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Facilitating Savings for Agriculture: Field Experimental Evidence from Malawi

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I. Introduction

Agriculture in sub-Saharan Africa employs two-thirds of the labor force and generates about one-third of gross domestic product (GDP) growth. According to the *World Development Report* (World Bank 2008), GDP growth originating in agriculture is about four times more effective in reducing poverty than GDP growth originating outside agriculture. For this reason, policies that foster agricultural productivity can have a substantial impact on food security and poverty reduction.

In recent decades, there has been substantial interest among policy makers, donors, and international development institutions in microfinance (financial

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We implemented a randomized intervention among Malawian farmers aimed at facilitating formal savings for agricultural inputs. Treated farmers were offered the opportunity to have their cash crop harvest proceeds deposited directly into new bank accounts in their own names, while farmers in the control group were paid harvest proceeds in cash (the status quo). The treatment led to higher savings in the months immediately prior to the next agricultural planting season, and raised agricultural input usage in that season. We also find

positive treatment effects on subsequent crop sale proceeds and household expenditures. Because the treatment effect on savings was only a small fraction of the treatment effect on the value of agricultural inputs, mechanisms other than alleviation of savings constraints per se are needed to explain the treatment's impact on input utilization. We discuss other possible mechanisms through which treatment effects may have operated.

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