EFFECTS OF AGRICULTURAL CREDIT AND MICROFINANCE ON EXPENDITURE PATTERNS IN YEMEN

ADNAN ASANOY.

FP 2004 15
EFFECTS OF AGRICULTURAL CREDIT AND MICROFINANCE ON EXPENDITURE PATTERNS IN YEMEN

By

ADNAN ASANOY

Thesis Submitted to the School of Graduate Studies, Universiti Putra Malaysia, in Fulfilment of the Requirements for the Degree of Doctor of Philosophy

May 2004
Dedication

To

The people who suffer from poverty throughout the world and struggle to survive

And

To

The people who sacrifice and struggle for the peace and welfare of the poverty-stricken part of the world population
Poverty is a core problem in the Yemeni economy. About 47 percent of the total population lives below the poverty level. Moreover, the rapidly increasing population causes competition at meeting basic needs. From the macro economic point of view, Yemen also experiences unemployment problem and other socially adverse phenomena that contribute to low GDP. The economy of Yemen is vitally dependent on the growth of the rural economy, too. The majority of the people live in the rural areas. Due to the fact and the present socio-economic structure, the national and economic development of Yemen has been adversely affected. In order to meet the poverty crisis, the government of Yemen reformed its economic policy and undertook a small-scale credit program. Under this reformation, the National Agricultural Bank of Yemen has introduced agricultural credit and microfinance programs in mid 1980’s and 1990’s respectively. At present, the programs have progressed and could be evaluated for its success towards the aim of reducing poverty.
The present study attempts to evaluate the effectiveness of introducing small-scale credit towards better livelihood of the beneficiaries. Using econometric modeling, the study focused on the living standard of the beneficiaries. To examine the effectiveness accurately, a non-beneficiary group was also studied. By comparing two groups of respondents namely, “with credit” and “without credit”, the study attempted to portray the effectiveness of the program. The sample size in this study was 540. A total of seven governances were selected for data collection. Simple random sampling procedure was used to select the respondents from the sampling frame. The study used Extended Linear Expenditure System (ELES) to estimate the poverty line and the living standard based on the socio-economic attributes of the respondents. In ELES, a demand system for food and non-food items was used. The impact of credit was measured by incorporating a dummy variable representing the ‘with-without’ group into the model.

The study extended its investigation further by carrying out a logistic regression analysis to determine the borrowers’ preference between the two programs based on the socio-economic attributes. The dependent variable of the model was dichotomous namely, microfinance or otherwise. ‘Otherwise’ includes the respondents who preferred agricultural credit.

The results showed that there was a significant effect of socio economic variables and other factors on the expenditure of different food and non-food items. Education and family size showed significant contribution to the total expenditure. Dummy ‘with-without’ credit was found significant, too. This indicated that there
was a significant effect of small-scale credit program on the demand of food and non-food items. The standard of living of 'with-credit' group was found higher than that of 'without-credit' group. Logistic regression analysis showed that the respondents preferred microfinance. Income, education and family size were found to significantly determine the preferences for credit.

Based on the findings of the study, it is recommended that further extension of credit programs to the other poor governances of Yemen would be able to enhance the socio economic status of the people. Input supports, low interest rate, reformation of repayment structure are required to be reviewed for further development of policy.
Abstrak tesis yang dikemukakan kepada Senat Universiti Putra Malaysia sebagai memenuhi keperluan untuk ijazah Doktor Falsafah

KESAN KREDIT PERTANIAN DAN KREDIT MIKROKEWANGAN KE ATAS BENTUK POLA PERBELANJAAN DI YEMEN

Oleh

ADANAN ASANOY

Mei 2004

Pengerusi : Professor Madya Mohd Mansor Ismail, Ph.D.
Fakulti : Pertanian

1990an. Sehingga kini, program-program ini telah menunjukkan perkembangan dan bersedia untuk dinilai keberkesanannya ke arah tujuan mengurangkan kemiskinan.


Keputusan kajian menunjukkan terdapat kesan sosio-ekonomi dan faktor-faktor lain yang signifikan terhadap perbelanjaan pelbagai barang makanan dan bukan-makanan. Taraf pendidikan dan saiz keluarga menunjukkan sumbangan yang signifikan ke atas jumlah perbelanjaan. Variabel "dummy" peminjam dan bukan peminjam turut mempunyai kesan yang signifikan. Ini menunjukkan bahawa terdapat kesan-kesan program kredit kecil-kecilan yang signifikan ke atas permintaan barang makanan dan bukan-makanan. Analisis regresi logistik menunjukkan bahawa responden lebih memihak kepada mikrokewangan. Pendapatan, tahap pendidikan dan saiz keluarga turut mempunyai hubungan yang signifikan ke atas pilihan program kredit.

Berdasarkan kepada keputusan kajian, adalah disarankan bahawa lanjutan kawasan kajian ke kawasan-kawasan miskin yang lain di Yemen adalah perlu untuk meningkatkan status sosio-ekonomi penduduk. Sokongan input, kadar faedah yang rendah dan penyusunan semula struktur pembayaran balik turut diperlukan untuk dipertimbangkan dalam pembangunan dasar.
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I certify that an Examination Committee met on 7th May 2004 to conduct the final examination of Adnan Asanoy on his Doctor of Philosophy thesis entitled “Effects of Agricultural Credit and Microfinance on Expenditure Patterns in Yemen” in accordance with Universiti Pertanian Malaysia (Higher Degree) Act 1980 and Universiti Pertanian Malaysia (Higher Degree) Regulations 1981. The Committee recommends that the candidate be awarded the relevant degree. Members of the Examination Committee are as follows:

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<td>ANOVA</td>
<td>Analysis of Variance</td>
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<td>ANCOVA</td>
<td>Analysis of covariance</td>
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<td>ACLB</td>
<td>Agricultural Cooperative Loan Bank</td>
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<td>APFPF</td>
<td>Agricultural Production and Fisheries Promotion Fund</td>
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<td>BPGT</td>
<td>Breusch-Pagan test</td>
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<td>BRAC</td>
<td>Bangladesh Rural Advancement Committee</td>
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<td>CLRM</td>
<td>Classical Linear Regression Model</td>
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<td>ELES</td>
<td>Extended Linear Expenditure System</td>
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<td>GB</td>
<td>Gramen Bank</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<tr>
<td>GNP</td>
<td>Gross National Product</td>
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<tr>
<td>GTNCCD</td>
<td>General Trade and National Cooperative Corporation for Development</td>
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<td>GOY</td>
<td>Government of Yemen</td>
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<td>GBAL</td>
<td>Governmental Bank for Agricultural Loan</td>
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<td>IGAGD</td>
<td>Income Generating and Group Development Program</td>
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<td>IFPRI</td>
<td>International food policy research institute</td>
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<td>LES</td>
<td>Linear Expenditure System</td>
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<td>Microfinance Institutions</td>
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<td>NGOs</td>
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<td>OECD</td>
<td>Organization for Economic Cooperation and Development</td>
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<td>OLS</td>
<td>Ordinary Least Squared</td>
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<td>PROBIT</td>
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<td>RDP</td>
<td>Rural Development Program</td>
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<td>SFD</td>
<td>Social Fund for Development</td>
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<td>Variance Inflation Factor</td>
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<td>Yemen Riyal</td>
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