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“Filling gaps and removing traps
for sustainable resource management”

Land Rental Markets in Rural Vietnam – Determinants and Welfare Effects of Renting in Crop Plots

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Abstract

It is often suggested that land rental markets contribute to efficiency and equity, especially in developing countries that only recently introduced privately managed agriculture and liberalised land markets. However, our understanding of the determinants of participation in those markets remains limited, affecting the estimation of welfare effects. This paper aims at analysing the determinants and welfare effects of renting in additional plots, thereby identifying possible ways to tap into rental markets' potential. A descriptive analysis is followed by a probit regression to identify the most important determinants of the decision to rent in, while an endogenous switching regression is proposed to analyse welfare effects. The analysis is based on data from 937 households owning rice plots in rural Vietnam from 2016 and 2017, collected in the context of the DFG-funded project 283672937 (TVSEP). Households are split between those renting in additional plots and those only cultivating the plots they own (autarkic). The descriptive analysis shows that households additionally renting in achieved higher yields and net income per hectare from crop production compared to autarkic households. Moreover, their per capita home consumption of their produce was of higher value, while the ratio of home consumption to sales was smaller. These observations point to possibly significant effects of renting in additional land on productivity and food security. The results from the probit regression indicate that households with more members, smaller land endowment, and higher farming ability were more likely to rent in, while minorities were less likely to do so. The results of the selection equation in the endogenous switching regression support these findings. The results from the endogenous switching regression furthermore suggest that autarkic households achieve a lower net income per hectare from crop production than a randomly selected household, while households renting in are able to increase their profit per hectare primarily through the expansion of planted area. The results highlight the importance of households' self-selection into rental markets based on their anticipated gains. Policies should facilitate this process and increase the credibility of rental agreements by providing credit and safeguarding rental payments, which could be targeted specifically at minorities.

Keywords: Cropland rental market, determinants, endogenous switching regression, Vietnam, welfare effects