

Final Report

Lao PDR Agricultural Cooperatives Policies

2013 August 30

**Submitted by: The Department of Agricultural Extension and
Cooperatives (DAEC), MAF, Lao PDR.**

Final Report

Lao PDR Agricultural Cooperatives Policies

Table of Contents

I.	Introduction	
1.1.	Background and Context	4
1.2.	Objectives	4
1.3.	Duration	5
1.4.	Main Actions (schedule)	5
1.5.	List of joint survey/research team	5
II.	Overview of Agricultural Sector of Lao PDR	
2.1.	Current statute	6
2.1.1.	Production	6
2.1.2.	Processing	6
2.1.3.	Marketing	7
2.2.	Challenges	7
2.3.	Necessary of Agricultural Cooperatives Development	8
III.	Overview of Agriculture Cooperatives of Lao PDR	
3.1.	History of LAO Agricultural Cooperatives	8
3.1.1.	Policies and Strategies of Agriculture Cooperatives	10
3.1.2.	Collaborative Project with other Partner Countries	12
3.2.	Development Status	13
3.2.1.	Overview	13
3.2.2.	Current Status of Cooperatives in Laos	13
3.2.3.	Organization	14
(1)	National level	14
(2)	Local level	15
3.2.4.	Business	15
3.2.5.	Capital	15
3.2.6.	Extension Service	15
3.3.	Assessment of the current situation	16
3.3.1.	Challenges	16
3.3.1.1.	National level	16
3.3.1.2.	Local level	16
3.3.1.3.	Farmers level	16
3.3.2.	Development Potentials	17
3.3.2.1.	National level	17
3.3.2.2.	Local level	17
3.3.2.3.	Farmers level	18
3.3.3.	Development Needs	18
IV.	Result of Survey/Research	
4.1.	First Joint Research/Survey on Agricultural FGs, Association and AC	18
4.1.1.	Rice Seed Farmer groups at Thulakhom district, Vientiane province.	18

A.	Current status	18
B.	Service Members	18
4.1.2.	Organic Vegetable Group, Thulakhom dist, Vientiane province.	19
A.	Current status	19
B.	Service Members	19
4.1.3.	Whole Sale Market Service, Vientiane capital.	20
A.	Current status	20
B.	Service Members	20
4.1.4.	Rice Miller Association in Khammouan province.	21
A.	Current status	21
B.	Service Members	21
4.1.5.	Rice Farmer groups at Navang, Khammouan province.	22
A.	Current status	
B.	Service Members	
4.1.6.	The Bolovens Plateau Coffee Producers' Groups Association (AGPC),	22
A.	Current status	
B.	Service Members	
4.1.7.	Organic Vegetable Farmer Group in Paksong district, Champasak pro.	24
A.	Current status	
B.	Service Members	
4.1.8.	Summary of first research/survey results.	24
4.2.	Second (2nd) joint research/survey on Microfinance to develop Lao's AC	25
4.2.1.	Agriculture Promotion Bank (APB).	25
4.2.2.	Subsidy Bank (SB).	25
4.2.3.	Nasaithong Micro Finance Cooperatives (N-MFC).	25
4.2.4.	Village Saving Fund (VSF).	26
4.2.5.	Summary of second research/survey results.	26
V.	Strategy and suggestion for establishment of cooperatives	27
5.1.	Short term cooperatives development	27
5.2.	Long term cooperatives development	27
VI.	PROJECT PROPOSAL	
	Development of AC Model in 3 parts in Laos	28

Lao PDR Agricultural Cooperatives Policies

I. Introduction

1.1. Background and Context

As mentioned in the *Strategy for Agricultural Development 2011-2020* of the Lao government, the agricultural and forestry sector is being regarded as one of the key sectors contributing to the reduction of rural poverty in Lao PDR. In particular, weak access to fund for agricultural use and to market of farmers as well as lack of information on agricultural technologies is an important factor which prevents agricultural and rural development in Laos.

Recognizing that the creation and development of the government-led agricultural cooperatives in Korea contributed to enhancement of agricultural productivity and increase of farmers' income by helping them to have easier access to fund, agricultural facilities, information on advanced technologies and marketing, the experiences of Korea can provide valuable lessons to the agricultural sector in Lao PDR. The KAPEX program, which aims at improving national food security of Laos, will enhance participants' understanding of agricultural cooperatives, analyze the developmental stage of agricultural cooperatives in Lao PDR, and help policy makers and experts to have insights when designing policies to encourage the creation of agricultural cooperatives.

1.2. Objectives

- To enhance Lao public officials and experts' knowledge and understanding of agricultural cooperatives through joint survey/research, training programs and workshops.
- To collect data on the topic of agricultural cooperatives and to analyze their situations and circumstances in Laos. In addition, the research/survey is to review the long and short-term agricultural policy and to make practical recommendations to the related Ministry of Lao PDR for the future development of the agricultural cooperatives.

1.3. Duration

Duration of the Project will be five (5) months (4 April to 31st August, 2013) that start from the date when the project is initiated upon the signing and exchange of the document (RoD) between 2 parties: KREI on behalf of the Government of the Republic of Korea and the Department of Agriculture Extension and Cooperatives (DAEC), MAF on behalf of the Government of Lao PDR.

1.4. Main Actions (schedule)

Table: Time schedule of research/survey

No.	Activities	Starting (wk)	Responsible	Completion
1	Inception report	15 th April,	Team work	30 April,
2	Prepare questionnaire and group discussion	14 th April,	Team work	30 April,
3	1 st research/survey and interview, 5 provinces		Team work	
-	Group farmers, millers and associations	14 June,	-	21 June,
-	Farmers and members	1 July,	-	7 July,
4	Interim report	1 Aug,	-	23 Aug,
5	2 nd research/survey	14 Aug,	Team work	18 Aug.
6	Final draft	20 Aug,	Team work	25 Aug,
7	Final report	25 Aug,	Team work	30 Aug,

1.5. List of joint survey/research team

No.	Name	Org	Position	Duties	Phone
I.	Lao team				
1	Dr. Sengpaseuth Rasabandith	DAEC	DD of Ext & Co Div	Team leader	856 20 22228486
2	Mr. Bounphavanh Kannyavong	DAEC	DD of Ext & Co Div	Member	856 20 22440951
3	Mr. Khamphou Phouayavong	NAFRI	Staff	Member	856 20 22211712
4	Mr. Khamouan Khamphoukeo	DAEC	D of Ext & Co Div	Member	856 20 55528499
4	Mr. Ket Suvannasone	VTE pro	H of Unit	Member	-
5	Mr. Vanpheng Huangsavane	VTE cap	H of Unit	Member	856 20 55693647
6	Mr. Nongkhan	KMN pro	Staff	Member	-
7	Mr. Sivilay	CPS pro	Staff	Member	-
II.	KREI team (Korea)				
1	Dr. Hwang, Eui Sik	KREI	Expert	Advisor	
2	Pro. Dr. Donghwan An	KREI	Expert	Advisor	
3	Dr. Seong Tae Ji	KREI	-	Coordinator	

II. Overview of Agricultural Sector of Lao PDR

2.1. Current statute

2.1.1. Production

The Laos which is a small land-locked country. It has an area of 236,800 sq.km. Stretching more than 1,700 km from north to south and between 100 and 400 km from the east to the west, with about 20 percent of area is cultivable and suitable for agriculture, 80 percent is mountainous and 47 percent of that area is under forest cover. An area is classified into three agricultural regions, the north, central and southern regions that different on rainfall from 1,200 mm to as high as 4,000 mm at 90% of the precipitation falls between May and October, while August and September are usually the wettest months. The population is more than 6 million people, about 80 percent of populations are based on agriculture in both planting and feeding activities, and 90 percent of their main productive activity is subsistence farming due to individual cultivation, small scale with low input and technology limitation. Usually 80 percent of production was from wet-season cropping activities. Therefore, Lao's National Development Priorities and Goals have put emphasis to eliminate the status of least develop country (LDC) by the end of 2020 through sustainable and equitable development and aims to eradicate poverty by; protection of environment and sustainable use of natural resource; increased participation of all stakeholders in the development process; continue implementation of New Economic Mechanism as well as achieving permanent food security and stimulate farmers groups, association and cooperatives development in the country. So far Laos' economy is increasing dramatically with a GDP of 8.3 percent in 2011 and while the agricultural sector constitutes 27.8 percent of this. Currently, the informal agricultural sector focuses on producing goods for the market but are not organized enough to deal with large companies or with foreign investors.

2.1.2. Processing

Processing of agricultural products can add value and prevent quality losses and waste, especially when it comes to perishable products. Agricultural products processed in Laos are relatively low compared to the neighboring countries for instance, less than 10% of horticultural production processed in contrast to 30% in Thailand, 78% in

Philippines and 83% in Malaysia. The value addition in food sector ranges from 5 to 12 percent and is constrained by long value chain with a significant number of intermediaries that precludes full realization of scale efficiencies. The private sector is very small and in an early stage of development. In spite of these constraints, there are several processing plants were established from small cottage industries that employing 3-5 persons to medium scale that employing 20 to over 300 persons i.e sugar factory, coffee roasting and packaging, feed mill factory, Lao farmer products, Lao Agro Industry and others.

2.1.3. Marketing

Commercial agricultural in Lao PDR, where it operates, is to a large extent driven by market demand from the large towns and demand from overseas countries. Because of small population and early stage of economic development, agricultural marketing is generally on a small scale. Marketing channels are generally short. Most vegetables and fruits are sold directly by farmers or collectors to the retailers of the town markets. A very small number of farmers or family members take places in markets to sell in retail to urban consumers without any intermediaries.

Crops exported, either legally or illegally, or processed by the few operating agribusiness such as maize, soybean and vegetables pass from farmers to collectors. Longer marketing channels with more intermediaries such as trading of produce from Bolavens supplying Savannakhet and Vientiane capital and overseas. General speaking agricultural marketing is not well enough developed because of poor access road, low quality and uncertain quantity of products, high risks if no supporting policies granted.

2.1.4. Challenges

- Predominance of subsistence agriculture
- Limited input supplies
- Limitation of credit access
- Limitation of market access
- Poor access road
- Small domestic demand
- Low quality of products and under-standard

- Limitation of viable technology transfer mechanisms
- High transport cost

2.1.5. Necessary of Agricultural Cooperatives Development

It is no doubt that any country want to get a rid of poverty in rural area, agriculture cooperative is the engine to make rural economy developed. Agriculture Cooperative will lead the rural dealers marching to prosperity. The government of the Lao PDR recognizes the importance of agricultural cooperative in improving livelihood of the farmers and the rural economy. Reflecting the recognition and attention, a number of policies, rule and regulations related to agricultural cooperative have been formulated and implemented. It is well known that agriculture production in Laos is predominant by substance way. This practice remains a hurdle to develop a large scale of production for commercialization and generate income for farmers. Establish agricultural cooperatives, agricultural cooperative marketing will help deliver agricultural products to markets and thus to end consumers. In addition, extension service and supporting policies are much more focused through farmers' organization with special focus.

According to the coops principle that well-managed cooperatives would benefit farmers by acting as intermediaries between them and larger agribusinesses to maximize market opportunities. In another hand, coops shall be maximize profit in business, and also maximize service for members.

III. Overview of Agriculture Cooperatives of Lao PDR

3.1. History of LAO Agricultural Cooperatives

- Establishment of AC (1975-78) was the first time of creation of agricultural cooperatives in the country with the main purposed on nationwide food security or food sufficient objectives as state owned cooperatives, almost 1,300 farmer groups have been established with responsible of Prime Minister Office.
- Increasing AC, from 1978-86 the number of AC had more increased up to 4,000 which employed about 75 percent of the agricultural labor force although most were cooperatives no practical cooperative management. However, the coops became to big to maintain efficiency resulting in a "top-down" approach, poor managerial skills of staff and loss of interest for coops members. 1983 transfer of

the Central Leading Committee for Cooperatives development with responsible of Ministry of Agriculture, Forestry and Cooperatives. By the end of 1985, state led coops were dismantled and replaced with farmers groups (FGs) which lacked legal framework. There are many factors leading gibe birth of the FGs. These include policy factors (policy development, legal framework development, institutional development, project promotion, etc..) and contextual factors (intensification of agriculture, commercial agriculture, regional and global integration).Then started New Economic Mechanism in the country on 1986.

- Duration of 1986-90 the number of AC had reduced by 1988, due to employment in the cooperatives, it has decreased only 53 percent of all rural families and about half of all rice fields transition toward socialist oriented market economy, finally dismantlement of cooperatives on 1990.
- During 1990 to 2010 many farmer groups have been established from small to bigger size, some of them have been developed to association and cooperatives in the country.
- The Agriculture Development Strategy 2011-2020 (ADS) states that the new strategic direction of the Ministry of Agriculture and Forestry (MAF) is to ensure a gradual transition from subsistence to commercial smallholder production. This is to be achieved through; (a) innovative technologies, and (b) creation of voluntary farmers organizations (FO). The ADS goes on to elaborate that these FO can have various forms including 'formally legalized producer groups', 'cooperative groups or cooperatives', and 'commodity associations'. The legal basis for farmer organizations (groups, cooperatives, and associations) was lacking in Lao PDR, but has recently been put into place with two Prime Ministerial decrees (Nos. 115 and 136). The functions of these in relation to farmers can be briefly described as follows:

(1) *PM Decree No. 115 on Associations: Associations can act as an umbrella organisation for farmers or groups of cooperatives in two main areas; (a) to “carry out economic activities” and in particular to facilitate the export of agricultural commodities, and (b) “to protect the legitimate rights of its members”. In the case of farmers this could provide a mechanism for legitimate dialogue between state, private sector actors and farmers on constraints for agricultural development in general and to farmers gaining equitable benefits in particular.*

(2) *PM Decree No. 136 on Cooperatives: This provides a framework for farmers to pool resources to purchase various assets, which can then be used to provide services or trade for profit, with the profits being returned to members.*

Facilitation of FOs is expected to be a key function for Department of Agricultural Extension and Cooperative (DAEC) under the new mandate. Formation of 'farmer groups' to receive information and training has long been a common extension intervention. However the ADS now envisages a wider, more proactive role for FOs, including provision of services, making connections with markets (trading), providing inputs and more interaction with the private sector. Thus the expectations for FO to contribute to agricultural development are now quite high.

3.1.1. Policies and Strategies of Agriculture Cooperatives

The primary objective of the cooperative farming system had been to help the nation achieve self-sufficiency in food. Reflecting the government's pursuit of this goal, the number of government assisted cooperative farms nearly tripled between 1978, when the drive to reorganize agriculture began, and the introduction of the New Economic Mechanism in 1986. As agriculture is most important sector of the economy, clearly benefited from the introduction of the New Economic Mechanism. The changes positively affected performance by establishing a consistent policy that induced increased agricultural production over a number of years.

In June 1988, in line with the policies described by the New Economic Mechanism, the government passed a resolution to reform the agricultural sector. As announced at the Fourth Party Congress in 1986, the principal goal was to reorient the sector toward a market economy. The abolition of the much hated agricultural tax as well as the socialist restrictions on marketing helped to create necessary incentives for farmers.

The major change was in the pricing policy. The practice of setting low producer prices for a wide range of crops was ended, boosting incomes in rural areas. Other changes were implemented. Restrictions on internal trade of agricultural products were removed allowing free markets to operate, at least for important crops such as rice. Laws also were enacted to guarantee farmers' rights to private ownership of land, including the

right to use, transfer commercially, and bequeath. Tax exemptions for specified periods also were decreed.

The reforms emphasize the government's belief that further increasing and diversifying agricultural production requires the participation encouragement of the private sector. Food security, as always, remains a key objective, but the focus of the new agricultural policy is on the production of cash crops that can be processed to increase their value and then exported. The means for reaching that goal include the popular 1989 measure of abandoning the poorly developed attempts at establishing the socialist infrastructure of agriculture a cooperative farming system.

The distribution and sale of collectively managed land to families began in 1989. Most families in the old settled areas had their original land returned, which they still recognized. By mid1990 most state farms and agricultural cooperatives had been disbanded. This move, in conjunction with the removal of many restrictions on food prices and the distribution of agricultural goods, helped to precipitate a modest growth in agricultural output of about 7 percent in 1990.

At the Fifth Party Congress in March 1991, the government reiterated the basic objective of its agricultural policy: a shift from subsistence production to cash crop production through crop diversification and improved linkages to export markets. Although rural farmers have limited experience in marketing their farm produce and are cautious about participating actively in the market, they are beginning to produce and sell their specialized crops and livestock and buy manufactured goods on a regular basis. At the congress, the government also affirmed its support for the private ownership of land and its intent to protect farmers' rights to long-term use of land, to bequeath land to their children, and to transfer their land rights in exchange for compensation. These assurances, among other improvements in the economic atmosphere, are an attempt to make Laos more attractive to foreign investors.

During 1990 to 2010 many farmer groups have been established from small to bigger size, some of them have been developed to association and cooperatives in the country. The Association decree provided a legal framework for the establishment in Laos No. 115/PMO issued on 29 April 2009 and the Cooperative decree, which provides a legal

framework for the establishment of Cooperative enterprises in Laos. Based on the new Decree on Cooperatives No. 136/PMO issued on 5 March 2010 by Prime Minister's Office, that farmers have now the opportunity to organize in modern networks as economic organizations aiming to succeed in the individual farmer's own business and enhance the farmer/s competitiveness in the Lao economy.

3.1.2. Collaborative Project with other Partner Countries or Organizations

The Cooperative decree No. 136/PMO issued on 2010 was determined as rules and regulations for the institutionalization of farmer groups and groups of small entrepreneurs in the sectors of services, namely trade, transportation, tourism and others, who intend to form a modern Cooperative which is based on the Cooperative principles like voluntariness, self governance and open membership.

In Laos, HSF and DGRV are supporting the promotion of a Cooperative system, pursuing to contribute to the improvement of the economic situation of farmers, micro, small and medium enterprises.

Since 2004, DGRV is implementing a Regional Program in Southeast Asia to promote and support Self help and Cooperative Systems as a contribution to poverty alleviation in the framework of the Lao National Growth and Poverty Eradication Strategy (NGPES).

HSF has recently organized and sponsored a study tour for a delegation of high ranking representatives of the Ministry of Agriculture to Germany to study the structures of different cooperatives in Germany. The group collected a lot of useful information on the theoretical, organizational and administrative background and structures of the cooperative system in Germany.

DGRV and CORD with its office in Vientiane provides technical advice and consultancy focusing on setting up of cooperatively organized self-help groups particularly in the rural areas of Laos. DGRV promotes both the establishment of Cooperatives in the agriculture and in the financial sector.

In August 2011, the first agricultural Cooperative in Laos was registered according to the Cooperative Decree No. 136 and had received technical assistance from DGRV.

KREI (Korea Rural Economic Institute) provides technical advice, conducted training course for Lao's officers and consultancy focusing on setting up of agricultural cooperatives model as well as service coops in Laos.

3.2. Development Status

3.2.1. Overview

The development of modern cooperatives in Laos is in its early stages. Their legal status is not defined, nor are there any empirical studies on Lao cooperatives, so there is limited data available. It is important however to direct stakeholder attention to the potential of this form of business activity. In addition it can offer many important services which are often not available for individual farmers or entrepreneurs, e.g. as purchase of farm inputs in bulk, information, training and consultancy on agricultural techniques, information on quality standards required by international markets, access to markets and integration into local and regional value chains, creation of new or more sophisticated products, access to financial services or to better loan conditions.

3.2.2. Current Status of Cooperatives in Laos

In Laos cooperatives have no formal legal status, and the term has tended to be used in relation to the 'People's cooperative economy' where it is considered "a form of production based on the voluntary work of people who want to co-operate and invest in order to conduct and expand their businesses and protect their common interest." (*Report to the Seventh Party Congress, Vol. 8, March 16-19, 2001.*)

The cooperatives that did exist in Laos were an integral part of the previous political system in Laos and suffered from the defects of a State controlled business system. They were seen as a means of centralizing land use, employing agricultural labor, and distributing consumer goods. (*International Labor Conference 89th session 2001, Report V (1), "Promotion of Cooperatives".*) In common with these Lao cooperatives did not survive the major economic reforms of the last decade that have established the market-oriented economy.

At present, active cooperatives in Laos tend to be credit cooperatives or small income-generating groups. The two main credit cooperatives are the Credit Cooperative for Promotion of Small Producers (CCSP) and consist of a group of handicraft producers. Other self-help groups involved in small income generation are known to exist but there is no data available about them.

Because they are not legally recognized they have no specific supervisory or regulatory body. Large cooperatives are registered with the relevant sectoral Ministry, with the Ministry of Commerce and Trading, or with the Customs Department. The CCSP is a private cooperative that operates under the same regulations and rules as the Bank of Lao PDR and the Bank's officials inspect the cooperative every month. While the CCSP is registered with the Bank of Lao PDR, it obtains its operating permit from the Ministry of Commerce and reports to the Customs Department on tax issues. Most small entrepreneurs do not have access to credit from banks. When they need money to invest or expand their businesses they have to turn to moneylenders if their relatives cannot help. Moneylenders charge interest at a very high rate. Therefore our cooperative established itself to help small entrepreneurs by providing them loans with a slightly higher rate of interest than banks, but much lower than that of moneylenders.

3.2.3. Organization

(1) National levels

The National level consist of Central Bank (CB), Agriculture Promotion Bank (APB), Subsidy Bank (SB) consider as main credit access for the farmer groups (FGs) members, and Department of Agriculture Extension and Cooperatives (DAEC) with Local Technical Service (TSC) era mainly Government's organization advising on technical guidance and providing some basic necessary equipments to FGs.

(2) Local level

The Local level consist of rice groups, miller groups, coffee groups or associations, vegetable groups, village saving groups who have been supported by national level to meet the supper goals of agriculture product and service.

3.2.4. Business

The most farmer groups (FGs) as coffee, vegetable, rice, etc do not have access to

market very well. When they need to sale their products with big quantity but market demand is limitation then farmers can get very cheap price, due to they cannot bargain on fresh agriculture products without processing, no post harvest technology. Therefore, very small profit or income return to their group members, these factors also affect to them hardly access to banks credit with high interest rate.

3.2.5. Capital

The capital of GFs members come from difference fund sources as: villages saving fund (VSF), micro-finance cooperatives (MFC), agriculture promotion bank (APB), subsidy bank (SB), Association des Groupements de Producteurs de Café de Plateau de Boloven (AGPC) main providing credit or loan for group farmers or people to do their activities in agriculture, gender or women handicrafts and service as market or processing in the country, that the farmers needs purchase on raw materials, seeds, necessary equipments, fertilizers and others agricultural activities input.

3.2.6. Extension Service

The National Agriculture and Forestry Extension Service (NAFES) was upgraded to new name as The Department of Agricultural Extension and Cooperatives (DAEC), under Ministry of Agriculture and Forestry (MAF) was the main Government's organization in central level and local levels consist of Technical Service Centre (TSC) in provincial and district levels, has responsibility on establishment of Farmer Groups (FGs) and Association for further cooperatives development in the country, it mainly response is only agriculture technical guidance as training of trainers and training of the members, developing technical handout and some regulations, at the same time has been supported some necessary equipments to the FGs and Association, also deal with relevance organizations as bank, trading and commerce sectors or others organization who are concerning to support farmers in term of quantity and quality of their agricultural products.

3.3. Assessment of the current situation

3.3.1. Challenges

3.3.1.1. National level

- The Lao's government has recently established specific organization to manage of agricultural cooperatives in Laos, The Department of Agricultural Extension and Cooperatives (DAEC) has been setup on 10 Aug,2012, under Ministry of Agriculture and Forestry (MAF) ,
- Experiences and knowledge on agricultural cooperatives still have some limitation, due to development coops only in early stage, without specific cooperatives law, regulation and strategy, then it cannot offer many important services in local levels,
- No source of fund with low interest can support to farmer groups, associations and agricultural coops.

3.3.1.2. Local level

- Provincial of Agriculture and Forestry Office (PAFO) and District of Agriculture and Forestry Office (DAFO), no references from central levels and not yet clear strategy for supporting on agricultural cooperatives development.
- Limitation on skill information, markets value chains, access to financial services and knowhow establishment of good model on agricultural coops in their areas.

3.3.1.3. Farmers level

- The most of famers level, cooperatives have no formal legal status, and it usually a form of production based on the voluntary work of people to gather who want to co-operate and invest in order to conduct their businesses and get their common interest.
- Farmers hardly access to the bank credit because high interest rate, then some of them use self household saving fund.
- No market for their productions
- They do not have good system management which consider as suitable model.
- Farmers groups' leader lack of experiences and skills on agricultural coops development.

3.3.2. Development Potentials

3.3.2.1. National level

- There were two decrees have been signed as: Association decree No.115/PMO issued on 29 April 2009 and Cooperative decree No.136/PMO issued on 5 March 2010 by Prime Minister's Office for providing a legal framework for the establishment in Laos.
- Lao's Government has emphasis on agricultural coops development and DAEC has been established on Aug,12 for main purposes on establishment of farmer groups, supporting agro-business and agricultural coops development in Laos, that farmers now have opportunity to organize in modern networks as economic organizations aiming to succeed in the individual farmer's own business and enhance the farmers competitiveness in the Lao economy.
- International organizations WTO, AEC, AFTA have consideration especially KREI has very suitable experiences and greatest model on agricultural coops development, which DAEC highly evaluated as model for Laos. While DGRV and CORD projects have also support few activities in this matter.

3.3.2.2. Local level

- Local's Governments have understood and emphasized on agricultural coops development in their areas
- Give priority to setup good condition for stimulation farmer groups succeed in their business and coops development in the future.

3.3.2.3. Farmers level

- Some of farmers groups in rice production, organic vegetable etc, associations in coffee, miller and microfinance coops in Nasaithong district have been established in country.
- Microfinance Coops in Nasaithong district has succeeded may consider as one good model in country.

3.3.3. Development Needs

- To conduct capacity building system from central to farmers levels on

agricultural coops development (AC) in term of specific matter or expertise.

- To develop laws and regulations as specific tools for agricultural coops development in country.
- Establish Government organization at national level for responsibility on further NACF development.
- Korean's model of AC development and principle is high possibility application model in Laos than others.

IV. Result of Survey/Research

4.1. First (1st) joint survey/research of GFs, Association and Cooperatives.

4.1.1. Rice Seed Farmer groups at Thulakhom district, Vientiane province.

A. Current status

The Rice Seed Farmer Group is mainly production on quality rice seed. This farmer group have been supported by SHDP (small holder project of ADB activities) and former JICA project which established in 2008 with the technical support of the former National Agriculture and Forestry Extension Service (NAFES), MAF with 19 members in an area 53 hectares. This seed group consists of one group leader which voted by the group members, one deputy group leader and 3 assistances as: administration, marketing and technical guidance, they always work to gather during crop season.

B. Support to the members

- Promotion and commercial support: to enable the members to sell their produce at a higher price for ordinaries farmers in the area or domestic market aiming to improve member's income.
- Facilities: In order to meet it targets in term of high quality rice seed production and market development, Rice Seed Farmer Group (RSFG) carried out the construction of seed processing house in 2009 which consist of seed grader, seed dryer, thresher, simple packing system that can produce quality need for the domestic market.
- Financial work: Budget of the group members are mainly from individual family saving, village saving fund (VSF) and bank credit with interest from 8-15% per season. In the form of loan, within high interest for group members then farmers disable to sell their produce at a higher price and limitation of the market. Therefore,

they sometime sale rice seed with low price as consumption paddy rice to market that fact which is usually farmers cannot return to the bank.

- Technical and organization training: The group members have been improved their skills and knowledge through Local Technical Service Center, field visit and training program from the Government organizations especially agronomy, seed production and certification etc,
- Constrains: Lacking of fund with low interest rate and marketing systems.

4.1.2. Organic Vegetable Group, Thulakhom dist, Vientiane province.

A. Current status

The Organic Vegetable Farmer Group is mainly production on quality organic vegetable. This farmer group have been supported by SHDP (small holder project of ADB activities) and established in 2010 with the technical support of NAFES, MAF with 18 members in area 2 hectares and about 30 screen houses. This vegetable group consists of one group leader which voted by the group members, one deputy group leader and 3 assistances as: administration and accountancy, marketing and technical guidance, they always work to gather and help each others among members in the group.

B. Support to the members

- Promotion and commercial support: to enable the members to sell their produce at a higher price for consumer in the domestic market.
- Facilities: Aiming to meet it targets in term of organic vegetable production and market development in the future, they carried out the construction of processing house and increase number of screen house more in 2013 which can produce quality vegetable supply more for the domestic market.
- Financial work: Budget of the group members are also from individual family saving, village saving fund (VSF) and bank credit with interest from 8-15% per season. In the form of loan, within high interest for group members then farmers disable to access and effort on that credit, in additional of farmers can't sale their produce at a higher price and some time limitation of market then they usually without profit.

- Technical and organization training: The group members have been improved their knowledge and advised technical guidance through Local Technical Service Center, from the Government organizations or projects which have activities in the areas.
- Constrains: Lacking of fund with low interest rate and marketing systems.

4.1.3. Whole Sale Market Service, Vientiane capital.

A. Current situation

The whole sale market is mainly service as private sector inform of general market that aiming seller and buyer meet each other directly on their business which established in Aug, 2008. The business permission was from Vientiane capital's Governor which open for mainly vegetable, fish and meat and managed by 5 staff's members in an area 6 hectares.

B. Support to the members

- Without inspection system or quarantine laboratory standard and others facilities as storage etc. This whole sale market the sellers who use service that only paid daily fee about 15,000 LAK per day, about 200 sellers visit and come every day.
- Constrains: Lacking of counterpart and budget for standard service improvement and marketing systems.

4.1.4. Rice Miller Association in Khammouan province.

A. Current status

The Rice Miller Association in Khammouan province was established in 2009, consists of 17 millers, with main purposes on quality rice production to supply for domestic and export market in central region. This RMA have been supported by Lao's Government with the technical support under Provincial Agriculture and Forestry Office (PAFO), and business activities under Commerce and Trading Office. The organization is consists of 5 board members, including one president which voted by 17 association's members, and 3 units as: administration, planning and marketing, they also work to gather during their business. About 7,000-8,000 tons of white rice have been produced yearly.

B. Support to the members

- Promotion and commercial support: to enable the members to sell their quality produce at good price to domestic market aiming to improve member's income.
- Facilities: To reach it targets on business in term of quality rice production and

market development, RMA carried out the improvement and construction of new miller systems as: dryer system, polisher, sorter, and packing system that can produce quality need for both domestic and export market need. At the same time zoning for each member among association have been take placed for more convenience on responsibility deal with farmers and buy their rice product.

- Financial work: Budget of the association members are mainly from individual family saving and bank credit as APB, SB, with interest from 5-15% per year.
- Technical and organization training: The members have been improved their experiences and knowledge through Local's Governor support as commerce and trading office and international projects especially on marketing value chain, SME and others subjects on agro-business and service etc,
- Constrains: Lacking of fund with low interest rate to improve their technology and no stable of market.

4.1.5. Rice Famer groups at Navang, Khammouan province.

A. Current status

This farmer groups have been supported by SHDP (small holder project of ADB activities) in 2009 with the technical support of PAFO with 10 members in an area 25 hectares for rice seed group and 87 members in area 203 ha for consumption rice production group yearly about 1,000 tons of rice have been produced. Those rice groups consists of one leader which voted by the group members, one deputy group leader and 3 assistances as: administration, marketing and technical guidance to help each other among their groups during crop season.

B. Support to the members

- Promotion and commercial support: to enable the members to sell their produce at a higher price to domestic market and get member's income.
- Facilities: In order to meet it targets in term of quality rice production and market development, they carried out the construction of seed processing house in 2010 which consist of seed grader, seed dryer, thresher, simple packing system with group member's contribution about 10-20% of total cost.

- Financial work: Budget are mainly from individual family saving, village saving fund (VSF) and bank credit with interest from 8-15% per season and Smallholder Project support some equipments and technical guidance only.
- Constrains: Lacking of fund with low interest rate and marketing systems.

4.1.6. The Bolovens Plateau Coffee Producers' Groups Association (AGPC- Association des Groupements de Producteurs de Café du Plateau des Bolovens), Champasak province.

A. Current Status

AGPC in the production of organic certified coffee. This association have been supported by IFAD and established in Aug, 2007 with the support of the Lao Ministry of Agriculture and Forestry which cover 3 districts (Paksong, Laongam and Thateng) with 56 farmer groups and 40 wet processing centres and total members about 2.650 families with an area 5.378 hectares. The AGPC's organizations consist of (1) General Assembly includes representatives from all 56 FGs (producer groups), they meets once a year to approve AGPC financial statement and the current accounts and election of a new board of director every 3 years. AGPC extraordinary meets either following a decision of the board of directors or following a request from at least 50% of the members. (2) Board of Directors with 3 years mandate that there are 6 persons including the president who is in charge of supervising overall policy and activities and usually meets monthly and when necessary. (3) Control Committee with 3 years mandate that there are 3 members as representatives of producers' group who are in charge of monitoring AGPC financial and accounting management

B. Support to the members

Promotion and commercial support: to enable the members to sell their produce at a higher price on both national and international markets and to be include in a responsible value chain through the fair trade network. AGPC also monitors international coffee prices and marketing trends in order to disseminate information to it members.

Facilities: In order to meet it targets in term of high quality coffee production and market development as domestic and international, AGPC carried out the construction of 40

wet processing centers in 2007-2008 then 2009 it built a fully-fledged coffee factory that can produce shorted grade green coffee for export and roasted quality coffee for the domestic market.

Financial support: In the form of loan, without interest, in order to enable farmers to sell their produce at a higher price. It is also away to avoid the exploitation system by local middlemen who also buy farmers crops in the form of loan but at a selling price that is set at the loans disbursement and which is usually equivalent to half the average market price.

Technical and organization training: In agronomy ex: wet processing to obtain high quality coffee, organic farming for certification, accountancy, governance organizing general assembly's within each group.

4.1.7. Organic Vegetable Farmer Group in Paksong district, Champasak province.

The Organic Vegetable Farmer Cooperatives is mainly as service cooperatives just recently registration on June, 2013 as service cooperatives in paksong district for buy and sale quality organic vegetable. Before June, 2013 they were only farmer group with 10 members, consist of one group leader which voted by the group members, one deputy group leader and 2 assistances as: accountancy and marketing, they always work to gather and help each others.

4.1.8. Summary of first research/survey results.

We present a summary based on interview of farmer groups, association, cooperatives and current situation which related principles of agricultural cooperatives development at 4 provinces in Laos and it indicated that:

- The primary cooperative farming system has been established during 1978, most were cooperatives only on paper and there was no practical cooperative management system then finally stopped.
- During 1990 to 2010 many farmer groups have been established again from small to bigger size, some of them have been developed to association and cooperatives in the country without supporting clear strategy and legal framework for AC establishment.

- Decree on Association No.115/PMO issued on 29 April, 2009 and the Decree on Cooperatives No.136/PMO issued on 5 March 2010 by Prime Minister's Office, that farmers have opportunity to further AC development in modern economic organizations aiming to succeed in the individual farmer's own business and enhance competitiveness in the Lao economy.
- Most of FGs, association and agricultural cooperatives (AC) in Laos, they are in early stages just establishment recently so there is very limited data available on this research results and consist of small members in the group
- Only AGPC coffee association and Microfinance Coops at Nasaithong have more successful because clear strategy, good system management (rule and regulations), there are benefits and ownership on budget, production and market.

4.2. Second joint survey/research on Microfinance to develop Lao's AC.

4.2.1. Agriculture Promotion Bank (APB).

APB was establish in 1993 as Government tool for supporting Lao's farmers access to credit for supporting agricultural production in early stage then changed for 100% commercial bank since 2007 up to date. This bank under Ministry of Finance, there is 1 head quarter, 17 branches and 77 units in whole country. Service policy are providing credit in cash and receiving deposit, interest rate is 3 levels as: short period not more than 12 months with 11%, medium period from 1-3 years with 12% and long period more than 3 years with 13-15%. Policy loan is before providing credit should certify or agreement meeting of central and local committee levels with credit not more than 10 million LAK/person, if need more should have assets certify to the bank. To date APB have about 300 FGs each group consist of 7-12 people with total budget approximately 250 billion LAK per season, with proportion of supporting agriculture about 20% of budget.

4.2.2. Non Profit Bank or Subsidy Bank (SB):

SB was establish in 2007 as Government tool for supporting Lao's policy on poverty reduction program in 64 poor districts in Laos, consist of 1 head quarter, 10 branches and 64 units which service policy is providing only credit in cash not equipments and without any deposit, interest rate is 3 levels as: short period not more than 12 months with 5%, medium period from 1-3 years with 6% and long period more

than 3 years with 7%. Policy loan is before providing credit should certify or agreement meeting of central and local committee levels which province level have 11 persons, district level have 11 persons and village level 5-7 persons with credit not more than 30 million LAK/person, if need more should have assets certify to the SB or not more than 100 million LAK. To date SB have 40,000 FGs each group consist of 7-15 people, with 130,000 members with total budget 1,400 billion LAK, with proportion of short period about 50% of budget, medium period 20% and long period about 30%.

4.2.3. Nasaithong Micro Finance Cooperatives (N-MFC).

MFC was establish in 2001 as private service tool for supporting Lao's farmers in Nasaithong district, consist of 1 head quarter, which service policy is: (a) Deposit or provides saving for the members (saving, fixed term saving 3-6-9-12 Months), (b) Provides credits for member to promote their productions and services as credit for agriculture activities loan for members to buy seeds, fertilizer, feeds, necessary materials and land preparation works in order to promote their own production for the markets in the areas. Credit for small scale of handicrafts and industries that provides loans in cash for women to buy materials to give jobs and increase their income, credits for services loans are provided for members to buy products from agricultural sector, handicrafts, for small jobs, processing and school fees for their children. Interest rate for loan is 4% per month, if deposit 2 years is interest 18% per year. With credit not more than 100 million LAK/person. To date N-MFC have 4,600 members from 62 villages in 6 districts of Vientiane province and Vientiane capital.

4.2.4. Village Saving Fund (VSF).

VSF considered as providing credit in cash only with the village members with interest 3-5% per month. Policy loan is before providing credit should certify or agreement from village's committee for supporting village's member to buy necessary materials as seeds, fertilizer, feeds, and others purposes in agricultural activities to meet their objectives in term of promote their own production for the markets in the areas.

4.2.5. Summary of second research/survey results.

We present a summary based on interview of Agricultural Promotion Bank (APB), Non Profit Bank (NPB), Microfinance Cooperatives (MFC) and Village Saving Fund (VSF) and current situation of access to the credit which mainly focus on microfinance

to develop LAO agricultural cooperatives at Vientiane capital and Vientiane province as below:

- APB was 100% commercial bank since 2007 up to date. Its service policy is providing credit in cash and receiving deposit, interest rate is 3 levels as: short term not more than 12 months with 11%, medium between 1-3 years with 12% and long term 3 years up with 13-15%. This policy loan, seems to be high interest rate for farmers and cannot well support to AC development in country due to most farmers need access to low interest rate of bank credit with not more than 3% per year.
- Non Profit Bank (NPB) or Subsidy Bank, indicated that lower interest rate on short term loan with 5% that acceptable loan and can support farmers to develop AC in country but limit in 64 districts with only poor household and lowest income in those areas.
- Nasaithong's MFC is private service tool for supporting Lao's farmers in Nasaithong district, which service policy are both deposit, saving and provides credits for members to do agriculture activities but interest rate for loan is 4% per month, it shown that too high for AC development and farmers may not mainly of their customers.
- Village Saving Fund (VSF). This fund is limit with quantity and service area which mainly service for village's members, types of service is negotiable among members and also high interest rate variation in 3-5% per Month. Usually severe money shortage in their household become customer of this VSF.

VI. Strategy and suggestion for establishment of cooperatives

6.1. Short term cooperatives development,

- Strengthen the capacity of the existing farmer groups
- Develop capacity building for government staff who work for AC as well as the cooperative members
- Establish the pilots of agriculture cooperative Model in 3 parts of the Laos..
- Develop legal framework of AC
- Access to low interest loan for launching the AC project
- Access to market for sell products the AC activities

6.2. Long term cooperatives development

- Develop AC law
- Establish NACF

VII. Drafting ODA Project Proposal Profile

Title of the project: Development of AC Model in 4 provinces of the Laos
Project holder: Department of Agricultural Extension and Cooperative,
Ministry of Agriculture and Forestry of Laos
Sites of implementation: Vientiane Province, Vientiane Capital, Khammouane and
Champasack province
Duration: 5 years periods

Back ground and rationale

The government's overarching development goal is to reduce poverty and graduate from the status of least developed country by 2020. Agriculture sector still remain the main sector among the economic structure development. In spite of the efforts to increase agriculture productivity and increased contribution to GDP, however agriculture still remains predominantly subsistence with low productivity. The Agriculture Development Strategy 2011-2020 (ADS) states that the new strategic direction of Ministry of Agriculture and Forestry (MAF) is to ensure a gradual transition from subsistence to commercial smallholder production. This is to be achieved through; (a) innovative technologies, and (b) creation of voluntary farmers groups (FG). The ADS goes on to elaborate that these FG can have various forms including 'formally legalized producer groups', 'cooperative groups or cooperatives', and 'commodity associations'. Several FG, AC and others were established with legal and illegal and they are still in an early stage.

The legal basis for farmer organizations (groups, cooperatives, and associations) was lacking in Lao PDR, but has recently been put into place with two Prime Ministerial decrees (Nos. 115 and 136). The functions of these in relation to farmers can be briefly described as follows:

- *PM Decree No. 115 on Associations: Associations can act as an umbrella organisation for farmers or groups of cooperatives in two main areas; (a) to "carry out economic activities" and in particular to facilitate the export of agricultural commodities, and (b) "to protect the legitimate rights of its members". In the case of farmers this could provide a mechanism for legitimate dialogue*

between state, private sector actors and farmers on constraints for agricultural development in general and to farmers gaining equitable benefits in particular.

- *PM Decree No. 136 on Cooperatives: This provides a framework for farmers to pool resources to purchase various assets, which can then be used to provide services or trade for profit, with the profits being returned to members.*

Ultimate goal:

- Increase productivity of agriculture in order to increase living standard of the farmers through the AC

Objectives

- Strengthen the capacity of the existing FGs and ACs
- Establish 4 pilot AC model (one for each part of the country)
- Establish 1 pilot MFC or SC model in Vientiane capital

Activities/Project contents

- Survey the existing FG in target areas to identify FG to be the pilot AC model
- Develop action plan for implementation in a participatory manner
- Develop Training curriculum and guidelines for implementation
- Develop rules and regulations for AC
- Capacity building as (Training, study tour, visits, workshops, seminars and others in country and oversea)
- Develop market and marketing information system in 4 AC pilot models
- Provide seed and necessary equipments funding to 4 AC pilot models to be able undergo their business in the form of credit scheme
- Project management/administration

Expected outputs

- Consolidate the existing FG and
- Lessons and experiences are provided and they are tools to scale out nationwide
- The naissance of NACF will take place and this will take a lead in ACs nationwide

Indicative estimate budget : Total budget US\$5 million

- Research/survey the FG in the target pilot area US\$300,000.00
- Develop action plan in 4 province: US\$400,000.00
- Develop training curriculum and guidelines: US\$100,000.00

- Develop rules and regulations related to AC US\$ 50,000.00
- Training, study tours, workshop, seminars and others in country and oversea US\$500,000.00
- Develop markets and marketing information system in pilot area US\$1 million
- Seed and equipments funding for the pilot projects US\$ 2 million
- Project administration and office equipments cost US\$650,000.00

(Will have detail mutual discussion later)