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## Who is Credit Constrained? Evidence from Rural Malawi

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### Abstract

The limited nature of poverty assistance funds for credit implies that only a few can benefit from such funds at a time. Considering the complexity of designing credit contracts with incentives that are constraint compatible, microfinance institutions are continuously exploring strategies for identifying and targeting credit constrained households as a way of improving efficiency in the delivery of financial services. The objective of this paper is to examine factors that influence a household's likelihood of facing credit constraints in Malawi. The data used in the study was collected in Malawi by the International Food Policy Research Institute (IFPRI) in collaboration with the Rural Development Department (RDD) of Bunda College of Agriculture. The survey was conducted in three rounds and covered 404 households in the three regions of Malawi. This paper, however, uses data from the first round only. The households credit constraint status was established by using the direct elicitation approach. The analysis on determinants of credit constraints was done using probit. The study reveals that characteristics of a household head as well as the supply side factors such as the remoteness of the location in which the household is based, significantly increase the likelihood that a household will face credit constraints. Participants in credit programs are less likely to report credit constraints, an indication that barriers to participation in credit markets continue to exist. Results suggest an urgent need for formal financial institutions to expand their outreach in order to address the huge and ever growing unmet demand for financial services among rural peasants and women in particular.

**Keywords:** elicitation approach, credit constraints, Malawi, rationing