

## **ABSTRACT**

This study uses the 2010/2011 integrated household survey (IHS3) data collected by National Statistics Office (NSO) to evaluate the effectiveness of access to microfinance on small medium business establishments and crop production. The cost of participation in credit programs, bank availability in a community, distance to ADMARC and distance to Boma has been used as instruments to control for endogeneity. The results tend to agree with some earlier studies on similar subject in Malawi that the impact of credits depends on gender, location and whether its formal credit or informal credits. The findings indicate that access to microfinance participation had a positive significant impact on small scale business establishments. For example access to microfinance programs resulted to about 23% increase in business establishments. However, the effectiveness of microfinance on crop yields seems to be mixed and unclear. For maize crop yield the effects seems to depend upon the variety of maize. For example microfinance participation reduced local maize yield and increased hybrid maize yield, but increased total maize yield production overall. Also microfinance participation seems to suggest negative effects on barley tobacco yield, though some results are not statistically significant. The study also illustrates that 10% increase in amount of loan size would result in about 2.4% more small scale business establishments. The study reveals the biasedness and reluctance of government policy to promote microfinance in the rural areas.