Selling crops early to pay for school: A large-scale natural experiment in Malawi*

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January 27, 2017

Abstract

In 2010, primary school in Malawi began in September, three months earlier than in 2009 and four months earlier than in the preceding 15 years. We test whether this change forced poor households to sell crops early, before output prices reach their peak. Difference-in-difference specifications show that the cumulative value of crop sales made before September was significantly higher in 2010 than in 2009. The effect is limited to households with school-aged children, is increasing in the number of school-aged children, and is only present for households in poverty. Households that sold crops early to pay school costs missed out on an expected 25% increase in crop prices over the last quarter of the year, for an effective annual financing cost of over 100%. These findings demonstrate an important channel by which liquidity constraints exacerbate the negative effects of intra-annual price volatility. They also suggest that policies to raise investment by offering farmers commitment opportunities at harvest are most likely to be welfare-enhancing if they are optional, rather than universal. In this case, forcing expenditures to occur closer to harvest undercut the expected returns that some households would have enjoyed if they had delayed crop sales to take advantage of seasonal price increases.

Keywords: liquidity constraints; intra-annual price cycles; school fees; crop sales; agriculture; Africa; commitment devices.
JEL codes: O13, Q12, O16

*I thank the African Development Bank and Cornell University for funding through the STAARS program, and Chris Gilbert for providing price data. For helpful comments and discussions I thank Jenny Aker, Chris Barrett, Lorenzo Casaburi, Esther Duflo, Pascaline Dupas, Jess Goldberg, Supreet Kaur, David Levine, Mark Long, Travis Lybbert, Jeremy Magruder, Will Masters, Ted Miguel, Dan Posner, Jon Robinson, Betty Sadoulet, Jack Willis, two African Development Bank readers, and seminar participants at NEUDC and the CEGA R^2 research retreat. Any errors are the responsibility of the author.

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