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Effect of Contract Farming on Smallholders in Northwestern Viet Nam: The Case of Tea Production

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Abstract

This study examines the effect of tea production on living standard of smallholders in northwestern Viet Nam. It is applied empirical analyses which focus on tea farming in northwestern Viet Nam and provide some of the most detailed information available on growers' returns and costs of tea production, and their livelihood. Here the tea production under different contractual schemes is considered as a tool for rural development and evaluated as a part of the whole livelihood and farming system.

The first objective of this study is to analyse the efficiency and comparative advantage of tea production under different contractual schemes of smallholders with state-owned, cooperative or private, and joint-venture tea processing companies. For this purpose the descriptive analyses have been conducted in order to generate a clear picture of the different marketing channels and contractual arrangements existing in the research area. In the course of the analysis several determinants of participation among different contracts could be identified. In addition, the efficiency analysis of existing different marketing channel has been evaluated in terms of production costs which competitive price is taken into account.

The second objective of this research is to investigate the importance of income from tea production by smallholder farmers to overall income and livelihoods. For this purpose the relative poverty status of the households has been estimated by aggregating living standard data using the verified approach. These results were then applied to compare the incidence of poverty among different contract groups. Moreover, the relation between the incidence of poor in the different production schemes and the socio economic characteristic of its participants is assessed in order to provide the information about necessary and sufficient condition between living standards of growers and participating specific marketing channel.

Keywords: Contract farming, efficiency analysis, relative poverty, tea production, Viet Nam