TABLE OF CONTENTS

ABSTRACT ..... **I**
ZUSAMMENFASSUNG ..... **II**
ACKNOWLEDGMENTS ..... **III**
LIST OF FIGURES ..... **VIII**
LIST OF GRAPHS ..... **IX**
LIST OF TABLES ..... **IX**
ACRONYMS AND ABBREVIATIONS ..... **X**
1. INTRODUCTION **1**
1.1 MOTIVATION 1
1.1.1 Agricultural sector in the Libyan economy 2
1.1.2 Libyan labor force issues 4
1.1.3 Finance sector development and soundness 7
1.2 OBJECTIVES AND RESEARCH QUESTIONS 11
1.3 OUTLINE OF THE THESIS 12
2. CREDIT INFRASTRUCTURE AND ECONOMIC THEORY **13**
2.1 THE THEORY OF INVESTMENT 13
2.1.1 The production possibility set 13
2.1.2 Maximizing profits 14
2.1.3 The investment demand curve 17
2.2 CREDIT AND ECONOMIC GROWTH 20
2.2.1 Impact of credit on investment 21
2.2.2 Impact of credit on choice of technology and employment 22
2.2.3 Impact of credit on poverty reduction 24
2.3 FINANCIAL PERFORMANCE AND SUSTAINABILITY 27
2.3.1 How financial markets create value 27
2.3.2 The management of financial institutions for the poor 29
2.4 CREDIT CHANNEL IN THE FINANCIAL INSTITUTIONS 33
2.4.1 Financial institutions 33
2.4.2 Credit and transaction costs 34
2.5 IMPERFECT INFORMATION IN CREDIT MARKETS 37
2.5.1 Adverse selection 38
2.5.2 Moral hazard 44
2.5.3 Monitoring cost 46
3 LITERATURE SURVEY **49**
3.1 ACCESS TO THE CREDIT MARKETS 50
3.2 CREDIT CONSTRAINTS 51
3.3 MEASURING ACCESS TO CREDIT AND CREDIT CONSTRAINTS 52
3.3.1 Indirect method 52
3.3.2 Direct method 53

3.4 FACTORS AFFECTING ACCESS TO CREDIT AND CREDIT APPLICATIONS 54
3.4.1 Attribute of financial institutions 54
3.4.2 Household characteristics and demand for credit 56
4. DATA AND METHODS 59
4.1 STUDY METHODS 59
4.2 SAMPLING DESIGN 63
4.3 RESEARCH LOCATIONS 66
5. EMERGING PATTERNS IN THE RURAL CREDIT MARKET 68
5.1 ACCESS TO CREDIT AMONG REGIONS 68
5.2 CREDIT APPLICATIONS 71
5.3 AMOUNT OF CREDIT RECEIVED 73
5.4 HOUSEHOLD CREDIT CONSTRAINT 75
5.5 THE ROLE OF FORMAL BANKS IN CREDIT MARKET 78
5.6 GOVERNMENT CREDIT POLICIES 80
6. DETERMINANTS OF ACCESS TO CREDIT 81
6.1 MODEL ESTIMATION 81
6.1.1 Probit model 82
6.1.2 Computing the marginal effects 84
6.2 DISCUSSION OF MODEL RESULTS 86
6.2.1 Household's socio-economic characteristics and impact of the ability of access to credit . 86
6.2.2 Farm characteristics and the impact on the ability of access to credit 88
6.2.3 The impacts of livestock holding and household assets on access to credit 90
6.3 SUMMARY 91
7. DETERMINANTS OF CREDIT APPLICATIONS 92
7.1 MODEL ESTIMATION 92
7.2 DISCUSSION OF THE MODEL RESULTS 96
7.2.1 Household's socio-economic characteristics and credit applications 96
7.2.2 The impact of farm characteristics on credit applications 98
7.2.3 The impacts of livestock holding and households' assets on credit applications 100
7.3 SUMMARY 102
8 AMOUNT OF CREDIT RECEIVED DETERMINATION 103
8.1 MODEL ESTIMATION 103
8.2 MODEL RESULTS 104
8.2.1 The impacts of interest rate on amount of credit received 105
8.2.2 Repayment period and the impacts on amount of credit 107
8.3 SUMMARY 109
9. DETERMINANTS OF CREDIT CONSTRAINTS 110
9.1 MODEL ESTIMATION 110
9.2 MODEL RESULTS 112
9.2.1 Probability of households which applied for credit facing credit constraints 113
9.2.2 Probability of households which received credit but face a credit constraints 116
9.3 SUMMARY 118
10 CONCLUSION AND POLICY RECOMMENDATION 119

10.1 INTRODUCTION 119
10.2 ACCESS TO CREDIT 119
10.3 CREDIT APPLICATIONS 120
10.4 AMOUNT OF CREDIT RECEIVED AMONG HOUSEHOLDS 120
10.5 HOUSEHOLDS CREDIT CONSTRAINTS 121
10.6 POLICY RECOMMENDATION 121
BIBLIOGRAPHY 122
APPENDIX 131
LIST OF VARIABLES AND UNIT OF MEASUREMENTS 131
RURAL HOUSEHOLD SURVEY 133