

# Contract Farming in Lao PDR: Cases and Questions



Produced by the Laos Extension for Agriculture Project (LEAP)  
for the Government-Donor Sub Working Group on Farmers and Agribusiness

October 2007



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## Table of Contents

<b>Introduction.....</b>	<b>6</b>
<b>Case Studies of Contract Farming in Lao PDR .....</b>	<b>9</b>
Upland Farmer, Luang Nam Tha .....	10
Chillies from field to table .....	19
Corn along the Mekong .....	24
Watermelons in Muang Sing .....	30
Growing pulpwood under contract .....	33
Sugar deal goes sour .....	37
Smelling the profits of contract coffee.....	40
Managing contracts and trade on the Bolaven.....	44
<b>Questions about Contract Farming in Lao PDR.....</b>	<b>48</b>
1. Contract farming as a business model .....	48
1.1 What is contract farming? .....	48
1.2 Is farming under contract appropriate for all farmers in Laos?.....	49
1.3 Does contract farming discriminate against poorer farmers? .....	49
1.4 Are contracts suitable for all crops?.....	50
2. Contract farming and the business environment.....	50
2.1 Are regulations governing commerce in Laos hindering or helping contract farming? .....	50
2.2 Are regulations clear, simple and accessible enough to promote contract farming? .....	51
2.3 Is affordable credit easily available to all farmers who want to expand production for contract production?.....	51

2.4	Is transport of crops reliable, regular, fast and cheap enough to nurture contract farming? .....	51
2.5	Is transport across borders smooth enough to open up wider markets for contract farmers?.....	51
2.6	How can affordable crop insurance be provided to farmers raising crops under contract?.....	52
3.	Contract farming and the legal system .....	52
3.1	Are contracts necessary?.....	52
3.2	How can contracts be enforced given the current condition of the legal system? .....	52
3.3	Is the legal system accessible by farmers? .....	53
3.4	What alternatives are there to the legal system for guaranteeing and enforcing contracts between farmers and traders? .....	53
4.	Contract farming and market information .....	53
4.1	Do farmers have access to enough information to assess contracts?.....	53
4.2	What market information do farmers need to decide whether contracts are appropriate and fair? .....	54
4.3	How can farmers access to market information improve? .....	54
5.	Contract farming and roles of government staff.....	55
5.1	What role should government staff play in the commercial relationship of contract farming?.....	55
5.2	How can government staff help potential contract farming partners meet?.....	55
5.3	How can government staff help farmers prepare for contract farming?.....	55
5.4	Is it appropriate for the government to make local units autonomous, thereby getting revenue by charging for services they provide to contract farming? .....	55
<b>Bibliography .....</b>		<b>57</b>

## Introduction

### **Contract farming can be defined**

as an agreement between farmers and processing and/or marketing firms for the production and supply of agricultural products under forward agreements, frequently at predetermined prices. The arrangement also invariably involves the purchaser in providing a degree of production support through, for example, the supply of inputs and the provision of technical advice. The basis of such arrangements is a commitment on the part of the farmer to provide a specific commodity in quantities and at quality standards determined by the purchaser and a commitment on the part of the company to support the farmer's production and to purchase the commodity.

*'Contract farming: partnerships for growth', Charles Eaton and Andrew Shepherd, FAO, 2001*

During the past five years there has been a rapid rise in contract farming in Lao PDR. This report takes a look at what is actually happening in different parts of the country, and poses questions about what can be done to improve the benefits of this type of farming.

### **Government Policy**

The Government's objectives for the agriculture sector, as set out in the 6th National Economic-Social Development Plan (2006-2010), include the "continued shift in the structure of the agriculture and rural economy towards promotion of commercial agriculture". More specifically, the Plan states that "private initiatives including those by foreign investors and traders from neighbouring countries to promote contract farming, especially in horticulture and tree crops are being encouraged".

The attention given by the Government to contract farming has increased since May 2007 when Prime Minister Bouasone Bouphavanh announced a moratorium on land concessions, making particular reference to concessions that were granted for the purpose of establishing tree plantations. Land concessions are attractive to investors but, as the Prime Minister pointed out, this strategy had created 'many problems regarding land management'. In his announcement, the Prime Minister went on to mention contract farming as the preferred alternative to concessions and plantations:

*Mr Bouasone emphasised that his government would strongly promote the "2+3" policy - which divided benefits between investors and villagers - to ensure that all investment projects had the potential to benefit local people. Vientiane Times, 9th May 2007*

**The term '2+3'** is a convenient way of explaining the partnership that exists in contract farmers; the term makes it clear that investors and villagers should share responsibilities and benefits. Under a simple contract, farmers contribute land and labour (2 things), while investors contribute inputs, technical advice and access to markets (3 things). In practice, however, there are often more than two parties involved in contract farming in Laos - individual farmers, village heads, district officials, small traders, large investors, banks or other sources of credit and staff of development projects - and the responsibilities of each party vary from cases to case and year to year.

## Origins of this study

In February of 2006, the Permanent Secretary of the Ministry for Agriculture and Forestry appointed the Laos Extension for Agriculture Project (LEAP) to act as Secretariat for the Government-Donor Sub-Working Group on Farmers and Agribusiness (SWGAB). The Terms of Reference agreed by the members of the group state that SWGAB will oversee the preparation of case studies that illustrate different types of agribusiness interventions in Lao PDR.

As one of the first activities of this group, LEAP conducted a desk study that pointed towards contract farming as a priority topic for case studies. At the same time, LEAP established an on-line discussion forum that collects news and views about agribusiness in Laos and neighboring countries. The forum helped LEAP to identify both the cases that might be studied and the issues that needed to be examined.

In producing these cases, LEAP aimed to capture ongoing developments in different parts of Laos, with an emphasis on the experience and opinions of local actors: traders and investors, District officials and development workers, and - most importantly - farmers themselves. To this end, LEAP hired David Fullbrook, a journalist specialising in economic developments in South-East Asia and China. Between March and September 2007, the consultant travelled to two Provinces in the North (Luang NamTha and Bokeo) and three Provinces in the South (Savannakhet, Champasak, Salavan). During these visits, the consultant interviewed more than 100 people and examined a number of different market chains including rice, maize, chilli, cabbages, sugar cane, coffee, tobacco and eucalyptus.

## Structure of the report

There are two main sections of this report: Cases and Questions. The first section includes 9 cases, which describe developments in both the North and South of the country. The cases are a record of ongoing activities and local voices, which illustrate the dynamic and diverse nature of contract farming in Laos. The author has deliberately minimized the extent to which these activities and voices have been analysed to fit abstract models, or judged on the basis of external criteria.

The questions posed in the second section are intended to stimulate further discussion and analysis. The questions are organised around a set of common issues extracted from the cases. Reference is also made to the experience in other countries. Although possible interventions are identified, these options are offered as 'food for thought' and should

not be taken as recommendations to the Government and its development partners.

Together, the cases and questions are a resource that can be used in a number of ways: as a basis for on-line discussion, as inputs for group study in a workshop or training course, or as reference material for individual researchers.

## Acknowledgements

The cases and questions in this report were written by David Fullbrook, a consultant employed by the Laos Extension for Agriculture Project (LEAP).

The management of LEAP would like to thank the many people who agreed to be interviewed and whose names are included in the cases. This study would not have been possible without their valuable contribution.

Thanks also go to staff and advisors at NAFES, NAFRI and GTZ who reviewed the draft cases and helped in the formulation of the questions, plus experts working with FAO, CIAT and AFD who gave their views on contract farming.

Funding for this study came from the Swiss Agency for Development and Cooperation (SDC).

In November 2006, LEAP – as the secretariat to the SWGAB - created **an internet forum on Lao Farmers and Agribusiness (LaoFAB)**. This was followed by a Lao-language forum in May 2007 (**LaoLink**). By October 2007 there were more than 500 members of these forums, including Government officials, donor representatives, project experts, NGOs staff and business people. The members are posting more than 10 messages per day, covering a wide range of topics related to rural development in the Mekong Region. In addition, the LaoFAB website is now acting as a searchable archive of agribusiness news, and it provides access to more than 175 documents and 125 websites, including numerous market chain studies, research papers and training materials. Anybody interested in joining LaoFAB can submit their email address at this web page: [www.LaoEx.org](http://www.LaoEx.org). For those wishing to join LaoLink, they should visit: [www.laolink.org](http://www.laolink.org).





## Case Studies of Contract Farming in Lao PDR

## Upland Farmer, Luang Nam Tha



*A Khamu villager in Nam Ha collects seeds from FUF to grow corn under contract for the first time.*

With the knowledge and income that has come with contracts, some villages have broken away from FUF, financing the inputs themselves. Some villages are able to roll with the ups and downs of the market, while others have struggled and returned to FUF.

**After six years working on integrated community development projects in Luang Nam Tha during the 1990s, Peter Dutton came to realise that the efforts being made to raise farmers' incomes were likely to be disappointing because little was being done to profitably link growers and consumers.**

He saw a desperate need for marketing to ensure surplus produce would turn into cash instead of rotting in the fields. Marketing however was not within the remit of aid agencies and charities who had their hands full with more immediate challenges of poverty like sickness, hunger and illiteracy. Farmers by themselves lacked the experience, language and volume to tap into foreign markets.

### Getting down to business

Business, Dutton concluded, was the answer. A company could marshal the resources to evaluate foreign markets, buy produce, process as necessary and then wade into markets to negotiate with buyers looking for quantity and quality.

He returned to Luang Nam Tha in 1999 setting up a company called Friend of the Upland Farmer which had to start almost from scratch, identifying markets which farmers could grow for profitably. Ideally FUF is looking for a range of crops that keeps fields in production all year. Inspiration lies north across the border in China.

“Farmers there don’t have a rice shortage, they’re better off, they typically have four or five crops: rice, tea, cardamom and some cash crops like watermelons. They’re pretty well off, every inch of ground is cultivated,” says Dutton, a bearded American who came to Southeast Asia in the 1980s as a volunteer helping Hmong refugees in Thailand.

Finding that magic mix for Luang Nam Tha is challenging because the province is mostly mountains with thin soils vulnerable to erosion. Logistics multiply the headaches, adding bills. Though conditions are better now, it will be some years yet before blacktop roads and electricity reach most villages.

“There’s only so much you can do in agriculture with hillsides. You’ve got to look at tree crops which is why the province has gone for rubber. You can get into tea, coffee, cardamom, jatropha, but the logistics and the markets are difficult for us and the farmers, the markets are difficult for us and the farmers,” he says.

FUF’s first targets were cardamom and forest produce like mushrooms and barks, despite the burdens of export taxes and fees. Coffee’s prospects are dim because the altitude only suits robusta which would mean going up against the low-cost Vietnamese.

Now FUF’s biggest crops are corn, harvested in December and April, and soya beans, which are pulled from fields in May. January sees villagers out scything broomgrass, in March its rice, though mainly for their families. Come August some are picking cardamom. “Finding products has been difficult, but we’ve received a lot of enthusiasm from villagers wanting to plant corn, soya bean, and other products,” says Dutton.

Most produce is sold to customers in China, Thailand and Vietnam at the border for cash, reflecting low (but increasing) volume, inadequate and inefficient formal trading practices and growing, but still thin, knowledge of potential customers and markets.

Pigeon pea, which sells for around 1,200 kip (\$0.12) per kilogram, is in demand for animal feed, a good long-term prospect because increasingly wealthy Chinese are eating more meat, especially pork.

Dutton is hopeful about the prospects for cardamom. “The prices of the Guandong variety which we were promoting were high last year. We’ll continue on with that, it’s a viable product.”

Sesame production is growing and niches are opening up. “We were asked if we could do the promotion, the extension and so on for indigo. Now we’re the only ones doing indigo, nobody’s trying to beat us, but we can’t have a wide impact with it,” says Wessel Huisjes, a Dutch tropical agriculture specialist advising projects in Laos for most of the last decade who now consults for FUF.

Indigo produces a vibrant dye used in textiles and garments. FUF is also encouraging farmers to raise tiny sticklac beetles, which when crushed release a strong red dye selling for 10,000 kip per kilogram. Sticklac is nurtured on bushes where it produces a resin that draws prices as high as 18,000 kip per kilogram on the back of demand from China.

Raising livestock is another opportunity FUF wants to explore, and not just to meet the growing appetites of Chinese meat eaters. Concerns are growing over the province’s food security as more and more fields turn into rubber plantations to feed the demands of Chinese industry.

## Know-how

Cultivating crops has been challenging because farmers in the districts of Nam Tha, Wieng Phu Kha, and Na Le cannot afford to buy seeds, advice and where necessary fertilizer and pesticides. While they are experts at plucking produce from the forest and tending traditional crops, they lack the know-how necessary to grow commercial crops profitably.

To overcome these barriers FUF contracts the farmers, typically giving them the seeds in return for the right to buy the crop at a certain price which reflects the cost of the seeds. It is a novel idea for most farmers, some see no reason why they should not sell their crops to passing traders if they offer higher prices than the contract.

Corn is the crop most vulnerable to offers from traders. In the absence of disease or bad weather FUF has a good idea of losses, which have run as high as 40 percent for some companies, because one kilogram of corn seed

usually yields at least 150 kilograms of corn. “It used to be a lot, then it got better, but the [corn] price is high this year, so maybe there’ll be more,” says Huisjes.

Farmers attitudes are hardly surprising, many live life season to season, their worldview shaped by hundreds of years of experience and tradition. Modern laws, courts and contracts remain for many vague, abstract concepts.

“The contract doesn’t have much sanctity out there. Mainly that’s because there hasn’t been ways of enforcing a contract. There’s no recourse really. The best you can do is ask the department of agriculture to come and talk in an official capacity with village. At the end of the day if they decide not to comply with the contract there’s not a lot you can do,” says Dutton.

Fining or jailing people for breaking contracts would in any case go against FUF’s goal to improve villagers livelihoods and well-being. Instead FUF makes inspections and warns villages it will cease doing business if they persist with selling to traders. One village lost its contracts with FUF for a year after delivering a very low corn harvest.

Generally contracts work fairly well. Dutton is optimistic: “It’s all in the details, it’s important that a contract is clear, that the contract is honoured, have some enforcement mechanisms, when that’s there I think things will be much better.”

Dutton expects more villages to go their own way. “It seems to be that as places develop, farmers get richer, contracts become less important, there are more buyers, and cooperatives begin to form, that seems to be way. It would be easier if we could just sit here and let them bring the corn to us. So far we’re not there yet, at least for another five years we’ll have to be very involved.”

### Capital challenge

Capital is precious for any small business, especially when cashflow is seasonal or erratic. But in a poor country with rudimentary banks and expensive loans it is a serious constraint on expansion and scale, even more so for Laotian firms owned by foreigners.

Quite probably many opportunities are left hanging for foreign firms with deeper pockets and more generous bankers to seize.

“Access to capital is the biggest constraint we face, like many small or medium-sized companies. We’ve looked at getting a

loan from the bank, but we couldn’t. We haven’t been able to borrow here. I think across the whole spectrum of borrowers we are probably among the lower risk, we’re a foreign-owned company, we’re registered, we’ve got a lot of assets as capital,” explains Dutton.

Laotian-owned companies will generally receive a more sympathetic hearing, but the price is high. “The banking polices favour Lao companies first. Commercial loans are available to Lao individuals and Lao companies, but the interest rates are high, the qualification procedures are high, you need a piece of land worth double what you want to borrow,” says Dutton.

“I looked at ten small farming businesses in another province, but they all said that access to capital was their biggest problem,” adds Huisjes.

FUF conserves cash for buying crops under contract. Squeezed by the capital drought FUF, like many farmers’ production groups elsewhere, is often forced to sell produce when prices are low because it needs cash.

Expansion to some villages over the last few years that would otherwise probably not be commercially viable because of the costs imposed by poor roads has been under contract to the Asian Development Bank (ADB), which in some cases now prefers to support socially-responsible companies rather than fund new aid projects. Funding from the Bank (ADB/TA Lao 4392) focusing on marketing support for organic produce grown by highlanders ended in May.

“One of the goals of the ADB project is to encourage farmers to establish groups. We’re about to start a programme to raise market awareness in conjunction with adult education programmes in villages. We’ll develop some basic materials about marketing, market chains and things like reasonable profits for players along the chain. We’ve already tried to tell them the advantages of working together as a group and understanding their role in the marketing chain,” says Dutton.

Some additional capital has come from falling tax rates, though the paperwork burden is heavy which translates into higher production costs and dampens competitiveness. “The profit tax was 20 percent, or one percent of gross income. Now it’s been lowered to 10 percent for new investments. It’s very favourable tax policies on the books, but implementation is a bit more difficult. It is very time consuming doing the paperwork, for example a truck of corn can take a day, even two or three,” says Dutton.

Rapid expansion in recent years is set to slow, if not halt because of the capital crunch. “To come up with the money as we continue growing is going to become difficult. We’re doubling in size every year,” says Huisjes.

Adds Dutton: “We’re pretty maxed out right now, what we’d like to see is more efficient production. We’re pretty stretched.”

A new source of financing is however on the horizon reflecting processors concerns to secure supply. “Thai and Chinese investors want to make contracts with us, in which they would give us money in advance in order to lock into a certain amount of product. Most other entrepreneurs do it in Bokeo, Xaingabouri and elsewhere,” says Dutton.

Though that would mean compromising some of FUF’s cherished freedom which should, if it had the capital, allow it to sell to the highest bidder at the right time.

### Burdens and constraints

Since March another headache has grown to probably equal that caused by the dearth of capital. “The problem we face is that our annual business license has not been approved for three years now. Normally they are issued in January and we usually received ours in April. The provincial government changed half-way through 2005. When we went to pay taxes for 2006 the officials said they were going to conduct an evaluation. They tell us they’re waiting for the central level, but the central level passes it back to the province,” says Wessel.

As of August no resolution was in sight. “It hasn’t affected us too much yet, but in a way you could say we’ve been pushed into operating illegally. However, the province has stopped us from expanding in rice because we don’t have our licenses. We’re still doing business but the uncertainty is wearing us down,” Wessel.

Such bureaucratic wrangles scare off investors and contribute to the perception that the business environment in Laos is among the worst in Asia. Capital and entrepreneurs not surprisingly favour Cambodia, China and Thailand which in turn contributes to the increasing international competition faced by farmers and processors in Laos.

Contracts are also a burden to FUF because by adding on services like extension they detract from its core mission of marketing. “We want to spend less time in the villages everyday, we lose money on extension, it’s time consuming



*FUF has built large processing facilities for adding value to crops grown under contract with farmers in upland villages of Luang Nam Tha.*

“I think it’s a great way of kickstarting the whole agriculture process. I think it’s more sustainable than most other models we’ve seen in Laos. We’ve seen a lot of development projects coming in, getting people to grow things without any marketing, or the government giving people seeds for free, but again no marketing; the sugar cane rots in the fields, the crops go unsold,” says Dutton.

and costly. If the agricultural services were there we could focus on promotion and marketing,” says Huisjes.

It is not the only cost FUF is forced to bear to get commercial farming off the ground. “We’d like to see some of the processing and support and after-harvest support handled by independent contractors with their own machines, shelling operations for corn for example. Whereas now we have to provide a full service, promotion, extension, and harvesting, drying and shelling. It’s a bit much, especially in difficult areas,” explains Dutton.

Doubtless such services will spring up in due course as prosperity rises. Meanwhile however FUF is forced to dump precious capital into equipment and facilities it probably could contract out in another place at another time. “You have to invest a lot to do this, trucks, dryers, concrete floors, all this stuff takes a lot of money for fairly low returns. There aren’t that many people lining up to do agricultural processing,” says Dutton.

However there is only so much that can be done given the constraints of time and geography because few people have a strong formal education. “One of the basic constraints is the lack of education. You can only use information if you have the education to use it,” observes Dutton.

### Looking ahead

Despite the challenges FUF is grappling with, the situation has improved since 1999. Not only have taxes come down, but crucially roads are now better which helps to bring down costs and open up more villages. Exporting through Thai ports is now fairly straightforward, though expensive, which offsets any benefits of avoiding Thai traders who sell to world markets in baht, which has risen sharply against the dollar over the last year.

FUF needs to diversify because the environment will not support corn forever. “Corn is bad in the long run, it depletes the soil. Soya bean or pigeon pea improves the soil, fixes nitrogen. We would like to work with the farmers to use crops that are better for the environment. “I think it’s still worthwhile even if the prices are not that high, it’s a matter of wanting to do it, and knowing how to do it well,” says Huisjes.

Nevertheless the long-term goal remains to find niche products offering higher incomes. “The markets are there for the basic products, but what we want to do is spend more time finding products that have a higher profit. We don’t know where

the markets are, what they want, it’s the same problems the farmers have,” says Dutton.

Profits should improve for farmers and FUF if efforts to add more value succeed in the face of capital constraints. “It’s a matter of developing good products that people want. I tried developing a range of forest foods. I took some samples to the United States. But so far nobody’s come back to us. To break into the oriental or specialty grocery stores is pretty difficult. Frankly it’s beyond us at the moment,” says Dutton.

“We’ve also looked at bamboo products, like parquet flooring. China’s already doing it, I suppose we could, but it’s a big investment in a factory, and we’d have to get out there to get farmers to plant it.”

When the cash is available Dutton wants to appoint agents in Mong La, a key market in Yunnan, Huay Xai on the Thai border, and even further afield. An agent in China is particularly important because nobody at FUF speaks Chinese and Beijing and Kunming regularly issue regulations. Getting online to tap cyber-markets is also another prospect on hold until the capital situation improves.

That FUF has survived and grown for eight years despite the challenges of developing commercial agriculture in the highlands, the scarcity of capital and the difficulties of seeking out new crops and customers strongly suggests that marketing organizations, whether private companies like FUF or large cooperatives, have a strong role to play in helping to raise farmers incomes by bringing the experience, expertise and scale to tap into large export markets. )

## A contract for Nam Ha



*Nam Ha was a village of subsistence farmers until contract farming connected them to the global economy.*

**The headman, in his thirties with black tussled hair, bounded down the steep steps from his wooden house to speak with the visitor, a broad-faced, diminutive Hmong man who wore city clothes and arrived in a four-wheel drive Japanese utility vehicle.**

After a few minutes discussion, the headman stepped away from the Hmong, picked up a metal bar to bang a beaten and dull metal gong, perhaps once a piece of a machine, hanging beneath his house from a wooden beam. Metallic chimes ran through the village causing people to look up, and in their own good time wander down to the headman's house.

Khamu villagers of Nam Ha gathered amid a few rough-cut tables and benches, and bamboo stools in the yard below the headman's house. After about ten minutes a good crowd of around 40 people, among them 15 women, plus a dozen or so children peering out from behind their legs gawping at the gathering. A couple of chickens rooted around.

Introductions were made and then the Hmong, Shoualor Nhiachao, a graduate of the National Agriculture University in Vientiane who is now an extension worker for agricultural processing firm Friend of the Upland Farmer, began speaking.

### Introducing the contract

Shoualor read out the contract to the assembled farmers, as he had a few weeks earlier. According to the contract FUF would give farmers corn seed and advice, but not fertilizers or pesticides.

"We never used fertilizers or chemicals, we don't know how to use them. As we weed and burn the weeds the corn grows quite well, there's no need for fertilizer," said Kamgaew Pompanya, 43, a party member who served twice as deputy headman and is now responsible for protecting the forest after receiving training from the DAFO, the District Agriculture and Forestry Office.

In return farmers would cultivate the seeds, guard against scavenging animals, and sell at least the first 200 kilograms of the crop produced by every one kilogram of seed to FUF at prices determined by the corn's moisture. As he explained the contract another dozen or so villagers ambled up, a few children became bored and wandered off. A humbler beginning for a new era is hard to imagine.

The meeting on the 6th April 2007 was a watershed for the villagers of Nam Ha. A small, but important, footnote in history because in agreeing to sign their first contract they

How far FUF should go to ensure each and every farmer understands every point of the contract raises questions about the responsibilities of the other parties who are involved. Surely the state should play a greater role in providing the education and knowledge people need to comprehend a basic contract. Ideally villagers themselves should be able to look after their own welfare and interests. Drawing a line becomes even harder when taking into account the different culture, perspective and worldview of the Khamu for whom centuries of tradition run strong and FUF, a company which is the product of the modern market economy.

formally anchored themselves to the fringes of the global market economy, which in turn expanded a little deeper into the mountains of Luang Nam Tha.

“This is our first season of farming like this, I don’t know whether experts will come to advise and instruct us, but I hope they do. In the past we did not have any technical support because we just farmed according to our traditional practices,” said Kamgaew.

Villagers thought they understood the written contract with FUF, they appeared content, eager even to get on with the formalities so they could collect their bags of seed. Orn La, 30, a farmer whose husband teaches in local school, said she understood the contract, though she was vague on the company’s duties and obligations.

“I will plant the seed, take care of the plants and harvest. I will only sell to the company because it gave me the seeds,” she said an hour or so after the meeting while sitting on the verandah of her house with her children, a few relatives and friends.

She said three seeds should be planted together, which is correct, a metre apart, which is wrong as Shoualor read from the contract that each group of three seeds should be planted in the same hole 75 centimetres apart.

A few bungalows away, another farmer sat atop the steps up to her bungalow with her mother and few other relatives. See Kaewbualapaa, 19, thought the seeds should be an arms’ length apart, with two or three seeds planted together.

There was a simple reason for her not knowing the correct cultivation method. “I did not attend the meeting, my father did. When we have dinner maybe my father will tell me about it. I think the meeting would have been useful, but I didn’t go because I was busy, I went to the forest to gather bamboo shoots,” she said.

Other farmers also had someone else attend on their behalf, or just turned up to collect the seeds. Almost inevitably there will be problems as villagers learn the new ways of the market economy.

### Giving seeds

After Shoualor finished explaining the contract there were a few questions, though not about the contract terms. People asked about the site for a warehouse to store the corn or whether FUF could give them seeds for beans.



They agreed to form a group for each of the two places where they have fields, one is now led by the headman, another by former deputy headman Kamgaew. Afterwards Shoualor called out farmers by name, confirming how much seed they wanted.

If farmers asked for little or a lot, Shoualor queried them with the help of other villagers based on the amount of seed required for each hectare. Once the amount was settled those that could sign to acknowledge the agreement, and those that were illiterate asked friends or Shoualor to sign for them.

In all, representatives of about 50 families signed the contract, accounting for about 26 hectares of cornfields, which rise up lower slopes allocated by DAFO because they were previously used for shifting cultivation. “The main obstacle is that level farming land where corn grows well is limited. We are already planting most of it,” said Kamgaew.

Shoualor then led the villagers over to the vehicle. In the back were boxes and boxes of one kilo bags of LVN10 corn seed from Southern Seed Company of Ho Chi Minh City. On the pack, printed in Vietnamese, the company claims each hectare planted according to its instructions should yield six

tonnes of corn, probably more. These seeds are cheaper than Thai seeds promising a similar yield. Each farmer signed for their allotted seeds, leaving smiling with arms stacked with bags of seed.

### Learning by experience

Nam Ha is just one of dozens of villagers Shoualor has been working with since joining FUF as an extension worker in 2005. Previously he coordinated an integrated comprehensive rural development project in Xieng Khouang for CRWRC, an international non-government organisation (NGO). “In the three districts in which we are providing extension about 90 percent of the farmers grow corn under contract with FUF.”

He said in the past there were more problems. “In the past the production groups were not well organized, the farmers sold their products to merchants who visited offering a higher price. There have also been problems with repaying the company’s inputs because the farmers inattention allowed animals to eat the crops.”

Something the farmers of Nam Ha will have to attend to closely. “There are a lot of wild animals, such as pigs, rats and birds, that come out of the forest to eat the corn,” said Kamgaew.



*FUF extension officer Shoualor Nhiachao confirms how many bags of seeds Khamu farmers want in Nam Ha.*

FUF had to make changes. Better management of farmers' groups has been crucial. "We pay commission to the head of the group, who manages the farmers and gives advice. For example some families with only a little land want to buy too much seed, the group head warns them that they should think carefully because they could end up in debt. From last year until now there have not been any problems because I think the head of the group plays a stronger role," said Shoualor.

He expects the group leaders will in future take over some of the extension work. "I think that in the future we will train the people running the group to build up their capacity then they can help with the extension work, collecting data, undertake accounting, and making requests for seeds. The group can arrange to collect the seed from the company. We are paying the head of the group ten percent commission so they should share some of the burden of organization."

The contract was also revised. "Based on this contract we use now the farmers know the terms and obligations and that they will be fined if they violate them. In the past the company did not fine the farmer, but refused to work with that farmer again unless they promise to respect the contract and the members of the group agree to give the farmer another chance," said Shoualor.

### Problems persist

Nevertheless the threat remains that traders may swoop in, buying up crops contracted to FUF. "We cannot buy the corn at a high price, for example we set the price at 1,000 kip (\$0.10) per kilogram for the good grade. Actually the corn the farmers sell falls below this level, usually earning around 900 kip per kilogram. Traders come offering better prices, but they don't have to bear the costs of extension. Some farmers also still sell some corn to traders along the highway. It's difficult to control," said Shoualor.

Another change FUF made was organizing extension workers to work more closely with villages. "In the past the company did not assign staff to villages, in that case it is difficult for the staff to know each village and its situation well. Since the last year the company has assigned staff to monitor particular villages."

Shoualor is confident that contracts are bringing more security and helping expand production. "Farmers are more confident they can sell their product because the company will come to buy, they do not have to find the market. They also know the price. And even though some families cannot

afford to buy seeds in advance, they can still grow crops. Farmers can also borrow money in advance if they have an urgent need. They can also bring more land into production because the company will plough the land, deducting the cost from their income."

Kamgaew agreed. "The farmers are are happy with this guaranteed price because it protects them when prices fall. I think more farmers want to sign the contract with the company because most of our farmers do not have money for seeds. The company pays people 10,000 kip for loading each tonne of corn on to the trucks. Farmers also find access to emergency credit from the company attractive."

He would like to see contracts for other crops, "If we grow other crops we want to use contracts like we are doing with corn to guarantee the price."

Nam Ha has taken an important step towards stabilising, if not increasing incomes and improving livelihoods. The village is fortunate that Friend of the Upland Farmer, a company that tries hard to deliver outcomes that maximize benefits for farmers while being held to account by the need to balance the books if not turn a profit, is there to help guide the village.

However there is only so much FUF can do. Maximizing the benefits and grasping the opportunities of contract farming in the longer term will be stymied without efforts to provide education appropriate for the villagers needs.

## Chillies from field to table



*Farmers say they were not given protective clothing to wear when applying chemicals to chilli bushes under contract with Phet Houng Heuang in Muang Kham, Bokeo in April 2007.*

**For some farmers in Bokeo the 2007 dry season was unusual. Instead of visiting friends and relatives, repairing the house or building fences they were farming under contracts for the first time.**

They planted chilli bushes in idle paddies under contract to Phet Houng Heuang, an agricultural trading company in Huay Xai, which was approached by S&J, a food processor from Lamphun in Thailand exporting to Europe.

“There’s so much competition to buy in Thailand that farmers are breaking contracts, they can pick and choose, so buyers are looking for more stable, secure sources of supplies which could be Lao farmers,” said Stewart Ling, the Australian country director for VECO, a Belgian charity promoting better agricultural techniques and strengthening farming communities.

Thongpet Yodsomsee’s experience of sourcing corn and mangetout with verbal contracts from Nam Nyon and Nam Gueng since founding Phet Houng Heuang in 1999 made him confident he could supply at least 1,000 tonnes of chilli demanded by S&J without encountering the problems seen in Thailand. “Since 2006 the trade department and the district agriculture office have become involved with the contracts which has increased farmers awareness of their responsibilities.”

### Setting up

To pay for the chilli bushes, fertilizer, pesticide, training and other costs Phet Houng Heuang borrowed 1,900,000 baht (\$58,237) with an annual interest rate of 8 percent from a Laotian bank. “If I’m successful this year, reaching the 1,000 tonne target I won’t need to borrow from the bank next year,” said Thongpet.

Phet Houng Heuang contracted 346 families in four villages to provide 450 rai (72 hectares) of fields that could draw water from streams, ponds or wells during the dry season.

Each village formed a production group, typically led by the village head, to oversee planting in December and January, cultivation and harvesting until June for Phet Houng Heuang.

“Maitoun, the village head, called a meeting where he asked us who wanted to plant chillis. The company and the buying group told us about what they would give us and the price. During the meeting the head of the village read the contract which farmers signed if they agreed,” said Maiping, 48, an illiterate Lue farmer who goes by one name sitting in a bamboo sala beside his 1 rai (0.16 hectares) and 1 ngan (0.04 hectares) of chilli bushes in Padam.

Farmers in Nagung and Phu Ka grew the Mae Ping 80 variety on 250 rai which S&J expected to yield at least 5 tonnes for per rai during the course of the harvest from March to June. Farmers were due 5 baht per kilogram for red chillis, which Phet Houng Heuang was selling to S&J at 10 baht per kilogram. In March Thongpet said he was prepared to raise the price next year if farmers performed well.

Higher prices were due to 51 families in Padam because they agreed to buy the chilli saplings, fertilizer and pesticides for 10,500 baht per rai from Thongpet. Villagers however reckoned the actual cost was around 8,000 baht, excluding transportation and training. Thongpet told the villagers they could expect income of 30,000 baht per rai.

“They were able to raise some of their own funding, they weren’t totally reliant on the company, therefore they got a better price. Related to that was that they had access to credit through the revolving fund and also because we encouraged them to form a kind of co-operative whereby people were able to mobilize money from within the community to buy shares. It’s a form of savings really,” said Ling, the VECO country director.

In Moksutafa, Concern, another NGO, paid 4,000 baht on behalf of each family contracting to grow chillis, with the remaining 6,500 baht coming as a loan from Phet Houng Heuang. “The model used in Padam or Moksutafa is better because I invest less and the farmers get a higher price,” said Thongpet.

Farmers in Moksutafa and Padam grew the Superhot variety which was supposed to yield at least 3 tonnes per rai across 200 rai of fields. Though at least one farmer was circumspect in early April. “The company said I would get about 3 kilograms of

chillies per bush, but I don’t know if I’ll get even 1 kilogram,” said Maiping, the Lue farmer in Padam.

Phet Houng Heuang trained farmers to follow what was for them an intense cultivation programme. Chillies require daily attention unlike farmers usual crops like rice and corn. Farmers were instructed to only pick red chillies and be especially watchful for signs of fungus, immediately removing and destroying any infected peppers.

In addition to training from Phet Houng Heuang and monitoring by the village production groups, S&J experts visited to examine the saplings and predict output. Extension is the duty of companies not officials under a formal contract regime introduced in 2005 by PAFO, the Provincial Agriculture and Forestry Office.

### Ominous signs

Yet even with this the training and monitoring Phet Houng Heuang in March rejected three tonnes from Nagung because some chillies were green and stricken with fungus. “It’s not something for lazy people, you have to follow up with them, pushing them all the time. At the meetings they say they can do it, but in fact they cannot. You cannot just tell them, you have to lead them, they have not had any experience like this,” said Thongpet.

Contract farming raised other issues. Farmers in Padam were spraying pesticides with no protective equipment. They said none was provided. “I’ve never used chemical fertilizers or pesticide before, I don’t know what the effect will be on rice or fish,” said Maiping, the Lue farmer in Padam.

Concerns shared by May Toun, 49, head of the Padam khet development group and headman of Pha Koun, a village beside the Mekong in Padam: “There may be some bad affect to people’s health because they use pesticide. I don’t know, I don’t have experience it’s the first year.”

Supplies were delayed forcing the farmers to improvise. “The company is not supplying the fertilizer on time, sometimes it’s nine or ten days late so I have to use manure instead. Now the pesticide and fertilizer is empty. I don’t know if it’s having any effect, but some of my chilli trees have yellow leaves now. If the plants die because the inputs were late I don’t know if I will have to repay the company,” said Maiping.

Maitoun was concerned the Padam group’s inexperience would give Phet Houng Heuang the upper hand. “We want to learn how to make contracts, we are all farmers we don’t have much education. We want to learn how to write requests to the higher

levels. We also need training on crop growing, on how to use fertilizer and pesticides correctly and safely.”

Lack of competition for chillis was another worry. “I’m afraid with only one company the price will be pushed down, if more companies made contracts prices would rise. For example, the Burmese are now paying 30 baht for a kilogram of these chillis,” said Maitoun.

### Misplaced optimism

Nevertheless with the prospect of earning 20,000 baht, a substantial sum for a man who did not know the colour of a 1,000 baht banknote, Maiping in April said that he was content. “I’m quite happy with the system. They come and help us in terms of production input, we only make a small investment. In case the crop fails because of natural disaster I do not have to repay the company.”

Maitoun, the Padam khet production group head and village head, saw significant benefits from contract farming: “There are three advantages. Firstly, we have confidence that after growing there will be a market for our produce. Secondly, there will be more work for farmers and increased income. Finally, the farmer

A safer and cheaper alternative might be found by combining local knowledge with research from elsewhere. “I’d like to do trials taking a more organic approach to chillis, producing fertilizers and other inputs locally, to compare the outputs,” said Ling, the VECO country director.



May Toun, headman of Muang Kham and also head of the village production group, discusses the chilli contract at his home in April 2007.

will learn and gain experience in cultivation from the technical staff.”

Thongpet judged the move to formal contracts for chillis a success. “It gives us and the farmers confidence, it’s more stable, and income is increasing. I think the outlook is very good, next year the company will order 1,500 tonnes if this year we can supply 1,000 tonnes. Next year S&J also wants to contract for 1,000 tonnes of garlic for pickling and export to Singapore.”

### Decay and collapse

However by August optimism had turned to acrimony as teething problems turned into major issues. Thongpet’s confidence turned out to be misplaced and some of Maitoun’s concerns were spot on.

Yields fell far below predictions. “I don’t really understand what went wrong. My expectations for Padam were the highest for all the villages. In Padam, Maitoun said he only got 800 kilograms from about 1 rai, but his chillis were very beautiful, I don’t understand why the yield was so low. I saw similar chillis in Don Jai where they got 3 tonnes from 1 rai,” said Thongpet in August.

Farmers say the plants simply did not produce the promised yields. “The company said we would be get 5 kilogram per plant but the best plants were only producing a quarter of a kilo, we needed to pick about 400 chillis for a kilo, instead of about 70 chillis the company said would equal a kilo,” said Maitoun.

“At the first meeting the company said we can expect 6 to 7 tonnes per rai, if we look after them very well 11 or 12 tonnes. However most farmers didn’t even get 2 tonnes, the largest crop was 2.5 tonnes. We followed the staff’s instructions, we did everything, the weeding, the spraying. There was one problem with pests, which we cleared up following the company’s instructions,” said Maimun, headman of Na Kham village in Na Kham khet where farmers also grew chillis for Phet Houng Heuang

Thongpet does however concede he is at least partly to blame. “The preparation time wasn’t long enough. Planting was late. We should have started the seed beds in October not December.”

Nevertheless he is convinced farmers ignored cultivation instructions resulting in poor yields. “For example the farmers didn’t spray the plants on schedule, the result was disease. I then had to spend more time trying to find a cure. They didn’t control the weeds so when they applied fertilizer to the chilli plants they were also feeding the weeds.”

Villagers rejected this charge. “I more or less followed the technical advice, I even used a lot of manure, but still the plants did not produce many chillis,” said Maiping in Padam.

Whatever the cause matters were hardly helped by inputs arriving late and sometimes diverging from the specification. Farmers also accused Thongpet of overcharging for inputs. He sold urea fertilizer to the villagers at 85 baht per kilo, but according to Palami Seneboutdy, PAFO technical officer in Houay Sai, the price is usually 15 baht.

Thongpet thinks another reason for the low yield is farmers selling chillis for higher prices to traders. Farmers deny this though some admit to paying labourers with chillis. “It was better to pay them in chillis, we didn’t have much money because we were being paid late, and they would have stolen chillis. Anyway that’s what they wanted, to be paid in chillis,” said Maitoun.

When Phet Houng Heuang’s agent reported this to Thongpet he cancelled the contract that had earlier been ‘renegotiated’ in his favour. “There was a meeting between us, the company, and the district to revise the contract from an 80:20 split in our favour to a 50:50 split. Villagers weren’t happy, but Mr Phutong, head of trade for the district, supported this change so the village went along with it,” said Maitoun.

Similar revisions were imposed elsewhere. “The company asked to change the contract agreed at the first meeting to recover the cost of inputs by splitting the price 80:20. We weren’t so happy, some people lost interest, but it was not so bad, we were still getting 80 percent of the price of 5 baht per kilo. Then the company decided they wanted to change the contract to a 50:50 split. We thought this very unfair,” said Maimun, headman of Na Kham.

Cutting fees only compounded the problems and bad feelings being created by late payments for the chillis that were picked and handed over to Thongpet’s company Phet Houng Heuang.

Mediating district officials ordered Thongpet to pay Padam villagers 60,000 baht and to repay 100,000 baht to the village revolving fund. Thongpet refused to attend mediation in early July and then only joined a meeting in August after the governor issued an official summons.

Meanwhile in August Thongpet claimed losses of around 600,000 baht and was seeking compensation from the villagers through arbitration by district officers. However at a pre-arbitration meeting in Dong Pheung a trade official calculated Thongpet actually made a profit.

While it is hard to pin down exactly what went wrong it does seem the project was poorly conceived and mismanaged. Without trials in local soils estimated yields based on conditions in Thailand were at best simply guesses, at worse a deliberate attempt to hoodwink farmers. Farmers probably exacerbated problems by being disorganized, inadequate attention to details like keeping records, and perhaps too much enthusiasm leading them to take on more work than they could handle.

Some local officials also seem confused about their role and obligations or may have even deliberately colluded in contract revision in Phet Houng Heuang's favour. That situation is exacerbated because in the absence of an effective legal system both sides expect officials to provide answers they are ill-equipped to give.

### Hope endures

Despite the contract's collapse, losses real or imagined, and sour experience both sides are still willing to give contract farming another chance. "I wouldn't do chillis, but I'd grow other crops with contracts like peanuts. I would never do it again by investing my own money," said Maiping, the Lue farmer in Padam.

Thongpet thinks joint ventures are the way forward. "Next year I want to invest more in preparation and training prior to planting so the villagers understand better. I will only make contracts with a group that has a strong leader who invests 50 percent. This is what I'm planning to do next year in Na Gong with My Da a local businessman. I'm also going to register each contract with the courts."

Farmers and Thongpet want the state to play an even greater role. "The government needs to educate villagers about commercial farming, to explain the economy, to help them understand how much money they can earn for their work. The government also needs to provide clear contracts that can be enforced."

Farmers feel the state is their best hope for protection. "To improve contract farming the government must be involved at every step, including signing of contracts," said Maitoun in Padam.

A view echoed by Maimun in Na Kham: "At every stage the authorities should be involved. If the contract changes everybody should be involved so it's clear. Contracts should be detailed and clear."

Thongpet has also lowered his expectations. "You also have to be more realistic about what the farmers can do. I gave them 4,000 plants, but this is really too much. I'll only give farmers in Na Gong 2,000 plants."

Farmers are reflecting on their shortcomings. "We need to keep better records, we should make a record whenever we do things according to the company technical staff's instructions," said Maimun.

Maitoun agreed: "The group needs to improve its ability to hold meetings and explain clearly to the farmers what's going on, the technical and economic aspects, and make detailed records. We don't want the villagers to risk their own money, maybe the group can, but not individuals, it just causes problems."

They also saw failings on the company's side. "Technical staff should be competent. Mr It, Phet Houng Heuang's technical adviser, didn't know much about local conditions, he was always changing his mind, we knew more than him," said Maimun.

That both parties still see a future for contract farming despite collapse of the chilli contract amid acrimony, unpaid fees and other losses, suggests contracts offer significant benefits. Nevertheless, the failure of the chilli contract also contains important lessons and messages, not least that contract farming is more difficult than casual or market farming.

Furthermore, in the absence of established relationships between both sides, such as those based on blood or friendship and in the absence of a capable legal system, there is a significant risk that one or both sides may decide to exploit the relationship for short term gain in the absence of concrete signs of long-term commitment and incentives.

Were this contract constructed around security and quality of supply within a three-year framework of capable management, concrete commitments and strong incentives paying rates equal to, if not exceeding, local market prices it may not have fallen apart.

## Corn along the Mekong



*Another day fades for the Mekong valley where some farmers on the eastern bank in Bokeo are growing corn under contract for sale to Thai traders on the western bank.*

For companies like CP, national borders are far less important than market chains. Farmers are a link in those chains, and farmers in Laos are interchangeable with farmers in Thailand, China, Cambodia and Myanmar. CP decides where to source commodities based on a comparison of costs. And although Lao farmers do not think of themselves in these abstract terms, they are increasingly aware of the importance that prices play in their lives.

**Villagers have been farming under contract beside the Mekong River in Bokeo province for a decade. Farmers and groups are positive about the practice and are keen for it to continue and improve. However there is only so much groups can do with limited access to capital, information and markets.**

Ban Dan Kumban (a cluster of villages) lies beside the Mekong about half an hour's drive downstream from Huay Xai, seat of the Bokeo province administration. It feels prosperous. Small tractors are parked beneath or beside many houses. Newish pick-up trucks are common. You don't have to walk far to come across a house with a stall selling snacks, soap and shampoo. At the end of March the Kumban was preparing for its first ever farmers' festival. The Ban Dan production group is run by 8 people who manage 280 families. Farmers began growing corn and "Indian bean" under contract in 1985, followed by peanut contracts from 2000, and soya bean in 2006.

About an hour upstream of Huay Xai the road winds its way through Nam Nyon village, which gives its name to



the surrounding Kumban, jammed between hills and the river. Signs of prosperity are fewer. The production group of Nam Nyon, which traces its roots back to 1997 and now covers 395 of 624 families in four villages, contracts in the dry season for mangetout; and in the rainy season for yellow flowers similar to marigolds, corn, and also buys forest produce such as “mak dao” a kind of small sugar palm, bamboo shoots, and broomgrass.

Continuing along the river from Nam Nyon, the land leaves the hills behind for rolling plains where stands Si Don Ngeng, a large, somewhat dusty, village serving around a dozen villages in the Kumban. There are a few pick-ups and tractors around, some households earn a few extra baht from small shops. Its prosperity is probably lower than Ban Dan, but certainly higher than Nam Nyon. Farmers here grow corn under contract. The Si Don Ngeng Group was up and running by 1996. Its 13 staff manage contracts with about 80 families across 12 villages. It is the largest of three groups in the Kumban.

Their prosperity is to some degree determined by geography. Ban Dan and Si Don Ngeng both enjoy access to level fields promising higher yields than the slopes and riverbeds around Nam Nyon. Their customers and markets are mostly found across the river in Thailand, not through the mountains with the rest of Laos. Evidence of their integration into the Thai economy can be seen in any wallet or purse in which baht fills the folds and kip is small change.

## Global connections

Just how far produce from these groups of farmers travels is hard to say. Doubtless Thai traders are selling the corn to Thailand’s industrial food processors, who in turn serve domestic and foreign markets. Thailand’s agro-industry reaches far beyond the Mekong.

“We buy Vietnamese seeds in Oudomxay from an agent for CP Vietnam, which sells different varieties to those from Thailand,” says Somdee Somwongdet, deputy head of the Ban Dan production group, one of eight groups competing in Ban Dan Kumban.

Thailand’s CP (Charoen Phokphand) is among the largest agro-industry conglomerates in Asia.

Members of the production groups in Bokeo try to keep abreast of prices in nearby Thai villages. Many have friends or relatives across the river. In some places they can also listen to Thai radio, watch Thai television and talk on Thai mobile

telephone networks. Such connections also bring new practices. “Sometimes I go to Thailand to see how friends are doing things,” says Simuang Chaloenpon, 64, head of Lao Front for National Construction of Dan Tin Kumban since 2003.

## Contract? What contract?

Contracts themselves are as likely to be by word as on paper. “I’ve been working like this for five years based on trust, I haven’t actually signed a contract,” says Simuang who decades ago worked his way up the Mekong as a deckhand from Vientiane and now farms 9 rai (1.44 hectares) of corn under contract.

Nanuon Siwijai, 45, a farmer who grows corn on 2 rai in Si Don Ngeng signs to acknowledge receiving seeds, fertilizer and herbicide from the group which he joined five years ago. But he does not interpret that as a formal contract. “I do not sign a contract, I only make an agreement with the group.”

Familiarity is one reason why some groups feel there is no need for paper contracts with farmers. “At the very beginning we signed contracts with the Thai traders, then with farmers. Recently we don’t sign contracts with the farmers because we all know each other and how the system works,” says Myseng Tammawong, 48, a party member who was formerly the village head and is now in charge of the finances of the Si Don Ngeng production group.

In Nam Nyon the village head doubles as the head of each village production sub-group guaranteeing the farmer will pay back the cost of seeds and fertilizer and only sell the crop to the group.

Whether the group feels a contract is necessary depends in part on the farmer’s reputation, his experience, and his relationships. Simuang, a respected elder, is not required to sign a contract, unlike others in the Kumban.

“At first the group only had a gentleman’s agreement with farmers. But it was not clear, sometimes the farmers sold to the market. We discussed this within the group concluding we should make contracts with the farmers,” says Somdee, the Ban Dan production group’s deputy head.

Whatever form the contract takes the obligations are similar. A group will advance inputs like seeds to farmers in return for the right to buy the harvest at an agreed price, which is often tied to the prevailing market price.

“The group will provide seeds, fertilizers, chemicals and technical support. From the farmers’ side they have to take care of the crops and pay back the funds they received in form of fertilizers, seeds and chemicals and they must sell all the crops back to our group,” says Kepchan Intachan, 53, a party member who heads the production group of Nam Nyon Kumban. “Usually the Thai partners provide us with the seeds and fertilizer.”

Technical assistance from the group may vary according to farmers’ needs. “We only have to provide technical support to the ethnic groups,” says Myseng, whose contract farmers include Yao, Gui, and Mu-se.

Seed company staff drop by with advice and training. “This year a Thai technical adviser came, but I don’t know who arranged for this. The buyer’s group just called me to a meeting where the Thai gave advice, training, and instruction for new seed varieties. It was useful,” says Nanuon.

Officials also provide information about farming techniques and trade documentation and procedures. “The district and provincial staff play similar roles, giving some guidance, collecting data and help in terms of making documents and procedures to export and import products,” says Kepchan.

In addition to seeds and fertilizers, groups with the resources can also help raise productivity through better field preparation. “The group’s big tractor ploughs deeper resulting in higher yields and better income for the family,” says Simuang, who uses his own small tractor for the second ploughing in Ban Dan.

### Rising prices, rising incomes

In the 2006 dry season Simuang cropped 6 tonnes of corn from 7 rai which sold for 2,800 baht (\$85.82) per tonne, while the wet season yielded 12 tonnes from 9 rai earning 2,200 baht per tonne, the lower price reflecting the season’s traditionally more bountiful harvests.

Rising world prices, driven by demand from China and India, are albeit by a rather circuitous route reaching Simuang. This year he reports the price has risen to 4,500 baht per tonne, but fuel costs are also up. “Usually the group deducts 50 satang per kilo from the farmers, but this year the petrol price is high so the group takes 60 satang per kilo,” says Simuang.

His income is also rising however because he is ploughing more land. “The increasing price of corn [in recent years]

made me think I should expand to earn more money. I already own slope-land next to my rice fields, I have to pay tax for it, so why not clear and bring it into production,” says Simuang, who in mid-2006 added 2 rai of slope-land to the 2 rai of slope and 5 rai of level fields already in under cultivation.

Na noun is not so well off because he cannot expand his fields. In 2006 Nanuon earned 9,000 baht from selling “4-to-5” tonnes of corn, which left him with 6,000 baht after deductions for seeds, fertilizer and herbicide. “It’s enough to live on,” he says.

He prefers the certainty of the contract to the risk and hassle of the market. “It was difficult to find a market, so I decide to grow under the contract because after harvesting I can sell immediately. The buyers set the price, but not in advance, it’s a little lower than the market price.”

### Strength in numbers

Groups, perhaps because they are drawn from the community, can be sympathetic when things go wrong because of the weather or disease. “The group does not force us to repay the fertilizer and seeds that season. They let us repay it over the next few seasons,” says Simuang, the farmer in Ban Dan.

Some groups are also willing to provide advances against earnings from crop sales, especially in cases of misfortune, drawing upon its own capital. “Whenever we lack money we can ask the head of the group for an advance with no interest, but the maximum is 5,000 baht per family per season,” says Simuang.

Or it may use its reputation to access external capital unavailable to the farmer. “The group borrows money from a Laotian trader at 3.5 percent to lend to the farmer at 3.5 percent,” says Myseng, the financial head of the Si Don Ngeng production group.

While relationships between farmers and groups appear settled, those between groups and buyers in Thailand are still evolving. They have for instance struggled to find more than one buyer, even for corn. “Now we contract with two traders to get a better price because they compete with each other giving us slightly better prices. Before 2006 there was only one trader, who usually pushed the price down,” says Myseng.

“Usually the factory sets the price. Then the group sets the price for the farmer. We have to accept the price because only

one company is buying mangetout, there is no competition,” says Saithong Thammasak, 48, a party member who advises the Nam Nyon production group about trade after seven years of heading border trade in the district.

Groups are also evolving to take on corporate attributes. The Si Don Ngeng group has registered with the provincial administration, declaring assets including houses and land amounting to \$120,000. As a registered entity the group has the right to trade directly with Thailand cutting out the costs of middlemen who hold border trading rights.

Stronger groups appear more attractive to farmers, perhaps because they can provide more support and in turn are also better placed to find markets. “Nothing has changed in terms of income, even when I invest my own money. But this contract system is good in terms of having a market for my product. Even if I don’t have money for seeds and fertilizer, I can get them in advance and pay later,” says Nanuon, the farmer from Si Don Ngeng.

Simuang, the Ban Dan farmer, broadly agrees: “As for me I think working with group is more convenient, I don’t have to worry about marketing, I only have to pick the corn, put it the bag and give to the group. If you try to take the corn to the Thai market yourself you have to worry about all sorts of procedures like customs and tax.”

Incomes may also rise, especially where the group is able to marshal resources such as big tractors, as in Ban Dan, or squeeze higher prices from competing traders, as in Si Don Ngeng. “When they have a market for their products their family incomes increase and are more stable,” says Somdee, deputy head of the Ban Dan production group.

Saithong, the trade adviser to the Nam Nyon production group, sees benefits for everybody and a corresponding rise in farmers’ interest in their work. “The contract system is good for both the buyer and the farmer. The buyer can have enough supply and the farmer can have the market to sell the product. Signing this kind of contract will give the farmer greater spirit of responsibility for taking care of the crops and using the funds like seeds and fertilizer provided by the buyer.”

Good relationships with traders in Thailand can go beyond merely providing a market. “The first advantage for us is that Thai traders guarantee they will buy all the produce at market price. The second advantage is they pay cash when we deliver the crops. The third advantage is they guarantee they



*Nanuon Siwijai, 45, a poor farmer with only 2 rai of fields in Si Don Ngeng beside the Mekong in Bokeo highlights market certainty as a key benefit of growing corn under contract.*



*Myseng Tammawong, 48, who manages finances of Si Don Ngeng production group, thinks access to capital is the biggest obstacle to expansion and higher incomes.*

will solve problems in Thailand if our workers are arrested,” says Somdee.

Occasionally, farmers from Ban Dan unloading the group’s crops at Thai piers have been detained by Thai immigration authorities.

### Something’s missing still

Despite contracts and groups functioning fairly smoothly, especially between farmers and groups, weaknesses remain. “There needs to be some improvement in terms of marketing and raising farmers’ knowledge of ways to earn their own income. The organization of the group needs improving, for example clarifying the duties and responsibilities of each person in the group,” says Saithong.

Nam Nyon production group head Kepchan also thinks capacity could be enhanced: “I think that more training on marketing and extension activities can help our group.”

Trading across the border has its risks, resolving disputes and enforcing contracts could be problematic. “In my opinion the district commercial department should take part in the contract with Thai trader to help make it clearer. There hasn’t been any problems, but I’m afraid without the district commercial department taking part, perhaps as a witness, maybe the Thai trader will break the contract,” says Myseng, the financial head of the Si Don Ngeng production group..

Traders also appear to have a stronger hand. “I want to change the terms to get a fairer price from the Thai traders because we see they buy at a higher price in other markets,” says Somdee, deputy head of the Ban Dan production group.

Groups feel Thai traders enjoy an information advantage that is hard to overcome. “We can’t really argue with the Thai traders, we don’t have any choice but to accept what they say. We don’t really know much about prices elsewhere or what is happening to agriculture in other countries,” says Kepchan.

Myseng adds: “I only know market information in this area, I don’t know about the bigger market. I think it would be useful to know because we don’t know what the price the traders sell for in bigger markets.”

Information is not however the only issue in bargaining with Thai traders. Often the groups struggle to find more than one trader to deal with. Even when there are a few traders prices

terms may not improve sharply. On the other hand quantities offered by the groups may be on the low side. Better prices might be had if groups can join hands pooling their crops, know-how and contacts. A larger volume might also make trading with bigger markets deeper inside Thailand more viable.

That said, the shortage of buyers and dependence upon Thailand is in part a consequence of Chinese restrictions on corn imports. "Since 2003 only a limited number of trucks can cross the Chinese border which is open only one day per week. We could get a higher price from the Chinese market compared with Thailand," says Somdee.

Once Route Three's rehabilitation is complete early in 2008 and if barriers to trade fall as expected when the China-Asean free-trade zone opens in 2010 groups in Bokeo could find competition for their produce increases. Working together to sell directly to traders at the market in Muang La (Mong La) in Yunnan province could improve terms, stabilize demand, and reveal opportunities for other crops.

China's market may have greater long-term prospects given rising wealth, increasing food demand, loss of agricultural land and a stirring awareness of organic produce.

Access to capital for investment is another challenge that hampers the ability of farmers and groups to add value, such as drying corn, which would earn higher prices. "What the farmers want is the group to have the warehouse and mill here," says Simuang, the farmer in Ban Dan.

"For the future we hope we can build a yard to dry the corn because now we have to sell raw corn for lower prices. We want a processing factory to improve the quality of our product. We want to have warehouse to store our product until the market prices are higher. It's only an idea, it will really depend on our income," says Somdee, deputy head of the Ban Dan production group.

Irrigation, or rather lack thereof, is another barrier to increasing production. "If I had an irrigation system I could grow vegetables, cabbage, any crops in the fields after harvesting rice. My land is far from the river, I don't know how to pump water from the river or streams," says Nanuon, the farmer in Si Don Ngeng.

Groups claim they are unable to finance irrigation systems. "Farmers mostly depend on the climate and the seasons, for example this year they face drought. The group cannot

overcome these constraints because it doesn't have much money. We are worried that if we borrow from the bank we cannot repay. If the harvests are good we will be more confident borrowing from the bank. If we borrowed money we would buy pumps and invest in building a warehouse so we could store corn to wait for a better price," says Myseng.

That the groups think about constructing irrigation systems is encouraging because it suggests a degree of self-reliance and motivation, but it also reflects the reality. "The Kumban has made a request to the district to build an irrigation system in the rice field area so that in the dry season cash crops like corn can be grown. But the district does not have a budget yet," says Saithong.

Production groups along the Mekong River in Bokeo are now firmly established. Contracting arrangement with farmers for the most part work smoothly. Their trading position may be strengthened if they cooperate together in bargaining with Thai traders and seeking opportunities to diversify, especially in China.

However the major barrier they face to raising production and adding value is their inability to access capital to finance warehouses, simple factories and most importantly irrigation.

## Watermelons in Muang Sing



*Ms Tan, the matriarch of an extended Lue family, hopes to try growing other crops under verbal contracts with clan members across the border in China.*

**Under a late afternoon sun a large, white truck was being loaded with colourful boxes of watermelons freshly picked by a lively stream of men and women, boys and girls from rows of shin-high green plants stretching away from the outlying houses and huts of Muang Sing towards the olive hills.**

This rustic, even charming, picture is in fact an international contract farming operation. One hint is Chinese registration plates affixed to the truck. Another is the handful of Yunnanese helping with the loading. They are putting the melons into boxes printed with Chinese characters, and each melon has a small oval sticker that is also in Chinese.

Standing proudly by the stacks of boxes and heaps of melons was Ms Tan, 48, who has only one name and is a Lue like most of the Laotians buzzing around. Despite the uncertainty of turning a profit on this first season of growing

watermelons in rice paddies idle until the rainy season she is surprisingly jolly.

Ms Tan oversees a communal operation which will split the profits equally with brothers, sisters and their wives and husbands representing ten families who together own these fields inherited from their parents. Ms Tan is unsure how big the fields are, she thinks perhaps five or six hectares. "All my relatives have the same share. We share the risk, if we get benefits we get the same proportion, if we lose, we all lose."

She estimates the total investment at over 80,000 yuan (\$10,432). Last August she borrowed 20 million kip (\$2,000) from the bank with an annual interest rate of 18 percent to finance the families' investment. She planned to repay the bank after the harvest ended in April. "The bank asked whether I wanted dollars, baht or kip. I thought I should borrow in kip because I have to use kip."

## Cross-border ties

Through frequent visits and chats on the telephone with relatives in Muang Mun in Muang La (Mong La) just across the border in China's Yunnan province Ms Tan became aware of the possibilities for watermelons.

"Last year I asked my relatives from Muang Mun about growing watermelons here because I have land when they were visiting to buy rice. Actually they were not interested because of the paperwork and the government. But I told them not to worry because I would take care of it," she says as we squat in the fields eating remarkably sweet, fresh watermelon.

They agreed to invest and buy the watermelons. Ms Tan has been trading and investing with her relatives since 1998. "Because we have been doing business with each other for many years we trust each other, we don't need a [written] contract, we share the risk."

Their funds bought seeds, of a watermelon variety the Chinese call Sip Song Pan Na after the ethnic Tai region of southern Yunnan that borders Laos and Burma, and fertilizer in Yunnan. They also spent some of the money on preparing the land which she says was ploughed many times, first with a big tractor, later with small tractors and hiring labour from time-to-time.

Her Lue partners in Muang Mun also arranged for Chinese specialists to visit to give advice on cultivation. They sent experts to identify the sweetest melons, which depend on dry weather, which they marked with a sticker with Chinese characters.

The fields may produce enough watermelons to fill 7-10 Chinese 12-wheel trucks able to haul 25 tonnes. Lue relatives will pay 0.9 yuan per kilogram. "This is the first time I've done this, so I don't know exactly how much I will produce. If we can make a profit of 40,000-50,000 yuan I will do it again next year."

This trade is possible in part because the melons are exported across the border into China without hindrance, inspections or import duties because Chinese customs are apparently for the time being willing to accept arguments by traders that because the seeds, fertilizer, advice and some of the financing comes from China the watermelons are therefore actually Chinese not Laotian.

Those ties have grown over the last few decades as borders reopened for travel and trade, which has become easier because communications now flow freely and instantly with mobile telephones and the internet. In the process blood ties and clan links are being renewed across the hills from which are carved Burma, China, Laos and Thailand helping to foster commerce that once moved across the principalities of the region on the backs of mules, elephants and porters.

“We lack the technology to check whether agricultural imports are free of diseases. We also do not have the equipment to issue the certificates and paperwork required by Chinese customs to certify the watermelons are from Laos. But if they are packed in boxes as produce of China, grown in Sip Song Pan Na then they can pass without a problem. It is one way to help exports from Laos,” explains Aersy Saengwongsa, 32, a PAFO inspector of agricultural imports and exports at the Muang Sing border checkpoint.

### Going global?

It also means a much wider market for the fields of Muang Sing. One indication of the potential reach was the trader walking among the rows of watermelon plants under a broad straw hat who hailed from the booming coastal province of Zhejiang near Shanghai and lived in Muang La, one of the biggest markets in southern Yunnan.

There are no free lunches and it seems no free watermelon trade. Aersy says that lower-grade Chinese watermelons can cross relatively freely through this border crossing from Yunnan into Muang Sing.

Trade across the border is primarily local, although goods from Burma also pass through, governed by framework agreements on trade between China and Laos. “The two districts signed an agreement permitting small volume trade across the border, but there are exceptions for large shipments of seeds and fertilizer,” says Aersy, as we talk in the small shop filled mostly with packet noodles and drinks from Thailand besides the customs and immigration post.

Watermelons may in future not be the only produce Ms Tan and her relatives in Muang Mun trade through the border checkpoint under contract. “My relatives in China want to make contracts for rubber and Job’s tears. But their confidence is not so high because they are afraid that after growing Job’s tears the regulations might change preventing export to China. In some cases farmers have prepared land for growing rubber which officials seize claiming that it is protected land. They then plant rubber themselves.”

Ms Tan’s watermelons are a result of joint cross-border investment and contracting facilitated by kinship. A flexible and pragmatic approach to regulations which overcomes capacity constraints obstructing trade is also an important, if unpredictable, lubricating factor falling into the realm of softpower.

Trust within kinship seemingly allows for investment and trade to span a regulatory no-man’s land between national jurisdictions of developing countries where enforcement of laws and formal contracts would be challenging.

Nevertheless arrangements, such as those between Ms Tan and her relatives, seem likely to grow in tandem with the availability of capital and opportunity while regulation and capacity remain weak.



## Growing pulpwood under contract



*Chaiyo AA is engineering eucalyptus for Savannakhet's unique environmental conditions.*

**Chalernsak Siryingyong, chief executive of pulp producer Chaiyo AA in Savannakhet, simmers in the midday sun surveying land cleared of forest planted with eucalyptus under contract by Buaphan Thaipanya, a poor farmer.**

Dry rice and watermelon is growing between the eucalyptus saplings that cover just over half the cleared land, a tangle of chopped branches and logs, scythed vines and canes. "I signed a contract for 13,000 saplings, but the company has only provided 8,000 saplings," says Buaphan, 51, of Mor Mueng village in Kayson Phomvihane district of Savannakhet, where 13 out of 58 families are growing eucalyptus.

Chalernsak is disappointed because Chaiyo does not need to take forest or fields for eucalyptus. "It's important to start right, I don't want to make problems with the people or the government," says Chalernsak, wiping away the sweat. "I've told the government we don't need forest, we can use

land the government cannot improve. Farmers should only plant trees on land they don't need for growing food, for example between the fields, around their house or along the road. I've emphasized this to our staff."

Chaiyo is a subsidiary of Advance Agro, a Thai paper manufacturer exporting worldwide under the brand Double A to places like Europe and North America where regulations and customers increasingly favour paper from trees grown in an environmentally and socially responsible manner. Acting responsibly is a point Advance Agro is highlighting in marketing to enhance the Double A brand.

Buaphan is one of two farmers who have cleared forest for eucalyptus. Another family cut back forest where cultivation had lapsed for many years. Chalernsak however stopped giving saplings because Buaphan does not have documents confirming his rights to use the land.

"It's not common in other villages, I checked this one because it is quite large. After examining it I limited the distribution of

saplings to only three hectares because it is not clear he has the rights to use this land even though he has paid tax. I think now I will check any contract for more than three hectares or more than 8,000 saplings,” says Chalernsak, as Buaphan passes around chunks of melon to provide relief from the searing heat.

### Whose land?

A question mark hangs over the tenure of land larger than three hectares because the district apparently has the authority to award a family usage rights for up to three hectares. “There are not so many families in this village but the land area is large so the district can give each family more than 3 hectares,” says Boonchan Pupakoon, 51, headman of Mor Mueng and Chaiyo’s agent.

Buaphan applied to the district for land under a policy to help farmers with little or no land. “The district said if villagers wanted to expand their production area they could mark the land they want to use and pay tax equal to that due for 14 years. A village meeting allocated land for conservation and production,” says Boonchan.

Despite this uncertainty Chaiyo’s staff apparently agreed a contract for five hectares because Buaphan has receipts for paying tax on the rights to use the land. However legally tax receipts do not confer land use rights.

“The staff signed the contract because they saw the tax receipt. Staff will not sign contracts without a tax receipt. A lot of people don’t have land documents,” says Chalernsak. “I want to clarify if I can sign contracts with people who have paid tax on land. It’s not only our company that faces these problems.”

Uncertainty over land rights is affecting Chaiyo’s plans to expand eucalyptus contracts with farmers. “It’s a big problem, it’s our main problem because Lao people want to plant, but we cannot be sure of the land right and usage in the future,” says Chalernsak. “I’m afraid to invest in land which does not have any registration.”

The lack of registration and usage rights papers is disconcerting to investors like Chaiyo given that in other countries with uncertain and fast-changing legal environments land tenure can disappear almost overnight in the absence of official documents.

A national land-titling project is underway but progress is slow because of budget shortages and disputes over rights

Such issues need to be clarified because some investors, probably those with higher environmental and social standards, are unlikely to feel comfortable with anything less than an unequivocal guarantee from the government.



*Chalernsak Siryingyong, Chaiyo AA's chief executive, investigates how Buaphan ended up receiving saplings despite the company's policy of not planting eucalyptus in forests.*

to land. Meanwhile, Chaiyo and other investors are trying to move forward in this legal quicksand.

Perhaps the biggest losers are the poorest farmers. "The company can only make contracts with farmers who own land, who have papers. They are usually not the poorest people, the poor don't have any papers. If the government can license state land to the poorest people to guarantee their right to use, when we will be confident to make a contract," says Chalernsak.

Such issues need to be clarified because some investors, probably those with higher environmental and social standards, are unlikely to feel comfortable with anything less than an unequivocal guarantee from the government.

The situation is complex however because the government is reforming land management and appears to be shifting away from concessions towards contract farming. That may entail revenue issues because concessions can provide income through administrative charges and taxes on large companies. Devising a realistic and efficient way to tax contract farmers could take some time and be unpopular.

In the meantime Chalernsak sees a way forward in the government's preferred model for farmers. "I am proposing a project to the government using its 2+3 model as a solution to this problem. But we need laws and regulations to apply this model. We want to invest securely and in a way that does not damage our company's image," he says.

Nevertheless despite these issues Chaiyo still prefers contract farming to a concession. "Now we have only 100 hectares concession pilot project. The concession has problems, people may encroach, people living nearby don't like the company. Who will take care of our trees if there is no relationship with local people? If by contract farming we can build a relationship with people, I don't have to worry about the trees because the farmers will take care of them," says Chalernsak.

### Growing money on trees

Farmers began planting Chaiyo's K7 and K51 varieties of eucalyptus saplings under contract in 2006. Ideally each farmer should be able to plant about 8,000 seedlings, enough to cover three hectares. Farmers will log the trees every four years during a period of 12-15 years, after which the stump is killed and new seedlings planted. In exchange

for seedlings farmers sign a five-year contract, registered with the Savannakhet court, offering market prices for the logs subject to a floor price of 130,000 kip (\$13.34) per tonne.

That made sense to Buaphan, the eager farmer trying to plant five hectares of eucalyptus. "I don't know what crops to grow, I don't have money to invest. There is one family in the village growing rubber because they have money to buy saplings. The company provides the eucalyptus seedlings for free."

However if the farmer borrows money for clearing and preparing land contracts may run up to ten years. Farmers face fines of 15,900 kip per tree if they do not sell all the logs to Chaiyo. "Some people have money, some don't, some need money to clear the land for growing, we have many kinds of projects. The people can choose the project that suits them," says Chalernsak.

In each village Chaiyo forms an 'alliance' with a respected villager, usually the headman, who effectively acts as the company's local agent, to oversee the trees and liaise with company extension staff. Farmers place orders for seedlings with the headman. For every tree planted the headman will receive 30 kip when Chaiyo turns a profit, probably starting in 2012 or 2013.

So far at least 1,099 families, mostly in Savannakhet, have signed up. By the end of 2007 Chalernsak expects two million seedlings will be in the ground, enough for around 800 hectares. Not enough to turn a profit, but plenty to help promote eucalyptus. "When I first came to Laos many people did not know about eucalyptus, we had to show the tree, and introduce our special variety grown from cuttings, not from seeds," he says.

Chaiyo is also promoting eucalyptus by planting seedlings around schools and colleges. "We started working with schools so the students and villagers can see that the eucalyptus grows well," says Chalernsak. "We are not thinking about profits, we are doing this to raise awareness and interest among Lao people. The students learn about our company and talk with their families."

At least 234 schools have planted 276,034 seedlings in Savannakhet. In another six provinces 218 schools have planted 267,857 seedlings. Schools and colleges in Cambodia, China, Thailand and Vietnam are also taking up eucalyptus.

"We pay 100 kip to the school for every planted seedling. Every four months for three years we pay 100 kip for taking care of the seedling. The school receives 150 baht (\$4.29) per tonne when we cut the trees," says Chalernsak.

Chaiyo aim is to plant enough trees to build a processing plant. "If we can plant five million trees every year for four years we can guarantee enough supply to build a chip factory. If that is successful and we have more raw material then we can build a pulp factory for export via Da Nang," says Chalernsak.

He thinks if enough farmers take up eucalyptus to make the company's operations profitable they will noticeably benefit. "If our projects are successful we can improve the lives of Lao people within three or four years."

Chaiyo's approach, while not without problems, warrants closer study because it seemingly demonstrates that it is possible for investors to enter profitable partnerships with farmers to cultivate crops without resorting to plantations, which can be socially divisive and place heavy demand on land and water resources.

It remains to be seen however whether the model can reach a commercially viable scale in the face of obstacles stemming from uncertainties over land titling and usage rights and the evolving policy environment concerning land management, use, and contract farming.

## Sugar deal goes sour



*No one is certain why the sugar cane died in the fields around Phaleng village leaving farmers with heavy losses and MitrLao insisting on full repayment of inputs.*

**Beneath exhausted grey clouds breaking up to let late afternoon sun shine through, Udon Nantawong stands surveying his fields studded with olive green trees and the gently sloping down to a small stream and a brackish pool. This halcyon picture is smudged when Udon turns his eyes down to the matted, decaying stems lying brown and forlorn across the furrows.**

These stems were sugar canes. “This year the sugar cane in the more salty area is dying. I’m not sure if next year I will have the same yield as this year,” says Udon, 53, secretary of the village party unit and head of sugar cane production group in Phaleng village of Champhone district in Savannakhet.

### Sweet deal turns sour

Udon is fortunate that only some of his sugar cane died. Others are not so lucky. “I don’t think I’ll continue sugar cane farming because my crop died”. I will go back to growing rice after I repay the cost of the inputs to the company,” says Buakham Soomphonpakdi, 39, is one of eight farmers, out

of 64, in Phaleng village who have seen their sugar cane die; another seven families have lost part of their crop.

Villagers only recently started to grow sugar cane, a crop they are not familiar with, when Mitr Lao, a subsidiary of Thai sugar company Mitr Phol, came offering contracts for them to supply ‘cuttings’ for a 600 hectare plantation it is developing nearby.

Responsibility for the failure of the sugar cane is still under discussion. Villagers blame high salt levels in the soil and irrigation water. But who made the decision to plant in this location?

“We suggested another area of Champhone for growing sugar cane but the company complained that it was too faraway. The company did not know about the salty water which people pump from a nearby reservoir and use for salt production,” says Thanousorn Souphanthong, chief of Savannakhet’s Provincial Agriculture and Forestry



*Udon Nantawong, Phaleng party secretary and head of sugar cane production group, does not know why the sugar cane died and is unhappy with the company's response.*

Extension Centre (PAFEC) sitting on a stool underneath Udon's wooden house.

"The farmers were told to keep good land for rice, and grow sugar cane on other land. But when they heard how much money they could make from sugar cane they started planting cane in the area which was previously used for dry-season rice, which wasn't affected by the quality of the water", says Thanousorn.

Whoever is to blame, the farmers who lost their sugar cane have been left with no income and debts for inputs borrowed from the company. "So far the company has not said anything yet about a solution to the problem of sugar cane that died" says Udon, who has six hectares of sugar cane.

Officials are currently considering the situation and discussing solutions. "PAFEC is aware of the problem but we have not so far found a full solution. The company has agreed to extend the contract, but I'm not yet sure for how long. The company will also provide other crops for the farmers, for example red bean which produces seeds farmers can sell to the company to repay the cost of the sugar cane inputs," says Thanousorn.

Meanwhile there are doubts about the future of sugar cane in the village. "I don't know if we will all continue to grow

sugar cane, it's very new for us, we don't have experience of it, we find it quite difficult. The salty soil is not ideal for growing sugar cane," says Udon.

Buakham, for one, is in no mood for more experiments with contract farming. "I don't want to farm other crops under contract because I'm afraid I cannot produce. I don't want to be in debt in the same situation as I am with the sugar cane. I prefer to grow my crops and sell them on the open market."

Aside from the absence of a solution for the problem of dying sugar cane, Mitr Lao's support draws praise. "I think I have enough information already because the staff provide training on sugar cane, how to use fertilizer, how to use predators. I think I know a lot, the only problem is the saline soil," says Udon.

### Change of plan

Mitr Phol, Mitr Lao's Thai owner, came to Laos to plant sugar cane on a plantation under a concession agreement with the government. Putting the plantation together has not gone smoothly however, causing the company to source sugar cane cuttings under contract from farmers.

"Our goal is to develop plantations. But there have been problems allocating the concession land for our company. Some land belongs to the farmers, land ownership documents are not clear. We cannot find enough land under the concession, so we have had to turn to contract farming, something the company did not originally plan for," says Khamsee Saemsee, 42, assistant manager of Mitr Lao, the subsidiary of Mitr Phol, in his Savannakhet office.

Problems are probably inevitable when a company invests with one model in mind, only to find it is forced to undertake another.

Mitr Phol's experience in Thailand did not prepare them for the difficulties that Mitr Lao has faced in contracting.

"The idea was to organize farmers into groups, like cooperatives, so they can borrow money from the company or the bank. We think this strengthens communities and improves farmers' ability to increase production. The whole group should encourage lazy farmers because the group is responsible for the loan. This approach worked in Thailand, where many sugar cane farmers have done well," says Khamsee.

Laos however is not Thailand, despite similarities in culture, language and agriculture. This landlocked country has taken an alternative approach to organizing society and the economy which has left farmers with a different outlook, perspective and values to their cousins in Thailand. Caution is their watchword.

Some Laotian farmers struggle with the close attention cultivation often requires under contract farming regimes.

That is perhaps in part because comprehension of the role their farming plays in an industrial production process stretching from the fields to factories and on to customers in faraway places is understandably weak.

“So far the farmers here are not receptive to this concept because of worries about the debts of other farmers. They prefer to borrow and work individually,” says Khamsee. “Also, they want to see the success of other farmers first before accepting the system. Another problem is farmers’ animals eating the cane. If they don’t change the way they raise livestock it is difficult to expand contract farming. However I think if farmers in Laos really want to do this, to take care of the crop properly, there will be a lower failure rate.”

Mitr Lao is now revising its approach in the light of local realities. A formal contract is being drafted to replace simple agreements drawn up when the company made its unplanned move into contract farming.

“The company will switch from lending money to providing more inputs. From this year we will require repaying of loans and inputs in just one year instead of two,” says Khamsee. “Company staff will also increase monitoring to prevent the farmers taking on so much debt that they cannot repay inputs. The company will also try to strictly enforce production regulations with the farmers.”

## Pushing on

Meanwhile Mitr Lao is continuing with plans to expand contract farming, aiming for 264 families in total by December in Xayboul district, up from 124 now. In Champhone district 89 families are already growing sugar cane under contract. As well, later this year Mitr Lao expects to begin contract production of sugar cane with families in Utumpone district. Nevertheless, the company does not plan on replacing its plantation. “I don’t think the company will expand contract farming beyond 20,000 rai (3,200 hectares), it is not our main goal,” says Khamsee.

Long term prospects for contract farming will probably depend upon the plantation’s output and the demand at the factory. Khamsee does not foresee villagers switching from farming to staffing the plantation. “When the concession is finished the company will be ready to consider contract farming with villagers living next to the concession,” says Khamsee.

Problems in Phaleng aside, villagers see benefits in contract farming as a system. Udon’s earnings, for example, from rice sold to the market have increased in recent years thanks to rising prices, providing an income after deducting costs of 5 million kip (\$512) from 3.5 tonnes of rice in a year. But sugar cane under contract to Mitr Lao has proved more lucrative, putting 9 million kip in his pocket in 2006 after repaying inputs worth 3 million kip.

“Since growing sugar cane under contract my family income has increased, because my land is quite good, I have bought a hand tractor and other goods. It’s similar for other people in the village with good land,” says Udon. “Compared to the past, contract farming is better, when we plant crops we’re confident that we have a buyer.”

Contract farming for sugar cane is clearly working for some farmers in Savannakhet, delivering a significant improvement in livelihoods while providing a steady supply of cuttings for Mitr Lao to develop a plantation.

Nevertheless, the situation suggests that if companies are forced to adjust their plans at relatively short notice to include contract farming there will be additional costs and quite possibly problems for both the investor and the farmer.

Contract farming is simply an agreement to produce and sell, but it requires a commitment, will and mindset throughout the organizations and among the individuals taking part to reduce the challenges and bolster the benefits.

## Smelling the profits of contract coffee



*Coffee beans ripening on the Bolaven Plateau.*

According to Khamdy Atsayavong, director of the coffee research and experimentation centre in Champasak, about 40 or 50 percent of coffee production in the district is grown under contract, up from about 20 percent five years ago.

**May Setta, 37, dressed in a sarong, simple blouse and a broad hat to ward off the sun much like her mother and grandmother would have worn, was bent over hacking away to clear land ready for planting coffee bushes as one of her young sons, perched up in a tree, looked on.**

“Now I am expanding the fields for robusta by another 4 hectares, and two hectares more for arabica,” says May, squatting down as her son comes up to sit with her, in fields a short walk from Phu Oi village in Paksong district.

While May’s clothes and work differ little from her forebearers, production is under rather different terms: a contract. She is one of hundreds of coffee farmers in 12 villages in Champasak province now growing coffee under contract to Jhai Coffee Farmer Cooperative.



“Before working with Jhai I was earning only about 6 million kip (\$615) a year. Now working with Jhai I earn 15-to-20 million kip,” says May, a mother of five children who with her husband already tends two hectares of arabica, some of which is sold to Jhai, and five hectares of robusta, mostly for sale on the open market, or to pay-off debts to traders.

Other farmers are also turning to contracting, seemingly with positive results for farmers. “I think based on my experience of contracting with Dao Heuang that contract production is better, prices are higher and it’s more stable,” says Phonsak, 47, a prosperous farmer in Baan Na Sia Noi, Laongam, Salavan, who bought his first few hectares of coffee in the 1980s; he now has 10 hectares of arabica and 40 hectares of robusta.

According to Khamdy Atsayavong, director of the coffee research and experimentation centre in Champasak, about 40 or 50 percent of coffee production in the district is grown under contract, up from about 20 percent five years ago.

“In the past because poor farmers were busy labouring for rich farmers they did not have enough time to weed their own coffee plantations resulting in a low yield. However now because of groups and contracts farmers can get better prices so they have more time to tend their coffee, to use better techniques,” says Khamdy.

Which in turn it seems is encouraging farmers to expand their plantations in cooperation with the traders, judging by May’s plans and those of Phonsak: “Next year I plan to plant another 20 hectares of robusta with saplings from Dao Heuang, which buys them from the government research centre in Pakse, because I think the demand of robusta will continue increasing in the next few years,” says Phonsak. “In the long-term I think contract farming is good for farmers.”

Contract prices also give farmers a benchmark for negotiating with merchants for coffee not grown under contract. “Before Jhai came they had no knowledge of world prices, only the trader’s price. Now they can bargain harder with the traders,” says Ariya Dengkayaphichith, 30, Jhai’s general manager in Paksong.

## Cooperation and conundrums

Farmers may enjoy more direct benefits from joining a group that provides them with planting material and credit. Jhai, which describes itself as a cooperative, is particularly active in trying to build enduring relationships with farmers.

It charges 0.6 percent interest per month, compared to 1 percent typical of microfinance lending and much higher rates charged by moneylenders and traders.

Jhai’s aim is to wean farmers off of borrowing from traders, who often demand repayment in coffee beans. Paying off high-interest debts to traders with coffee beans leaves less to sell to Jhai or even the open market at better prices. Yet borrowing from traders remains common. Moreover some farmers have not repaid loans to Jhai.

Farmers may not repay debts to Jhai because it is unable to enforce the debt, they do not have the money, or they consider the loan more of a ‘grant’ or ‘gift’. Traders however are generally repaid because they demand house or land ownership papers as security.

Farmers willingness to sell to traders reflects a preference for cash in hand. “Perhaps only 20 percent is sold to us even though we offer higher prices because we pay 70 percent on delivery and the balance when we sell the coffee. They don’t want to wait,” says Ariya. Jhai’s split payment irritates some farmers. “I want to receive 100 percent when Jhai buys from me,” says May, the coffee grower in Paksong. “I think the price is quite fair though.”

Nevertheless these factors do not entirely explain why farmers continue borrowing from traders. One explanation may be that farmers are not convinced Jhai is here to stay, therefore it makes sense to maintain relationships with traders and moneylenders which bring reliable lines of credit.

In the early 1990s Andrew Cornish, an anthropologist, observed similar relationships among rubber tappers and traders in southern Thailand which stymied efforts by the Thai government to empower the tappers, break their dependence and increase their incomes (Cornish 1997).

Meanwhile Ariya is still working to convince farmers that they are owners of Jhai. That may be in part because Jhai describes itself in English as a cooperative, but in Lao as an association. “I don’t think it’s a cooperative because we just grow the coffee and sell to Jhai,” says May, the farmer in Paksong.

Aside from the contract, which until now has been agreed with groups not individuals, a member’s handbook is all that binds farmers to Jhai. The absence of a certificate of ownership may then explain why a sense of ownership



*Sisanouk Sisombat, president of the Lao Coffee Association, is pessimistic about the prospects for coffee contracts because farmers face few penalties for selling to traders offering higher prices.*

Farmers may not repay debts to Jhai because it is unable to enforce the debt, they do not have the money, or they consider the loan more of a 'grant' or 'gift'. Traders however are generally repaid because they demand house or land ownership papers as security.

does not resonate strongly with farmers. "The main reason for joining is the good prices the association pays if you follow the rules for taking care of the coffee. Growing coffee for the open market is easier but the prices are lower than Jhai," says May.

If Jhai, an organization that is at least trying to give farmers more than just a price and build some loyalty and sense of collective endeavour, encounters some difficulties then matters can hardly be better for more mercantile buyers.

### Poachers

All buyers it seems face the problem of itinerant traders poaching coffee under contract with higher prices. "There is a big problem with traders coming in when the price is high to buy directly from farmers. They often sell because to raise money for school fees for example. The result is they cannot deliver the quantity required in the contract," says Khamdy, the coffee research centre director.

Sisanouk Sisombat, a coffee planter, trader and president of the Lao Coffee Association, is convinced contracts locking in prices will not be honoured because enforcement is next to impossible. "The farmers are so poor they will sell to those who pay more. The contract farming can only be positive for the buyer on the quantity and the quality, but not on price."

"Groups of farmers agree with the Japanese, for example, to deliver 10 tonnes at a fixed price of \$2,400 per tonne. But I can assure you they haven't delivered those quantities. They will, for example, deliver six tonnes because they don't want to burn the bridge. The rest they sell at a higher price elsewhere. There is very little respect for the contract. It is difficult to make contracts because the world coffee price is so volatile," adds Sisanouk.

Phonsak, the prosperous farmer in Salavan, readily admits farmers place more value on price than honouring contracts. "If someone comes to offer a better price the farmers will sell. One reason is the contracts do not include a floor price."

Fixed prices may in any case be on the way out. The coffee research centre, for example, has tried to ensure farmers deliver by changing price terms. "Before the price was fixed for three or four years according to the quality. But now the price follows the market subject to a guaranteed minimum price," says Khamdy.

## Getting tough?

Contracts are also becoming tighter, focusing on the individual as much as the group, and involving more officials in hope that fewer farmers will sell contracted production to traders.

“Now we are working with DAFO and the district chiefs to oversee and witness production agreements. Farmers will individually sign-up to the group and the rules and requirements of the contract. During harvest if a farmer is found to have sold coffee to a trader he will get a warning like a ‘yellow card’ eventually leading to a ‘red card’. There will be penalties such as the withdrawal of technical support and group membership,” says Khamdy.

Jhai is also changing its contracts to place more responsibility on the individual farmer. Until now village heads have guaranteed the contract on behalf of some villagers, especially those who are illiterate. This coming season however Jhai will photograph villagers requiring they sign the contract and a book confirming their acceptance of the contract. Ariya, Jhai’s managing director, hopes these measures will heighten their sense of individual responsibility and obligation.

“This year we are going to spend more time explaining why the contract is important, what it means, why we need it, what we are doing for marketing. We have to get them to understand more about this, to make them realize that if Jhai has a problem, they will have a problem, maybe Jhai will fail,” says Ariya.

Yet there is only so much that can be done to strengthen contracts given the developing judicial system and widespread ignorance about legal procedures and their costs. “It would be better to have a guarantee and penalties if either party does not respect the contract,” says Phonsak, the thriving farmer in Salavan. “If the contract is broken I don’t know what I’ll do, I don’t know how to file a lawsuit.”

## Challenges

Securing production alone will not help Laotian coffee build a brand, a key to more markets and higher prices, if quality is patchy. “Some farmers don’t strictly follow the contract rules for the production methods,” says Khamdy, the research centre director.

While some farmers are not as diligent as they might be, or fail to understand the importance of following the production and

processing regime, others lack the appropriate machinery or adequate drying facilities.

Given cashflow problems, illustrated by farmers taking loans in exchange for coffee beans, some villagers or production groups are either poorly managed or simply lack the funds to adequately equip themselves to meet high production standards traders demand.

Khamdy thinks the government needs to step in to address the issue with farmers and through production groups. “Official authorities need to be deeply involved with the process. Now we have a laboratory and cup taster, we aim for every farmer to come in to see and taste the coffee before export so they can learn who is growing the best coffee to help raise standards.”

Sisanouk however doubts groups are ready to provide the services and results counted on by traders and officials pushing stricter contract regimes and division of the industry into farmers, processors and traders under the proposed coffee board. “They have to form groups that function. When the coffee board forms there will be meetings at the Lao Plaza Hotel, but the farmers have never set foot in such a place, they have no experience of this.”

Indeed many seem unaware of these developing issues and efforts to strengthen and define coffee production in Laos, says May in her field: “I don’t know about the future prospects, my job is coffee, I just plant and sell.”

## Managing contracts and trade on the Bolaven



*Farmers loads cabbages as rain falls on the rich soils of the Bolaven plateau in Champasak.*

Filling the gap between trust and enforcement could raise confidence on both sides leading to more orders, more dependable supply, and higher incomes.

**Up on the rich soils of the Bolaven Plateau in southern Laos an experiment is taking place to reduce the uncertainty and risks for farmers and traders through developing a contract mechanism in which the trade department regulates the market to ensure each side can depend on the other to deliver its part of the bargain.**

Production agreements between farmers and traders are commonplace these days. Though they have not always worked smoothly, especially when one side, often a trader, fails to honour the bargain. Enforcing a deal often comes down to the power and influence of district officers. If they are unsuccessful, the only recourse is filing a court case, something with which few farmers are familiar. Moreover, pursuing a case is expensive for farmers with no guarantee of success.

Filling the gap between trust and enforcement could raise confidence on both sides leading to more orders, more dependable supply, and higher incomes.

## Getting down to business

Enter the provincial trade department which in 2006 began a pilot project to regulate contract farming and trading in Paksong district of Champasak province.

“This unit was established because in the past farmers did not always earn reasonable prices as traders would push down prices for unfair reasons. The unit is here to guarantee fair prices for farmers by only allowing companies holding contracts with a customer to come here to buy from the farmers through this unit,” says Boonpon Boonarat, head of the cabbage and Chinese cabbage wholesale market unit of the trade office of Paksong.

Boonpon and other officials encourage farmers to form groups for producing crops to match orders from traders, usually Laotians, who in turn are exporting to customers in Thailand. Meanwhile he tries to find companies to place orders and helps find groups to match the needs of companies that come into the district seeking supplies.

“I introduce buyers to production groups and farmers, if the farmers want to see the company representative I will arrange a meeting. For example if the company wants to export 200 tonnes of vegetables, the company has to work with the trade unit. I will go to see the farmers to find who wants to grow these vegetables and collect data about their production. The unit tells the farmers to produce 200 tonnes with a guaranteed minimum price,” says Boonpon.

Boonpon’s unit has good reason to match farmers and companies: its budget increasingly depends on charges levied on production for helping to manage the production process. Buying produce under this managed contract system incurs a tax of 1.25 kip per kilogram, another 5 kip is levied per kilo for extension services, and 7.75 kip for the units running costs, including salaries; a total of 14 kip per kilo.

Energetic Boonpon’s involvement does not stop with such production agreements. “I monitor the implementation of the contract between the company and the farmers, I try to resolve disputes, for example if the company does not pay the minimum price.”

Boonpon believes the project has made a good start and is on the right track because incomes are rising. “Before the project

began the farmers could only make profits in two months a year. Now they can make profits in seven months out of the eight month the cabbage season.”

## Boom time

The consequences are striking: Hyundai light trucks are now common, parked in fields beside salas or being loaded high with cabbage along the roads weaving between the verdant fields. Farmers reckon a Hyundai, which costs 57,000,000 kip (\$5,876) in Pakse, is a good investment because each season they can save 20,000 baht (\$571) that would otherwise be spent on hiring transport to take cabbages to the Thai border.

“I have money to buy a truck without taking a loan because I have a contract so I can sell more crops. It’s the same for my friends, they’re all buying trucks,” says Song Sikhamsouk, 50, a farmer with three hectares of cabbage in Lak Gow, sheltering at a bamboo sala beside his three hectares of cabbage as light rain falls from heavy, low clouds blanketing the surrounding mountain peaks

Samlong Pomanyathai, 40, a debt-free farmer growing five hectares of cabbage under contract in Lak Gow, tells a similar tale. “This year I can buy a Hyundai truck with cash. Last year I bought a hand tractor and a motorbike. Since we began contract farming families have seen their situation improve, for example they can afford to take sick children to Pakse. We can easily see family income is increasing, it’s a big change.”

Secure orders from traders under the regulated production model is encouraging farmers to expand production. “The guaranteed price gives us confidence to grow more, we are no longer afraid of not finding a market,” says Samlong.

Traders, like Mrs Inpeng Samountee, who owns 80 percent of the Pakxong Development Export-Import State Enterprise, which is among the biggest agricultural trading firms in Champasak, are keen to continue making agreements with farmers. “We will continue making contracts because they ensure we have sufficient quantities of quality products,” says Inpeng, who works with 241 families in 52 production groups in 24 villages in Paksong.

A seemingly positive start for the regulated approach is not however without shortcomings. Some farmers dislike group obligations. “It would be better if the contract was signed between the company and individual families than the group. If I can sign the contract I can take full responsibility. For



*Inpeng Bachieng has done good business buying cabbages from farmers under contract. She hopes to expand to other crops and find new markets overseas.*

The challenge however is to sustain and develop the emerging regulated production and trading system in the face of risks posed by Laotian traders with inadequate financial resources or unsecured orders from processors or distributors in Thailand or beyond.

example if the group signs the contract and three families in the group do a bad job or have a bad year it effects the whole group,” says Song.

### Bumps in the road

Holding to the guaranteed floor price has also proved problematic. “Two months ago the cabbage price fell sharply. I could not sell my cabbage at the guaranteed price of 2 baht in the contract, they only bought at 1 baht,” says Samlong.

Boonpon attributes this to the Thai market. “In one year there is usually one month when the price falls, for example two years ago it was during June-July, this year it’s April-May. This is because the cabbage harvest season peaks in Thailand so supply far exceeds demand.”

That in turn apparently affects the specification. “The guaranteed price is for the cabbage that meets the specification. During the high production season in Thailand the specification rises because the quality is much higher in Thailand,” says Inpeng.

Despite the spreading use of these production arrangements their status remains somewhat vague. “To tell the truth there is not even a contract between Mrs Inpeng’s company and the farmers, only an agreement which is similar to a contract. The group just signs a production plan with the company according to the demand of the market,” says Boonpon.

Whether a dispute under these arrangements of the early stages of this pilot project could even go as far as the court is questionable.

Even the unit’s stipulation that only companies holding contracted orders from customers can enter production arrangements with farmers in Paksong has proven difficult to sustain in practice.

“Last year Lao companies did not sign direct contracts with the farmers because they did not have contracts with their Thai customers so they could not be certain if they would finally pay. The Thai companies do not pay a deposit on their orders,” says Boonpon.

Laotian traders and their Thai customers are now discussing making orders with contracts that contain penalties and require deposits. That for the trade office would be the ideal outcome because it would hasten contracts with farmers. “In any case the government plans in the future to force the

companies to sign direct contracts with the farmers. The unit will then monitor contract implementation,” says Boonpon.

Laotian traders need contracts with deposits from their Thai customers because they are short of capital. “The problem is today the Laotian companies do not have enough money to buy the products from the farmers; they depend on the financial resources of the Thai companies,” says Boonpon.

Farmers also struggle to find capital. “One constraint is the limitation of funds. If you want to expand your fields you have to hire people to work on the fields,” says Samlong, one of the cabbage farmers.

Even the trade office notes the shortage of capital as a barrier to expansion. “Recently we have been able to borrow money from the bank for buying seeds and fertilizer. The bank will not however grant loans for expanding cultivation land. If we can get access to more finance we could expand the production of other crops,” says Boonpon.

### Working in the dark

Yet making more money available for loans might bring its own problems because there is a lack of information about opportunities and knowledge of trends within agriculture. “I don’t know what’s happening in Thailand or Vietnam. The only way I can get information about prices is calling a guy at the border,” says Samlong.

Prices alone are probably not sufficient to make wise decisions on what crops to plant and how much. “It’s not easy for us to access information, here we do not have internet. Television only gives us information about Thailand,” says Boonpon.

Information drought is one of the reasons Inpeng regularly visits Talaad Thai and Si Moom Muang, the major wholesale markets in Bangkok. “It’s difficult to access information about prices and markets, for example we have to find that information ourselves, sometimes we cannot find it on the internet because the Thais don’t give the real price, we have to go to the market to see for ourselves.”

Nevertheless despite the information hurdles, officials and traders are optimistic about prospects for expanding production under the evolving regulated contract system. “I think in the future contract farming can expand and develop because the Thai government has agreed to reduce the import tax to zero on 13 products,” says Boonpon.

### Reaching out

He is however looking further afield where prices may be higher. “We want companies to come that have orders from foreign partners other than Thais, or with Thai supermarkets which pay higher prices than fresh markets.”

Inpeng is planning to visit trade fairs to find customers in other countries to break out from dependency on wholesale distributors in Thailand. “I would like to find new markets for ginger, banana and beans, like soya and peanut, and especially for Chinese cabbage and cabbage, which I think we can get a better price for in Malaysia, Singapore and Indonesia than in Thailand,” she says.

Her company has recently acquired a 209 hectare concession which will be used to increase supply by working with farmers under contract arrangements. “We will assign land to farmers, for example one family two or three hectares, as if they own the land. They will plant the crops for the company, which will provide extension services, fertilizer, seeds.”

In Paksong the experiment with regulated production arrangements has during its short existence seemingly proved a hit with farmers, traders and officials, despite the differing interpretations of the agreements.

The challenge however is to sustain and develop the emerging regulated production and trading system in the face of risks posed by Laotian traders with inadequate financial resources or unsecured orders from processors or distributors in Thailand or beyond.

## Questions about Contract Farming in Lao PDR

### 1. Contract farming as a business model

#### 1.1 What is contract farming?

Contract farming is a strategy for reducing the risks inherent in growing crops and delivering them to the market by using formal agreements to codify commitments of the farmer and trader. Sykuta and Parcell (2002) go further, suggesting a contract allocates value and decision rights in addition to risk.

Contract farming will ideally produce a reliable market for the farmer and a stable, secure supply for the trader or processor. One or both may also enjoy greater profits. Prospects for success depend in no small part on both sides deriving significant benefits from the arrangement such that they enter and commit to the contract of their own free will and with good intentions. Completion of the contract requires both sides to understand, accept and agree that a contract is a serious obligation rather than a easily broken promise or casual commitment. The contract itself may reflect the interests and goals of the author rather than those of all parties (Simmons 2002).

Verbal contracts are common, perhaps more so, than written contracts where farmers and traders have a long-standing relationship or kin ties that engender trust. In the context of the real world a contract is an inflexion point giving reference to the wider economy by marking out relationships that connect chains from the farmer to the buyer and eventually the consumer, and from the input producers through suppliers to the farmer.

In Laos contract farming has been beneficial in some cases and costly in others. Although used successfully by some communities for as long as a few decades, contract farming is now heavily promoted by the government, donors and development organizations to further development by spurring production - often involving unfamiliar crops and methods - and improving access to markets to increase incomes (see, for example, Cornford 2006).

However entangling contract farming with development may not be compatible with the contract's fundamental purpose of reducing risk. Introduction of new crops and methods is often accompanied by fertilizers and pesticides that

increase costs and therefore risks for farmers [see cases for sugar and chillis]. They may also be undermining farmers independence and self-sufficiency, risking dependence on certain inputs and markets that may not be sustainable [coffee]. Successful, sustainable farming contracts in Laos often feature a high degree of trust or draw upon an enduring relationship that begets compliance [watermelon; corn].

Alan Johnson identified three issues in the contract farming of cassava and tea in Vietnam: 1) farmers renege sell-off contract when traders offer higher prices; 2) buyers tighten standards when supply exceeds their demand; 3) knowledge of contractual obligations is often weak (Johnson 2005). Martha Roberts and Nguyen Tri Khiem however doubt that stronger enforcement alone will improve contract success rates because farmers are likely to take fright at contracts that impose too many conditions. They conclude that vertical integration is a better approach.

Le Van Tham, chairman of Lam Son Sugar and Sugarcane, has seen significant benefits from contract farming which he attributes to cooperating with the farmers as partners to build long-term relationships with strong support, including inputs and extension, timely payment of above market prices and sharing the mill's profits by selling shares to farmers (Le Van Tam 2005, p.44). In sub-Saharan Africa carefully conceived and well-managed cash crop contract arrangements were found to secure supply and increase productivity (Coulter, Goodland, Tallontire & Stringfellow 1999).

#### Possible interventions:

1. Increase farmers ability to understand, assess and exploit opportunities, including contracts, in the market economy with reference to their own situation by offering farmers education, possibly for a small fee, about markets, in language and forms they will readily understand about trade, markets and contracts.
2. Develop appropriate educational programmes to provide senior and junior officials with theoretical and practical understanding, insights and tools to shape an environment conducive to contract farming within the context of Laos.
3. Reassess the rationale, role and sustainability of contract farming within a development agenda.



4. Explore opportunities for policies and regulations that favour long-term commitments between buyers and farmers.
  5. Provide incentives for farmers to form natural, cohesive, dedicated groups.
2. Avoid subsidies.
  3. Continue, accelerate and expand ongoing projects to improve roads and access to markets.
  4. Devise education programmes to help traders and processors improve their management skills for contract farming.

## 1.2 Is farming under contract appropriate for all farmers in Laos?

Whether contract farming is appropriate for farmers in Laos will vary at any particular time depending on the demands of the market and farmers' ability to respond. As the market is in constant flux what may work for one farmer this year may not work next year. Generally, however, a farmer who has secure access to land of good quantity and quality, in close proximity to sealed roads that connect with thriving markets or a factory, is better placed to benefit from contracts, especially those for higher value, more intense, niche or specialist crops.

Successful contract farming in Laos typically involves farmers with at least some awareness and experience of the market usually in areas well served by roads often close to major markets or processors in Thailand and China, such as Bokeo [corn], Luang Nam Tha [watermelons; FUF], Vientiane municipality and province, and Champasak, especially the Bolavens [cabbages; coffee].

Contracts can be particularly beneficial for empowering women farmers when they are paid directly for their work rather than via the household head, typically male (Simmons 2002, p.19). Phil Simmons examination of contract farming in developing countries noted firms preference for larger farmers because they offer lower costs and potentially higher output (p.15). Subsidised inputs intended to promote contract farming in Africa attracted some farmers seeking cheap supplies provoking scepticism among farmers with greater commitment (Coulter 1999).

Contract farming's prospects are dim without competent traders or firms to manage farmers and their own staff to keep production on track, solve problems quickly and prevent corruption (Simmons 2002, p.14). Experience in Vietnam shows that firms need good logistics, market access and adaptiveness to make a success of contract farming (Wandschneider 2006).

### Possible interventions:

1. Review contract farming policy and oversight to give more emphasis and support to those who do the work and less on the household head.

## 1.3 Does contract farming discriminate against poorer farmers?

Contracts aim to reduce risks and maximise profits. This can in some circumstances leave the poorest farmers at a disadvantage as their farms may include some or all of the following features: small plots, poor soils, marginal land such as hillsides. They may also be far from sealed roads with regular, cheap, reliable transport to thriving markets or processors. Moreover as contract farming typically requires farmers to provide land it generally precludes landless people, often among the poorest in any given region.

The picture is mixed. Successful cash cropping is dominated by people with cash who are not poor (National Statistics Centre/ADB 2006, p.27). Along the Mekong some very poor farmers with small fields were growing corn under contract while others were not because their fields were not suited to corn due to the soil type and location [corn]. It seems in Bokeo the trader will not work with poor farmers directly in future to grow chillis or other crops under contract [chilli].

Attempts, with some success it seems, are being made by FUF in Luang Nam Tha to work with farmers who given their relative remoteness might be passed over by other traders or processors [FUF]. Contracting for eucalyptus in Savannakhet is potentially pro-poor given the company's stated desire to plant on marginal land [eucalyptus].

Simmons study of contract farming in developing countries notes that demand for land, labour and other goods and services may rise in communities where contract farming becomes significant potentially upsetting traditional balances which may displace other crops while narrowing markets for some product or services. This may result in a change in relative incomes, disturbing social hierarchies and leading to a decline in reciprocal relations holding communities together.

The poor are particularly vulnerable to experience negative consequences of these changes, especially those with little land or unable to partake in contracting (Simmons 2002, p.21). Poverty may deepen for those unable to engage in contract farming (p.19). In Vietnam poor farmers contract

with farmer cooperatives or associations which in turn contract with firms that find dealing with many small, poor farmers uneconomic because of their high transaction costs (markets4poor.org 2005, p.44; Coulter 1999).

### Possible interventions:

1. Review policies to encourage farmers by themselves to form cooperatives or associations to present a better opportunity to firms.
2. Consider social safety nets to lessen negative consequences for the poorest farmers.
3. Devise tax or other benefits for farmers and firms that find ways to work with the poorest farmers.
4. Consider providing vocational training in construction and manufacturing to give the poorest farmers better opportunities outside agriculture

### 1.4 Are contracts suitable for all crops?

Contracts tend to favour crops that are in limited supply because they typically require intensive farming and are of high value. Successful contracts for such crops will typically be made by buyers who value stable supply and high quality over low prices. Nevertheless contracts can also be appropriate for commodity crops, like corn and rice, especially where a processor needs to capture supply, or where prices are rising owing to high demand leading traders to seek secure supplies at steady prices.

Commodities like corn [corn], rice (Lao Brewery contracts for some of its rice requirements) and coffee are being grown under contract with varying degrees of success. As are vegetables like cabbages and some fruits such as watermelons along with attempts to develop production of niche products in Luang Nam Tha [FUF] (Friend of the Upland Farmer 2007).

However even high value products are no guarantee for contract success as experience shows in Bokeo [chillis]. In the final analysis needs, motives and capacities of those making the contract matter no less than the crop itself. There are instances, especially in Bokeo and Vientiane, where simple season-by-season contracts have been stepping stones developing production and relationships leading to markets where contracts are no longer necessary.

In a study of cassava contract farming in Vietnam Tiago Wandschneider (2006) observed that smallholders could be well placed to produce crops requiring substantial investment, intensive support, intensive labour, and which are difficult to procure from open markets. Wandschneider's observations

echoed Simmons (2002, p.4) findings that contract farming is more appropriate for high, value niche products for which markets are erratic, rather than high volume staples and livestock. Nevertheless there are cases where contracts work well for commodities, especially when the contracting partner is a processor valuing stable, reliable supply such as Vietnam's Lam Son Sugar which has developed a strong, successful contract arrangement with smallholder farmers (markets4poor.org 2005, pp.35-37, 44).

### Possible interventions:

1. Provide farmers, investors and local officials with training to help them better gauge what contract forms may suit which crops at a given time.
2. Improve access to information about market prices and trends to help farmers assess whether a particular contract and/or crop is appropriate.
3. Foster stronger markets, especially for staples, through improved transport, information and communication as an alternative to contracts.

## 2. Contract farming and the business environment

### 2.1 Are regulations governing commerce in Laos hindering or helping contract farming?

Regulations are vague and opaque, and establishing a business is time-consuming and expensive, giving Laos a reputation as a high-risk environment for investment among foreign entrepreneurs (NAFES 2006, 1.2). Regulations in practice appear to vary between provinces. Even some officials seem uncertain regarding what regulations are in force, what they mean and how to apply them. Problems related to land ownership and titling crop up often. Regulatory uncertainty is an issue reflected in the cases of pulpwood and watermelons. This is not surprising given the rapid change taking place as part of the transition from a command economy to a market economy. Licensing, taxation and expansion can all run into unexpected and unexplained bureaucratic hurdles as FUF has found in Luang Nam Tha. Such an environment is likely to make farmers, investors, traders and suppliers cautious and highly risk-averse. It has been reported that the State Enterprises for Food and Crop Promotion (SEFCP) constrains and mediates circulation through fixing prices for many staples sometimes below production costs (NAFES 2006, 1.4.2).

### Further questions:

- What can be done to improve the business environment, especially for contract farming?

- Given that this is a complex, immense and long-term challenge, what are the most urgent and important issues that need to be addressed in the immediate future?

## 2.2 Are regulations clear, simple and accessible enough to promote contract farming?

Probably not given the low-level of education of most farmers [Nam Ha; FUF]. They often find regulations difficult to understand and follow. Awareness is not high. That may give traders or investors an advantage in negotiating contracts, even with better educated village heads [chillis]. There is still confusion and divergence among and between farmers, traders and officials over what constitutes contract farming in different provinces.

### Further questions:

- How could regulations be more clearly written and their meaning and intention communicated rapidly to officials and the public?
- Which agencies of the Government should be involved?

## 2.3 Is affordable credit easily available to all farmers who want to expand production for contract production?

Availability of cheap credit is patchy. Most farmers and even groups are not well received by banks. Some farmers prefer to borrow individually rather than as part of a group [sugar]. In any case interest rates from banks are high, around 15-20 percent a year. Some farmers, especially where communities are strong or groups well established, can borrow small amounts from the group or trader against income from the crops being grown under contract [Nam Ha; chilli]. In some cases this is interest free, in others rates can be usurious, especially when traders are lending [coffee]. The shortage of cheap, abundant credit leaves farmers at risk of falling into debt traps or bondage, and reduces long-term prospects for raising incomes through investment in land, irrigation, seeds, and equipment. Prospects for adding value to crops, for example through drying or basic processing, are dim when farmers, groups or communities cannot easily obtain affordable.

### Further questions:

- What solutions are there for the credit drought?
- Should traders be encouraged to provide credit as part of contract farming, or does it make more sense to support microfinance, saving schemes and revolving funds?

## 2.4 Is transport of crops reliable, regular, fast and cheap enough to nurture contract farming?

Transport costs an average of 7.5 baht per ton for each kilometre in Laos compared to 3.2 baht in Thailand (NAFES 2006, 1.1). This is a barrier to markets which increases costs reducing crops competitiveness. Farmers on the Bolaven find buying their own trucks works out cheaper than using transport services to take their cabbages to market. For many farmers in areas not yet served by surfaced roads costs be even higher and access to markets worse, even non-existent. Factors compounded by regulations hampering free movement of goods, excessive fees and administration charges, inter-regional transport fees and controls (NAFES 2006, 1.1). The SEFCP gained power and authority under decentralization including a monopoly on transfer of produce between provinces (NAFES 2006, 1.4.2). In Vietnam comprehensive and good quality transport infrastructure supporting efficient and competitive transport services has been identified as an important factor facilitating contract farming (Wandschneider 2006).

### Further questions:

- What policies could create an environment encouraging better private transport services for farmers?
- Should farmers – as individuals or as groups - be encouraged to buy their own trucks? Is this a wise decision or a poor investment in the long-run?

## 2.5 Is transport across borders smooth enough to open up wider markets for contract farmers?

Ministry of Commerce order 962 (13th October 2004) abolished import-export licenses and establish one-stop trade services at border checkpoints (Leebouapao 2005, p.83). Yet in Bokeo, for example, it seems middlemen traders still control some trade with Thailand adding costs and constricting access to buyers and higher prices. Some farmers have formed groups, which have rights to trade directly, bypassing the middlemen traders, after registering with local authorities [corn]. While elsewhere trade, especially smaller quantities or higher value crops takes place informally, which seems cheaper and more efficient [watermelons].

Tariffs and quotas still hamper trade, for example restricting imports of Laotian corn into China. It is unclear how much progress has been made in practise towards lowering or dismantling tariffs and quotas under Asean's free trade area. Restrictions on transport vehicles crossing borders remain, adding costs and wasting time. However these seem likely to be overturned if Asean makes good on its plans by 2010.

**Further questions:**

- What could be done to make international trade easier for farmers and their crops?
- How can measures to smooth trade, including imports of seeds and fertilizers if necessary, be introduced quickly and effectively?

**2.6 How can affordable crop insurance be provided to farmers raising crops under contract?**

Farmers in Laos, as in many developing countries, are unable to insure their crops against natural disasters. Furthermore, when disaster strikes there is little to fall back on in terms of a robust state social security system. Not surprisingly smallholders in developing countries are often conservative about trying new crops or production methods because they cannot access insurance (Simmons 2002, p.11). This seems especially true with contract farming because typically the cost of seeds and other inputs is deducted from the price of the crops. But if the crop fails these costs are often rolled over as a debt to the next season. If some form of crop insurance, either covering the value of inputs or the forecast revenue, were available farmers enthusiasm for expanding production, entering contracts and trying new crops would probably grow. It is a problem well worth time and thought to solve.

**Further questions:**

- How can the risk of natural disasters be mitigated financially?
- Could farmers and the state contribute to a village crop disaster fund?

**3. Contract farming and the legal system**

**3.1 Are contracts necessary?**

Contract farming depends on the power of the law and the availability of courts to ensure both parties abide by the contract and enforce its terms or penalties if the contract is broken. All contracts should be written to avoid misunderstandings and misconceptions that seem more likely when contracts are made verbally. And all contracts should be written without resort to jargon and obscure words in favour of language which is clear, concise and comprehensible by all parties to the contract.

Furthermore, a contract should not be forced on parties, but rather encouraged between parties that stand much to gain from a successful outcome such that they will do everything possible to avoid failure. In this sense a written

contract clearly detailing the duties and obligations of each party should help such a valuable relationship endure and overcome problems.

Contracts are signed to set the rules of the game rather than to set a base for legal action which can often be more expensive and slower than voluntary conflict resolution and third-party arbitration (Wandschneider 2006). Unfortunately contracts do fail leading to recrimination and claims and counter-claims for losses and compensation. Resolution is particularly difficult when contracts are made verbally.

Contracts then do seem to be necessary to codify a commercial agreement, but given that they do not exist in isolation depending upon courts and other infrastructure and a mindset that values and accepts such agreements, the question arises as to whether they are entirely appropriate for a very poor country like Laos and whether there are any alternatives.

**Further questions:**

- Who should write contracts?
- What alternatives to contracts could be developed reflecting traditional thinking, values and arbitration? (What would a contract based on Buddhist principles look like?)
- In what ways can disputes be resolved without recourse to the courts?

**3.2 How can contracts be enforced given the current condition of the legal system?**

Regulations are vague and opaque, awareness of laws and regulations is low, old laws are not repealed, land titling is not complete, enforcement is in short extremely difficult (NAFES 2006, 1.2). Laos, like other transitional economies such as China, is trying to build a new legal infrastructure, one that is more appropriate for the economy of the New Economic Mechanism. In the short-to-medium term a comprehensive legal system will not be available because it will take some years, if the budgets are adequate, to train and resource judges, prosecutors, investigators and officials down to the district level.

Therefore the legal system's suitability and relevance to farmers is unlikely to improve for some time. This is reflected in the near universal agreement among farmers and investors that contracts for farming are unenforceable [FUF; coffee]. One consequence is that farmers who sell off-contract to predatory traders do so with little risk of sanction. Of course that farmers sell to these itinerant

traders may in itself be a signal of a bad contract that offers a weak bargain. Another consequence is that farmers find investors do not buy crops as contracted or refuse to honour contracted prices (NAFES 2006, 3.3.2).

This makes for a bad business environment stoking caution among farmers and investors towards contracts despite the benefits both may receive. In such an environment some investors may give greater consideration to plantations because despite other potential drawbacks they dispense with contract default and enforcement issues (Simmons 2002, p.5). Nevertheless despite this situation some investors [chillis; pulpwood] still think there is value in registering contracts with the courts, perhaps because they have the resources available to lubricate the system and are also not confident local officials will judge disputes in their favour. Registration may also make farmers think twice about reneging on a contract recognised by the state.

**Further questions:**

- How can contracts be made in a way that is enforceable by the legal system as it exists in practise?
- Would making public registration of contracts by the parties with the court mandatory help enforcement and raise legal awareness?
- Can an agreement be considered a contract if enforcement is practically impossible?

**3.3 Is the legal system accessible by farmers?**

In theory the legal system should be equally accessible to all. In practise this does not appear to be the case. Farmers generally appear to have little awareness or understanding of the courts and the legal system. Many have no idea how to file a law suit [coffee]. Even for those that do, travelling to the court, finding a lawyer and paying the bills generally present much higher barriers to farmers than to investors or traders.

**Further questions:**

- How can farmers given their lack of education and legal awareness access lawyers and courts on terms they can understand?
- How can farmers afford legal bills given limited, if any, state financial assistance for filing court cases?
- In what ways could the legal system be developed to provide courts and legal services appropriate to farmers in commercial cases?

**3.4 What alternatives are there to the legal system for guaranteeing and enforcing contracts between farmers and traders?**

Many contractual disputes do not seem to end up in court instead ending up on the desks of district or provincial administrative, agricultural, trade officials and party officers, sometimes supported by the police [chillis; coffee]. But is this ad hoc approach to dispute resolution appropriate? These officials and party officers are not generally legal specialists.

Furthermore, time taken up with trying to solve disputes resulting from failed contracts between farmers and investors means less time for their primary duties and tasks. Their judgements in such cases may also risk losing people's goodwill which could affect policy implementation by undermining cooperation between officials and the public. In some cases their neutrality may be compromised by conflicts with implementing policies or by corruption.

**Further questions:**

- Are state-recognised volunteer arbitration boards staffed by civilians who are not officials given some basic legal training a realistic and viable alternative?
- Could traditional arbitration mechanisms be adapted to settle contract farming disputes with rulings enforced by the state?
- What other mechanisms might provide effective arbitration?

**4. Contract farming and market information**

**4.1 Do farmers have access to enough information to assess contracts?**

In conversations most farmers felt they did not know enough about what was happening in agriculture in terms of trends or prices much beyond their locality. Some had more knowledge of what was going on in neighbouring parts of Thailand or Vietnam than elsewhere in Laos. Others thought, especially those regularly trading across borders, that traders had a strong information advantage, especially in Thailand [cabbages; corn]. No farmers or group leaders had a big picture view of agricultural trends and prices in Cambodia, Thailand, Vietnam and Yunnan, the four markets with the greatest immediate impact on Laos. The few traders that regularly visit Thailand, especially Bangkok's major markets, were better informed but even they struggle to keep abreast of prices and trends [cabbages; FUF]. Similar situations

have been observed elsewhere, Vietnam for example (markets4poor 2005, p.24).

Poor awareness of market information among farmers, traders and officials is primarily because there are at best only a few sources of information available. Internet access is rare in rural areas. In any case few, if any farmers, know how to use a computer and engage with the internet. This problem is compounded by a shortage of market information in Lao on the internet. Some farmers are now using their mobile phones to call people at border markets to check prices. Traders who visit major markets in Thailand regularly can similarly call their contacts for prices [cabbages]. However obtaining information from markets in Cambodia, Vietnam or Yunnan is difficult because of language barriers. Quality of market information is another problem. Farmers and traders sometimes distrust prices and other market information provided by contacts over the telephone.

In conclusion farmers, and indeed other participants such as officials and traders, feel they do not have enough market information to make decisions on opportunities and bargain on contracts.

**Further questions:**

- How can information they need be provided quickly, universally and cheaply?
- Who should bear the cost of creating and sustaining information services: farmers, traders, the state?

**4.2 What market information do farmers need to decide whether contracts are appropriate and fair?**

Aside from considering whether the basic terms and conditions of a contract are reasonable, farmers need to assess whether the crop offers the best return on their time, effort and money and whether the price reflects the market value for that crop. Beyond that given that contracts are laying down a bargain for execution in the future farmers need some idea as to which way prices may move, what the wider trends are that may impact on that price movement such as weather patterns like El Nino, disease or crop failure elsewhere, rising demand due to economic development or new trends like bio-fuels.

In other words farmers need not only the numbers but the tools to interpret and weigh those numbers, a mix of current and historical news and information. Just how much farmers may understand market information and how well they can

assess the prices and trends depends in part on education [FUF].

**Further questions:**

- What education and skills do farmers need to better understand market information?
- How can farmers market information needs be accurately determined?
- What scope of information do farmers need – local, regional, global?

**4.3 How can farmers access to market information improve?**

Farmers access to market information could improve rapidly. Radio and television are already reach most of Laos. Mobile phone networks are expanding steadily, already covering provincial capitals and other major towns and some villages such that most farmers are only a few hours from a mobile phone signal and the information services possible using short message services (SMS). Those along borders can also tap into comprehensive networks in other countries. Moreover most phones can now access the internet.

The tools then are at hand to provide farmers, and traders and officials, a huge volume of information in near real-time, quickly and cheaply. It is therefore possible that the information asymmetry weighing against farmers could be levelled quickly at relatively low cost. Information services could be supported by advertising on radio and television and through a mix of subscription and advertising on mobile phone and the internet.

Providing information using television and radio is simple but restricted by the format and not available whenever a farmer needs it. Nevertheless there seems to be a shortage of programming providing useful information on farming techniques, prices and trends to farmers. One farmer when asked whether he would watch a daily half-hour farmer's television programme in the evening was overjoyed by the idea. Providing information using mobile phones and the internet is complex but is dynamic, unlimited and available whenever the farmer needs it.

**Further questions:**

- In what forms should information be provided (text, pictures, diagrams, charts) and what channels are best suited to each type of information?
- Should information distribution focus on established, but restricted, channels like television and radio, or should

the focus be on exploiting the powerful opportunities offered by mobile phones and the internet?

- In what ways can farmers learn to use mobile phone information services like SMS and the internet on their phones and computers?

## 5. Contract farming and roles of government staff

### 5.1 What role should government staff play in the commercial relationship of contract farming?

Government staff can in some situations play a useful role as a catalyst for commercial relationships to develop between farmers and investors through contract farming. However there is a risk that their efforts could cross a line from encouragement to active support leading to relationships and contracts that would not naturally occur or be sustainable if left to the market. Government staff's interests and neutrality may also be compromised if their performance is tied in some way to the development and success of contract farming. Similar issues may arise if district budgets and taxation become increasingly dependent upon revenues generated from contract farming. There is also a danger government staff's activities could crowd out opportunities for the private sector, especially local people.

#### Further questions:

- Should government staff play an active or passive role?
- To what extent should government staff intervene in the market to kickstart contract farming?
- How can government staff support or encourage contract farming without inadvertently managing or distorting markets?
- What activities should be off-limits to government staff to leave space for the private sector, especially local entrepreneurs?

### 5.2 How can government staff help potential contract farming partners meet?

A common assumption is that government staff are well placed to help farmers and investors to meet not only in Laos but elsewhere including Vietnam (markets4poor.org 2005, p.43). If government staff are to play such a role effectively they must remain neutral to have the best chance of bringing together well suited partners with good prospects of developing enduring contract farming partnerships. Staff will also need a good understanding of the commercial realities to help identify opportunities for contract farming and insight into the reputations, motivations and background of the investors and farmers. However if staff go too far they may

be risking blame and a loss of trust should the partnership subsequently fail. They should probably then avoid managing introductions and agreements and instead offer information and advice to investors and farmers about finding partners and negotiating.

#### Further questions:

- What are the risks of government staff using their personal relationships and connections to match potential partners?
- In what ways could government staff help farmers and investors meet without becoming involved in direct introductions or negotiations?
- What information and advice could government staff provide to help farmers and investors find partners?

### 5.3 How can government staff help farmers prepare for contract farming?

Farmers are often at a disadvantage because they generally know less about commerce, markets and contracting than investors. Farmers need a mix of skills, education and experience to raise their awareness to a level equal to investors. Experience cannot be taught, however skills and education can be learned. The challenge for government staff is how to deliver the right mix of skills and education in appropriate forms that farmers can easily understand, remember and use.

#### Further questions:

- How can government staff identify what skills and education farmers need for contract farming?
- What skills and education should government staff be responsible for and what is best left to the private sector or civil society organisations?
- How can government staff extract knowledge and learn lessons from farmers' developing experience of contract farming which can be turned into skills and education for other farmers?

### 5.4 Is it appropriate for the government to make local units autonomous, thereby getting revenue by charging for services they provide to contract farming?

In some provinces government units generate an increasing portion of their budgets by providing services to manage contract farming [cabbages]. This is an innovative approach to overcoming budget shortfalls. However conflicts of interest may develop as government units struggle to square the necessity of raising revenue for their budget with their neutrality as a regulator or agent of policy. A situation may

arise whereby government units only provide their services to contract farming partners able to pay.

**Further questions:**

- What government services should contract farming partners directly pay for and what should be paid for by taxation?
- How much of a unit's budget should be dependent on income from services provided to contract farming partners?
- What are the advantages of units managing that income locally instead of sending it to the central budget?
- How can conflicts of interest be avoided?



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