

# **Farmer Bargaining Power in the Lao PDR: Possibilities and Pitfalls**

**Report for the  
Joint Sub-Working Group on Farmers and Agribusiness**



**Dr. Rita Gebert**

**Vientiane and Berlin  
February 2010**

## **Acknowledgements**

I wish to acknowledge the assistance of LEAP, and especially Andrew Bartlett, Athikone Thipphonephosy and Rakesh Munankami, in making this study possible within a very tight timeframe!. I must also thank the Provincial Agriculture and Forestry Offices in Luang Namtha and Bokeo for assisting us with making various appointments in the two provinces. Thanks also to Stuart Ling of VECO, Bokeo for his assistance in Bokeo. I would especially also like to thank the villagers in the districts we visited for the time they spent discussing with us.

We have learned much through the discussions held with various interlocutors at different levels. However, the final responsibility for opinions expressed in the report lies with its author. They do not necessarily represent the opinions of Helvetas, SDC, nor of any member of the Government of the Lao PDR.

Photographs appearing in this paper have been taken by Rita Gebert.

## Abbreviations

AGPC	Association of Coffee Producer Groups
CSR	Corporate Social Responsibility
DAFO	District Agriculture and Forestry Office
GO	Government Organisation
GOL	Government of Lao People's Democratic Republic
INGO	International Non-Government Organisation
IUCN	International Union for Conservation of Nature
kumban	Village Cluster or group of villages corresponding to sub-district
LAK	Laotian Kip
LEAP	Lao Extension for Agriculture Project
MAF	Ministry of Agriculture and Forestry
NAFES	National Agriculture and Forestry Extension Service
NAFReC	Northern Agriculture and Forestry Research Center
NAFRI	National Agriculture and Forestry Research Institute
NTFP	Non-Timber Forest Product
PAB	Point Applications Bolovens
PAFO	Provincial Agriculture and Forestry Office
PASS	Point Applications
PCADR	Programme de Capitalisation en Appui à la Politique de Développement Rural
SDC	Swiss Agency for Development and Cooperation
SWGAB	Joint Sub-Working Group on Farmers and Agribusiness

Average Exchange Rates (January 2010):  
 EUR – LAK = 1:12,150      USD – LAK = 1:8,500

## Executive Summary

This study on farmer bargaining power and farmer organisations was commissioned by the Sub-Working Group on Farmers and Agribusiness (SWGAB). Guidance came from His Excellency's, Dr. Ty Phommasack, Minister of Agriculture and Forestry, statement at the World Summit on Food Security in November 2009. *[I]t is just as important to invest in farmers. Investing in farmers means making sure they have secured land tenure, making sure they have fair contracts, they have access to information, and improving the reach of services for health, education and extension.*

Farmer “bargaining power” is the product of a number of complex interactions occurring from local to global levels. In some cases the nature of these interactions results in farmer bargaining power being hindered or curtailed whether farmer organisations are present or not. With few exceptions, the formation of farmer-based groups in Laos has not led to farmers being able to exert more bargaining power in transactions that most affect their livelihoods. Their room for manoeuvre in terms of the decisions that most affect their livelihoods remains limited.

In light of the government's firm policies to promote commercialised agriculture, the “value chain” approach has also taken off in Laos. Much of what is supported in this vein, however, does not necessarily improve farmers' bargaining power. Farmers tend to remain passive “chain actors” obliged to produce what is demanded by mostly regional markets in particular volumes and quality. In the final analysis, adding value does not add power, although it may well add income, especially for better off farmers and middlemen. All too often, the value chain approaches taken fail to adequately consider local market distortions.

Market distortions come about both by direct and indirect involvement of local leaders and officials in market chains, and by rent-seeking behaviours of various officials at different points in the market chain. This has been widely reported from around Laos, and in relation to various products. Traders in Laos therefore cannot predict exactly how much they have to pay to move produce from collection points to onward sales points. Among many other factors, this will also depress prices farmers receive for their products. With so little accountability towards farmers, and so few checks and balances within the system, there ends up being far too little containment of rent-seeking behaviours.

The actual process of agricultural commercialisation in Laos is not supporting farmers to gain a fair price for their products. The mutual co-opting of political and economic actors results in such major overlaps between the two, that it has already created serious governance problems vis-à-vis markets and value chains. Inconsistencies between policies and what actually gets implemented on the ground are not being addressed. The government would like to see the formation of farmer groups and even co-operatives. But what is the use to farmers of groups in the light of government-encouraged trade practices that involve traders providing all inputs, and purchasing outputs, via village headmen?

There are several fundamental issues that need addressing if farmers in Laos are to be adequately supported; whether they choose to be in groups or not. Three of these relate to the statement of Dr. Ty quoted above: land tenure, fairer contracts and information. Farmers who feel their land tenure is not secure are put into an extremely difficult position from the very start. How can they drive a hard bargain with traders, especially those supported by officials, when they are not sure they will even be allowed to cultivate the land in future? The issues of concessions, village resettlement and merging, and land appropriation are often high in farmers' minds, and negatively affects their decision-making.

Moreover, effective negotiation and decision-making must be based on adequate information. There are far too many cases in Laos where farmers have been fed a diet of

totally incorrect information on likely incomes if only they would plant x, y, or z. Therefore, farmers need to be able to gain access to independent sources of information that can be crosschecked. It would be well worth the effort to explore how farmers can make the best use of mobile phone networks to get updated and accurate information on both input and product prices. This may not increase farmer bargaining power, but at least it will give them a correct basis on which to decide whether to engage in a particular activity or not.

The third fundamental issue relates to governance. This has to be a long term focus of development cooperation; without this, farmers' room for manoeuvre whether individually or in organisations will remain limited. If the majority of farmers is to achieve the level of bargaining power at which they can at least negotiate better, and fairer, terms and conditions in the market—the “fairer contracts” referred to by Dr. Ty—then that market should be as transparent and undistorted as possible. Concerted efforts will need to be made to catalyse policy changes that will break down the monopsony and quota system in the districts. Contradictions also need to be addressed along with policies toward land.

The main support approaches likely to yield greater results for a greater number of farmers are those that are multi-pronged and multi-level, dealing concurrently with the main factors hindering farmers' bargaining power. At the same time, however, it has to be recognised that the regional economic juggernauts have already set certain trade and investment mechanisms in motion. It remains to be seen what place the Lao farmer will have in these.

## Table of Contents

Acknowledgements	i
Abbreviations	ii
Executive Summary	iii
<b>1 Introduction and Background</b>	<b>1</b>
1.1 Methodology	2
<b>2 What is Farmer Bargaining Power?</b>	<b>2</b>
2.1 Why Look at Farmers' Organisations?	5
<b>3 Searching for an Enabling Environment: Farmers' Settings</b>	<b>5</b>
3.1 Internal/Village Setting	5
3.2 Physical/Geographical Setting	7
3.3 Economic/Marketing Setting	8
3.4 Political/Administrative Setting	10
3.5 Results of Setting Interactions	12
<b>4 Case Studies</b>	<b>12</b>
4.1 Smallholder Rubber at Ban Hat Nyao	12
4.2 Maize Trading Groups in Bokeo	14
4.3 Bolovens Coffee Producer Groups	15
<b>5 Increasing Farmer Bargaining Power? Possibilities, Pitfalls and Fundamentals</b>	<b>16</b>
<b>6 Major References</b>	<b>20</b>

## List of Figures

Figure 1	Farmers and their Organisations Operate in Complex, Interacting Settings	4
----------	--	---

## List of Photographs

Photo 1	Maize Shelling in Houay Say District, Bokeo	Title page
Photo 2	Ban Hat Nyao: The Most Important Farm Implement?	v
Photo 3	Paying for Maize: How is the Price Fixed?	3
Photo 4	Hard to do Business without a Mobile	8

### List of Annexes

Annex 1	Terms of Reference/Concept Note	21
Annex 2	Mission Schedule and Main Interlocutors	23
Annex 3	Dr. Ty Phommasack's Statement to World Summit on Food Security	25



*At Ban Hat Nyao: The Most Important Farm Implement?*

## 1 Introduction and Background

This study on farmer bargaining power and farmer organisations was commissioned by the Sub-Working Group on Farmers and Agribusiness (SWGAB). The Working Group is chaired by the National Agricultural and Forestry Extension Service (NAFES) under the Ministry of Agriculture and Forestry (MAF), and co-chaired by the Swiss Agency for Development Cooperation (SDC). SWGAB was founded in 2006 with the purpose to synthesize lessons on agribusiness development in the Lao PDR to “identify alternatives and opportunities for promoting the development of agribusiness in a way that will empower smallholders, including policy options and capacity-building priorities.” The Lao Extension for Agriculture Project (LEAP) is the appointed Secretariat of SWGAB. LEAP is implemented by NAFES with technical support from the international NGO (INGO), Helvetas. This study is the fifth in a series commissioned by SWGAB from 2007 until now.

Guidance for this study comes from His Excellency's, Dr. Ty Phommavong, Minister of Agriculture and Forestry, statement at the World Summit on Food Security in November 2009. *[I]t is just as important to invest in farmers. Investing in farmers means making sure they have secured land tenure, making sure they have fair contracts, they have access to information, and improving the reach of services for health, education and extension.*

The Concept Note<sup>1</sup> for this and two other studies to be carried out in 2010 mentions two important assumptions: first, the intention of government to promote farmer organisations; and second the wish on the part of government to ensure maximum benefits to small farmers. The Note provides three questions that form the basis of this study:

- Under what conditions will farmers' organisations bring the greatest possible benefits to farmers, particularly poorer rural members of society?
- What other means are available for improving bargaining power of small farmers?
- What are the constraints and opportunities for adopting these means?

An additional question posed from the author's side is: What is farmers', especially resource poor ones, “room for manoeuvre” in terms of autonomous decision-making in securing their livelihoods?

The main argument of this study is that farmer “bargaining power” is the product of a number of complex interactions occurring from local to global levels. In some cases the nature of these interactions results in farmer bargaining power being hindered or curtailed whether farmer organisations are present or not. With few exceptions, the formation of farmer-based groups in Laos has not led to farmers being able to exert more bargaining power. This study is not about increasing farmer incomes as such, it is about their ability to negotiate on transactions that most affect their livelihoods.

In light of the government's firm policies to promote commercialised agriculture, the “value chain” approach to supporting farmers has also taken off in Laos. Much of what is supported in this vein does not necessarily improve farmers' bargaining power, whether groups are involved or not. The actions taken to support them tend to maintain their position as passive “chain actors” who are obliged to produce what is demanded by (mostly regional) markets in particular volumes and quality. In the final analysis, adding value does not add power, although it may well add income, especially for better off farmers and middlemen. All too often, the value chain approaches taken disregard, or fail to adequately consider, market distortions caused by local interference from the political sphere.

---

<sup>1</sup> See Annex 1, where the Concept Note is incorporated in the Terms of Reference for this study.

## 1.1 Methodology

This study includes three main case studies that could be illustrative of farmer bargaining power in the context of farmer organisations in Laos. The case studies are as follows:

- Ban Hat Nyao, a large Hmong village in Luang Namtha, an independent smallholder rubber producer;
- Maize Agro-Enterprises (groups) in Bokeo (these are not producer groups, rather they are maize middlemen/trader groups) ;
- Coffee Producer Groups and Association of Coffee Producer Groups (AGPC) in Champassak.

Field visits were carried out to Luang Namtha and Bokeo in the North where interviews were held with various actors in the identified commodity chains and groups. Because of the short time available, no field trip was carried out to Champassak. Rather, documentation from the Programme de Capitalisation en Appui à la Politique de Développement Rural – Point d'Application Bolovens (PCADR/PAB) was used, including a detailed socio-economic study of coffee groups in the Bolovens Plateau and an equally detailed study of the coffee value chain. The field trips to the North were also augmented by various documents, including various studies on Ban Hat Nyao, and other rubber-related reports; the maize agro-enterprise visits were fleshed out by VECO<sup>2</sup> documentation and a detailed maize value chain study that had been carried out by PCADR - PASS.<sup>3</sup>

Other reports on the agro-economic situation in Laos and elsewhere were consulted, as were reports on farmer organisations in the context of marketing. Key person interviews with government officials, donor and INGO representatives and staff, village and farmer leaders were carried out either on an individual basis or using focus group discussions. Discussions were also held with senior MAF officials, private sector actors, as well as drawing on the author's own years of field experience in Laos.

The overall study dates in Laos were from 19 January until 2 February, 2010, including five days spent in Luang Namtha and Bokeo (Mission schedule is at Annex 2).

## 2 What is Farmer Bargaining Power?

The Concept Note that gave rise to this study does not define bargaining power *per se*, but implies an economic sense of the phrase, and the ability of farmers to negotiate better *conditions* for the sales of their produce (including such factors as price, timing, quantity and quality). Bargaining power is thus seen in terms of the ability to negotiate a sale on favourable terms whether spontaneously occurring, or based on oral or written agreements worked out in advance. In the Lao language, a direct translation of power (*amnat*) gives undesired connotations because it is used to refer more to the state, its institutions and their authority, rather than to individuals or civil society organisations. In Lao, therefore, the term used was “bargaining capacity” (*khwamsamat nai kantolong*)

The term “bargaining power” is open to interpretation, however, as it has connotations that extend beyond the economic sphere. In the course of discussions held in carrying out this study, for example, more subtle and complex nuances to the phrase arose. It clearly needs to encompass an element of farmers' empowerment, especially in relation to their access

<sup>2</sup> Vredeseilanden, a Belgian INGO.

<sup>3</sup> Point d'Application dans les quatre districts du Sud de Sayaboury du PCADR.

and control over the assets required for production. The most important of these is land. Of course, “empowerment” itself is a slippery concept with many ways of interpreting it, but in general it refers to the “capacity of individuals or groups to make choices and to transform those choices into desired actions . . . .”<sup>4</sup>

Invariably, when “bargaining power” is discussed, we need to go back several steps to consider both the overall setting of a negotiation, and how the agenda for it has been set in the first place. What is to be negotiated? Do all parties to the negotiations have the same information and understand its implications? Do any real negotiations take place at all?

Many projects in Laos have supported farmer group formation over the years. The Lao government itself has supported groups as well, starting with the collectivised style of co-operative in the 1970s.<sup>5</sup> There is now a move afoot to bring agricultural co-operatives back onto the stage, although appropriate legislation to do so has not yet been tabled and passed. It is, however, as already posed above, an open question as to whether farmers’ organisations are, or can become, an effective instrument of bargaining power. As suggested in the SWGAB Concept Note, farmers groups may be encouraged to form as a means to instrumentalise them for outsiders’ purposes, however well-intentioned.

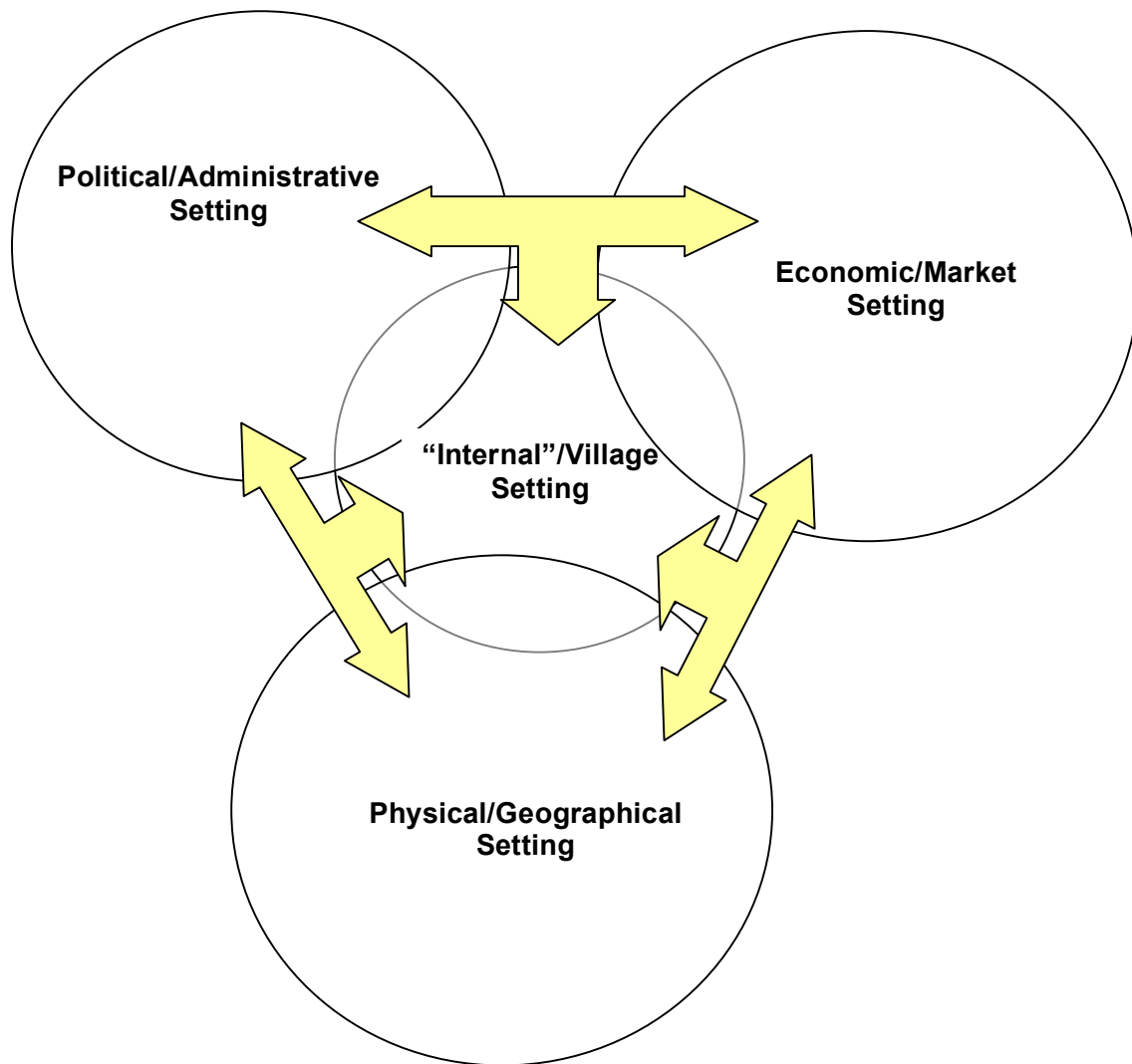
Based on our study findings, it appears that the conditions required for farmer organisations to bring the greatest possible benefits to farmers hardly exist in Laos. Of course, such a blanket statement needs to be tempered with adequate explanations from the economic, political, social and physical spheres or settings in which farmers and their groups try to secure their livelihoods (see Figure 1 below). Farmers’ organisations clearly do not operate in a vacuum in which government, global economic forces, the private sector and local authorities do not have an influence. It is the interactions between these settings which, in turn, have the strongest impact on farmers and their room for manoeuvre.



*Paying for Maize: How is the Price Fixed?*

<sup>4</sup> A World Bank sourcebook on Empowerment and Poverty Reduction (2002: 11) defines it as . . . *the expansion of assets and capabilities of poor people to participate in, negotiate with, influence, control and hold accountable institutions that affect their lives.*

<sup>5</sup> For an historical overview of co-operatives in the Lao PDR, please see: Castella J.C., Bouahom B., Keophoxay A., Douangsavanh L., 2008. “Managing the Transition from Farmers’ Groups to Agricultural Cooperatives in Lao PDR.” Catch-Up Program Policy Research Seminar – 22 Dec. 2008, NAFRI, Vientiane, Lao PDR.

**Figure One:****Farmers and their Organisations Operate in Complex, Interacting Settings**

The interaction of many factors and forces arising from different "settings," including within the villages or village clusters themselves, determines whether farmers individually or in groups are able to exert bargaining power.

Under what conditions are they likely to be more passive actors? Under what conditions, more pro-active? When are farmers likely to be more empowered in terms of their transactions?

Who determines what is a "fair" outcome of a transaction?

## 2.1 Why Look at Farmers' Organisations?

A firmly held belief in development circles lies in the strength of groups. An individual may be unable to accomplish much, but if he or she is organised into a group of like-minded individuals, the numbers involved will surely have a positive impact. The literature on agricultural and rural development is strewn with examples and case studies of groups at various levels that have resulted in greater empowerment for their members. Virtually every donor-supported rural development project has at least one component in which some type of group formation occurs, whether for savings and credit, for production, for marketing, for self-help, for agricultural extension, etcetera.

The main point of all this farmer group formation should be for farmers to have greater voice, and thereby have greater bargaining power on issues of concern to them. This is echoed in a LEISA Magazine editorial (2007: 4):

*Under the right circumstances, farmers' groups can make a very positive difference to the lives of those working to improve their livelihood options . . . A well-organised groups can be taken seriously in a wider environment. . . . Working together can increase members' bargaining power, which helps to share and lower risks and costs. . . . Groups are an important tool enabling farmers to lead the way and giving them more power.*

Why is it, then, that a great many groups do not last beyond the projects that helped to create them in the first place? Part of the answer is to be found in explaining the reasons people come together, and the shadow of doubt raised by the Concept Note: do farmers come together, having been motivated by outsiders and their likely promises of reward, or are they working together for their own purpose? We must also ask if the overall environment of the groups will support or obstruct them.

## 3 Searching for an Enabling Environment: Farmers' Settings

In this chapter, Figure 1 is looked at in detail by explaining main variables of the four different settings shown in the figure. This also detracts from the actual complexity of the situation, as it is unable to cover the range of interactions (shown as arrows in the figure) between the settings that affect farmer bargaining power. Nonetheless, an attempt is made below to explain the trend in outcomes observed in many parts of the country.

### 3.1 Internal/Village Setting

Looking at "internal" factors to help predict if a farmer organisation, or farmers as individuals, will be able to exert bargaining power, means taking a look at the dynamics within the group of farmers and within the village itself. Depending on other conditions prevailing in the area, including roads and socio-cultural characteristics and networks, the "group" may extend to include more than one village. Nonetheless, with the conditions prevailing in Laos, it is more likely than not that the group defines itself on a village basis, such as at Ban Hat Nyao that will be explored in greater depth below.

There are two major aspects to look at in terms of farmer bargaining power at the village level or village cluster level. First, what are the major factors that determine an individual's or a family's "economic" behaviours? Second, what are the major factors that determine the success of a group? Both of these interact at local level.

Many assessments have been conducted on group functioning.<sup>6</sup> They allow us to distil the characteristics of groups or organisations that are successful. It should, however, be noted that such assessments are made in the context of longer running groups or organisations, as opposed to those that come together for a limited purpose for a limited time. The latter type of group work may be observed throughout rural Laos; people helping each other by exchanging labour for major agricultural operations, working together for social functions, for house building parties and the like. The temporary groups show that when people feel a need for it, they are most certainly able to work together for a common purpose.

In those cases where farmers in Laos have been able to form groups and cooperate in a successful and sustained manner, they exhibit the same characteristics reported in the general literature on farmer organizations, as follows:

- They were self-motivated in forming a group (i.e., purpose was self-determined);
- There are clear goals and objectives;
- The leadership is strong and committed: clear thinking, farsighted, community-oriented, democratic, flexible and inclusive of different parts of the community;
- There is transparent decision-making;
- The group is cohesive (member buy-in on decisions);
- The group is disciplined on key aspects (clear rules are enforced);
- There are problem analysis and solving capacities, and the ability to mobilise various resources to achieve goals;
- Ability to resolve internal conflicts;
- Social capital within the group (various kinds of relevant skills and experience, different types of contacts and networks);
- Flexibility of the group to change as the situation changes.

Among these characteristics, leadership is one of the most important, as it sets the tone for the whole group and may be the single most important internal factor that leads ultimately to its success.<sup>7</sup>

In the absence of various pressures to do so, whether a person chooses to join a group or not depends on that person's assessment as to whether the benefits of group membership outweigh the costs, including time. Although a group may be "successful," many do exclude poorer members of society from joining, or exclude them from gaining key group benefits, especially credit; the poor are often seen as a drag on group resources, rather than as active contributors to its overall success.

Based on personal observations, and from various studies and evaluations, only a minority of groups that have been formed in Laos display many of the characteristics mentioned above. This is largely because they have been formed at the behest of external agencies. They may have been brought together to do something they have no experience with. Farmers, whether women or men or both, are encouraged to form groups to suit the purpose of the external agency in providing funds and/or services. People oblige in order to receive those inputs, but not because they feel a strong need of their own to form a group. All in all, there is a tendency, often unintentionally, to instrumentalise farmer groups for purposes determined by outsiders.

Groups encouraged by external agencies are, however, not always doomed to fail! In Laos there are some successful examples of such "assisted" groups. These include a well-known

---

<sup>6</sup> See for example LEISA Magazine, Vol. 23, No. 1 (March 2007), Special Issue on Farmer Organisations.

<sup>7</sup> See also Bouahom B., Keophoxay A., Castella J.C., Douangsavanh L., 2008. "The conditions of success or failure of farmers' groups: A case study in Xam Nuea District, Houa Phan Province." Catch-Up Policy Research Seminar – 22 Dec. 2008, NAFRI, Vientiane, Lao PDR

case of a bitter bamboo shoot marketing group in Oudomxay (Nam Phaeng village), some women's weaving groups in Houaphan, credit groups in various provinces, some of the coffee producer groups in Champassak and some of the maize farmer-trader groups (the latter two will be described in more detail below). More often than not, however, the people already had existing skills and experience prior to forming the group that also help to create the norms to sustain it. One also assumes that the external agency staff responded appropriately to needs at local level. For further information, see among others, Bouahom B. et al (2008), and the chapter on NTFP Marketing in the (2005) *Improving Livelihoods in the Uplands of the Lao PDR*.

Although an extremely important aspect of group functioning relates to internal leadership, it is one aspect that has often been ignored in favour of literacy or formal position. That is, the formal village headman, or another member of the village committee, will end up being the group leader as well. This extraordinarily heavy emphasis on formal leaders has detracted too much from facilitation of women or men with innate leadership skills in the villages; at worst, this reliance on formal leaders actively prevents other leaders from emerging (thus also preventing the emergence of well-functioning groups!).

As mentioned above, it is also necessary to look at the individual family's situation to understand certain fundamental behaviours and decisions. For example, where do farmers "belong" on the spectrum from subsistence- to commercial-oriented farming systems? Are they resource-poor or not? A family's position on this spectrum will have a major impact on its choices of how to allocate labour and on general risk adversity. What is its willingness to invest available cash into activities? In the transitional system, farmers are often "cash hungry," meaning they have to sell their harvests as soon as possible. Indeed, in the case of coffee they may sell their produce *prior* to harvest. Moreover, farmers are likely to be in debt with traders for the inputs required to plant cash crops, and they may depend on the same traders for cash advances. These individual factors also play an important role in determining whether a farmer will be able to exercise bargaining power or not. A well-functioning group may be able to mitigate some of these individual factors it is able to absorb a higher level of risk.

### 3.2 Physical/Geographical Setting

The physical setting of the village also plays an important role in determining the farmers' role and influence in various transaction outcomes. The physical setting includes the general landscape and topography of the area; its elevation, soil types and quality, water availability, forest coverage, and the balance between forest and agriculture land. Of course, something like forest coverage is also determined to a great extent by the interactions with the other settings. Yet another important aspect of the physical setting relates to the existing communications infrastructure, including roads and mobile phone networks. The extent and quality of the road network, for example, is also the result of interactions between the political and economic spheres.

When looking at the physical setting, we have to ask what products and activities are actually most suitable for the area. In Laos there are activities promoted without suitable testing as to whether they would really work under the given conditions. For example, why is so much of the North "covered" in maize when it turns out that yields may be low, or that the costs to achieve these yields are high in terms of soil fertility losses and erosion, not to mention excessive clear cutting of forest areas for annual maize cropping.<sup>8</sup> Why did a significant number of farmers in Bokeo lose a lot of money on planting chilli?<sup>9</sup>

---

<sup>8</sup> One has only to compare maize yields between the flat Mekong area of Bokeo and the uplands of Houaphan: in Bokeo it is common to have yields of six to seven tons per hectare. In Houaphan,

What is there to be said about bargaining power if farmers are convinced by outsiders to plant crops on areas that are marginal for that particular crop? What if a District has “zoned” a particular area for an activity without having adequately checked if that area is suitable for it? Can farmers refuse to become involved in activities they have doubts about? Will farmers and their organisations have a forum where they can voice concerns? Can farmers bargain on the price for a “new” commodity like feed maize or cassava if they are in an area with so little mobile phone coverage that they can’t check the price with neutral parties? Are farmers in remoter areas able to bargain on transport costs?



*Hard to do Business without a Mobile*

### 3.3 Economic/Marketing Setting

The economic setting is complex. Many development projects in Laos these days are working, with greater and lesser success, to support the “linkage” of farmers with markets through value chain approaches. In depth studies have been carried out for both the maize and coffee value chains<sup>10</sup> and, to a certain extent on rubber. A myriad of smaller studies on other marketable products, including non-timber forest products (NTFPs) have also been conducted. Despite the large numbers of studies, however, the question of farmer bargaining power in terms of these various products has seldom been directly addressed. What are the factors within the economic setting that affect the ability of farmers to bargain for a better price?

A major issue here is the structure of both the input and output value chains. How “long” are they in Laos itself? Where do they originate? Who initiated them? To what extent are they based on demand within Laos? Laos is an insignificant producer of agricultural commodities

---

yields may be hardly more than half that. Of interest, a district officer in one Houaphan district told the author in 2009 that the advent of maize cultivation had led to more deforestation than ever before.

<sup>9</sup> See SWGAB-commissioned study (2007) by David Fullbrook on Contract Farming, case study on chillis.

<sup>10</sup> See PCADR/PASS (2008) “Participative Analysis of the Maize Supply Value Chain in Lao PDR,” and Groupe de Travail Café (2007) “Participative Analysis of Coffee Supply Chain in Lao PDR.”

such as maize, rubber, cassava, sugarcane and coffee.<sup>11</sup> To take coffee as an example, Laos might export a maximum of 20,000 tons while neighbouring Vietnam might export some 900,000 to one million tons! Thailand exports on the order of 60,000 tons. Looking at feed maize, China is the world's second largest producer (behind the United States) with over 150 million tons. Production in Laos might reach one million tons.

On such commodities, with Laos always in a price-taking position, there is very little room for manoeuvre for farmers. In fact, some farmers are getting "locked in" on certain commodities, such as maize. When asked in Bokeo what farmers would do if the maize price dropped again, a trader told us: "farmers have no choice, they will have to plant it."<sup>12</sup> Thus, farmers may be able to bargain a little with local middlemen or traders on price, but these middlemen are also price takers, whether from Chinese, Vietnamese or Thai traders. Moreover, as will be described below, the actions of the Lao administration at various levels tend to reduce what little room a farmer may have to bargain.

Laos as a whole cannot influence commodity prices, nor does it have the policy or resources to subsidise farmers on either input or output prices as its neighbours do. When purchased inputs are required, whether seed, fertiliser or chemical pesticides, this immediately disadvantages the Lao farmer, as these inputs will have been produced in one or more of the neighbouring countries. The input value chain is comprised of various middlemen and traders, who also have transport costs. The fact that most Lao farmers get their inputs advanced from the traders who buy their products means that the break-even point for a Lao maize, coffee or rubber farmer will generally be higher than those in China and neighbouring countries that produce their own inputs.<sup>13</sup> With market prices for both inputs and outputs determined elsewhere, the Lao farmer is not in a position to bargain for a "fair" price.

Another aspect of the economic setting lies in financial or capital markets. These are in an infant stage in the Lao PDR. There is far too little credit available that is suitable for the vast majority of farmers. This means, as mentioned above, the majority of Lao farmers who require purchased inputs for their agricultural production will get them via the middleman or trader who buys their produce. In this regard, there are some exceptions with well-functioning credit groups, although to what extent their credit is extended to members for crop input purchases is not known. Independent sources of credit would at least give Lao farmers more choice as to where to purchase inputs rather than also getting "locked in" with a particular trader.

It is common nowadays to speak of "corporate social responsibility," (CSR) or at least of commitment from actors involved in a value chain towards one another, especially to farmers. When there is commitment, there is also trust, and a chance to build fairer relations over time. In Laos, however, this commitment is often lacking. Farmers, middlemen and larger traders of annual crops are all ready and willing to leap onto the next bandwagon. If the traders see a better margin on a different crop, there is little reason for them to stay with the crop they bought in the past. Farmers change too, but depending on their physical setting, the change may or may not bring them increased income. If there are direct

---

<sup>11</sup> See FAOSTAT. While these data may not be entirely accurate, they certainly provide enough indication of volumes produced of various agricultural products. The recent-most data set available at present on FAOSTAT is from 2007.

<sup>12</sup> This, of course, raises the concern of farmer vulnerability through over-dependency on mono-cropping, but is beyond the scope of this study to address. It also raises the question as to what needs to be done to prevent externally-driven agricultural commercialisation from leading to increased farmer vulnerability and decreased empowerment.

<sup>13</sup> Common Lao farmer behaviour is to try to avoid using purchased inputs, but for most commodities there is no "organic premium," (coffee is an obvious exception) and when a plot is cultivated year-in, year-out, and in the absence of alternatives, there will be little choice but to reach for chemical inputs or watch weeds skyrocket and yields plummet.

investments made by foreign-based companies, there is little reason to hope for CSR towards Lao farmers considering the number of direct investors in Laos today who are in the country for speculative, extractive purposes.<sup>14</sup>

### 3.4 Political/Administrative Setting

The political setting here refers largely to the administrative institutions and their working at provincial level and below that affects whether farmers will be able to exert bargaining power in their relations with others. This study, and many others that have been conducted in Laos, show that the political and economic settings in the country are virtually inextricable at the local levels.<sup>15</sup>

There is high government intervention to structure local markets and value chains. These interventions, however, have not had a positive effect on farmer bargaining power. In fact, where government interventions have occurred to the greatest extent, it has mostly had a negative effect on farmer bargaining power. Local levels of government, for example, are intervening to suppress “natural market “watersheds” in favour of administrative boundaries, such as *kumbans*. Although this may not favour the development of vigorous markets, it preserves district authorities’ control over markets. Shi (2009) also observes the purposeful “market segmentation” carried out by local administrations that effectively reduces competition, and maintains some of the “old” planned economy.

The government’s hand in local market development is most easily seen in NTFP quotas and crop monopsonies. That is, for NTFPs district officials award middlemen with a certain tonnage of NTFPs which they then purchase from local people in a certain area or zone (most probably a *kumban*). It is not, however, immediately obvious as to how these quotas are arrived at and whether they represent a sustainable harvest of the products in question. The potential damage of this system is quite clear: if a middleman wants to purchase several tons of *mak tao* (type of wild palm fruit), he will go around the area allotted to him, and encourage people to collect it until he has met his quota, not the least because he has already paid a tax or other payment in advance on it.<sup>16</sup> He/she may try to “over purchase” to avoid taxes on the additional amount.

The districts tend to award certain middlemen, either independents or those who work for larger scale traders, exclusive zones for purchasing annual crops (the zones often correspond with the *kumban*). While this is of advantage to the district in that it is easier to control the formal and “informal” taxation of a single trader operating in a single area, it has a much more negative effect of suppressing competition and giving an unfair advantage to certain parties. An additional difficulty here is that the decision-making arrived at in awarding a particular middleman or trader is intransparent. Very few farmers will know clearly why they should sell their product(s) to a particular person, except that it has been sanctioned by the district. In some cases, the farmer may also not know why the district is promoting a certain product; he/she has simply been told he/she should plant it.

There is even greater intransparency if traders/middlemen are requested by a district to conduct additional activities in order to be awarded a zone (i.e., constructing a simple road,

---

<sup>14</sup> See for example, Weiyi Shi (2009) for the Sector Working Group on Uplands, “Consultant Report on Foreign Direct Investment.”

<sup>15</sup> Shi (2009) and also Emmanuel Jouve (2009) “Working paper on value chains and producers organisations.”

<sup>16</sup> Joost Foppes (2007) also notes the potential risks of the quota system for unsustainable NTFP collection, using the example of Xieng Khouang Province in “Improving Governance in the NTFP Sub-Sector in Xieng Khouang Province.”

other infrastructure). While such activities, again, may bring advantage for the district administration, they do not necessarily assist farmers, as the traders will have to cover their costs by giving lower prices to them. Sometimes a district awards a zone to a trader where it is known to be somewhat more difficult (i.e., poor infrastructure, likely poorer yields), but then as “compensation” also awards the same trader an NTFP quota, so that he/she can earn more money. This again reduces competition and leaves the farmer in a weak position.

The contract farming system, combined with crop monopsonies, does not reflect a modern, legal standard for contracts. Contracts are concluded by district officials, traders and village headmen; the vast majority of farmers are presented with a *fait accompli* without knowing the terms and conditions that await them. That village headmen sign contracts with district officials (most often a District Agriculture and Forestry Office (DAFO), but may also include District Governors’ Office) and traders, means that the farmers have no say in the content of the contract. It is, moreover, common practice not to mention the price at which the produce will be bought (begging the question of what is to be bargained on, even if bargaining were possible). The village headman usually compiles a list of the inputs required for the farmers wanting to plant the particular crop, and this then forms part of the “contract.” The trader will then provide the inputs to the headman who then distributes them to the villagers. For his efforts, the headman will receive a commission, effectively becoming the first middleman in the value chain. In cases of problems with traders coming too late to purchase produce, or even not at all, farmers will have no recourse (Jouve: 2009).

Under such a situation, there is little the average farmer can do except to refuse to cultivate the particular crop (if the family has other sources of income). Another tacit refusal to participate comes if the farmer manages to secretly sell some of his/her produce to another middleman who may offer a slightly higher price.<sup>17</sup> Legal frameworks are thus inadequate, but if appropriate implementation or enforcement mechanisms are not in place, then additional decrees and laws won’t have the desired impact.

To conclude from the above, there is far too much direct (and indirect) involvement of local leaders and officials in market chains resulting in distortions unfavourable for the farmers. Market distortions are also caused by rent-seeking behaviours of various officials at various points in the market chain. This has been widely reported from around Laos, and in relation to various products: from large livestock to maize. It obviously also reduces farmers’ room for manoeuvre in that traders cannot predict exactly how much they have to pay to move produce from collection points to onward sales points. Again, this will depress prices they are willing to offer to farmers. With so little accountability towards farmers, and so few checks and balances within the system, there also ends up being far too little containment of rent-seeking behaviours.

Thus, the actual process of agricultural market support in Laos is not designed to overcome the difficulties confronting farmers in trying to gain a fair price for their products. In fact, there appear to be more hurdles put in their way. The mutual co-opting of political and economic actors (i.e., district officials, village and *kumban* leaders and traders) results in such major overlaps between the two, that it has already created serious, virtually intractable governance problems vis-à-vis markets and value chains. It also appears that the inconsistencies between policies and what actually gets implemented on the ground are not being addressed. For example, the government would like to see the formation of farmer groups and even co-operatives. But what is the use to farmers of groups in the light of monopsonistic trade practices which involve traders providing all inputs, and purchasing outputs, via village headmen?

---

<sup>17</sup> Under normal conditions, one would say the farmer is not honouring the contract, but in Laos since the producer is rarely a contract signatory and hardly knows the content, there is, then, rather little not to honour!

### 3.5 The Results of Setting Interactions

After the analysis of the different setting interactions above, it is clear that the genuine room for manoeuvre for farmers, especially poorer farmers (people in the uplands, women, various ethnic groups) to create a space in which they can have real bargaining power, and where their voices are heard, is limited. Too much of what comprises their environment is anything but enabling. If we accept that a major purpose of forming farmer organisations is to help them gain their own, collective voice, thus contributing to their eventual empowerment, then we must also accept that this purpose still needs much effort to be met. The forum in which farmers can actually have their voice heard does not yet exist.

Until this forum or platform is created, too many others will continue to speak on farmers' behalf, while farmers themselves will try to find other means to maintain some small measure of autonomy. Informal reports in Laos suggest that these "other means" may include rather drastic actions, such as farmers burning down or otherwise destroying unwanted plantations. Such examples of resistance are strong indication for both the lack of a suitable forum and the potentially negative effects of an overheated process of agricultural commercialisation that leaves farmers with less bargaining power than ever before.

In the next chapter, the points raised in this chapter will be illustrated with the case studies mentioned at the beginning of the paper. Some farmers have actually been able to create as much room for manoeuvre for themselves as is possible under difficult circumstances.

## 4 Case Studies

### 4.1 Smallholder Rubber at Ban Hat Nyao

This case study is based on a brief field visit to Ban Hat Nyao near Luang Namtha town, plus various reports that have included descriptions of the village and its rather extraordinary and farsighted management system set up to handle rubber tree cultivation and marketing.

Although the case has been written up before,<sup>18</sup> it bears repeating here that the people of Ban Hat Nyao, all Hmong, have maintained their autonomy in a situation that does more to prevent than to promote independent action. The people of Hat Nyao do, indeed, have many of the positive characteristics of successful groups that were mentioned under 3.1 above. That is, they decided on their own in the 1990s (after arranging their own study tour to both Thailand and China) that they wanted to plant rubber and were the first to do so on any significant scale in Luang Namtha. They have inclusive, strong leadership with vision. It is also consultative in that different parts of the community have a voice in decisions reached. This means that decision-making tends to be clear and transparent, with mechanisms in place to transmit these decisions to all members of the community. Decisions are also enforced by ways of rules and regulations governing the most important group activities (planting areas, skills needed to tap, marketing to whom). Action is taken (fines, for example) against those who transgress the regulations.

Of course, there has been a lot of hard work involved in establishing, maintaining and expanding the village rubber plantations. But the Hat Nyao people were also fortunate in that enough of them had the skills required for the rubber sector because of past experience in China. They were also able to use their contacts with the then Vice-Governor of the province in order to mobilise long-term credit to help establish the initial rubber plantations in the

---

<sup>18</sup> See especially the NAFReC/NAFRI case study (2009) entitled *Rubber Institutions in Ban Hat Nyao: Managing, Trees, Markets and Producers*.

village. Additionally, those farmers with the necessary rubber plantation/tapping skills have been able to impart them, not only to others in the village, but also to visitors who come to see them from as far away as Attapeu. The Hat Nyao farmers have also leased in land for rice cultivation which is especially important for those who are waiting for their rubber to come into production, a process of some eight years. This shows how the people have mobilised their own, and other resources, to achieve their objectives.

Another important aspect of the Hat Nyao rubber story is the element of community solidarity. Of the rubber proceeds, there is always a small amount per kilogram that is set aside for the Village Development Fund from which anyone can borrow, interest free, for emergency or consumption purposes. It is also of interest to see how the marketing is arranged. The marketing group of the village, now comprising five persons, does not passively wait for rubber traders from China to come to them; they also go to China themselves to see where they can get the best, most reliable offers. In order to ensure that no one's production is left out, they only deal with rubber traders who are really capable of buying in bulk (i.e., some 40 tons per time). It is also forbidden to sell rubber during the main tapping season without going through the marketing group. The marketing group does accept rubber brought to them for sale from other villages, but this "external" rubber gets second priority when selling to the traders.

One more positive point was the decision made by Hat Nyao to also take control of at least some part of the input chain. The villagers have created their own rubber nurseries with grafted saplings. The saplings have been used to extend their own area in the village, but have also been sold to other villages.

### *Results for Ban Hat Nyao*

The villagers have 350 hectares rubber under production, and another 650 hectares expansion area, meaning that every family in the village now has area under rubber. They are able to sell large volumes of 'tub lump' rubber to bona fide Chinese traders with whom the marketing group has made its own negotiations. In this way, they get the fairest market price possible based on immediate cash sales—no additional middlemen are taking a share on the Lao side. Thus, in a situation in which most rubber has been spread via concessions and/or the so-called "2+3" system<sup>19</sup> (often becoming 1+4 and even 0+5; effectively concessions), the Ban Hat Nyao people have resolutely maintained both their independence and solidarity, and appear to be prospering (although they also confess that many people still have debts while they wait for rubber to come into production).

Even at Ban Hat Nyao, however, we should not glorify the results in terms of bargaining power. While they have been able to maintain the maximum amount of room to manoeuvre, and to negotiate favourable trading conditions for themselves, they are price takers as well in the face of the huge Chinese rubber market. The price they receive is fixed in China. Thus, Ban Hat Nyao also doesn't have that much price bargaining power, but at least they know the price they receive is comparable to what a Yunnanese rubber farmer is getting. Of course, since they have chosen to focus almost entirely on rubber, they will become totally dependent on the vagaries of the international commodity market. A calculated risk, perhaps?

The Ban Hat Nyao leaders are interested in registering themselves as a cooperative, as it would give them a license to sell their rubber directly to China (Chinese factories), thus cutting out another layer of middlemen. Along the same lines, they have also tried to establish their own rubber processing factory, but this has languished as they ran out of

---

<sup>19</sup> This is supposed to be a sharing system between investor and farmer whereby the farmer contributes land and labour, and the investor contributes inputs, techniques and markets.

funds to complete it, and at present have no additional capital to complete the project (partly because of a drop in rubber prices in 2008, partly because they don't have enough investors). In the meantime, the province has also given concessions for three rubber processing plants; whether this will negatively affect the Ban Hat Nyao people's plans to complete their own factory remains to be seen.

## 4.2 Maize Trading Groups in Bokeo

Several traders' groups--small agro-enterprises supported by VECO in Bokeo--were visited in the Houay Say and Ton Pheung areas of Bokeo Province. The groups supported by VECO could be referred to as farmer-traders, as most of the trading groups are comprised of a number of better off farmers, some of whom have previous experience as middlemen. The groups are not necessarily formally established as businesses, but the group is comprised of shareholders; the amount of the share per member, and the number of members, is determined by the group. The trading groups largely concentrate on maize, although some of them also have NTFP quotas for broom grass and *mak tao*. VECO has supported 17 such trader groups in the province with training, study tours and matching grants for asset purchase. They appear to function quite well, and some are becoming quite profitable.

The trader groups provide whole packages of inputs starting from land levelling/ploughing services to seed, fertilisers, pesticides/herbicides, and some advice to farmers in the areas that they have been allocated. Of interest here is that the trader groups operate in the same way as mentioned under 3.4 above. That is, they are awarded areas to work in by the districts (even with provincial involvement), meaning the trader groups benefit from having monopsonies. It seems, as elsewhere, physical inputs end up on the headman's doorstep and he has them distributed based on a name and input list that he has put together. He is paid a percentage on both inputs and yields unless a member of the trader group. Furthermore, farmers are not allowed to sell to other traders coming through the zone.<sup>20</sup>

Farmers have virtually no bargaining power in this situation, since most are input takers and in the worst case scenario have debts over several years with the trader. In better cases, farmers also can earn well with maize, and the zonal award system appears to ensure in the Bokeo case that the entire production is purchased. Nonetheless, the traders are the big winners when it comes to volumes—the more the better! There is no evidence that farmers get higher prices than they otherwise would by virtue of being served by local trader groups, partly because it is also a relationship governed by trader group – headman – district. That is, although the trader groups are locally based, they are so closely involved with the local leadership that it is not sure what level of accountability they will feel toward the producers (we assume this varies depending on the persons involved). Nonetheless, the trader groups normally sell the maize shelled, and some of the added value gets passed to farmers, although some traders transport it on the cob to Thailand especially in the rainy season.

The Bokeo example also illustrates, however, that traders face uncertainties. A major issue in the recent past has been temporary Thai border closures to Lao maize; this will be mitigated as of this year, however, by two large silos in Bokeo that will sell dried maize to either Chinese or Thai traders. Another issue, as mentioned above, is the set of formal and informal fees traders have to pay that adds to their costs. Traders seem to be unable to bargain with district authorities to reduce these fees, but they may also benefit from the overall intransparency in the system when it comes to influencing decisions in their favour. Even wealthy, larger scale Lao traders, such as the silo owner, have no bargaining power with Thai or Chinese buyers (although there could be potential mini price wars between the

<sup>20</sup> VECO has apparently convinced some district authorities to accept the idea of market “boundaries” rather than focus solely on *kumban* boundaries, although the monopsony system still remains in place.

two that would drive the price up). The price for the maize is told to them, and they simply have to accept it. Some of the Lao traders are also in debt with Thai traders, as they get inputs advanced to them much in the same way that they advance inputs to farmers.

The need for farmers to organise themselves into groups for maize production has largely been pre-empted by the zonal trader system encouraged by Bokeo Province and elsewhere. This is all the more enhanced by the lack of adequate/appropriate credit that would allow farmers to borrow themselves and have greater independence under the system although this would tend to benefit better off, less risk adverse, farmers in the first instance.

There has been discussion in Bokeo on forming an association of trader groups in the province, but it seems as of this writing that the groups themselves are rather reluctant to do so. There is too little clarity for them as to what benefits such an association would bring them, and they rightly fear that the time and effort entailed would outweigh the benefit (since they already know that they can do nothing to influence the price they get from Thai, other Lao or Chinese traders).

### 4.3 Bolovens Coffee Producer Groups

Coffee producer groups have been supported on the Bolovens Plateau, among others, by the Lao – French Programme called PCADR – PAB. Since 2005 PAB has assisted in forming 53 coffee producer groups in two districts of Champassak Province: Paksong and Laongam.<sup>21</sup> In 2007, a second tier organisation was formed: the Association des Groupements de Producteurs de Café du Plateau des Bolovens (AGPC). The AGPC is to roast and export coffee as well, but still receives donor support; it is too early to say whether it will be able to operate independently and sustainably under its own management.

An in-depth socio-economic study<sup>22</sup> of the producer groups was carried out in 2008. While the study did not look into the issue of bargaining power, it was clear that of the groups studied quite a number of them were weak internally. Weaknesses related especially to leadership and management, and it is clear from the report that some of the groups have formed in order to get promised assets—especially wet processing machinery for arabica coffee beans—from the PAB. The report made clear that both the groups and the AGPC would need longer term support to really establish themselves well. Nonetheless, some of the groups display better leadership and solidarity than others; ironically, the study notes, those that received less financial support from the project.

There was no suggestion that the groups are able to bargain for better coffee prices, but some of them have been able to get better prices by virtue of the buyers who come in contact with them.<sup>23</sup> In fact, the detailed coffee chain study says (pp. 13 and 72), “Buying prices are always decided by the buyer as farmers have very little power of negotiation.” It also says (p. 25), “The prices of Lao coffee depend entirely on the international coffee prices (as Laos doesn’t have any power of negotiation because of its small production, and doesn’t belong to any international coffee body.)” The issues pointed out above that farmers are often “cash hungry” also holds true in the coffee sector: some farmers sell their coffee before the harvest in order to get cash advances from the buyers. This of course weakens any bargaining power they might have otherwise had. Better off farmers have the chance, such as the farmers of Hat Nyao, to skip over one or two middlemen and arrange to sell coffee to larger buyers/wholesalers. Nonetheless, “quality standards” are also set by the buyer who

<sup>21</sup> A few of these groups have been supported in Thateng District in neighbouring Sekong Province.

<sup>22</sup> Virginie Diaz Pedregal (2008) “Socio-Economic Study of the Coffee Producer Groups Functioning Under PCADR – PAB.” (Only a summary available in English; main report is in French.)

<sup>23</sup> Personal communications.

fixes penalties for lower quality by reducing the price or the weight by as much as 20% (p. 72).

If coffee producers are able to provide a high quality arabica coffee, they may well be able to gain a higher price, but it has little to do with bargaining power and more to do with particular buyers recognising the quality and being willing to pay for it. There are, however, large buyers (Dao Heuang, for example, and a recent arrival from Singapore called Olam) who are not looking for high quality coffee as they generally aim to buy green coffee beans to produce instant coffee. It may be that competition among the buyers themselves can temporarily drive up coffee prices offered to producers but this is related to a dynamic among the buyers and has not to do with farmer bargaining power.<sup>24</sup> It certainly remains to be seen how the AGPC will perform in this difficult environment.

## **5 Increasing Farmer Bargaining Power? Possibilities, Pitfalls and Fundamentals**

### *Is Bargaining Power at all Possible?*

After reviewing the evidence from around Laos, the ways open to farmers to increase their bargaining power under current conditions seem circumscribed at best. The likely future economic and market development scenarios, especially with China's ever-increasing market dominance in the region, do not give reason for a great deal of optimism. Laos has very little by way of "comparative advantage" in the agricultural sector, certainly where large volume commodities are concerned. Both input and output chains are dominated by regional economic powers, making Lao products automatically more expensive, and giving Lao farmers lower margins and even less room to bargain than their counterparts in neighbouring countries. Laos is merely producing according to others' demands.

There may be positive exceptions for Lao farmers with niche and/or organic products that the neighbours cannot or will not produce. But this also begs the question: how many farmers can become involved in such production with the limitations of domestic markets? Both farmer and consumer groups in Thailand are also taking greater interest in organic products, meaning again a much larger producer of similar products in a neighbouring country. With the (still) richer forest resources in Laos, there are also some valuable NTFPS—especially those wanted in China for medicines—where price could be bargained on favourably by local people. But here, access to accurate price information is a key issue, as is the fallacy of the quota system put in place by local authorities.

### *The Potentials and Pitfalls of Groups*

If increased farmer bargaining power is illusory, is it necessary to support farmer groups and organisations to "achieve the unachievable"? What positive role can they play? What role can external agencies play? What about inclusiveness issues? Will poorer families always be left out? Groups do have potential to bring benefits to their members, but it is necessary to look at this potential in terms beyond the economic sense of "bargaining power." Self-governed groups, such as at Ban Hat Nyao, have positive effects related to managing available resources and enhancing community solidarity. This, in turn, may lead to improved, sustainable livelihoods and an ability to respond to both positive and negative

---

<sup>24</sup> It has also been suggested (personal communications) in relation to both the coffee and maize value chains, that big buyers/traders can easily "crush" farmer groups simply by short term price manipulation to break the solidarity of the group.

stimuli. It may not reflect bargaining power as such, but improved ability to maintain autonomous decision-making.<sup>25</sup>

At village level, groups may be effective but they must be allowed to form on their own terms based on their own issues and concerns, and be facilitated accordingly and with long term commitment. This means an approach whereby outsiders do not try to form groups in their own image. The question remains, however, whether farmers will consider the benefits of group membership as outweighing the costs. Examples from all around the world show that when an external agency provides grants or subsidies to fledgling groups, it often means the group will not outlast the project. In such cases, the external agency has brought in benefits that attract group membership; this may “over-catalyse” a process whereby people have not thought to establish their own group, including its various operating norms. As Ostrom (1999: 201) rightly observed: “One does not give stakeholders a ‘voice and real responsibility’ by creating short-term projects that involve outsiders ‘organising the farmers’ in sweeping tours of the countryside.”

It is also a truism that when people form groups they tend to be of likeminded individuals with similar backgrounds. This means that the poorer tend to get left out, while the better off exclude themselves. Moreover, if we look at the conditions under which groups may be more likely to thrive in Laos, it appears that resettled or merged villages where different ethnic groups are put together present more difficult cases for collective action. People from different ethnic groups may feel uncomfortable to cooperate with a high level of trust and commitment, particularly if one group is viewed as an “interloper” by the other. Thus, it is more advisable to try to work initially with ethnically homogenous groups.

Strong, self-governing marketing groups as in the Hat Nyao case, can improve their position in the value chain—even if still as price takers—because they can effectively cut out one or two middlemen. People should be left to decide for themselves, however, how and to whom they sell their product(s). The important aspect here is choice! Farmers can only ever have a stronger position if they can choose and decide for themselves what are the best options depending on their own conditions and resources. The role of external agencies, therefore, is to help farmers make their own decisions rather than telling them what to do. This can be done by ensuring that farmers have access to information and by encouraging them to analyse their options.

In this vein, farmers should be assisted, if they haven’t thought of it themselves, to do their own mini-research projects to check and ask questions first before committing too much land and labour resources to a particular crop or activity. We have again the example of Ban Hat Nyao, and others like it, whereby farmer leaders arranged their own study tour in order to help them decide what direction to go in with their farming system. Such farmer research does not necessarily require a formal group, but it does require some foresight and ability to make use of existing socio-economic networks. It is also possible that a farmer research group, formed for a limited purpose, may decide to work together on a longer term basis.

Given the structures of agricultural markets, one way to assist farmers’ groups is by helping them to achieve value added on their products with the caveat that adding value must be based on real demand from further along the value chain. Some of this may be done more effectively when managed by groups. Some of the Bolovens coffee groups, for example, do function well with their wet processing machines for arabica, as do the maize trader groups with shellers. At the same time, however, it has to be recognised that “value added” for poorer farmers may be difficult to achieve. They are cash hungry, and cannot wait long to be paid for their products: they virtually always choose to sell immediately, even though they

---

<sup>25</sup> The work of the Nobel Prize winning economist, Elinor Ostrom argues for believing in people’s local wisdom when it comes to managing resources and for much less state interference.

know it is for a lower price. At the same time, as suggested above, the poorer farmer, especially if that farmer is a woman, is the one most likely to be left out of a producers' or other local group. Nonetheless, a well-established, well-functioning, self-governing group is more likely to be able to move toward inclusiveness than one hastily formed to gain immediate benefits from external agencies. Moreover, such a group may have other means and other ideas as to how best to support poorer community members.

External agencies often try to support second tiers of groups such as associations. While it may make sense from a macro point of view, it is worth remembering that an association will only function as well as the groups that constitute it. Moreover, just as with a smaller, local group, a majority of the groups will have to feel a need for a second tier and be willing to cover the costs it will incur. The benefits of the second tier will have to be transparent to all first tier groups. Without the fulfilment of these preconditions, the second tier is likely to collapse onto the first tier.

Finally, perhaps the best way to support any level of group is to leave all decisions to the farmers themselves, and without trying to influence them with short term benefits. After they have decided on what course to take, then it would be possible to provide facilitative support of different kinds. The main point, however, is to minimise interventionist approaches.

#### *Fundamental Support Issues:*

There are several fundamental issues that need addressing if farmers in Laos are to be adequately supported; whether they choose to be in groups or not. Three of these relate to the statement of Dr. Ty quoted at the beginning of this study. land tenure, fairer contracts and information. Farmers who feel their land tenure is not secure are put into an extremely difficult position from the very start. How can they drive a hard bargain with traders, especially those supported by officials, when they are not sure they will even be allowed to cultivate the land in future? The issues of concessions, village resettlement and merging, and land appropriation are often high in farmers' minds, and affects their decision-making, even if they do not directly articulate them.<sup>26</sup> This situation calls for strong action and high attention from all stakeholders, especially government.

One of the most important ingredients for farmers, or anyone for that matter, to take effective decisions is adequate information. There are far too many cases in Laos where farmers have been fed a diet of totally incorrect information on likely incomes if only they would plant x, y, or z. Therefore, farmers need to be able to gain access to independent sources of information that can be crosschecked. It would be well worth the effort to explore how farmers can make the best use of mobile phone networks to get updated and accurate information on both input and product prices for crops, livestock and NTFPs. This may not increase farmer bargaining power, but at least it will give them a correct basis on which to decide whether to engage in a particular activity or not.

The third fundamental issue relates to governance. This has to be a long term focus of development cooperation; without this, farmers' room for manoeuvre whether individually or in organisations will remain limited. If the majority of farmers is to achieve the level of bargaining power at which they can at least negotiate better, and fairer terms and conditions in the market—the fairer contracts referred to by Dr. Ty—then that market should be as transparent and undistorted as possible. Concerted efforts will need to be made to catalyse

---

<sup>26</sup> A recent report (Zola: 2009) funded by the Trade Development Facility also mentions that most farmers are land insecure, meaning that they make fewer investments to manage land and soils, thus reducing productivity, etc. Also Fullbrook (2009) points out the tremendous difficulties lying behind "big-push" development in terms of land availability for food security in that it reduces the scope for farmer decision-making and autonomy.

policy changes that will break down the monopsony and quota system. Contradictions also need to be addressed along with policies toward land.

Finally, all the arguments made here show that the main approaches likely to yield greater results for a greater number of farmers are those that are multi-pronged and multi-level, dealing concurrently with the main factors arising from the different settings described here. At the same time, however, it has to be recognised that the regional economic juggernauts have already set certain trade and investment mechanisms in motion. It remains to be seen what place the Lao farmer will have in these.

## 6 Major References

Aude, N. et al. (2008) "Participative Analysis of the Maize Supply Value Chain in Lao PDR." PCADR/PASS.

Bouahom, et al. (2008) "The Conditions of Success or Failure of Farmers' Groups: A Case Study in Xam Nuea District, Houa Phan Province." Catch-Up Policy Research Seminar – 22 Dec. 2008, NAFRI, Vientiane, Lao PDR.

Castella, J. C. et al. (2008) "Managing the Transition from Farmers' Groups to Agricultural Cooperatives in Lao PDR." Catch-Up Program Policy Research Seminar – 22 Dec. 2008, NAFRI, Vientiane, Lao PDR.

Chanthavong, N. et al. (2009) "Rubber Institutions in Ban Hat Nyao: Managing, Trees, Markets and Producers." NAFReC/NAFRI case study

Diaz Pedregal, Virginie (2008) "Socio-Economic Study of the Coffee Producer Groups Functioning Under PCADR – PAB."

Joost Foppes (2007) "Improving Governance in the NTFP Sub-Sector in Xieng Khouang Province." For GPAR Xieng Khouang.

Fullbrook, David (2007) "Contract Farming in the Lao PDR: Cases and Questions." For the SWGAB (produced by LEAP).

Fullbrook, David (2009) "Food as Security." In *Food Security Online*. Published online 29/01/2010.

Galindo J. and Sallee B. (2007) "Participative Analysis of Coffee Supply Chain in Lao PDR." For the Groupe de Travail Café.

Jouve, Emmanuel (2009) "Working paper on value chains and producers organisations." For the Sector Working Group on Uplands (SWGUP).

LEISA Magazine (2007). Editorial on Farmers' Organisations. V.23, Nr. 1 and especially the article entitled "Farmer Organisation and Market Access" by J. Hellin et al.

Ostrom, Elinor (1999) "Social Capital: A Fad or a Fundamental Concept?" In P. Dasgupta and I Serageldin, eds. *Social Capital: A Multifaceted Perspective*. World Bank, Washington.

Senyavong, V. (2009) "Report on the Development of a Corn Association: Bokeo Province." For VECO and LEAP.

Shi, Weiyi (2009) "Consultant Report on Foreign Direct Investment." For the Sector Working Group on Uplands (SWGUP)

Soydara, V. and Ketphanh S (2005) "Market Opportunities for NTFPs: The Case of Bitter Bamboo." In *Improving Livelihoods in the Uplands of Lao PDR*. NAFRI/NAFES/NUOL Vientiane.

Zola, Anthony (2009) Scoping Study on Cross-Border Agribusiness in Lao PDR: A Focus on Champassak Province

**Annex One:****Terms of Reference****Rationale**

Investments in agriculture and natural resource extraction have benefited many rural communities in Lao PDR. Whether the product is rubber, maize, coffee or organic vegetables, there are large numbers of farming families who have increased their incomes and found employment opportunities as a result of new market opportunities. But not all communities have benefited, and some families have been negatively impacted. The social and environmental consequences of agricultural commercialisation in recent years have included loss of access to land and forest products, reduced food security, indebtedness and exposure to toxic chemicals.

In response to these concerns, the Ministry of Agriculture and Forestry has announced that Laos needs more than just investment in agriculture, it also needs *investment in farmers*. In his statement to the World Summit on Food Security, Dr Ty Phommasack said:

*Investing in farmers mean making sure they have secured land tenure, making sure they have fair contracts, they have access to information, and improving the reach of services for health, education and extension<sup>27</sup>.*

Dr Phommasack noted that environmental and natural resources are the foundation of livelihood for most people in Lao PDR. Consequently, the twin crises of climate change and food insecurity could have a 'drastic impact' on the people of Laos. He added:

*The crisis should encourage all of us to look for ways of improving resilience, reducing vulnerability, and improving the adaptive capacity of governments, development workers and farmers.*

The studies to be carried out under the Sub Working Group on Farmers and Agribusiness (SWGAB) are based on these needs. They will 'look for ways of improving resilience, reducing vulnerability and improving adaptive capacity'. Furthermore, in response to the call for investment in farmers, the studies will focus on the livelihoods of small farmers, while also looking at the supporting role of extension services and agricultural research.

The first major report produced by the SWGAB was on the subject of contract farming (Fullbrook, October 2007). The report presented a mixed picture of what was happening in Laos; while some farmers appeared to be benefiting from the access to markets they had gained through contracting, others had incurred debts and felt cheated by traders.

Contracting as a group, rather than as individual farmers, appears to offer some advantages. After examining the case of maize growers in Bokeo, the author of the SWGAB report concluded: *"Their trading position may be strengthened if they cooperate together in bargaining with Thai traders"*

These observations were consistent with what has been observed in other parts of the world with respect to contract farming. What appears to be important, however, is not the creation of farmer organisations *per se*, but the increase in bargaining power that this can bring. As

---

<sup>27</sup> Statement by the Delegation of the Lao PDR to the World Summit on Food Security, Rome, 16-18 November 2009. The full statement is appended to this Concept Note.

another report on contract farming notes: *“The type and amount of benefits acquired by smallholders depend largely on the strength of their bargaining power”*.<sup>28</sup>

The creation of Farmer Organisations do not automatically result in improvements in bargaining power. The opposite can also happen, with farmers being coerced to join groups as a means for collective exploitation. It has also been documented that Farmer Organisations often exclude the poorer members of the community.

Based on the twin assumptions that the GoL intends to promote farmer organisations while also wanting to ensure maximum benefit to small farmers, the question needs to be asked: *under which conditions will farmer organisations bring the greatest possible benefits to farmers, particularly the poorer members of rural society?* A further question that deserves attention is: what other means are available for improving the bargaining power of small farmers, and what are the constraints and opportunities for adopting these means?

These questions will be explored by an experienced consultant with a background in the social sciences. Three cases of farmer organisations will be examined: the Coffee Producers Association in Champassak, the Maize Farmers Groups and Association in Bokeo, and Ban Hat Nyao, one of the first rubber-producing villages in northern Laos. The consultant will also incorporate findings from relevant reports from Laos that have looked at other factors affecting the bargaining position of small farmers, including market information systems, monopsonistic trading practices, demand-driven service provision, social networks, rights awareness among farmers and codes of practice for investors.

The output will be a report that makes recommendations about how government agencies and development projects can support improvements in the bargaining power of small farmers, and how to avoid the potentially negative aspects of farmer organisations.

---

<sup>28</sup> Sununtar Setboonsarng (2008), *Global Partnership in Poverty Reduction: Contract Farming and Regional Cooperation*, ADBI Discussion paper No. 89

**Annex Two:****General Mission Schedule and Main Interlocutors**

<b>Date</b>	<b>Place</b>	<b>Main Activities</b>
<b>19.01</b>	Vientiane	Arrival from Germany. Briefing meeting with LEAP (Andrew Bartlett, Rakesh Munankami, Athikone)
<b>20.01</b>	Vientiane	Meetings with Dr. Linkham, Policy Research Centre, NAFRI; Mr. Joost Foppes, Consultant Mr. Bounliep, former Project Director of PAB; Dr. Barbara Boeni, SDC Country Director.
<b>21.01</b>	Vientiane	Meetings with Mr. Sinouk, Head of Lao Coffee Association; Mr. Rik Delnoije, SNV Governance for Empowerment Advisor. Mrs. Anne-Sophie Gindroz, Country Representative of Helvetas
<b>22.01</b>	Vientiane	Mr. Anonh, Special Advisor to the Minister of MAF; Mr. Niels Morel, PCADR Coordinator; Dr. Sisaliao Svengsuksa, Co-President of Lao Farmers' Products; Richard Hackmann, CIDSE and Glen Hunt, JVC.
<b>23.01</b>	Vientiane	Meeting with Andrew Bartlett and Randy Arnst. Document Study
<b>24.01</b>	Vientiane	
<b>25.01</b>	Luang Namtha Province	Travel to Luang Namtha, meet with Luang Namtha PAFO Deputy, Mr. Somchanh; visit to village growing organic vegetables. Dr. Klaus Goldnick, CIM Regional Planning Adviser with Luang Namtha DPI.
<b>26.01</b>	Luang Namtha Province	Visit Ban Hat Nyao, Discussions with Mr. Lao Ly and others; Discussion with DAFO Luang Namtha Deputy, Mr. Bounkeo Discussion with Ms. Yunxia Lee, Research Student on Akha economic networks.
<b>27.01</b>	Luang Namtha to Bokeo	Visit to Nam Daeng Tai Village (maize, rubber); Travel to Bokeo.
<b>28.01</b>	Bokeo Province	Meet Mr. Stuart Ling, VECO Director. Mr. Bounmy, Head of PAFO Bokeo; Mrs. Pinkeo, Head of Trader Group, Hom Hian of Ton Pheung District; Mr. Soutan and Mr. Bounyong, Trader Group leaders at Si Doneyang, Ton Pheung.
<b>29.01</b>	Bokeo Province	Meet Mr. Khamstone, Mr. Samut and Mr. Khamla, leaders of Pak Ngao Trader Group in Houay Say District. Visit to Khamu Village, Ban Houay Tuy in Ban Dan area of Houay Say;

		Discussion with Mr. Somsy, Large Trader at Ban Phone Savang of Ban Dan.
<b>30.01</b>	Travel Bokeo to Vientiane	Return to Vientiane. Debriefing discussion with Andrew Bartlett.
<b>31.01</b>	Vientiane	Preparation Presentation
<b>01.02</b>	Vientiane	Presentation of initial results. Final debriefing.
<b>02.02</b>	Vientiane - Bangkok	Travel Day.
<b>03.02</b>	Berlin	Arrival back in Berlin

**Annex Three:**

***Statement by H. E. Dr. Ty Phommasack,  
Vice Minister of Agriculture and Forestry,  
Deputy Head of Delegation of the Lao People's Democratic Republic***

To the

**World Summit on Food Security**

16-18 November 2009, Rome, Italy

Excellencies,

Distinguished Guests,

Ladies and Gentlemen,

It gives me a great pleasure to be here today and take the floor on behalf of the Government of the Lao People's Democratic Republic. Allow me first to convey my gratitude to FAO for organizing this important World Summit on Food Security.

As we all know, two greatest challenges that our world faces today are food insecurity and climate change. Both challenges require urgent, innovative and holistic responses.

Tackling hunger in the context of Laos require strong coordination, collaboration and cooperation among all stake holders which include government institutions, mass organizations, private sector, academia, local community, Lao professional organizations and international agencies to engage in this fight.

With regard to climate change, Laos is preparing its self to take part in a number of activities related to climate change and adaptation. Reduced agricultural productivity is of particular concern. As the rain pattern changes, the Lao PDR will be faced by unparalleled agricultural challenges. The environment and natural resources are the foundation of livelihood for most people in Lao PDR, as well as the foundation for its development strategy. The forest provides poor people with shelter, fuel, food and a source of income. Over 80% of population of the Lao PDR are engage in agriculture and fisheries, and are thus directly dependence on national resource base. Given this, the effect of climate change are likely to have a drastic impact on the people of Laos.

Ladies and gentlemen,

The agriculture and forestry sector is the main contributor to the GDP and overall economic development, and in particular to the government's food production and poverty reduction targets.

Lao PDR's agriculture was impacted by the global downturn, especially supply of key imported inputs require for agriculture, and encountered relatively severe disasters in 2008 and in 2009 which have damaged a large number of irrigation schemes and destroyed agriculture areas of approximately 42,000 ha. However, agriculture and fisheries production has recorded satisfactory performance in the last few years. This is, to a great extent, due to

gradually increasing and well-programmed investment in the agriculture and rural development sector. It is estimated that total rice production will reach 3.2 metric tons in 2009 and thereby meet its rice requirement and self-sufficiency.

Distinguished delegates,

While many people have benefited from investment in agriculture and natural resources development, there have been concerns about social and environmental impact. This concern became more intense as commodity prices fell and food prices rose; thereby showing that regional and global integration could bring cost and vulnerabilities, not just benefits.

We all agree that the gravity of the current food crisis is the result of 20 years of under-investment in agriculture and negligence of the sector. However, I would also like to add that there is just important to invest in farmers. Investing in farmers mean making sure they have secured land tenure, making sure they have fair contracts, they have access to information, and improving the reach of services for health, education and extension

The crisis should encourage all of us to look for ways of improving resilience, reducing vulnerability, and improving the adaptive capacity of governments, development workers and farmers, so that they may adjust to the fast changing environment that is taking place due to engagement with the private sector and regional markets as well as due to climate change.

Once again, I thank FAO for convening this important conference and I hope that all of us will work together to come up with implementable and actionable agenda for the coming years which would focus on addressing the challenges of food insecurity and climate change and turning them into opportunity for our future generations.

Thank You.