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Burley tobacco clubs in Malawi: Nonmarket institutions for exports



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ABSTRACT

This paper studies nonmarket institutions that facilitate exports. In Malawi, as in many other developing countries, farmers face numerous constraints that disconnect them from export markets. We explore the role of a local institution, the burley tobacco clubs, in bridging smallholders to exports. Burley clubs potentially enable farmers to increase their tobacco farming productivity by providing services related to institutional access, collective action, economies of scale, and supporting network. Using matching methods and instrumental variable techniques, we find that tobacco club membership causes an increase in output per acre between 40 and 74 percent and an increase in tobacco sales per acre between 45 and 89 percent. Instead, neither the land share allocated to tobacco nor the unit value obtained by the producers is affected by club membership.

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1. Introduction

Since production started in the early 1970s, burley tobacco has become Malawi's economic lifeline. It is by far the largest single export commodity of the country, with a share in total export earnings of 53 percent in 2006 and peaks of over 65 percent in the mid-1990s.¹ Commonly called “green gold” by local Malawians, tobacco has the potential to eradicate poverty, especially in rural areas.

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¹ The second-largest export commodity, tea, generates only around 7 percent of export earnings.

Burley tobacco clubs, a recent nonmarket institution in Malawi, are groups of 10–30 farmers that grow tobacco collectively. The clubs are regulated by their own constitutions—written documents with rights, rules, and regulations—and were designed to turn tobacco into a true green gold through four major explicit or implicit prerogatives: institutional access, collective action, economies of scale, and supporting networks.² One of the major services provided by the burley clubs is access to the auction floors (where tobacco is commercialized in Malawi) and to official extension services. In addition, club members jointly acquire inputs under group lending (that is, under a common loan that is repaid at the time of sales in the auction floors) and perform collective actions in monitoring debt repayment and input use (preventing side selling of fertilizer, for instance) and in procuring higher input quality and lower input prices (via bulk purchases). Burley clubs also allow for the realization of economies of scale, particularly in transportation services to the selling floors. Finally, the clubs are instrumental in the development of supporting networks by encouraging the interchange of farming advice and the provision of labor assistance.

The services delivered by the burley clubs make them an effective local institution to promote smallholder tobacco production and exports: they provide access to credit and inputs, improve the proper use of those inputs, spread knowledge, reduce labor constraints, lower transport costs, secure higher output prices, and promote economic coordination among smallholders in liberalized markets. Tobacco clubs thus provide farmers with the incentives to exert the effort and to maintain the motivation needed for profitable tobacco farming. Our goal in this paper is to quantify some of the benefits associated with burley club membership. To investigate impacts on tobacco production and exports at the farm level, we focus on farming outcomes such as tobacco yields, sales, land allocation, and unit values.

This is a study on local nonmarket institutions for exports and development. There are various strands of related literature. [Acemoglu et al. \(2001, 2002\)](#) and [Acemoglu and Johnson \(2005\)](#), for instance, establish causality from better large-scale institutions (like legal and political regimes) to development. [Rose \(2004, 2005\)](#) estimates instead the impacts of various large-scale international institutions (like the WTO or the OECD) on the volume of trade. [Dollar and Kraay \(2003\)](#), in turn, study how (domestic) institutions affect trade and growth. There is yet a whole literature that explores how, in low income countries and especially in rural economies where market failures abound, small local institutions can play a fundamental role as bridges towards progress. Examples that are close to our work include [Anderson and Baland \(2002\)](#) and [Besley et al. \(1993\)](#) on ROSCAs, [Garg and Collier \(2005\)](#) on safety nets and employment, [Kranton \(1996\)](#) on cooperatives, [Besley \(1995\)](#) on risk insurance, and [Banerjee et al. \(2002\)](#) on tenancy reform.

Our contribution is to investigate the role of nonmarket institutions for international trade and, specifically, for exports.³ Once formal trade barriers came down, transaction costs have become the major deterrence to trade expansion. While in developed countries these costs include customs procedure and infrastructure (transportation), in rural Africa the costs that are closer to the grassroots (such as land and credit constraints, or labor and knowledge barriers) are as, and often even more, important. Our study of burley clubs as nonmarket local institutions for tobacco production and exports advances the view that trade facilitation in Africa should be broadened to include policies to soften those grassroots constraints.⁴

The impacts of burley clubs are gauged by using matching methods and instrumental variable estimators. The matching estimator is based on comparing outcomes for similar households in terms of observable characteristics. Our instrument is an indicator of default risk pertaining to a specific group of unmarried women. These individuals, especially younger ones, are risky for tobacco clubs

² Tobacco clubs were created as one of the building blocks of the tobacco liberalization. In the early 1990s, the government amended the Special Crop Act, a long-standing legal and institutional constraint that precluded small farmers from growing burley tobacco. After liberalization, smallholders were allocated a higher share of the national tobacco quota. Also, a series of additional facilitating measures were undertaken, including the creation of burley clubs, the introduction of intermediate buyers, and the availability of credit via the Malawi Rural Finance Company.

³ See [Greif \(1993\)](#) for historic accounts of the role of institutions in facilitating trade.

⁴ There are many institutional arrangements like the burley clubs in the developing world. In Africa, for instance, there are export programs like the Kilombero Business Linkage Program (sugar cane in Tanzania), Hortico (babycorn and mange-tout in Zimbabwe), Homegrown (vegetables and flowers in Kenya), The Coffee Alliance (Uganda), Kenya Tea Development Authority, NERICA, New Rice for Africa (rice in Guinea), and JIB (barley in the Jos Plateau in Nigeria).

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