



Munich Personal RePEc Archive

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

Franklin Simtowe

Africa Rice centre

30. January 2008

Online at <http://mpa.ub.uni-muenchen.de/7368/>

MPRA Paper No. 7368, posted 28. February 2008 16:48 UTC

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

Franklin Simtowe¹ Manfred Zeller²

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

¹University of Malawi, Center for Agricultural Research and Development, Bunda College, Malawi.

² University of Hohenheim, Institute of Agricultural Economics and Social Sciences in the Tropics and Subtropics, Germany