

Contract Farming and Income
Empirical Evidence from Tobacco Production in Urambo District

By
Damian Smbuo

[MSc. (Economics), Mzumbe University]
(2013)

Abstract

This study sought to examine the patterns and practices of contract farming, factors affecting productivity, and the impact of income in wealth creation in Urambo district, Tanzania. The specific objectives of this study were to:

- Examine the contract farming practices in Urambo district;
- Assess factors affecting participation in contract farming;
- Identify factors that influenced smallholder farmers' productivity in the district; and
- Examine the impact of income earned from tobacco production.

A cross-sectional research design applied in this study because it saved time and enabled the researcher to collect data at a single point in time. The design was relatively cheap to undertake and provided useful information for statistical description and interpretation.

Both primary and secondary data were collected for this study. The primary data were collected using various methods and included the use of questionnaires, observation and interviews. To reduce the non-response rate, questionnaires were administered by enumerators and any question that was misunderstood by a respondent was easily rectified in order to minimize getting wrong information.

For secondary data, various publications were read. These included economic surveys, tobacco regulations, millennium development, population and housing census reports, agricultural sector development reports on the relevant information about tobacco, contract farming,

productivity and income of the farmers, and Urambo district economic reports on tobacco production.

The target population for this study was the tobacco smallholder farmers in Urambo district who cultivated tobacco in the 2012/13 production season. A simple random cluster sampling technique was used to get the sample for this study. The researcher categorized the district into clusters of villages according to the number of primary societies in each village. Thereafter, a simple random sampling was applied to select a sample of household heads in each village. A sample size of 150 respondents was selected by simple random sampling from all the cluster

Both descriptive and quantitative data analyses were employed in this study. The researcher had opted for these two types of data analysis so as to come up with an insight of contract farming in Urambo district for both qualitative and quantitative methods of data analysis.

This study made an assessment on the pattern of contract farming, productivity and income of the tobacco farmers in Urambo district among the households who were participants of contract farming. Almost 80% of the tobacco farmers in the area were in contract farming, and 70% of them (who were in contract farming) were also members of recognised small farm groups.

This study found that farming experience, credit, farm group, age, agricultural and non-agricultural assets were very important factors that influenced the probability to participate in contract farming in Urambo district.

Regarding the factors that influenced tobacco productivity in the area, the empirical results suggested that 98% of the responses from the farmers showed that the farmers applied organic fertilizers to enhance productivity.

Considering the extent to which income earned from tobacco production had helped farmers in wealth creation among the households, the overall empirical findings suggested that income earned had helped households in the district to create wealth and moved away from poverty. Income from tobacco production was high through contract farming which allowed farmers to purchase farm inputs on credit, receive cash credit and hire labour of which all payment would be made later after selling the crop.

Given the above findings, the following policy measures which were vital towards contract farming, productivity and income of the tobacco farmers were recommended:

- Farm inputs had to be provided for the betterment of the quality produce of tobacco. The timely distribution of fertilizers, pesticides and hybridized seeds had future contribution to the increase in farm yields and, thus, impact positively the level of productivity and income of the farmers.
- Policies and guidelines on the distribution of the farm inputs should capture the intended/expected output.
- Also, consideration should be made on how to apply and manage the distributed farm inputs at grassroots level. Most of the farmers were ill skilled. There was need, therefore, for training accompanying the application of the distributed inputs.
- Farmers' payments had to be done on time. Most farmers depended on incomes from the sale of tobacco.
- Policy makers should think of another model apart from farm groups sharing the loan on which if one member failed to repay the loan, others had to recover the default.
- To ensure timely delivery and quality tobacco that benefitted both farmers and buyers, stable policy on line of duty for both private firms and government extension officers should be in place.

There was a need to establish and maintain sound legal frameworks in rural areas where there are smallholder farmers. Contract farming was not the only solution for the smallholder farmers through access to credit, inputs, markets and extension services