



## EXECUTIVE SUMMARY

### SYNTHESIS REPORT: RUBBER POLICY FOR SMALLHOLDER FARMER LIVELIHOOD IN LAOS



The rubber is one of the prioritized commercial trees, which had been booming very fast in Laos. The government of Laos expected that smallholder farmers would gain benefits from rubber production through increasing investment rate. While the market for Lao rubber is limited and relied heavily on neighboring countries, the rubber price fluctuates and tends to decrease dramatically in recent years. As a result, smallholder farmers faced significant difficulties for their livelihood and challenges in rubber production.

The aims of this synthesis report are to review and analyze a member of publications on rubber production in Laos, existing rubber policies, strategies of Lao government and its benefits for pro-poor and vulnerable groups. It also aims to summarize the driving forces behind current trends, draw conclusions and make policy recommendations towards building a sustainable pro-poor rubber industry in Lao PDR.

## Background

This synthesis report is implemented by the 'Pro-Poor Policy Analysis on Rubber Production for Smallholder Farmer Livelihood' which is a part of the Project of "Pro-Poor Policy Approaches to Address Risk and Vulnerability at the Country Level (GCP/RAS/276/IFA & TCP/RAS/3405)". The Project is a regional project jointly supported by the Food and Agriculture Organization of the United Nations (FAO) and International Fund for Agricultural Development (IFAD).

## Critical Factors in the Development of the Rubber in Laos

### (1) Significant of rubber production in smallholder livelihoods

As currently, the income of smallholder farmers is not mainly from selling latex and wage in the plantation works. However, the rubber plantation help farmers secure in term of asset and income source of households because the returns of latex production until the end of rubber productive life, normally up to 35 years or even more. Farmers who own rubber plantation have easier access to credit.

### (2) Constraints on rubber production

These costs are incurred throughout the life of rubber plantation. The primary output from a rubber plantation is the latex. Hence there is no economic return from rubber trees during the immature period. In the mature or tappable period, the rubber trees can produce latex, the yield of which will increase over the first few years, then plateau, and finally decline. The farmers who have limited income sources will face with food insecurity (highly risk during the 3-4 years before tapping latex) and financial risk for who have to pay interest rate, highly during 7 years before tapping. In some areas the rubber plantation was planted on rice fields and fallow areas. This could lead to increasing food insecurity and the loss of forested areas.

### (3) Rubber marketing and trade

The farmers have usually faced problem during the first year of tapping due to they do not know whom to sell to, what the market price is or how they will sell their products. Another constraint is high production cost of material and labor. Rubber farmers who do not involve in the contract farming "2+3 and 1+4" will face with market risk due to limited markets, as currently rubber farmers only wait for rubber markets (buyers) come to their place to buy rubber latex. No agreements between Lao and international markets on rubber trade.

### (4) Institutions and policies governing rubber development

The cooperation mechanism among government agencies and actors along the value chain is limited. Poor smallholder farmers have also often been marginalized institutionally from many large-scale rubber concessions. No specific organization who involve the rubber production sector in Laos.

## Rubber Value Chains in Lao PDR

Rubber value chain in Laos is difference between regions. The rubber from the individual farmers was mainly exported in the form of 'tub lump' rubber and very few of farmers processed the 'sheet rubber', in the north and central rubber is sold to production group (rubber buyer) at the village level and some directly sold to Vietnamese Chinese and Thai traders who came to buy at the village. In the central part the latex (tub-lump) is directly exported to Thailand without any processing from Lao side. For the south and north the tub-lump rubber is sold to two main actors (middlemen and basic processing factories) and final stage it is exported to China and Thailand for further step of processing. In the value chain the neighbor investment companies play important role on input supply: seedling, materials for digging and tapping latex. The middlemen mainly from China are likely influent in the north and Vietnamese invests in the south, for Thai company investor found in the central part. These investment companies invested in both planting their own rubber plantation and buying latex from individual rubber farmers, then processing and export to the factories in their countries.

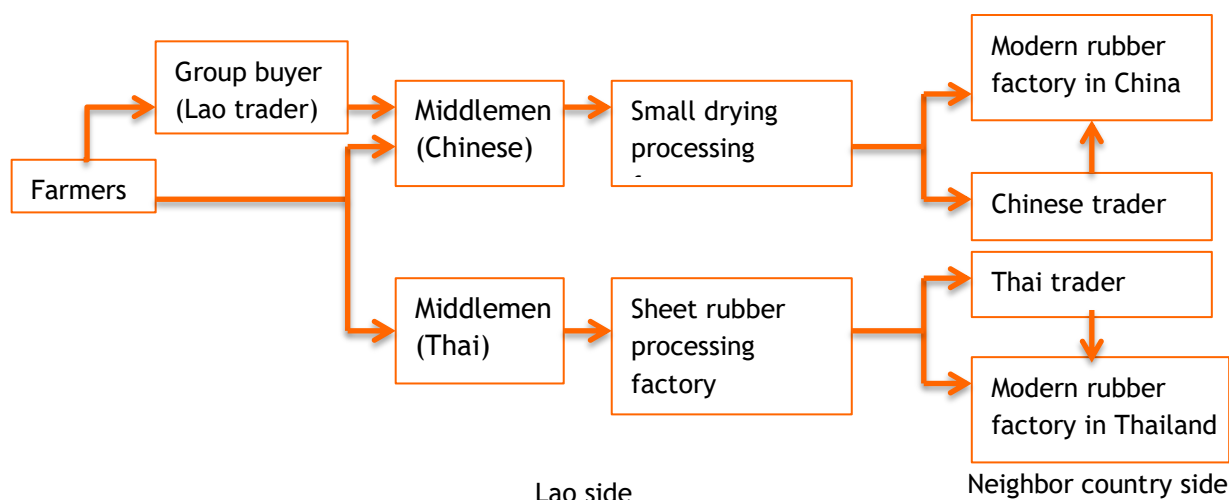


Figure 3: Value Chain of Individual Farmer Model in the Northern Provinces

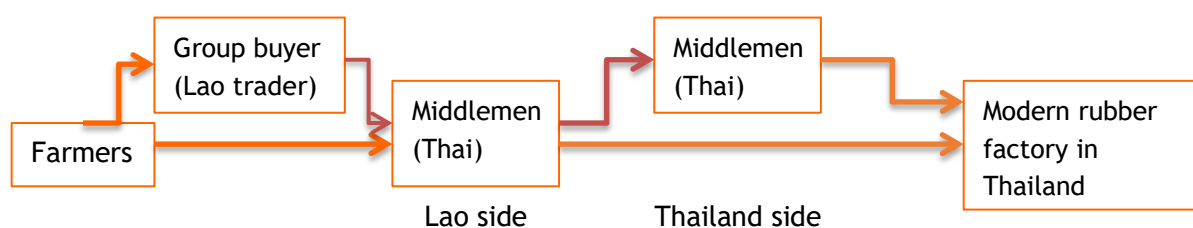


Figure 4: Value Chain of Individual Farmer Model in the Central Provinces

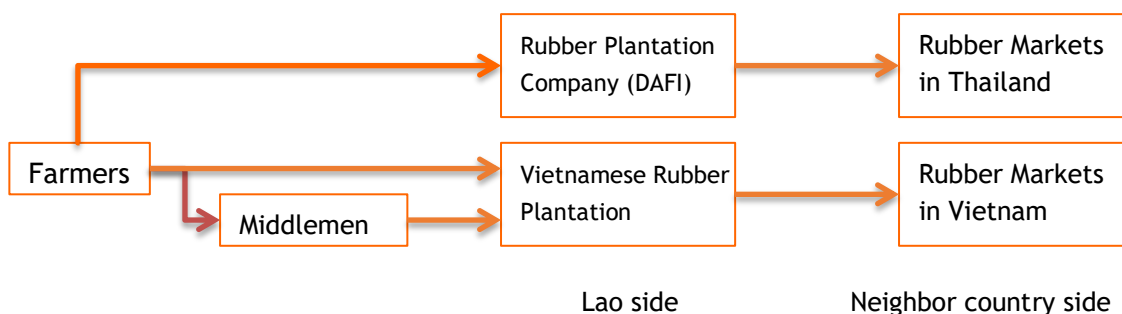


Figure 5: Value Chain of Individual Farmer Model in the Southern Provinces

## Policy Recommendations

In order to develop a viable and pro-poor rubber sector in Laos to be more effective and positive impact to improving smallholder livelihood there are a number of factors that need to be addressed and the policies recommendation bellow are drawn from the review base on finding on constrain and potential as well as expected policy intervention that need to be in place to ease smallholder rubber farmers.

### Institutional management

- 1) The cooperation mechanism among government agencies and actors along the value chain is needed to discuss and leaded by Ministry of Industry and Commerce.
- 2) Promote to establish the rubber production group or rubber association at regional level to assist rubber farmers access to market and strong in bargaining power.
- 3) Establishment a specific rubber committee or Lao rubber board to advice the development sector and production of rubber in Laos. Stakeholders from various sectors must integrate in the committee.
- 4) Set up a unit or agency at central and provincial level to respond and facilitate rubber strategic

plan and to determine legislation and policies on the rubber production, promotion and marketing managements.

- 5) Establish the rubber extension service and demonstration center at regional level. For example, Technical facilitation service center and training center for smallholder rubbers in the Northern provinces.
- 6) Promote Laos to be a member of Association of Natural Rubber Producing Countries (ANRPC) due to it does not only provide and share the market information such as global and domestic price among the member countries but it also provides and shares the experiences and lesson learns of governance on rubber value chain, processing techniques, measurement of effective cost and rubber development strategy.

### **Investment Management**

- 1) Government should issue the legislations or law on contract farming to ensure the benefit sharing between rubber smallholder and contractors.
- 2) Reconsider the land concession and should continue to ban the land concession for rubber production in Laos as based on decree of Prime Minister No. 13/PM, dated 11 June 2012.
- 3) The total area of rubber plantation in Laos is should not exceed than 350,000 ha, if not it will significant has a negative impact on other land use covers, namely forest covers, pasture land and other agricultural production areas.
- 4) The existing contract of rubber concession are needed to be reviewed and revised as based on regulation and provision of GoL on the concession fee no. 02/PM
- 5) If necessary to promote rubber plantation in future the '2+3' model is more appropriate due to avoiding intensive import labor from neighbor countries, market risk for smallholders and the contract must be under consideration of Lao rubber board.
- 6) In the contract or agreement license of rubber production, the policy of food security must be in placed such as integrated farming, intercropping and agro-forestry systems should be considered within the development mix of options in order to reduce risk to smallholders on food and economics.
- 7) Investors should be provided with guidelines and standardized contracts, as Lao PDR lacks clear investment policies and guidelines.

### **Food Security**

- 1) For poor farmers, especially before tapping years, the local government and rubber investors should find and allocate other farm or off-farm jobs to their householder members to work for food and wage. This may help the smallholder rubbers access to food and income.
- 2) For future plantation, the smallholder rubber should not use all land area to plant only rubber (mono-cropping) and must be keep the areas to grow agricultural crops or intercropping in the rubber plantation during 1-3 years. This is to help farmers in food security during 7 years without income from latex.

### **Financial and Marketing**

- 1) Finance and credit are extremely important aspects of the package for smallholders credit mechanisms need to be integrated into the rubber development plans from the outset.
- 2) The importance of favorable credit support systems have been clearly demonstrated in the analysis of current rubber systems in Laos and without this support, the economic capability of smallholder rubber producers would be turned to risk and vulnerability.
- 3) Formulation of the production group, buyer group for smallholder rubber farmers and to be member of rubber organization that can help them to access market and other necessary information on rubber. In addition, the production group will bring the individual farmers who have no contract farming or no promising marketing
- 4) Establishment of rubber bank to subsidize and stock the rubber product when the price increase, the government will responsible for initiative period and after that will hand over to private sectors.

- 5) The PPP (Public Private Partnership) model must be applied to support the existing smallholders rubber farmers and private sectors to install the rubber processing factories both semi processing and modern (final product) processing factories such as tyre factory and other products that use natural rubber as main input
- 6) The public banks: Nayobai Bank and Agricultural Promotion Bank would provide the low or appropriate interest rate to smallholder for their basic investment on processing of sheet rubber must be promoted to practice in smallholder household level.
- 7) Reduce the uncertainty of rubber latex market at village level through: 1) promising marketing between private buyers (companies) and production group in the village and 2) direct contracts between rubber production group and processing factories from neighboring countries (along the borders)
- 8) As currently the rubber latex exports to China are mostly informal trade, the Ministry of Industry and Commerce should lead to make actively negotiation with China to include the rubber latex into the list of ASEAN Trade in Goods Agreement (ATIGA), which already covers five crops (corn, watermelon, banana, dry cassava and rice).
- 9) The sheet rubber must be promoted to practice in smallholder household level. To do so, the strengthening microfinance is important tool to improve access to finance of small plantation farmers. In addition, District Agriculture and Forestry Office should provide rubber processing technical training to farmers before getting loans in order to guarantee the effectiveness of credit utilization.

#### **Labor Management**

- 1) The public sector should develop and promote the technical labor skills, which determine policies and regulations with the large-scale rubber investment of both domestic and international companies. The raw labors (no experience on tapping latex labor) are needed to train on the technique of tapping that could help them to competitive able with labors from neighbor countries.
- 2) The public sectors (Provincial of Agriculture and Forestry Office, and Provincial of Labor and Social Welfare Office) should formulate the development center skill on rubber tapping to organize training and facilitate to smallholder farmers. This center might be located in the extension service centers
- 3) For the Northern provinces is in high risk of labor shortage, thus may need to import labors from neighbor provinces and it is necessary to work integrating with the labor and social welfare sector at all levels.
- 4) The labor law is needed to disseminate to the rubber investors and the law can represent a powerful tool for Lao labor protection.

#### **Environment issues**

- 1) The rubber plantation should apply the agro-forest technique to their rubber plantation to improve the biodiversity in the plantation areas
- 2) Smallholder rubber farmers should build the latex storage to protect air pollution in the community
- 3) The plantation is must far from the water sources at least 50-100 m to avoid the waste or chemical drain into water source
- 4) Up to now lack of evidence on negative impact of rubber plantation on environmental issue, thus it is necessary need to conduct survey and evaluate the environmental impact to soil, water, air, biodiversity, human and community. The result of evaluation will provide guideline and measurement to address the problems.