Strengthening the Linkages between Farmer Producer and Manufacturer in the Coffee Value Chain of Daklak

Nguyen Hung Anh, Wolfgang Bokelmann, Ngo Thi Thuan, Nguyen Van Mihn, Do Thi Nga
1 Faculty of Economics and Rural Development, Vietnam National University of Agriculture, Hanoi, Vietnam
2 Faculty of Electronics Engineering, Hanoi University of Technology, Hanoi, Vietnam
3 Faculty of Agriculture, Hue University, Hue, Vietnam
4 Faculty of Economics, Tay Nguyen University, Gia Lai, Vietnam

Introduction

The agri-food value chain system includes primary production (farming), post-farm production, marketing and distribution services (domestic and international), and eventual recycling (Olga and Andrew, 2009). Actors in value chains are linked in a variety of sourcing and contracting relationships i.e. form of governance (Williamson, 1985 and 1999; Gereffi, 2001). There are two perspectives in the concept of governance of developing value chains, which are the transaction (cost) that focuses on the governance of transactions in vertical bilateral coordination between actors (Williamson, 1985 and 1999; Rindfleisch and Heide, 1997), and the power relationship leading to consequences of the distribution of value added (Kaplinsky, 2000). Vertical coordination refers to all possible economic arrangements involved in transferring resources between economic stages. For the most part, stakeholders in different stages of food production coordinate the transfer of inputs and outputs through open production, contract production, quasi-vertical coordination, or vertical integration (Martinez, Feed 1996).

This research work is concerned with ways of linking coffee farmer producers to manufacturer/exporter, and hence into the coffee value chains. Vertical linkages at different levels of the coffee value chain are critical for moving a product or service to the end market. In addition, vertical linkages represent conduits for the transfer of learning, information and technical, financial and business services along the chain (USAID).

Material and Method

Sampling

For this study, a two stage sampling scheme was employed. In the first stage, two districts of Daklak were chosen based on the areas devoted to traditional coffee growing (Krongpak and CuMgar) using purposive sampling (Patton, 2002). The second stage involved the random selection of about 183 coffee growers who planted Robusta, the most common kind of coffee in production and trading.

Data

Primary Data

Primary data was gathered through extended fieldwork incorporating a combination of interviews and observation. In-depth semi-structured interviews was conducted with coffee producers, local trader cooperative, and manufacturer/exporter between May 2016 and October 2016. Interviews contained a limited number of set, closed questions, designed to elicit basic quantitative data, and a range of open-ended questions guided by a checklist of discussion topics.

Secondary Data

Secondary data from statistical materials, research papers and government documents was also collected in this study. The data on production, area planted and yield in Daklak was collected and compiled partly from the survey in 2016. Moreover, officials of Vietnamese coffee companies and associations, owners of processing facilities and government officials with work related to coffee industry were consulted for the in views on overall problems of coffee sector. The Pearson’s chi-square test was employed to assess the statistical significance of farmer responses across the study sites.

Results

The vertical linkages are typically based on a written contract, which defines coordination activities between both parties to guarantee the production outcome, purchasing price, time delivery, payment method, and both parties’ responsibility for risk in production and market price fluctuation.

According to different coordination in coffee production activities, there are three different types of linkage. They are type 1 “informal model”, type 2 “intermediate model”, and type 3 “nucleus estate model”. Results provided evidence that type 2&3 are more preferred as they are reaching higher rate of agreement. Contract compliance are also higher in type 2 &3.

The most common benefits from coordination between coffee farmer and manufacturer/exporter are credit loan opportunities (24 %), risk management (36%), higher adaptation to climate change (34%), increased productivity (37.2%), and agricultural knowledge attainment (40%). The pricing disagreement (37%), capital shortage (15%), water scarcity (65.6%), small scale production (65%), lack of collective action in quality control (52%), and obsolete local infrastructure (71%) have still been the problems and crucial challenges for coffee farmer in order to secure their participation in this sector.

Conclusion

Vertical linkages between farmers and agribusiness firms allow improved financing, risk-sharing, knowledge transferring process as well as market access. Moreover, quality control and contract compliance (causing price disagreement) are also needed in order to secure trust between farmers and firms in cooperation. If the manufacturers/exporters are really getting a large share of the benefit generated by coffee production by taking advantage of farmers’ weak bargaining power, arranging production activities through farmers’ groups can help considerably to overcome this problem.

References