and improve their livelihood.

#### 4.1.5 Marital status of respondents

As we can see from table 4.1. The majority of the members of associations are married which consists 63% of the total sample. The remaining 27% and 10% are unmarried and divorced respectively. As the majority of the respondents are married, this may cause large family size which in turn leads to being unable to fight poverty and favor livelihood.

As indicated that the majority of respondents i.e. 54%, 6%, 27%, 10% & 3% have attended illiterate, read & write, 1-8, 9-12 and >12 (higher education) respectively, this shows that most of the clients that are organization have illiterate and this has improved a negative impact on poverty reduction.

#### 4.1.6 Education status of the respondent

As indicated that the majority of respondents i.e. 54%, 6%, 27%, 10% & 3% have attended illiterate, read & write, 1-8, 9-12 and >12 (higher education) respectively, this shows that most of the clients that are organization have illiterate and this has improved a negative impact on poverty reduction.

#### 4.1.7 Family Size

**Table 4.2, Family Size respondents**

No.	Family	No. of respondent	Percentage
1	0	25	27%
2	1-3	28	30%
3	4-6	37	40%
4	>7	3	3%
	<b>Total</b>	<b>93</b>	<b>100%</b>

Sources: own survey, 2025

As indicated on the above table 40% of the respondents have family size ranging between 4-6 and 30% have 1-3. In addition to this 27% of respondents have no family. I.e. they are not married since the majority of respondents have relatively large number of children this has implication for their food consumption pattern, access to education, health and etc.

#### 4.1.8 Occupation of the respondent

**Table 4.3:-occupation of the respondent**

No.	Occupation of respondent	No. of respondent	Percentage
1	Merchant	59	63%
2	Government employee	22	24%
3	Farmer	12	13%
	Total	93	100%

Sources: own survey, 2025

The majority of the respondents were merchant, as we refer from the table and pie charts; 63% are merchant, 24% of the respondent are government employee and 13% are farmers, this implies that most of the users of the SMFI are the merchant in this area.

#### 4.1.9 Loan Utilization

Loan utilization is the amount of loan utilized out of available loan

Amount of loan by loan cycle

**Table 4.4:-amount of loan by loan cycle**

No.	Loan amount (in birr)	No. of respondent in 3 <sup>rd</sup> round	percentage	No. of respondent in 4 <sup>th</sup> round	Percentage
1	Up to 5000	22	24%	12	13%
2	5001-10000	25	27%	22	24%
3	10001-15000	19	20%	25	27%
4	15000-20000	15	16%	19	20%
5	Above 20000	12	13%	15	16%
	Total	93	100%	93	100%

Sources: own survey, 2025

As indicated on the above table as loan cycle increases the amount of loan received by borrowers or borrower's number also increased. For instance, the maximum number for the 3<sup>rd</sup> round received by large number of respondent is 5,001-10,000 which is increased to 10,001-15,000 in the 4<sup>th</sup> round. The number of clients who borrow maximum loan is also increased when we compare with the third round, because as

their cycle increase the client become matured and their business expanded more and more.

#### 4.1.10 Number of borrowers and Values of Loan Dispersed per Year

**Table 4.5:-Number of borrowers and Values of Loan Disbursed per Year**

No.	Year(GC)	No. of borrowers	Loan amount in birr
1	2020/19	1200	993,450
2	2021/20	2000	2,490,600
3	2022/21	2100	3,598,900
4	20123/22	2500	4,557,700
5	2024/25	5000	6,650,600
	Total	10796	18,271,250

Sources: own survey, 2025

Table4.5 indicates that both number of borrowers and amounts of loan disbursed are increasing from year to year. This implies SMFI playing a great role in poverty reduction by increasing the delivery of saving and loan and it create awareness on the purpose of saving in SMFI for the society and also it helps to avoid Illiteracy& to gate access of education.

#### 4.1.11 Source of finance

Source of finance is the institution where the money comes from formal or informal. The informal financial sector provides saving and credit facilities for small farmers in rural areas, and small scale enterprise in urban areas. It includes finance from family, friends and etc. Formal source of finance is that ignore small farmers lower income household ,and small scale enterprises in favor of a large scale, well-off, and literate clientele which can satisfy their stringent loan condition. It includes banks, saving and loan association, credit union and so on.

#### 4.1.12 The respondent's source of finance before membership.

In addition to their own income, from iqub, Idir and local money lenders were the major source of finance for respondents before they become the numbers of institution

**Table 4.6:-respondents Source of Finance before Membership of the institution.**

No	Source of finance before	No.	of	Percentag
----	--------------------------	-----	----	-----------

No.	Membership of the institution	respondent	Percentage
1	Iqub	25	27%
2	Idir	19	20%
3	Local money lender	28	30%
4	Other	21	23%
	Total	93	100%

Sources: own survey, 2025

As indicated on the above table 4.6, and the bar graph 30% of the respondents sources of finance was from local money lenders which charge high interest rate while, the rest 70% is from Iqub, Idir, and others, before membership of SMFI, this implies that saving and loan association is playing a great role in poverty reduction since it provides loan service in a low interest rate.

#### 4.1.13 Challenges during loan repayment period

**Table 4.7:-solutions for the challenge during repayment**

Solutions for the challenge during repayment	No. of respondent	Percentage
Selling castle	31	33%
Borrowing from Idir	28	30%
Borrowing from local lender	34	37%
Other	0	-
Total	93	100%

Sources: own survey, 2015

According to the above table some respondents who faces challenges, overcome this challenge through selling castle, borrowing from Idirs and local money lenders.

#### 4.1.14 Loan demand

**Table 4.8:-loan demand**

No.	Loan demand	No. of respondent	percentage
-----	-------------	-------------------	------------

1	Increase	81	87%
2	Decrease	12	13%
	Total	93	100%

Sources: own survey, 2025

From above Table 4.8 and its pie chart shows about 87% of respondents demand for loan increases while, for the rest of 13% decrease. This implies that saving and loan association plays a great role in creating finance which in turn leads used to reduce poverty.

#### 4.1.15 Desired amount of loan

The next table shows whether or not the sample unit got the desired amount of loan and the reason why they did not get.

**Table 4.9:-Desired amount of demand**

No.	Description	Response	No.of respondent	Percentage (%)
1	Got the desired amount of loan	Yes	56	60%
		No	37	40%
		Total	93	100%
2	The reason (for those who did not get amount)	Shortage of cash	6	7%
		Unfair decision of management	56	60%
		Other	31	33%
		Total	93	100%

Sources: own survey, 2025

From the above table one can conclude that majority of sample unit obtained the desired amount of loan while 40% of respondents did not. Besides this we can identify also their reason why they did not get the desired amount. Accordingly 60% of them did not have the desired amount of loan due to unfair decision of management and the rest 7% due to shortage of cash from those who do not have the desired amounts.

#### 4.1.16 Loan Repayment Period of saving and loan association

**Table 4.10:-Loan Repayment period**

No.	Description	No. of borrowers	Percentage (%)
1	Too short	12	13%
2	Short	19	20%
3	Satisfactory	62	67%
4	Long	0	0%
	Total	93	100%

Sources: Own survey, 2025

As presented above 67% of respondents respond that the repayment period is satisfactory while the remaining 20%, 13% of the sample unit responded that the repayment period is short and too short respectively. But there is no respond for long because SMFI encourage timely repayment.

#### 4.1.17 Source of credit

The institution source of credit is from saving mobilized by its members from other MFI's and from the institution equities.

**Table 4.11:-Source of Income for Saving Mobilization**

Description	Response	Respondent	percentage
Description source of income for saving mobilization	From business profit	59	63%
	From wage(salary)	20	22%
	From agricultural profit	10	11%
	Other	4	4%
	Total	93	100%

Source: own survey, 2025

The above table shows that for 63% of respondents their source of income for saving mobilization are from business profit while 22% of them from government salary and 11% from agricultural profit. Therefore business is the major source of income for saving mobilization in this area.

In additional to this most of the respondents save their money and borrow from the institution respondents to get respondents to get interest and buy business input to

increases profitability of the merchant, which has significant change in poverty reduction (source own survey 2025)

#### 4.1.18 Factors That Limits the Society to Save More

Low saving habit of sample unit using most of their income for consumption purpose and the respondents house distance from the centre of the institution (since they can't withdraw their money during emergence times) are the major problem that limit the society to save more.

#### 4.1.19 Assets holding status of respondent before and after membership

**Table 4.12; Income of respondents before and after membership**

Monthly income	No, respondent before member	Percentage	No, respondent after member	Percentage
0	15	16%	-	-
1-300	23	25%	-	-
301-500	40	43%	48	52%
501-1000	15	16%	30	32%
>1000	-	-	15	16%
Total	93	100%		100%

Source; own survey 2025

As can be seen from about table 4.12; out of 93 respondents 23 or 25% are found in the monthly income interview of 1-300, before the loan is given but no respondents found in this income interval after the loan services. And 40 or 43% of the respondents are found in the monthly income range (301-500) before the loan, but after the loan the number has increased range of to 48 or 52% in this income interval similarly, 15 or 16% of the respondents belong to the monthly income range of 501-1000 before the loan and increased to 30 or 32% in the same income range after the loan.

Based on the above analysis, one can say that before the loan services some respondents exist with monthly income in the income interval of 1-300, but after the get the loan services the monthly income of the respondents lie in the income interval of 301-500 and above. This implies saving and loan association has shown a positive impact on the income their living standard.

#### 4.1.20 Income Status of the Respondents

**Table 4.13:-**Income Status of Respondents before and after membership of the Institution

Description	Responses	No.respondents before membership	percentage	No.respondents after membership	Percentage
Income status	Poor	84	90%	3	3%
	Good	9	10%	34	37%
	Better	0	-	47	50%
	Best	0	-	9	10%
	Total	93	100%	93	100%

Sources: own survey, 2025

The above table indicates that the income status for 90% of respondents before membership was poor while for the remaining 10% was good and there is no response for better and best before membership. But after membership only 3% were poor and 37%, 50% have good and better income status respectively. The percentage of respondents who have good and better income status increased to 37% and 50% respectively. This implies that the institutions improves the income status of the respondents reduce poverty in the area.

#### 4.2 Econometric Analysis

##### Breusch-Pagan / Cook-Weisberg Test for Heteroskedasticity

Statistic	Value
Chi-squared (chi <sup>2</sup> )	0.09
Prob > chi <sup>2</sup>	0.7668

Variable	VIF	1/VIF
SVGMBL	1.37	0.729927
ED	1.39	0.719424

<b>Variable</b>	<b>VIF</b>	<b>1/VIF</b>
INCSTTS	1.12	0.892857
LNUTRP	1.56	0.641025
MRTSTTS	1.74	0.574712
FMLSZ	1.45	0.689655
OCCPN	1.08	0.925925
<b>Mean VIF</b>	<b>1.37</b>	

**Source :stata result 2025**

### **Heteroscedasticity Testing**

The results of the Breusch-Pagan / Cook-Weisberg test for heteroscedasticity are

The test asserts that there is constant variance (homoscedasticity) across the residuals of the regression model. In this case, the calculated chi-squared statistic is 0.09, and the corresponding p-value is 0.7668. Since the p-value (0.7668) is significantly greater than the conventional significance level of 0.05, This indicates that there is no evidence of heteroscedasticity in the model. In practical terms, the residuals of the regression analysis demonstrate constant variance, which is a critical assumption for the validity of regression results. This finding supports the robustness of the regression model, suggesting that the estimated coefficients are reliable and that the statistical inferences drawn from the model are valid.

### **Multicollinearity Assessment**

The mean Variance Inflation Factor (VIF) of 1.37 indicates a low level of multicollinearity among the independent variables in the regression model. Since this value is well below the commonly accepted threshold of 5, it suggests that the predictors are not significantly correlated with each other. This low mean VIF implies that the standard errors of the coefficient estimates are stable, enhancing the reliability of the model's findings. Overall, the results indicate that multicollinearity is not a concern in this analysis, allowing for more confident interpretation of the coefficients.

**The coefficient of determination ( $R^2$ )** quantifies the extent to which the

independent variable(s) can explain the variance in the dependent variable within a regression model. With an  $R^2$  value of 0.8974, it indicates that approximately 89.74% of the variability in the dependent variable is accounted for by the model, reflecting a high predictive power. This suggests that the model fits the data well, while the remaining 10.26% of the variance remains unexplained, potentially due to other factors not included in the analysis or inherent randomness in the data.

PR	Coef.	Std. Err.	t	p> t
OCCPN	.0432384	.0239419	1.81	0.004
MRTSTTS	.0668369	.0366678	1.82	0.002
LNUTRP	.0494009	.0116005	4.26	0.000
INCSTTS	.0231792	.0091828	2.52	0.013
SVGMBL	.0861796	.0138461	6.22	0.000

Source :stata result 2025

### Loan Utilization and Repayment (LNUTRP)

LNUTRP quantifies how effectively borrowers manage and repay their loans, serving as an indicator of their financial management skills. a coefficient of 0.0494 ( $p < 0.001$ ) indicates that for each one-unit increase in LNUTRP, the odds of poverty reduction (PR) increase by approximately 4.94%. This suggests that effective loan management significantly enhances economic conditions, as access to microcredit enables individuals to invest in income-generating activities (Karlan & Zinman, 2011).

### Savings Mobilization (SVGMBL)

SVGMBL represents the initiatives and strategies designed to encourage savings among individuals, which can lead to improved financial security and community development. a coefficient of 0.0862 ( $p < 0.001$ ) indicates that a one-unit increase in savings mobilization is associated with an 8.62% increase in the odds of poverty reduction (PR). This highlights the critical role of savings groups in promoting financial resilience and reducing poverty (Hughes & Duncombe, 2012).

### **Income Status (INCSTTS)**

INCSTTS reflects the total income level of an individual or household, acting as a key determinant of economic well-being. the coefficient of 0.0232 ( $p = 0.013$ ) indicates that each unit increase in income status corresponds to a 2.32% increase in the odds of poverty reduction (PR). This underscores the importance of income generation in alleviating poverty, as higher income levels are associated with lower poverty rates (Ravallion, 2016).

### **Marital Status (MRTSTTS)**

MRTSTTS indicates the marital status of respondents, which can influence economic stability through shared resources and responsibilities. a coefficient of 0.0668 ( $p = 0.002$ ) suggests that improved marital status is associated with a 6.68% increase in the odds of poverty reduction (PR). This reflects the potential economic benefits of marriage, as married individuals often experience better financial outcomes (Mishra & Smyth, 2010).

### **Occupation (OCCPN)**

OCCPN categorizes the type of employment held by individuals, reflecting their job status and skill level, which can impact economic stability. a coefficient of 0.0432 ( $p = 0.004$ ) indicates that higher occupational status is linked to a 4.32% increase in the odds of poverty reduction (PR). This demonstrates that employment in skilled occupations contributes positively to economic well-being and poverty alleviation (International Labour Organization, 2018).

## **Poverty Measurement Using Head Count Ratio (HCR)**

**Understanding the Head Count Ratio (HCR):**The **Head Count Ratio** is defined as the proportion of the population whose income or consumption level is below the poverty line. It is a critical measure for assessing poverty levels within a community. The formula to calculate HCR is:

$$\text{HCR} = (\text{Number of Poor} / \text{Total Population}) \times 100$$

**Total Respondents:** 93

### **Income Status Before Membership:**

Poor: 84 respondents (90%)

Good: 9 respondents (10%)

### **Income Status After Membership:**

Poor: 3 respondents (3%)

Good: 34 respondents (37%)

Better: 47 respondents (50%)

Best: 9 respondents (10%)

### **Calculating the Head Count Ratio:**

#### **Before Membership:**

$$\text{HCR before} = (84/1300) \times 100 = 6.46\%$$

#### **After Membership:**

$$\text{HCR after} = (3/1300) \times 100 = 0.23\%$$

**HCR Before Membership:** Approximately **6.46%** of the respondents were classified as poor.

**HCR After Membership:** Approximately **0.23%** of the respondents were classified as poor.

The data indicates a significant reduction in the head count ratio of poverty from about **6.46%** to **0.23%** after membership in saving and loan associations. This suggests that the role of these associations in providing access to credit and promoting savings has a profound impact on poverty reduction in Aroressa Woreda.

According to Karlan and Zinman (2011), access to microcredit can lead to increased investment in income-generating activities, which is essential for poverty alleviation. Furthermore, the World Bank (2020) emphasizes that financial inclusion is crucial for improving living standards and reducing poverty. The findings from this analysis align with these studies, demonstrating the effectiveness of saving and loan associations in alleviating poverty and enhancing the economic status of individuals within the community.

## **5. CHAPTER FIVE**

### **5. CONCLUSIONS AND RECOMANDATIONS**

#### **5.1 Conclusion**

According to the findings from the study the most of the Beneficiaries are male in the institution because the cultures of the society favor Males and females have less access to control over family's resources. There is no equal participation of women and men in the access of loan. The finding of the analyses the number of clients who borrow maximum loan is also increased when we compare with the first round, because as their cycle increase the client become matured and their business expanded more and more. and respondents respond that the repayment period almost it is satisfactory.

The data analysis the respondents replied as their income levels has increased after they got loan from the institution .this implies that SMFI has contributed to increase

the income of beneficiaries and hence living standards. Has also the respondents reported as their monthly income of house hold has increased after loan has been given to them. This is an indicator of improvement of living standards the client's. SMFI playing a great role in poverty reduction by increasing the delivery of saving and loan. And also it helps to avoid Illiteracy& to gate access of education. In generally Poverty, high population growth, malnutrition and etc, are widely spread and are a major problem that Ethiopia is facing even though there are a huge natural and human resources. They are not used for the country to leave out the poverty. To solve such type of problems the development of the saving and loan association, which can provide credit service to those people who cannot get access to credit from formal financial institutions like commercial bank, through the country is very crucial. SMFI in Aroresa town works collaborate with government and other NGO are to reduce poverty in the area.

But there is a limited impact for the studies carried out with regard to the MF 'so to these there is a limited knowledge on the impact of the micro finance service. Hence there is aneed to study the role of SMFI on the livelihood improvement of the credit users. The institution is providing the financial service like borrowing, saving mobilization, advising and technical assisting to the members. The study also evaluates the asset of the Members before and after membership. When we compare asset of the member before and after membership, the institution improve the livelihood of the beneficiary.

## **5.2 Recommendations**

Even though, the provision of credit service through saving and loan association is very important to the improvement of the society's livelihood, the credit users are facing different problems. These are insufficient amount of credit, low level of education or illiteracy, unfair decision of management, large family size and others.

The role of saving loan association officials at remote rural area is limiting the society to earn good and services. Therefore, saving and loan association, the government and other concerned organization should work together to tackle the problem that the credit suggestion are given.

- To maintain favorably living, Government and NGO; should focus awareness

of members through institution by adjusting family planning and alleviate traditional discouragement of female

- In consider this as researcher, the following measurements are recommended

#### **To the Government**

- It is better to design policies and strategies that encourages saving and motivation the people of the town to participate in saving. The government shall initiate the development of saving institutions through supportive mechanisms.
- The government ought to increase the extension of the saving and loan association to meet the increasing demand for the society to use credit.
- Government should give attention to the expansion of adult education program to increase the awareness of the every member of institution as against poverty.
- Giving training and preparing awareness creations about the development of culture of saving and loan initiating the people to save through different means of awareness.

#### **To the institutions**

- To institutions like Comerica bank of Ethiopia and other micro finance institutions should work to increase their services through appreciating people and promotion campaign to save.
- It is better to give training for new depositors and new comers about saving and its importance on the future economic growth.
- Saving and loan association are advised to give sufficient amount of money to creators can able to achieve their objectives.
- Saving and loan association should follow up the day to day activities of credit users and should give training for the credit users with regard to management and allocation of money.

#### **The people**

- It is better to limit their consumption spending so as to increase their savings and loan association. People of the town should plan to save even if it is small amount. Resident of the town shall at the time of training given by government or institute.

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## APPENDIX

### Demographic and Personal Characteristics of Respondents

The characteristics of the target population are summarized in Table 4.1, which includes details such as sex, marital status, educational level, family size, and occupation of the respondents.

<b>Item</b>	<b>No of Respondents</b>	<b>Percentage</b>
Male	62	67%
Female	31	33%
<b>Total</b>	<b>93</b>	<b>100%</b>

### 4.2. Loan Utilization

Loan utilization is measured in terms of the amounts borrowed. The findings regarding the loan amounts by loan cycle are summarized in Table 4.4.

<b>Loan Amount (in Birr)</b>	<b>No. of Respondents (3rd Round)</b>	<b>of Percentage (3rd Round)</b>	<b>No. of Respondents (4th Round)</b>	<b>of Percentage (4th Round)</b>
Up to 5,000	22	24%	12	13%
5,001 - 10,000	25	27%	22	24%
10,001 - 15,000	19	20%	25	27%
15,001 - 20,000	15	16%	19	20%

<b>Loan Amount (in Birr)</b>	<b>No. of Respondents (3rd Round)</b>	<b>of Percentage (3rd Round)</b>	<b>No. of Respondents (4th Round)</b>	<b>of Percentage (4th Round)</b>
Above 20,000	12	13%	15	16%
<b>Total</b>	<b>93</b>	<b>100%</b>	<b>93</b>	<b>100%</b>

#### ***4.3. Source of Finance***

The sources of finance for respondents before joining the saving and loan associations are summarized in Table 4.6.

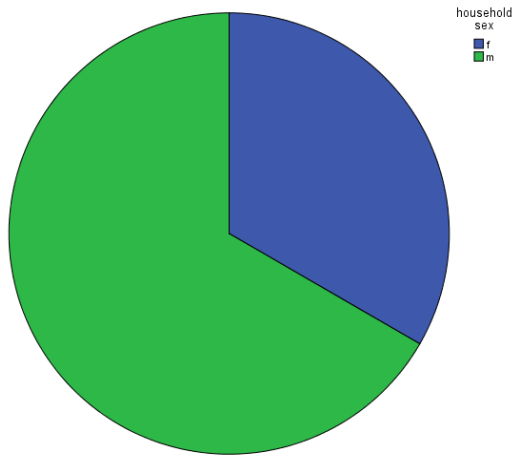
<b>Source of Finance</b>	<b>No. of Respondents</b>	<b>Percentage</b>
Iqub	25	27%
Idir	19	20%
Local Money Lender	28	30%
Other	21	23%
<b>Total</b>	<b>93</b>	<b>100%</b>

#### ***4.4. Income Status of Respondents***

The income status of respondents before and after membership in the saving and loan associations is presented in Table 4.13.

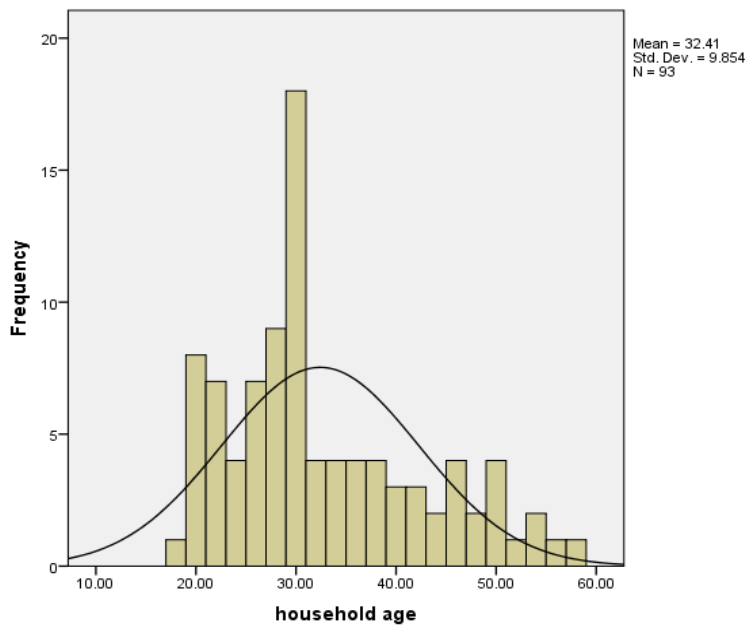
<b>Income Status Before Membership</b>	<b>Percentage</b>	<b>Income Status After Membership</b>	<b>Percentage</b>
Poor	84	90%	3
Good	9	10%	34
Better	0	-	47
Best	0	-	9
<b>Total</b>	<b>93</b>	<b>100%</b>	<b>93</b>

**Figure 4.1 below show that which gender (male or female) gets more access to saving and borrowing in the institution.**

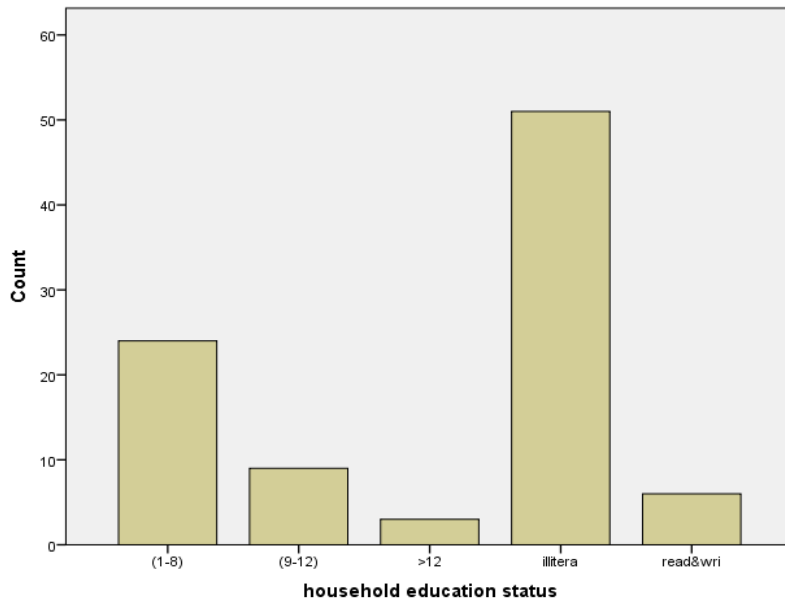


#### 4.1.2 Age of respondents

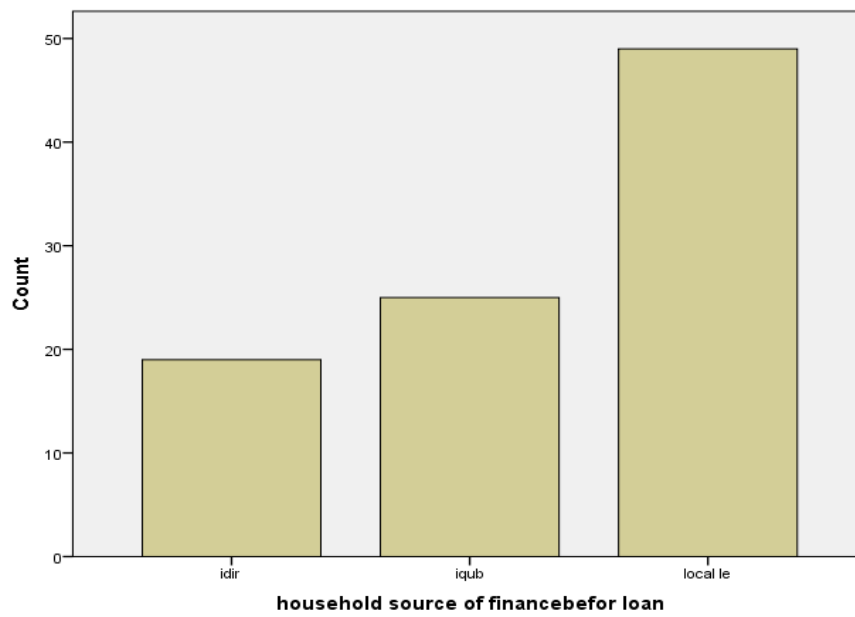
**Figure 4.2** this histogram shows more working age people access loan services



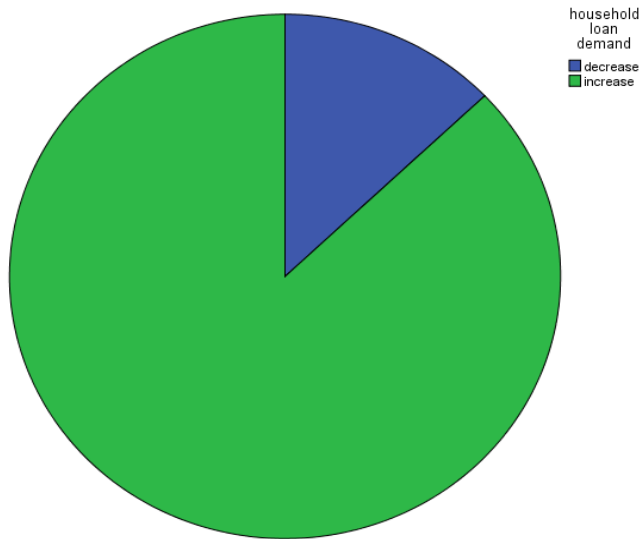
**Figure 4.3** Education status of the respondent



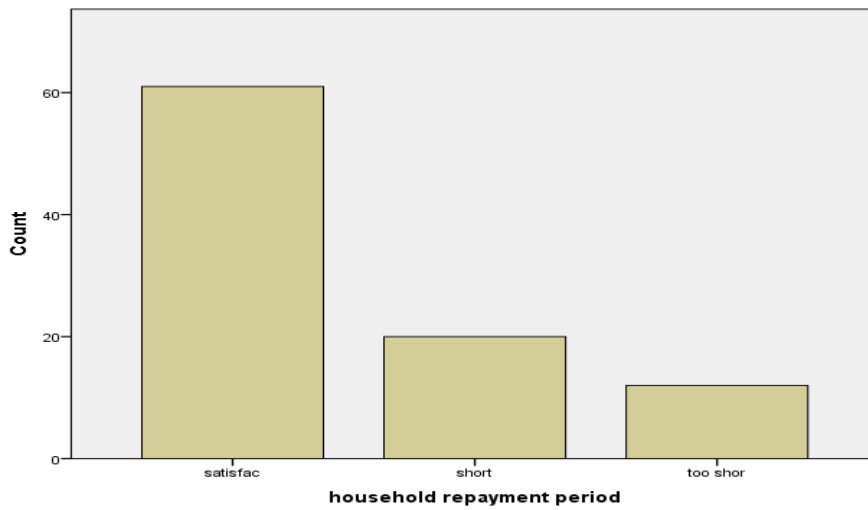
**Figure 4.4** respondents source of finance before membership of the institution.



**Figure .5** Loan demand of the respondent



**Figure 4.6 Loan repayment of saving and loan association**



```
regress PR ED MRTSTTS FMLSZ OCCPN LNUTRP SVGMBL INCSTTS
```

Source	SS	df	MS	Number of obs	=	93
Model	20.8617104	7	2.98024434	F(7, 85)	=	106.19
Residual	2.38560145	85	.028065899	Prob > F	=	0.0000
				R-squared	=	0.8974
				Adj R-squared	=	0.8889
Total	23.2473118	92	.252688172	Root MSE	=	.16753

PR	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]
ED	.07705	.0512117	1.50	0.136	-.0247726 .1788726
MRTSTTS	.0668369	.0366678	1.82	0.002	-.0060686 .1397424
FMLSZ	-.0043087	.0133858	-0.32	0.748	-.0309232 .0223057
OCCPN	.0432384	.0239419	1.81	0.004	-.0043644 .0908412
LNUTRP	.0494009	.0116005	4.26	0.000	.0263359 .0724659
SVGMBL	.0861796	.0138461	6.22	0.000	.0586498 .1137095
INCSTTS	.0231792	.0091828	2.52	0.013	.0049212 .0414372
_cons	.1438053	.1327285	1.08	0.282	-.1200946 .4077052

Variable	VIF	1/VIF
SVGMBL	1.37	0.729927
ED	1.39	0.719424
INCSTTS	1.12	0.892857
LNUTRP	1.56	0.641025
MRTSTTS	1.74	0.574712
FMLSZ	1.45	0.689655
OCCPN	1.08	0.925925
Mean VIF	1.37	

**WOLKITE UNIVERSITY**

**COLLEGE OF AGRICULTURE AND NATURAL RESOURCE**

**DEPARTMENT OF AGRICULTURAL ECONOMICS**

Dear respondents, first I would like to express my sincere appreciation and deepest thanks in advance for your precious time and correct response to the purpose of the study in general. These questionnaires prepared for the purpose of gathering relevant information on the role of saving and loan association in poverty reduction in Aroresa wereda all information was used for academic purpose only.

Instruction with the best regard!!

Circle or tick the answer of your choice ended question

Fill in the space provided for open ended question

Leave the question which is not relevant.

**Part I**

Demographic and personal information.

1. Age: \_\_\_\_\_

2. Sex: A. Male  B. Female

3. Education status

A, illiterate  B, read & write  C primary education (1-8)   
D, Secondary education (9-12)  E, above secondary education

4. Marital status:

A. Married  B. Single C. Divorced  D, widowed

5. Family size \_\_\_\_\_

6. Activities engaged:

A, merchant  B, Government employee  C, farmer  D other  
specify \_\_\_\_\_

Part II

Loan utilization and repayment

1. How much loan dispersed per year \_\_\_\_\_?

2. Before you become a member of saving and loan association what was source of finance?

A. Idir  B Local money lender  C. Iqub  other  
Specify \_\_\_\_\_

3. What do you think about repayment period of loan?

A. too Short  B. short  C. satisfactory  D. long

4. Have you ever faced any difficult in loan repayment

A. Yes  B. No

5. On question member 4 if your answer is yes how you overcome these difficulties

A. Selling castle  B. Borrowing from Idir   
C. Borrowing from local lender  D. Other  
specify \_\_\_\_\_

6. Is your demand for loan increasing or decreasing?

\_\_\_\_\_

7. On question number 6 if your answer is increasing have you get the desired amount?

A. Yes  B, No

8. On question number 7 if your answer is “No” what were the preseason?

A. shortage of cash from saving and association

B. By unfair decision of management

C. Others specify \_\_\_\_\_

### Part III

#### Saving Mobilization

1. What is your source of income for saving mobilization?

A. From business profit finance

B. From saving agriculture profit

C. From government employee

D. Other specify \_\_\_\_\_

2. Why you save your money in saving and loan association?

A. For borrowing loan  B. To earn interest C. To buy agricultural input

D. Other specify \_\_\_\_\_

3. What is factor that limit to save in SMFI ?

\_\_\_\_\_

\_\_\_\_\_

### Part IV

Assets holding status of respondent before and after a membership.

1 How many capitals do you have now and before you become of members of saving loan association respectively?

---

2 Before a members of saving and loan association what was your income status?

A. Poor  B. Good  C, Better  D.BestOther specify\_\_\_\_\_

3. How about your income status currently?

A. lowers than before  B.better than before  C.The same as before  D.Other specify\_\_\_\_\_

Thanks you for your Cooperation!!!

### DECLARATION

I the undersigned declare that the Research paper or thesis for my original work and has yet been presented for a degree in any other university and all material used for this study have been acknowledged.

\_\_\_\_\_

Name of student

Signature

This student Research paper or thesis has been submitted for examination with my approval as a university advisor.

\_\_\_\_\_

Name of Advisor

Signature