New Approaches to Old Problems

Engaging the Private Sector to Develop the Lao Rice Industry

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Background

Despite rapid economic growth over the past 15 years, rice production is still one of the most important economic activities in Lao PDR. The majority of production both in area planted and output is in rain-fed paddy by farm households producing rice for own-consumption and selling surpluses for cash. Use of modern varieties, inputs and mechanization all remain low by regional standards. Quality of paddy produced is usually low due to mixing of varieties, poor quality seed and bad post-harvest handling practices.

As with paddy rice production, rice milling remains underdeveloped with only a very small number of large mills (3 at the time of writing) operating at or close to international standards. The vast majority of rice is processed in village mills for local use or at small commercial mills which are often poorly maintained, have low head -rice recovery rates and produce low quality rice. As a result, it is increasingly difficult for locally produced to compete with higher quality imports in rapidly growing and more affluent urban and district markets.

Overview of Previous Interventions

Previous donor support to the Government of Lao PDR enabled the country to become sufficient in rice production but population growth requires continuous increases to output. Interventions typically focused on specific aspects of paddy rice production, such as development of improved varieties of glutinous rice, improving publicly managed rice seed production or developing a national agricultural extension service. These interventions mainly focused on rice farmers or government organizations.

While many of these rice development projects were successful individually, limited links and poor integration between projects reduced their impacts and made the rice production system less efficient. Most interventions did not work much with market actors such as collectors, processors and traders that make the supply chain work well. Fragmentation and a lack of communication between producers, the private sector and the public sector made it very difficult to share information and to encourage cooperation between different groups.

The Opportunity

The poorly integrated rice value chain in lowland production areas of Lao PDR continues to slow the growth of good quality rice production. Major opportunities for improvement include:
• Rice producers are generally unorganized (except where irrigation management groups exist), making it difficult for the private and public sectors to work with them efficiently. Voluntary organization of farmer groups can help deal with this problem.
• Millers are at the center of the rice value chain and are therefore able to link producers, input suppliers, extension workers and markets effectively.
• Relatively inexpensive improvements to mills can increase rice quality and recovery rates, creating a profits big enough for millers to share financial benefits with farmers. Mill improvements also provide an incentive for millers to try working directly with farmers in return for project support.
• Government policy on producer groups, agriculture commercialization and extension services are increasingly open and supportive of new ways of working and thinking about rice sector development.

EMRIP in brief
The Enhancing Milled Rice Production in Lao PDR (EMRIP) project aims to increase production of quality milled rice working through progressive and socially committed millers with existing links to small holder rice producers. Each rice miller will closely work with and support farmer groups with a total of 1,000 members, providing them with inputs, credit, training, extension and market linkages. The project is supported by the European Union’s Food Facility programme. The reminder of project funding is provided by the implementing partners, Helvetas and SNV – Netherlands Development Organisation.

Progress to Date
EMRIP has now been in operation for slightly more than one year, with main operations starting in April 2010. Since that time millers were selected using an open and transparent system, farmer groups have been organized, and business plans have been developed for each mill. The project provided training to mills and their local working partners from district offices and farmer groups, with millers taking full responsibility to organize and pay for extension to farmer groups and to buy high quality paddy rice from farmer groups. Based on their support for farmer groups, mills received support for rice mill improvements such as building drying space, upgrading mill equipment and providing equipment for quality management.

Lessons Learned
Lessons for producer groups:
• Even fairly small private sector rice mills can effectively organize and support relatively large numbers of producer groups. Millers’ main interest is to increase the quality and quantity of paddy rice they can buy and to ensure reliable paddy supplies by gaining the trust and loyalty of producers.
• Farmers are interested in access to higher quality inputs (seeds, and fertilizers), extension and training services and better access to markets based on flexible agreements between millers and producer groups.
• Producer group structure is relatively unimportant compared to the group’s function as long as all group members work collaboratively and treat each other fairly. This suggests that government policy should put less emphasis on the structure and
registration of producer groups and instead encourage farmer collective action in learning, production and marketing and consultation with local government.

- Farmer groups need to exist for the benefit of their members, such as market access, opportunities to receive training or access to finance. These benefits also come with some costs because it takes a lot of time and a small amount of money to run a successful farmer group. To avoid problems, group formation should not take place until group members understand all the costs and benefits of having a group and freely agree to work together.

Lessons for contract farming:

- The real value of making “contracts” in Laos is to encourage shared planning and regular communication between buyers and sellers. Having a written contract at the end of the process can be useful but is not necessary where buyers and sellers have an established relationship of trust.
- Contracts that used fixed prices and quantities are not attractive for Lao rice producers and millers and are more likely to cause problems. More flexible arrangements using market prices are a much better option for both parties.
- While contract farming is usually more successful for commodities with only a few buyers, this is not desirable for the majority of Lao rice producers. Growing a specialty variety that may not have a market is considered too risky and farmers want to know they can sell their product even if the original buyer cannot purchase the product. Under these circumstances it is better to start with a focus on good quality sticky rice similar to the ones farmers are already producing and consider diversification later.
- Because there are many potential customers for sticky rice paddy, side selling can be an issue. Millers are able to limit this by building strong relationships with producer groups so that farmers prefer to sell to them instead of other traders. This has been very successful for EMRIP mills and could be replicated in many parts of Lao PDR.
- There are no shortcuts to building strong relationships, and direct contact and support between farmer groups and millers (or their employees) is absolutely necessary. Millers who now support farmer groups report much lower default rates on credit than they previously experienced and are able to get the best quality of paddy. Other millers who have tried to copy the EMRIP model by providing only credit without providing extension and other services continue to suffer from high rates of credit default by farmers.

Lessons for extension service:

- Many discussions about private sector extension focus on getting farmers to pay for services, but private sector buyers of agricultural commodities can also supply extension services when it is in their interest to do so. This is especially true for common commercial crops where buyers (such as mills) have problems getting reliable supplies of good quality raw materials.
- Providing extension services seems to be the cheapest and most effective way for millers to build strong relationships with farmer groups. This makes buying and selling good quality rice with farmer groups much easier over the long term.
• The best way to deliver extension depends on the local context. Millers should take a leading role to arrange and pay for extension services for farmer groups, but partnerships with district extension staff and leading farmers can provide the human resources needed for effective extension services. This arrangement can contribute to improved sustainability and continuity of extension service for farmers.

• In many cases transactions between farmers and millers have an “embedded” extension component. A miller who arranges supplies of TDK 8 rice seed is also providing farmers with information about availability of good quality seed, a recommendation of which variety grows well in the growing area and information about expected market demand.

Lessons for government policy:

• The legacy of central planning of rice production is still alive in Laos, but progressive officials at the national and provincial level are very receptive to new ideas. Because departmental responsibility is split between Agriculture and Industry and Commerce, both Ministries/Departments must align their policy making activities.

• Public consultation with producers and the private sector provides government officials with vital information needed for decision making, helping to identify key constraints for the sector. The private sector, producers and service providers such as banks are also able to recommend appropriate solutions to many problems.

• Policy makers have tended to rely on rules and regulations, but these are often impossible to enforce. In these cases it is often better to find new and creative ways for government to empower producers to take care of their own problems. (See the example of weigh scales below).
**Public Sector Contributions: The Case of Certified Weigh Scales**

In the past, both Helvetas and SNV rice sector development projects experienced serious problems with side-selling to unregistered traders. Traders often visit farmers offering a price higher than the market price offered by the millers who are supporting farmer groups. What the farmers are unaware of is that many traders are cheating them. For example, traders sometimes use scales that register 85 kg of rice when the real weight is 100 kg. Farmers think they are getting a great deal, but actually they are being paid less than the real value of their rice and when millers come to buy there is nothing left. This breaks the trust between millers and farmers and hurts everyone except the dishonest traders.

In the past, project staff and government brought together millers, farmers and traders to discuss this problem. In most cases this resulted in regulations to limit rice trading in a district or province to traders registered with the government. Unfortunately, these arrangements are impossible to enforceable because local government officials do not have the time or resources to monitor everywhere for illegal traders.

To tackle this problem, EMRIP decided to distribute scales to farmer groups so that they could weigh their own rice before selling it. The most important thing about these scales is that they were certified for accuracy by provincial authorities. Provincial and district officials took the time to explain the certification process to farmer group leaders, giving them confidence that the scales are 100% accurate.

Since certified weigh scales were distributed problems with unregistered and unethical traders have dramatically declined. Many dishonest traders who used to cheat farmers now avoid buying rice in EMRIP villages. Farmers groups now enforce their own rules against unfair trading practices and know that they can call local officials if they find a trader who is trying to cheat them. For millers it is also much easier to get reliable supplies of good quality paddy needed for milling.

The lesson for district and provincial governments is clear: empowering producers and millers to protect themselves can sometimes be more effective than regulations. In this case, government registration of scales and visits to farmers’ groups gave villagers the power and the confidence to deal with dishonest traders themselves. As farmer groups become more common in Lao PDR, government officials will need to find more ways to empower farmer groups to solve their own problems.

**Conclusion**

EMRIP is now working with 21 progressive and socially committed rice mills. These rice mills organized more than 16,000 small-holder farming households in the six target provinces by December 2010. Millers have provided good quality seed, fertilizers, cash advances, small equipment and rice farm management trainings to their network of farmers. EMRIP has also facilitated identifying and prioritizing public policy issues facing by the market actors in rice supply chain in target provinces and is working to implement sustainable solutions that will benefit all stakeholders.

EMRIP’s success is possible because rice mills are used as the entry point to connect groups of small holder farmers with the market. Mills can also take on many other functions to make the links needed to make seed production and distribution, extension and training services work on a sustainable basis. Millers and farmer groups do not work alone,
however, and good government policy is needed to empower farmers and millers grow and thrive in the medium and long term.