

Abstract

This paper examines the impact of microcredit on the technology adoption and productivity of rice cultivation in Tanzania. Collaboratively with BRAC, well-known MFI in the world, we offered microcredit, which is specifically designed for agriculture to randomly selected farmers. We estimate the intention-to-treat effect (ITT) as well as local average treatment effect (LATE) of microcredit, by using the eligibility to the program as an instrumental variable (IV). Overall, we find a statistically weak or even null evidence that BRAC program increases the use of chemical fertilizer. Also, credit use does not result in an increase in paddy yield or profit for borrowers. Our results from sub-sample analyses suggest that credit does not increase the fertilizer use by those who have better access to irrigation water as they have already applied the amount of fertilizer near to the recommended level. On the other hand, credit increases the fertilizer use by those who have limited access to irrigation water and have used little amount of fertilizer. However, possibly due to the poor yield response to fertilizer, the increase in chemical fertilizer use does not result in higher yield for them. We also observed similar phenomenon for the comparison between trained and non-trained borrowers before the intervention.