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The Impact of Access to Credit on the Adoption of Tobacco in Malawi

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Abstract

This paper investigates the impact of access to credit on the adoption of burley tobacco among households that differ in their credit constraint status using a Double hurdle model. The data used in the study is from Malawi collected by the International Food Policy Research Institute (IFPRI) in collaboration with the Rural Development Department of Bunda College of Agriculture. Results reveal that while access to credit increases adoption among credit constrained households, it has a limited effect among unconstrained households. Results further show that access to credit does not lead to an immediate increase in the likelihood of adoption for tobacco, but conditional on adoption it enables credit constrained households to allocate more land to tobacco production. Consistent with theory, results for the test for separation of consumption and production decisions indicate that household demographic factors affect demand for labor among credit constrained households while they have no effect among unconstrained households.

Keywords: credit constraints, double-hurdle, tobacco, adoption, Malawi

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