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Paper Title: Determinants of adoption of input credit in the tobacco contract farming

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Abstract

This paper examines the determinants of small scale tobacco farmers' adoption of input credit in the tobacco contract farming in Tanzania. Input credit is very significant as it can increase the ability of small holder tobacco farmers with no or little savings to acquire needed agricultural inputs. Contract farming configuration is seen to be a reliable source of obtaining input credit even though some farmers could adopt it and others could not. A sample of 300 small holder farmers was randomly selected for the study; Data was collected from tobacco producers using a structured questionnaire. The data was analyzed with Logit Model using STATA software. The results from the study revealed that Off farm income positively influences adoption of input credit while farm size and wall type negatively influences the adoption decision. Household size, age of head of household, age square, farming experience and education do not significantly influence adoption of input credit.

These results were consistent with a prior expectation in terms of direction of the relationships and empirical evidence from the literature on adoption decisions in agriculture. We could also manage to obtain subjective reasons that affected the adoption decision to supplement on the quantitative results. We established that the availability of informal lending opportunities, nature of the tobacco contract farming, the need for independent farming and no need for credit substantially affected the adoption decision. The study therefore recommends that the direction of influence of the adoption determinants should serve as a guide in creating favourable business environment in the tobacco value chain in the future; the government through relevant authority should relook the concept of independent farming in the tobacco production as at present, it seems as if it is not possible for small holders to produce without contract farming while in actual fact are capable of doing so. We suggest also that the informal lending institutions needs to be encouraged by allowing them a conducive business operation environment in serving those farmers who are not willing to be tied up with contractual agreements that sometimes poses high transaction costs.

Key word: Contract farming, adoption, input credit, Logit Model, tobacco