



Photo: Chanthasitiphanha

The Pakngao Farmers Enterprise attracted investments from farmers and business people that allowed it to buy a tractor and maize sheller.

Adding value to local livelihoods

In Laos, farmers get better prices for their products and more control over value chains when they join together to form and invest in their own agro-enterprises. Since 2007, 18 agro-enterprises have been formed.

Kheuavanh Pommathat and Stuart Ling

Northern Laos is changing fast. The rugged mountains, which were once the preserve of isolated tribes living a subsistence lifestyle, are now being carved up by roads, hydropower developments and rubber plantations. Foreign

companies, from China, Vietnam and Thailand, are scrambling for land to invest in large agro-enterprises, producing rubber, cassava and maize. They receive the backing of government authorities, who give them land and tax concessions in their drive for foreign investment.

For illiterate and cash-poor small farmers, the options to access these markets are few. They can sign a contract agreement giving the company the right to buy their fresh, unprocessed product for an extremely low price. Or they can give up farming altogether and choose to work as a labourer on company land. However, a new agro-enterprise approach is being piloted by VECO, a non-governmental organisation, with small-scale farmers in the province of Bokeo. The idea is that local farmers form businesses, and take control of the value chain.

Box 1. Pakngao Farmers Group Enterprise

Until 2007, 47 farmers in Pakngao village sold their maize harvest to a Thai trader, receiving a low price because it was unprocessed. The trader captured the benefits of collection, transport and processing.

A local agro-enterprise for maize was set up later that year within a cluster of four villages of the Lao, Khmu and Hmong ethnic groups. The farmers decided to add value to their product to get a better price. Another 24 farmers were recruited to join in the business plan, which proposed the purchase of a tractor and sheller. Each farmer investor was willing to pay the local equivalent of US\$ 735 each for a share in the enterprise, some borrowing money from within the village to finance their shareholding.

The group received a grant of US\$ 4882 from the project. In their contract, these funds were to be reinvested within the group over a 15-year period (that is, it was not allowed to be paid out as profit to shareholders).

By the end of 2008, 120 farmers in four producer groups (one per village) had a contract to produce maize for the enterprise. The increased area, a higher yield as a result of ploughing, and higher prices through shelling resulted in a four-fold increase in their total income compared to 2007. With the resulting profits and even more local investors, the enterprise invested in a truck in early 2009.

The value chain approach

Put simply, the value chain covers every step from the farmer to the final consumer. Each step adds value. This might be a bulk buyer who dries the crop, or a company who repacks a product into attractive bags for the consumer. A simple value chain might be:

Producer group → *Middleman (buyer)* → *Processor* → *Consumer*

In the case of maize for example, a farmer sells a green cob for about 700 Lao kip/kilogram (or US\$ 0.08), but the consumer ends up paying 7000 Lao kip/kg by the time it has been processed and packaged into high quality pig food. To understand why farmers are receiving a low price, we first need to look at all the steps along the chain. It is also necessary to understand the institutional environment, such as the impact of government policies (such as taxes) on the chain.

In our maize example, a chain analysis showed that there were many reasons why farmers would receive a low price. Among these, we saw that:

- producers would mix different qualities (e.g. wet with dry), and so receive a low quality rating and price;
- producers had no storage facilities, and so would be forced to sell the green cobs straight after harvest at a low price;
- farmers were in debt to traders, and had to sell their maize immediately to pay back their loans; and
- different types of seeds, planting times and growing techniques would cause the maize to ripen at different times, increasing costs for traders and reducing quality.

Agro-enterprises for village clusters

For the pilot, 4-12 villages were strategically clustered. Participating farmer groups identified products with best potential. A small agro-enterprise was set up and a committee selected of more business-oriented farmers. These farmers are highly trusted members of the community who are prepared to invest money in the agro-enterprise. The new value chain therefore looks like this:

Producer group → *Small agro-enterprise* → *Processor* → *Consumer group*

The committee needs to encourage farmers to invest in the agro-enterprise (in the form of shares – or community savings) in the hope of seeing a return (profit). They also need to develop a business plan that is passed by all the investors in the group. The enterprises should aim to do more than just buying from farmers – they should also provide services (such as providing seeds, training and crop monitoring) and invest in value-adding (such as post-harvest processing and storage).

Findings of the pilot project

Although only one annual cycle has passed since establishing the agro-enterprises, there have been significant improvements in both product quantity and quality in the areas where they operate. The cases in Boxes 1 and 2 illustrate the success of the development process.

The Pakngao Farmers Group Enterprise, described in Box 1, collected savings at the village level to establish an agro-enterprise, in a way that could not be borne by individuals alone. In a place where banks are difficult to access, people were willing to invest their savings into an enterprise. It is unusual that farmers are in the position to invest so much money. However, these farmers, located along the Mekong river, are relatively more prosperous than those of the ethnic groups in more remote areas. Share prices in other village clusters in the programme varied, with some as low as US\$ 147.

There also seems to be a positive effect when farmers see local businesses investing in their area, building infrastructure or buying processing equipment. Farmers have greater confidence that the agro-enterprise is serious about buying their crops on a long-term basis, so production naturally increased.

Apart from the success of adding value to peanut production, the Nam Phuk Farmers Group Enterprise mentioned in Box 2 shows the different solutions that come from considering an enterprise approach. Previously, efforts had been made to train and encourage farmers to produce their own biofertilizer using local materials, with only limited success. Now the enterprise approach had managed to promote sustainable agriculture among the local farmers with only a passing mention of soil fertility. A key factor was that the pelleted biofertilizer is much longer lasting and easier to spread than the unpelleted biofertilizer. As the necessary processing equipment costs about US\$ 2000, it could only be purchased by the collective investment of the enterprise.

Box 2. Nam Phuk Farmers Group Enterprise

In 2007, Nam Phuk Farmers Group Enterprise was formed, with the aim of increasing income for local peanut producers. By 2008, their profits increased. Instead of selling fresh unshelled peanuts at a low price, they sold high value snacks to local restaurants. Supply was unable to keep up with demand.

By early 2009, the enterprise decided to produce pelleted bio-fertilizer, for their own farms and also to sell to neighbouring farmers. In their business plan, the justification given was that importing chemical fertilizers added a large cost. Besides needing to raise these funds, farmers found this high cost added too much risk in the event of crop failure. By mid 2009, the factory was established and producing bio-fertilizer using a mix of local ingredients.

Local agro-enterprises and sustainability

Several lessons have already been learned on how to make local agro-enterprises work in a sustainable way:

1. Local enterprises work best if they form themselves, have power over decision making and develop their own rules. In every village, there are farmers who have business potential, and it is more rewarding to identify those who are outside traditional power structures. Once they have the opportunity, they are motivated to sacrifice a lot of time and energy into making their business successful.
2. Regularly bring different stakeholders together that are either within or influence the value chain. Businesses should not be seen as only exploiting farmers but can be part of the solution.
3. Corruption, unfair taxation or bureaucracy can destroy small businesses. An association of several enterprises can lobby the government more effectively to create a favourable small business environment.
4. Where contract law is absent or difficult to enforce, agreements should be made between producers and enterprises signed by a third party (e.g. local government) to arbitrate in the case of disputes. To ensure the agro-enterprise stays locally owned, outside companies should be restricted from buying shares or having voting rights. Donor co-funding during the business planning stage is also an effective way to enable small agro-enterprises to invest and maintain their independence.
5. There needs to be a mechanism to provide organisational support to the new enterprises for several years. Important aspects are managing finances, understanding contracts, and recording minutes of meetings. The government could play a role by for example, giving tax free start-up periods on condition that profits are reinvested in the enterprise.

Future plans

The existing enterprises still need to be supported for several years, particularly with research, training, and advisory services. As well as facilitating the establishment of new agro-enterprises, VECO will encourage the formation of an association of enterprises which gives members a chance to learn, exchange and lobby for improvements in the local business environment.

Kheuvanh Pommathat, Programme Officer, VECO Lao, P.O. Box 261, Houaysay, Bokeo, Laos. E-mail: kheua_vanh@yahoo.com

Stuart Ling, Country Manager, VECO Lao, P.O. Box 261, Houaysay, Bokeo, Laos. E-mail: veco@laopdr.com

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