



Research Article

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# STUDY ON ACCESS TO AGRICULTURAL CREDIT AMONG SMALLHOLDER TOBACCO FARMERS IN MANGOCHI, MALAWI

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## Abstract


The purpose of this paper was to assess the access of agricultural credit among smallholder tobacco farmers in Mangochi, Malawi. Government reports and past studies related to the topic were used as secondary data. Random sampling approach was adopted to collect primary data from 91 smallholder tobacco farmers in Mthiramanja area, Mangochi. The results of the study showed that farmers who are in contractual agreement with leaf buyers had higher chance of getting agriculture credit than independent farmers. The majority farmers complained that borrowing is very expensive and do not match the income realized from their farming operations. It is suggest the government should put in place policies that will allow smallholder farmers easily access agriculture credit at minimum cost. Providing financial education to farmers will help them to use the loan for its intended purpose hence increasing quality and quantity of outputs.

**Keywords:** Agriculture credit, Tobacco farming, Malawi

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## 1. Introduction

### 1.1. Tobacco Farming

Agriculture is the main activity that is practiced by the majority of the population for domestic consumption as well as for cash. Although there is variety of crops produced in Malawi, tobacco is considered the most significant crop to the country's economy. Generally, most countries in Africa promote Tobacco leaf production as a way to eliminate poverty among its citizens. This led to a shift of tobacco leaf production

from a high-income countries to developing countries, especially those in African continent (Hu and Lee, 2014). Malawi is one of the country in the world whose economy is heavily dependent on tobacco. Tobacco is accounted as the most significant crop to the Malawian agriculture based economy contributing more than 60 percent of annual export earnings and 13% of the economy as measured by the GDP. Malawi has been one of the top ten producers of tobacco in the world (Drope et al., 2016).

They are many types of tobacco grown in Malawi such as burley, northern division dark fired, flue-cured, southern division dark fired, sun-air and oriental tobacco. However the main type of tobacco grown in Malawi is burley, which in 2010 accounted for 94 percent of total tobacco production. Malawi's burley tobacco is said to have higher demand due to its good reputation of being "flavourless and clean filler" (Prowse and Moyer-Lee, 2012).

After the liberalisation of tobacco industry in 1992 smallholder farmers were now allowed to produce burley tobacco unlike before when they were allowed to produce fire cured, sun-air cured, and oriental tobacco. Smallholder farmers are now much engaged in burley tobacco production while the estate sector concentrate on the production of flue cured tobacco, which requires a more complex curing process (Chirwa, 2011).

The quantity of tobacco increased tremendously following the involvement of the smallholder farmers (Moyer-Lee and Prowse, 2012). Although there has been critics from different stakeholders including nongovernmental organizations (NGOs) arguing that other crops are more profitable and has no harm to societies than tobacco, tobacco still remain as the main hope for a lot of farmers in Malawi to bit poverty in their homes.

### **1.2. Agricultural Credit**

Credit is defined as a means of acquiring resources which can be in form of cash or other forms for a certain period of time with an obligation to pay back in a defined period of time in accordance with the terms and conditions of the credit obtained (RBI, 1954).

In agricultural context credit can be referred to as the resources provided to the farmers to support their farm activities for better productivity and growth of their investment. Therefore ensuring access to credit facilities by the farmers is a very powerful instrument to fight against poverty and crucial to the development of agriculture sector at large (Argaw, 2017). Agricultural credit is not only important to smallholder un-resourceful farmers but also resourceful farmers in developed countries. This can be proven by the agriculture orientation index which is higher in developed countries probably due to the technologies used (FAO, 2018). However while farmers in well developed countries might want credit to expand their agribusinesses, smallholder farmers in developing countries need agricultural credit to purchase simple productive assets to help them combat poverty.

In the year 2013-2017 Malawi ranked as the first among top ten countries in the world receiving credit for agriculture. This is because Malawi has farmers do not have necessary resources to support their farming activities. The government of Malawi recognizes limited access to credit and financial services for farmers as one of the reason among others that is hindering Malawi to increase its agricultural productivity to match domestic

demand as well as to utilize available export opportunities (Government of Malawi, 2016). Due to the poverty that is affecting the majority of Malawians especially in the villages, farmers do not only borrow to support their farm activities but also to meet their household needs. This behaviour has a negative effect on the on the productivity of agricultural sector since resources that were meant for farming are diverted to serve other needs.

In a research conducted by Finscope they found that most people depend on family, friends/neighbours and micro-finance institutions (MFIS) as their source of credit. They further highlighted that convenience, cost and the reputation of the lender are the most important factors people take into consideration while deciding where to borrow. The main banks in Malawi such as National bank of Malawi, NBS also provides agriculture loans especially to tobacco farmers to help them conduct their farming activities. For instance, purchasing fertilizer, chemicals and payment of labour. Loans are provided to individual smallholder farmers as well as farmers groups. Foltz (2004) concluded that despite the fact that access to credit did not have effect on investment, lack of access to it had a negative impact on the farm profitability. Credit market constraints do not only affect farm profitability but also is among the other factors blamed for the Africa's inability to produce enough food for her people and its dependency on imported food (Salami and Arawomo, 2013).

Sha et al (2009) conducted a review of past literature on agriculture credit in rural area of Pakistan where they found out that the positive benefits of agriculture credit was not only limited to farming but also other sectors of the economy.

Although the benefits of credit to smallholder cannot farmers cannot be denied, there seem to be many challenges which hinders the farmers access to credit. Bashir and Azeem (2008) pointed out that smallholder farmers do not only have challenges in getting credit but also returning the borrowed money. This is probably due to poor agricultural markets in many developing countries and also poor weather conditions which leads to low productivity. The challenges of having access to credit affect the smallholder farmers much as it affect SMEs (Chisasa and Makina, 2012).

Despite the challenges there are efforts from the government, private institution and NGOs to improve the accessibility of loan in agriculture sector. Identifying key farmers who are sustainable and innovative can may help to reduce constraint to agriculture financing (Olatunbosun, 2012). Anjani et al (2010) also suggested that the process of getting a loan should be simplified especially for farmers who are less educated. In countries like Malawi the majority of smallholder farmers did not attend formal education. This may affect their ability to understand the terms and conditions on the loan agreement.

This study will assess the access to credit among smallholder tobacco farmers in Mangochi, Malawi.

## 2. Material and Method

### 2.1. Study Area

Mthiramanja Extension Planning Area (EPA) is situated south west part of Mangochi district. It has a total area of 27,000 ha of which 23,691 ha is suitable for farming. The area has two different Traditional Authorities (TA) namely: Chimwala TA and Mponda TA. Chimwala covers 36% while as Mponda constitutes 64% of the total EPA's farm families. There are 177 villages and 15 sections. The whole Mthiramanja EPA has 18,653 farm families of which 57% of them are headed by females. The average landholding size/farm per family is 0.6 ha. The area has the total number of 6 Agriculture Extension Development Officers (AEDOs). Mthiramanja Extension Planning Area (EPA) is one of the area in Mangochi having a large number of registered tobacco farmers. Large scale commercial tobacco farming is practiced in the other parts of the district. The total number of registered burley tobacco farmers (2017/2018 season) was 213 while other farmers are remain unregistered. The total land under tobacco farming was 197 ha (2017/2018 season).

### 2.2. Sampling, Data collection and Analysis

This study used both secondary data and primary data. Secondary data was obtained from diverse sources including past literatures, government reports and data from national statistics office. Random sampling approach was adopted to collect the required data for the study. The data was collected from smallholder tobacco farmers in Mthiramaja area, Mangochi. The study population consisted of smallholder tobacco farmers who obtained credit and those who didn't. The data was collected from 91 farmers of which the majority of them were producing tobacco under contract. Due to limited time and lack of enough resources the study was not able to include data from the credit providers. The data independent variables such as age, education level, agriculture experience, size of the farm etc.

In order to compare the socio-characteristics among smallholder tobacco farmers who obtained credit and those who didn't, the student t test was used. Statistical techniques such as percentages were employed to indicate the number of observations one group out of total observations.

## 3. Results and Discussion

### 3.1. Smallholder Tobacco Farmers Access to Credit

The study shows that smallholder farmer have the access to loan thanks to their groups. The majority of the smallholder farmers in the area explained that apart from training, farmers join groups in order to be able to get loan easily whenever they needed it. The access to loan was much easier for farmers who were in contractual agreement with the leaf buyers. Leaf buyers

provide credit to the farmers both in cash form as well as inputs. The leaf buyers finds this manageable because deductions are directly made from the proceeds of the farmers sales. The table below shows the number of farmers who applied for a credit. Smallholder farmers' credit application has been shown in Table 1.

**Table 1.** Smallholder farmers' credit application (2017-2018)

	n	Percentage	Status	Form
Farmer Applied	35	38.5	Granted	Inputs
Farmer not applied	56	61.5	-	-
Total Farmers	91	100	-	-

Due to the fact that smallholder farmers were using loan obtained from institution for their personal or household nonagricultural needs such as paying school fees, providing loans in form of inputs helped to make sure that farmers use the loan for its intended use.

### 3.2. Comparing Socioeconomic Characteristics of Smallholder Tobacco Farmers (2017-2018)

Descriptive characteristics of smallholder tobacco farmers who applied for the loan were compared to the farmers who didn't apply for the loan. The analysis showed that the socioeconomic characteristic of the farmers are not significantly different among the two groups. However the mean farm size and land allocated to tobacco farming were higher in farmers who applied for loan than the mean of those who didn't. Comparing Socioeconomic Characteristics of Tobacco Farmers was given in Table 2.

### 3.3. Constraints Faced by Smallholder Tobacco Farmers

Although tobacco farmers have high chance of getting credit from the loan providing institutions. A lot of constraints are faced by smallholder tobacco farmers in obtaining the loan which hinders their ability to utilize the available opportunities. Farmers who didn't apply for a loan were asked to explain the reasons. As it is shown on the table 3.3, 82% of the farmers refrained from applying for a loan because of high interest rates. They further explained that although credit is very important for farming activities but deductions made after sell are very high. Reason for not applying for a loan was given in Table 3.

### 3.4. Suggestions to improve their Access to Agriculture Credit

The significance of loan to smallholder farmers is very clear. However the challenges smallholder farmers face when obtaining credit have negative impact on agriculture development. The farmers pointed out agriculture loan interest rates should be reduced which will allow them to repay for the loan without problems. Although some farmers were suggesting that the

government should subsidize agriculture loans, according to literatures, this causes misconducts and exacerbates the misuse of the loan. Other recommendations include; 1) educating the farmers on finance management 2) putting in place easy repayment

terms and conditions 3) simplifying the requirements to obtain and process the loan i.e. minimal collateral 4) Introducing free interest financing programs through partnership.

**Table 2.** Comparing Socioeconomic Characteristics of Tobacco Farmers

Loan Application	No		Yes	
	Mean	Std. Dev	Mean	Std. Dev
Age	46.95	12.017	43.49	10.818
Number of family members	7.50	2.000	6.86	2.251
Percent of Agriculture income	97.4643	5.04152	95.8857	6.56538
Farm size	4.5714	2.41995	5.5714	3.09445
Land under Tobacco farming	1.3527	0.70191	1.8429	0.77433
Tobacco farming experience	15.54	7.973	13.26	6.775
Labor	5.95	2.169	5.66	2.900

**Table 3.** Reason for not applying for a loan

Reason	Number	Percentage
Higher interest rate	45	82
Had enough capital	6	11
Had no collateral	4	7
Total	55	100

#### 4. Conclusion

Malawi being a country whose economy entirely depends on agriculture needs to put in place policies which can help to develop smallholder farmers who are the majority in the country. It is important to note that a lot of agriculture projects tend fail not because the farmers didn't understand but due to the lack of enough finance resources to sustain the projects. Providing financial support to the farmers through cheap loans can be one of the crucial step to help the farmers successfully adopt new technologies to improve productivity. Although this study focused on tobacco farmers, the significance of agriculture credit in other crops is just as important as it is in tobacco.

#### Conflict of interest

The authors declare that there is no conflict of interest.

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