

DECLARATION BY CANDIDATE

I hereby declare that this thesis is my own work and effort and that it has not been submitted anywhere for any award. Where other sources of information have been used, they have been acknowledged

Signature:

Date:

CERTIFICATE OF APPROVAL

We hereby declare that this thesis is from the student’s own work and effort, and all other sources of information used have been acknowledged. This thesis has been submitted with our approval

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LIST OF ABBREVIATIONS

DRD	Department of Rural Development
GoM	Government of Malawi
GTZ	Deutsche Gesellschaft fur Technische Zusammenarbeit
IFPRI	International Food Policy Research Institute
MK	Malawi Kwacha
MMF	Malawi Mudzi Fund
MRFC	Malawi Rural Finance Company
MUSCO	Malawi Union of Savings and Credit Cooperatives
PMERW	Promotion of Micro-Enterprises for Rural Women
SACA	Smallholder Agricultural credit Administration
UN	United Nations
UNICEF	United Nations Children's Fund

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**To my father (Fredrick Makanjira Kenala BOKOSI) who never lived to see the
fruits of his advice and dedication.**

**To *Ama* (Fedelia Stelia Limbe Nabanda) who tirelessly fought against the economic
hurdles of this world to see her son attain the greatest gift of all**

EDUCATION

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**Finally to one Siyileni Mandaaliza Kumbuyo, who in the most trying times of this
world, remained on my side, smiling, laughing, and sometimes even crying with me.**

ABSTRACT

It has been argued that most of Malawi's smallholder farmers are too poor to benefit from any kind of credit, and that, even if they had access to adequate credit and inputs, their land constraints are so severe that any increase in productivity would fall short of guaranteeing their food security. The underlying objective is to analyze the factors that affect household demand for credit. The aim is to provide a better understanding of the households' personal characteristics, not only because they influence the household's demand for credit but also due to the fact that potential lenders are likely to base their assessment of borrowers creditworthiness on such characteristics.

The study covered 404 households in Nkhotakota, Rumphi, Dedza, Dowa and Mangochi. The analysis was conducted using three methods, first, descriptive analysis to determine the relationship between participation in credit markets and socio-economic characteristics. Secondly, an Ordinary Least Squares estimation of the extent of credit demand and finally, a probit analysis.

From the study it was noted that family size and farm expenditure affect the mean volume of credit positively. In addition, the more farmers invest on their land (measured on per hectare basis), the more they are apt to borrow. The farm cost and input credit actually move in the same direction, in that input credit automatically raises farm cost, and the need (or desire) to expend more on inputs to increase yield, and thus income, leads to a higher input cost.

In terms of seasonality effects, the pre-harvest period was the time that the highest amount of credit (MK847.65) is given out and to a higher number of participants (147), followed by the harvest season. The least amount of credit lent was during the planting season. This result can be explained by the agrarian household income earning cycle. In pre-harvest period most households deplete their income, hence the need to borrow.

Estimated coefficients for family size and seasonality (post-harvest, post-harvest and harvest periods) were positive and significantly different from zero at $p < 0.01$. Family size is positively and significantly related to the household's probability of participation. Larger family size exerts (consumption) stress on the household, which is mostly reflected through an increased probability of borrowing. Furthermore the signs of seasonal dummies (pre harvest, harvest and post harvest) suggest that the probability of household borrowing increased in each of the seasons. The number of livestock owned by the household was found to be negative and not significantly different from zero. This negative relationship is due to the fact that livestock is a highly liquid asset, thus households tend not to borrow when their livestock value is substantial, since they can sell off their livestock when they are in need.

It was concluded in the study that providing financial services to the rural poor must be an integral component of any development policy. The study has indicated that sustainable financial institutions offers credit not only for agricultural production, but also for consumption smoothing and income diversification as well as the provision of savings option.