

## Farmer cooperatives are the missing link to meet market demands in Laos

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In the transition from subsistence to commercial agriculture, smallholders in Lao PDR need to get better organised to match market demand in terms of product volume and quality. This paper investigates the conditions for the emergence of cooperatives from existing farmers' groups. Our study revealed the importance of social networks and power relations as a factor of cohesion within groups. Local leadership plays a crucial role in connecting group members to the village and district institutions. Recommendations are provided to improve group management rules as a pre-requisite to turn groups into farmers' cooperatives.

Lors de la transition de l'agriculture de subsistance à l'agriculture commerciale, les petits exploitants de la RDP Lao doivent mieux s'organiser pour satisfaire la demande du marché en termes de volume et de qualité des produits. Cet article traite des conditions pour l'émergence de coopératives à partir de groupes d'agriculteurs existants. Notre étude a mis à jour l'importance des réseaux sociaux et des rapports de pouvoir en tant que facteur de cohésion entre les groupes. Le leadership local joue un rôle crucial au moment de relier les membres des groupes aux institutions villageoises et de district. Des recommandations sont proposées afin d'améliorer les règles de gestion des groupes comme condition préalable pour transformer les groupes en coopératives d'agriculteurs.

La transición que implica la transformación de la agricultura de subsistencia en agricultura comercial requiere que los pequeños agricultores de la RDP Lao se organicen mejor para dar respuesta a las demandas del mercado en términos del volumen y de la calidad del producto. El presente artículo se apoya en una investigación realizada con el fin de examinar las condiciones existentes para la organización de cooperativas a partir de los actuales grupos de campesinos. Dicha investigación demostró la importancia de las redes sociales y de las relaciones de poder como factor de cohesión dentro de los grupos. Asimismo, mostró que el liderazgo local desempeña un rol crucial En el establecimiento de vínculos entre los integrantes de los grupos con las instituciones a nivel de aldea y de distrito. El artículo brinda recomendaciones que posibilitarán mejorar las reglas para la gestión de grupos en tanto ello constituye un requisito para transformar los grupos de campesinos en cooperativas.

**Keywords:** Civil society; Governance and public policy; Environment (built and natural) – Agriculture; Globalisation (inc trade; private sector); Southeast Asia

### Introduction: the history of cooperatives in Lao PDR and their current status

Credit cooperatives and a Lao savings and loan association existed in Laos prior to 1975, when the Pathet Lao took control of the government. After 1975, all associations – including farmer groups – were dissolved and cooperative laws and decrees were cancelled. Following the

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Vietnam model, the Government of Laos (GoL) developed four mass organisations that officially took over some functions of previous grassroots-level associations, namely: the Lao Front for National Construction, the Lao Women's Union, the Youth Union, and the Lao Federation of Trade Unions. As in Vietnam, these institutions are represented at all administrative levels (from central government and provinces to districts and villages) and are managed and controlled by the central government. Unlike Vietnam, there is no mass farmer organisation in Laos to provide a legal foundation for collective production and marketing of agricultural products.

From 1975, farmers' production was pooled under a collective structure called a *sahakorn* (cooperative). A Central Leading Committee for Cooperative Development was hosted by the office of the Prime Minister until it became a department of the Ministry of Agriculture, Forestry, and Cooperatives in 1983. Under the centrally planned economy, these production cooperatives, developed along the Vietnamese model, had to achieve food sufficiency nationwide. The number of State-led cooperative farms increased dramatically during the following decade: from 1300 in 1978 to 3000 in 1985 (Machima and Prakash 1987).

Gradually, smaller, village-level cooperatives merged into bigger ones and became so bureaucratic that they finally existed more on paper than in reality. In 1986, the New Economic Mechanisms put an end to State-run cooperatives and promoted a new model better adapted to a market economy (Phomvihane 1986). It was impossible to use the *sahakorn* term for this new concept as it was closely associated with the negative experience of central planning: e.g., top-down, command and control management, poor efficiency, shortage of inputs, lack of crop production techniques, absence of training and extension, and poor managerial skills of cooperative staff.

By 1990, the former State-cooperatives had been dismantled and all production means were returned or sold to their former members. Since then, many international development organisations and donors (e.g., International Cooperative Alliance, United Nations Development Programme, Food and Agriculture Organization of the United Nations, and the Asian Development Bank) have supported the GoL's goal to promote a new cooperative movement.

The GoL has promoted different forms of farmer production groups, water users' associations, women's credit/savings groups, etc. These groups operated independently, without regulation, until the GoL passed a decree on associations (PM 115) in 2009; a decree on cooperatives (PM 136) followed in 2010 (GoL 2010). However, the first cooperative was officially registered only one year later, in August 2011. By 2013, only three cooperatives were apparently registered in the whole country, which can be attributed to the relative newness of the laws and lack of unified implementation, and to the lack of information, skills, and practical experience among farmers and government.

At the end of 2012, a Department of Agricultural Extension and Cooperatives (DAEC) was created under the Ministry of Agriculture and Forestry (MAF) to provide national-level guidance, support, and training to emerging cooperatives. This move clearly reinforced the GoL's policy towards building a vibrant cooperative movement. However, initial investigations on the potential of existing farmer groups to turn into successful cooperatives showed mixed results.

### **Genesis, methodology, and goals for this paper**

The Agriculture and Forestry Policy Research Centre of the National Agriculture and Forestry Research Institute (NAFRI) in partnership with the Institute of Research for Development (IRD, France) and the Centre for International Forestry Research (CIFOR, Indonesia) provided guidance to help relevant agencies reduce the gap between policy discourse and practice on the ground as called for by the Ministry of Agriculture and Forestry's Agriculture Development Strategy 2011–2020 (MAF 2010).

A literature review was combined with semi-structured interviews of resource persons involved in community development activities, as well as visits to the supported farmer groups. The team reviewed 25 projects involving farmer groups that could be considered as pre-cooperative structures. A qualitative analysis of the findings from both primary and secondary sources explored the functioning of farmer organisations and benefits to their members, and assessed the needs and requirements of existing farmer groups to establish sustainable cooperatives at the grassroots, e.g., training activities and target beneficiaries, and local support mechanisms.

Drawing on the analysis, this paper aims (1) to capitalise on the experience of pilot farmer organisations supported by governmental agencies and development projects, (2) to learn from both successes and failures of past initiatives in developing farmer groups, associations, and cooperative models, and (3) to provide guidelines for the development of a policy environment that is conducive to a modern cooperative movement in Lao PDR.

### Why are “modern” cooperatives needed in Lao PDR?

This paper builds on the theoretical model of a national economy initially proposed by Braudel (1981) and applied to the Vietnamese economy by Bergeret (2002). Laos, like Vietnam, inherited a two-tiered economy from the collectivist period. On the one hand, at the grassroots level, the family-based, informal economy is very active and efficient. On the other hand, at the State level, big companies interact directly with the government and negotiate with foreign investors. An intermediary level is necessary to avoid the complete disjunction between the family-based economy and the State economy.

Braudel uses the metaphor of a three-storey house with the ground floor representing the family-based economy and the second floor being the State economy (Table 1). The missing first floor includes the small- and medium-size enterprises, merchant networks, associations, cooperatives, and other forms of civil society organisations. The interrelationship of these three levels of economic activity, Braudel argues, gives rise to a modern world economy and consequently would help Laos integrate into the world economy. Laos joined the World Trade Organization in 2012 and is preparing its economic integration into the ASEAN Economic Community by 2015.

With this in mind, the GoL supports farmers’ involvement in the emergence of this first floor to help them benefit from market opportunities related to foreign investment and avoid further marginalisation in a rapidly changing economy. This is a crucial aspect of the current agricultural

Table 1. The three floors of the national economy in Lao PDR.

	Integrated development	Marketing – processing	Credit – savings
Formal sector (2 <sup>nd</sup> floor)	Large grants for infrastructure development and poverty alleviation	State-owned business corporations	Commercial banks
	International organisations	Foreign investors in joint-ventures	State – private banks
Intermediary sector (1 <sup>st</sup> floor)	Small agro-enterprises and cooperatives Farmer associations Intermediaries – traders		
Informal sector (ground floor)	Village revolving funds	Family-based enterprises	Household-to-household loans
	Rice or livestock banks	Farmer groups	Money lenders

policy dilemma in Lao PDR. To meet increasing market demands, should former subsistence farmers become wage workers for large scale agribusinesses (making a direct link between the ground floor and the second floor)? Or is smallholder agriculture a possible option towards a modern agricultural sector? The latter possibility requires reinforcing the second floor of the national economy by strengthening farmer organisations (MAF 2010).

While acquiring legal status may not be a priority for small farmer organisations for collective activities, it becomes necessary when they engage in commercial activities involving (1) acquisition of large collective equipment for land preparation, transportation, or processing, (2) financial services such as medium- or long-term credit, and (3) acquisition of trading or export license to engage in contractual arrangements with private companies. Beyond production and marketing of agricultural products, cooperatives can also expect to play a role in empowering farmers and giving a voice to the rural population.

### **Which cooperative models would be appropriate for Lao PDR?**

On the one hand, it is important for the government to support the emergence of vibrant farmer organisations as part of its poverty reduction strategy: (1) to engage all components of society in the development process (i.e., bridging the ground floor of the family economy to the second floor of the State economy), and (2) to redistribute to the whole population the benefits stemming from the country's opening up to the global economy. On the other hand, the government risks losing control over these new forms of power if the transition is not managed properly. This may be the reason why the transformation of farmer groups into formal cooperatives or farmer associations has seen only slow and limited progress over recent years.

This brings us back to the original concept of a cooperative as a self-help group building economic capital out of the strength of its social capital (EDC 2002). According to universally accepted principles, cooperatives are voluntary, autonomous, member-owned, and member-managed enterprises. Cooperatives operate within the framework of cooperative law, which is enacted by the government. Registered legal entities, cooperatives maintain their independence through members' general meetings and a democratic, transparent organisational structure. They have their own bylaws, which are adopted by members (Za-Zenchu 2008). In the field of agriculture, cooperatives provide members with four key services: credit, input supplies, marketing, and guidance (training, extension, etc.). Cooperatives provide vertical linkages with large suppliers and buyers (second floor) and with local communities (ground floor). They also develop their own infrastructure: warehouse, transport systems, value-added processing, and transactions with external actors.

Due to their multifunctional, multipurpose, and flexible characteristics, cooperatives can expand their business in response to evolving demands from the market and from members for services. They can federate and link with international alliances that would provide assistance and guidance. Groups, on the other hand, are not legal entities and have no organisational structure of their own, either horizontal or vertical. They operate as small businesses with a small capital and limited scope of work, and on a limited scale (Za-Zenchu 2008; Folkard et al. 2011). None of the 25 farmer groups were considered as a fully functional agricultural cooperative at the time of the survey. However, some were better positioned than others to produce the volume and quality demanded by the market.

### **What does the first floor look like today? Main characteristics of existing farmer groups**

Literature review and field investigations before (2009) and after (2011) the decree on the cooperatives was proclaimed showed that micro and small enterprises occupy most of the first floor of

Table 2. List of projects involving farmer groups and/or community development activities that were consulted or reviewed from grey literature.

No	Project name	Interviewed	Report review
1	ADB/NAFES – Watershed Management Project (Nam Ngum)	x	
2	ADB/UNODC – Shifting Cultivation Stabilisation Project, Hua Phan Province	x	
3	AFD/PDDP – Rural Development Project of Phongsaly District	x	
4	AFD/PCADR/PASS – Maize producer groups in the southern districts of Sayaboury Province		x
5	AFD/PCADR/PAB – Coffee Producer's Association in the Boloven		x
6	CARE Laos – Poverty Alleviation in Remote Upland Areas (PARUA)		x
7	CCSP – Cooperative Credit for Small Production – Lao Farmer Products –Cooperative Fund	x	
8	CIDSE Laos – Community Development Program	x	
9	DGRV/German foundation of Raiffaisen Banks – Regional Programme on Cooperatives	x	
10	EC – Micro-Projects Development through Local Communities (MDLC)		x
11	FAO/NAFES – Food Security Project	x	
12	FAO/NAFRI – Marketing System Development for Non-Wood Forest Products	x	
13	Friends of the Upland Farmer, Luang Nam Tha Province		x
14	GTZ/RDMA – Integrated Rural Development in Mountainous Areas of Northern Lao PDR		x
15	HEIFER International/NAFRI – Livestock Project	x	
16	IFAD/NAFES – Smallholder Development Project	x	
17	IUCN/NAFRI – NTFP Sustainable Utilisation of NTFP, case study Oudomxay province		x
18	JICA – FORCOM (Forest Management and Community Support Project)		x
19	MRC/NAFRI – The Fisheries Management and Governance Project	x	
20	SDC/NAFRI/CIAT – Small scale agro-enterprise in the uplands of Laos and Vietnam (SADU)	x	
21	VECO – Market Access for Farmer Extension Groups in Bokeo Province	x	
22	WB/FINNIDA/NAFES – SUFORD (Service Using Forest and Rural Development)	x	
23	WB/NAFES – Agriculture and Development Project (ADP)	x	
24	WB – Poverty Reduction Fund	x	
25	WWF/NAFES – Sustainable Rattan Harvest and Production Project	x	

the Lao economy. Existing farmer groups are either not yet recognised as legal entities (21 out of 25, i.e., all except no. 5-PAB, 7-CCSP, 9-DGRV, 21-VECO in Table 2) or are registered as private enterprises (no. 21-VECO in Table 2).

The Credit Cooperative for Promotion of Small Producers (CCSP) was the first officially registered cooperative under a decree on microcredit cooperatives promulgated in 1996. Indeed, the most active farmer groups were involved in microcredit. Access to credit and, more generally, capital mobilisation were central to the emergence of the surveyed farmer groups.

In 2011, the Sanasomboun Cooperative for Development became the first agricultural cooperative in Laos registered according to the new Cooperative Decree (PM 136) that was promulgated one year earlier. A group of 25 rice farmers in Ban Nonsavanh, Champassak province, received technical assistance and advice from the German organisation DGRV (no. 9-DGRV in Table 2). The purpose of the cooperative enterprise is to reach economies of scale and to market in bulk the rice production of its members.

The Boloven Plateau Coffee Producers Association (AGPC) was formed in 2007 out of earlier coffee producer groups that had received foreign aid over a decade to improve production (i.e., varieties and processing), logistics, and marketing. The association studied (no. 5-PAB in [Table 2](#)) assembled product from village-level producer groups/cooperatives and processed all documentation necessary for export of coffee from Laos to its international buyers. Member services included organic and fair trade certifications, providing access to protected markets, and premium prices. The association was distinguished from the farmer groups by employing professional staff (working under a farmer board) for the management and marketing of coffee production. Such organisation required external support over a period of five to ten years, with a clear plan to phase out as members built their capacity.

This short overview illustrates the diversity of objectives and contexts associated with the emergence of existing farmer organisations. For the sake of simplicity, we distinguished three types of farmer groups according to their activities and conditions of emergence. While all groups ([Table 2](#)) encapsulate some dimensions of (1) integrated development, (2) product marketing, and (3) credit services, they can be categorised according to the primary motivation of their members in joining and the activities emphasised at the groups' initial stages. This classification is dynamic as the groups evolve constantly and may shift from one category to another. This is the case in particular of the CCSP, which started as an integrated development initiative, added a marketing-processing component, and developed a complex credit network.<sup>1</sup> The history of the Lao Farmers' Products enterprise exemplifies the possible patterns of transition from grass-roots-level initiatives to cooperative movements. Most of the other farmer groups included in this study were created too recently to provide the necessary historical background.

### ***Community development groups***

These groups are actively promoted by the GoL and encouraged by international agencies and donors to support area-based development (case studies no. 1, 2, 3, 6, 8, 10, 11, 14, 16, 18, 23, and 24 in [Table 2](#)). Groups usually concentrate their efforts at the village level, which is considered the natural level of intervention for community development activities. These activities are usually supported by credit savings and, in some cases, complemented by infrastructure development: roads, bridges, market places, schools, etc. Project reports usually describe the extension and training activities and present the number of interest groups formed in target villages as one indicator, among others, of the project impact.

Based on a preliminary diagnosis of the village situation, activities are designed to meet the expectations of the population, while corresponding to the project's mandate, means, and philosophy. While the diagnosis is always presented as participatory, refined investigations show it is very difficult to prevent local elites from co-opting such rapid appraisal processes. The interventions are thus generally prioritised by the leader of the village committee. Besides infrastructure development, local people are mostly interested in training and capacity building associated with concrete innovations in crop or livestock production, natural resources management, market outlets, diversification of income generating activities, etc. To join these extension activities, farmers must be organised into interest groups, which become the targeted audiences of the project specialists. These groups then implement project-supported activities, such as managing village revolving funds, rice banks, water resources, crops, livestock, fish, non-timber food products, etc. The groups are considered as instrumental to the process of technology transfer in a classical extension approach. The groups and project infrastructures are generally handed over to the district extension services at the end of the project.

At that point, the issue of sustainability of these interest groups comes to the fore. After a period of heavy investment in financial and human resources, the groups are left by themselves

once the project ends. Extension agents lose their connections with the higher levels (i.e., ministry departments, research organisations, international experts) and also with the lower level because of insufficient financial resources (not enough money to buy gasoline for the motorcycle) and a lack of intellectual resources (to generate new knowledge that can feed the learning process of farmer groups). All stakeholders generally gain new knowledge from the project, but once it ends, they lose the means to mobilise this knowledge. As a consequence, most of the groups discontinue their activities.

### *Credit and savings groups*

The only groups that manage to sustain their activities beyond the lifespan of the project are usually those related to capital mobilisation. These include village revolving funds, savings and credit groups, and rice banks (Datta 2007), or livestock banks (Fichtl and Scoizec 2005). To a limited extent, some groups can even support the needs of community-development groups (case studies no. 2, 3, 8, 10, 11, 15, and 18 in Table 2).

Based on this assessment, many projects incorporate a savings-credit component or only focus on microfinance activities, acknowledging that capital mobilisation is core to any income-generating activity. Indeed, when asked about the reasons for joining farmer groups, **access to credit** usually ranks first, just before **gaining new knowledge** and **access to market outlets**. A large range of microfinance schemes have been tested with more or less success in Lao PDR, e.g., solidarity groups, self-help groups, village banks, cooperatives/credit unions, savings and credit associations, revolving loan funds/village funds (see [www.microfinancelaopdr.org](http://www.microfinancelaopdr.org) for more examples).

In terms of outreach, line government agencies provide 23% of microfinance services, while mass organisations provide 25%, banks 19%, and projects the remaining 33% (Darachanthara 2006). The formal bank system has a limited outreach into rural areas (case studies no. 7, 9, and 10 in Table 2). Villagers depend on relatives and money lenders for credit (EDC 2002). For savings, people in remote areas rely on in-kind savings (e.g., jewellery and livestock) or cash kept in the house.

Because of its countrywide coverage and active women's participation in informal savings and credit activities, the Lao Women's Union (LWU) is the largest group, with almost 200,000 beneficiaries (Darachanthara 2004). The GoL initially gave LWU a mandate to support microfinance in Lao PDR. If credit groups face problems or internal conflicts, they generally turn to the district LWU to sort them out, or even ask the LWU to take over management of the defective credit scheme when it is not too late (case studies 2, 3, and 14 in Table 2). In 1996, a Decree on Credit Cooperatives was passed by the GoL that allowed the CCSP to operate under an official registration at the Bank of Laos. In 2008, a new regulation was issued by the Bank of Laos based on the Notice of the Prime Minister on Microfinance Supervision (No. 05/PM, April 4, 2007), which regulates the establishment and operations of financial cooperatives named Savings and Credit Unions. This document provides a legal framework for the activities of credit cooperatives. However, while such a framework is necessary, it is not sufficient to bridge the existing gap between formal (banks) and informal (money lenders, relatives) credit in the remote, rural areas where most respondents engaged in microfinance activities work.

### *Marketing and processing groups*

In March 2001, the Seventh Party Congress promoted “a people-based cooperative economy, particularly in agriculture, handicrafts, and services, through policies on finance, credit and

marketing” (*Vientiane Times*, March 16–19, 2001). The GoL committed to support the activities of socially responsible business systems (e.g., private agro-enterprises, cooperatives) that would assist farmer groups that had so far been hindered from full economic participation because of physical or social distance to markets. The promotion of an organised rural sector capable of managing and maintaining connections with expanding markets requires considerable capacity building on both sides of the bridge that separates farmer groups from the market economy. Poor people lacking education living in remote areas require confidence-building measures and long-term support. On the other hand, the agro-enterprises and cooperative institutions in which they desire to participate also need capacity and greater confidence to be able to integrate them successfully.

Following injunctions of the GoL and lessons from previous integrated rural development projects (which often produced unmarketable goods), several socially responsible agro-enterprises were created and projects were implemented to strengthen local business support services (case studies 4, 5, 12, 13, 17, 19, 20, 21, and 25 in Table 2; Connell 2005; Manivong et al. 2005; Foppes and Phommasane 2006; Ledecq et al. 2006; Fullbrook 2007). Linking farmers to the market through the development of agro-enterprises was expected to contribute to poverty alleviation by increasing and diversifying income, improving product quality, and adding value to raw products through intermediate processing.

The pioneering agro-enterprises launched by the Lao Farmers’ Products (no. 7), the Friends of the Upland Farmers (no. 13), the small-scale agro-enterprise in the uplands of Laos and Vietnam (SADU) (no. 20), and VECO-Bokeo (no. 21) projects paved the way towards future integrated cooperatives that covered production, processing, and marketing activities. The experience of the Coffee Producer Association (AGPC no. 5) showcased higher level structures federating a large number of village-level cooperatives along a value chain.

A comparative analysis of these case studies identified and prioritised issues related to different approaches that attempt to link farmers to markets. The main lessons, presented in more detail below, can be summarised as: to survive in the tough business environment and market-distorting policies (e.g., monopsonies created through granting of exclusive trading rights or issuing concessions to large companies that compete with smallholders for the same products), the agro-enterprise approach has to work with the whole market chain through local stakeholder interest groups rather than focusing only on producers. Cooperative action is needed within farmer groups to respond to market demands in terms of volume and quality of the products. But more importantly, farmer groups should open themselves to the outside world: i.e., other village communities, in the case of area-based development (e.g., between villages in a cluster in the SADU approach), other actors of the market chains (e.g., traders, processors), other commodities, and/or niche markets (e.g., Lao Farmers’ Products). Managing transitions from family business to agro-enterprise, therefore, requires empowering farmers in their initial interactions with other actors and providing a supportive business environment (e.g., tax exemptions, contract farming monitoring and reinforcement mechanisms, and protection against illegal, non-registered businesses).

### **How to get from here (farmer groups) to there (cooperatives): Building economic capital out of the strength of social capital**

A number of lessons can be drawn from the experiences of the studied farmer groups. These lessons rely on research findings consistent across the many singular experiences of each initiative listed in Table 2. They demonstrate the challenges ahead to turn farmer groups into agricultural cooperatives. Finally, they explore some mechanisms that proved successful in specific contexts and that may be extended to other situations or value chains.

***Access to financial capital is the main incentive for farming households to get together as a group***

Mobilising capital for investment in agribusiness is core to the success of farmer groups. All extension projects have made the grouping of farming households compulsory to get access to project services. The resulting interest groups are tied to project activities, which determine their access to financial support; these groups generally dissolve at the end of the project. This explains why so many projects, concerned with sustainability, have set up savings and credit groups to extend livelihood activities beyond the project (case studies no. 1, 2, 3, 6, 8, 9, 10, 11, 14, 16, 18, 23, and 24 in Table 2).

Many experiences show that, in the initial stages of microfinance activities – especially in poor villages with a majority of poorly educated people – it is important to start with small amounts of money, ideally with savings schemes managed by group members with project support. People will take more responsibility if they know they are managing their own money. The initial learning phase should last as long as necessary to consolidate the initial group before enlarging it to new members or to larger budgets through loans or grants from projects or formal financial institutions.

In line with our field observations, a World Bank review concluded that “*Credit and Savings groups appear to be unsustainable under the Village Development Fund, the Village Investment for the Poor, and under most other livelihood projects in the uplands of Lao PDR*” (World Bank 2008). Providing credit to subsistence farmers, who have limited access to markets, is very risky. Poor people get easily trapped on a treadmill of debts, with new loans being used to reimburse the previous ones. Therefore, microfinance cooperatives should prioritise serving the remaining 30% of the population, i.e., better-off farmers, urban, and peri-urban entrepreneurs who will gradually bring the market to the 70% of subsistence farmers. The consistency of findings across projects, provinces, and with other existing studies suggests, therefore, that the sustainability of microfinance schemes in remote rural areas is likely to be relevant – although to different degrees – for most donors’ community-driven livelihood projects.

***Reaching and maintaining the right proportion of social mix in farmer organisations is a key to their success***

Members of credit and savings groups are usually middle-income households. In many villages, the poorest households are either excluded from the credit and savings groups, or are prevented from accessing loans due to their high default risk (e.g., case studies no. 2 and 3 in Table 2). Poor households tend to borrow for emergencies; since their loans are not used for productive investment, at least in the initial stages, they have a low capacity of reimbursement. Lack of collateral, inability to repay, and mistrust of the Village Committee were stated as reasons for non-membership of the poorest families. Moreover, since poor people save small amounts and take small loans, they are more reluctant to borrow money for production (which increases risk) and savings build up more slowly. The capital is too modest and interest rates too high to serve as big investments for large animals or plantation crops, which would attract richer households (case studies no. 4 and 5). Consequently, relatively rich households are also relatively under-represented as they consider the loans to be too small and the dividends too low.

On the other hand, low interest rates mean that demand for funds outstrips supply, which threatens the sustainability of credit and savings groups. Credit rationing also increases the risk of nepotism in attributing loans. As the poorest households are expected to have serious problems in repaying loans, it is likely that grants would have a greater impact than loans in remote areas of

the uplands, where financial management capacity is low and supervision is costly (World Bank 2008).

Therefore, a large range of microfinance options should be proposed to balance the groups' membership between low, middle, and high-income households. Grants should be administered in the most remote areas, while private credit schemes based on high interest rates have proven successful in peri-urban contexts (e.g., no. 7-CCSP, no. 9 support to Naxaythong Cooperative Bank). In between these two extremes, many local arrangements can be found according to local contexts and the outcome of negotiations within village communities.

***Do the village communities actually exist? What initial level of social capital is needed to build upon at village level?***

While it is clear that groups emerging from the inside (member-driven) have a better chance to survive than groups imposed from the outside (project-driven), it is also important to assess to what extent village communities can support the emergence of farmer groups and future cooperatives (Olson 1973). High (2006) describes the notion of village community not as a given, static institution, but as a continuous process. Village formation projects shape the community and determine its capacity to engage in cooperative actions. Farmer organisations are called upon to consolidate the farming communities, but they are themselves the products of the larger community.

Solidarity within a group often reflects the village population as a whole. Group cohesion is historically constructed by the regular interactions among its members and ordeals they have shared. A common history leads to broadly accepted social rules, norms, and sanctions to behaviours that deviate from the norms. Disruption in the village social capital is often observed in resettled villages or mixed villages with successive waves of incoming households, sometimes from different ethnic groups. As a consequence, chances of success of farmer groups, and more generally all kinds of community-based activities, are lower in resettled villages.

Connell (2005) points out another constraint to agro-enterprise development in remote villages, especially when they have developed extensive livelihood strategies (i.e., many products with low inputs and low output). Villages in isolated communities tend to depend on each other, sharing rather than selling any excess. The shift to production for enterprise involves two changes in perception: (1) that intensifying production is necessary to generate higher output, and (2) that excess output is sold for income rather than exchanged to cement relationships within the community (e.g., no. 20-SADU). Therefore, building on village solidarity and traditional social linkages requires developing or reviving new models of community building. For example, these initiatives can tap into any existing social capital in a village, building upon a limited number of business-minded individuals (case study no. 21-VECO), or engaging stakeholders in marketing chains at the level of village clusters (sub-district).

The main lesson from past and ongoing projects is that cohesive communities with strong leadership and educated committee members manage group activities more efficiently, and can secure the rapid launch of a cooperative initiative. They should, therefore, be given initial priority to develop sample demonstration projects that can be showcased to other communities.

***Leadership: combining horizontal and vertical integration***

It is largely recognised among the surveyed farmer groups that their success is directly related to the charisma and character of the leaders involved, especially the group head. A committed leader who ensures participation, respects transparency, and accountability, and promotes second-line leadership can contribute positively to group sustainability, even in an adverse socio-political

context, and this even with limited capacity-building support. The leaders instil a culture, a spirit to the group that would be difficult to systematically describe here, but that can be clearly felt in discussions with group members. Human capital, like social capital, cannot be imposed by decree. However, leadership can be discovered, recognised, and then nurtured.

Group heads are systematically important nodes in local social networks as they link members together and develop interactions with the rest of the community (horizontal integration), and they link or open groups to the outside world, e.g. by negotiating contracts with traders, and credit with banks (vertical integration). In many cases, members of the group committee are also members of the village committee. As a consequence, there is a large overlap between the administrative power structure of the village and the management structure of the group. While this situation can potentially favour good vertical integration of the group with other administrative bodies and powerful decision makers, it can also lead to some form of elite capture. The group leader can regulate membership, impose sanctions to deviant behaviour or let them go unpunished, opening the way to generalised misconducts; this, in turn, can lead to rapid failure of the farmer group.

There are many cases in Laos where small agribusiness companies or traders have provided inputs to farmers, but at harvest time find out that farmers ignored their contracts, and sold to other traders who offered higher prices (e.g., case study no. 13). These companies and traders have no legal means to get a contract respected. In the absence of mutual trust with farmer group leaders, they discontinue provision of market services. On the other hand, some traders based within communities have been able to provide inputs and had their contract respected, and are regarded as an asset by villagers (Folkard et al. 2011). Power balance within the group is, therefore, an essential asset to avoid nepotism, where one single person decides who joins the group and who is liable to receive benefits or sanctions.

### *Learning pathways – managing the tensions between exclusion and openness*

The shift from farmer groups to agricultural cooperatives is associated with increased outreach/coverage, which requires great efforts to maintain the internal cohesion of the group while growing, i.e., incorporating new members and new activities (e.g., cases 4, 5, and 25). An informal governance structure well adapted to a small group of people who know each other well and enjoy mutual trust for all operations may turn out to be inadequate to engage in bigger agribusiness activities (case 5-PAB). Problems often arise when the change in the scale of operations does not induce changes in the governance system. Traditional, village-based management methods become ineffective when dealing with big companies expecting a large volume of products of standard quality. Village heads or their deputies are often too busy to properly manage cooperative activities tasks that have been assigned to them by default, i.e., because they were respected members of the community (honest, devoted, literate, etc.). While well adapted to administrative tasks, these key decision makers may not be business-minded people and may not succeed in linking the community they know well to other village communities (horizontal integration) and to other groups of stakeholders (vertical integration).

The transition from one governance system to another involves a collective learning process that engages a large number of stakeholders beyond the original ones, i.e., those operating within the farmer groups. Such a transition typically implies moving from building a **bigger group** to building a **complex network**. This shift towards modern cooperatives requires supporting the emergence of management skills and human qualities that have been poorly valued.

Building upon the experience of existing institutions like the Lao Women's Union (the majority of the clients of microfinance initiatives are women) or livelihood development projects (to better target poor households and diverse ethnic minorities) is one way to go. At the same time, it is also important to prevent these institutions from capturing the transition process. On the other

hand, supporting the emergence of a new generation of independent, private entrepreneurs through capacity building and empowerment is recognised as a good strategy to support effective governance and growth. Empowerment implies enlarging people's capabilities for making informed choices and taking actions that can have great impact on their group. Empowering communities by linking them to emerging agro-enterprises and cooperatives requires strong capacity building at all hierarchical levels (village, district, and province), and a long-term perspective. Although there is no single model for empowerment, experience from surveyed projects identifies these key elements: access to information, inclusion/participation of poor people, accountability of the administration and the private sector, and the capacity of farmer organisations to mobilise voices and resources.

## Conclusions

How the modern cooperative sector will emerge in Lao PDR depends on the learning path that all partners will engage in. Cooperatives are not static institutions, but rather constantly reshaping themselves according to evolving interactions between members and with external actors. The results of this continuous process are highly unpredictable and will definitely be location-specific. They depend, among other factors, on local leadership, history, initial cohesion of the group, pace of growth, etc.

This paper shows that the highly adaptive, collective learning process involved in the emergence of cooperatives can avoid past mistakes and build on successes and best practices. The lessons learnt from the reviewed farmer organisations can be summarised as follows:

- 1) The emergence of cooperative movements has long suffered from the absence of legal frameworks and regulatory policies, which may have been interpreted as lack of political will. After a long period of maturation, the GoL – with the support of international organisations – has passed laws on cooperatives and associations. That said, a conducive legal framework is a necessary but insufficient condition to support the emergence of farmer cooperatives and associations in Lao PDR: witness the small number of agricultural cooperatives officially registered since laws came into force. The agencies in charge of implementing the cooperative legislation (e.g., the Department of Agricultural Extension and Cooperatives under MAF) still need to build their own capacity. Only then can they strengthen district-level officers in facilitation methods that can empower medium-size businesses and give a voice to rural communities.
- 2) Efficient and sustainable cooperatives cannot be imposed from the top. All farmer groups that sustained activities beyond their initial project went through a long, adaptive process involving trust building and collective learning. Supporting such a bottom-up process requires continuous training, helpful leaders, political will, and the active participation of a large range of stakeholder groups intervening at multiple scales.
- 3) Three dimensions are central to the emergence and sustainability of cooperatives and should therefore be given high priority in supporting institution building:
  - i) Proper, transparent management of **savings/credit** schemes and more generally of financial **capital**. Access to credit and mobilisation of capital is the key to business development of any size. Besides improved access to market, access to capital is the initial incentive for people to get together instead of developing individualistic behaviours. If credit/savings is not present or not rigorously managed, the groups systematically collapse.
  - ii) The internal cohesion of the collective requires a strong and fair **leadership** and regulatory system including **social control** and sanctions. Interactions within the

groups should not be considered as static but rather constantly evolving, reshaping to adapt to new opportunities, unexpected events, harsh competition, changing environments, etc.

- iii) In their growth and maturation process, the collectives have to manage a **trade-off between internal cohesion** (membership, leadership, etc.) **and openness** to the outside world (e.g., case 5-PAB). It is, therefore, important to anticipate the growth of the collective (manage diversity of members from a socio-economic point of view) and to carefully plan its growth to avoid conceding too much of the collective strength and cohesion to new businesses or arrival of new members.

Finally, with the accession of Laos to the World Trade Organization in 2012 and the integration into ASEAN Economic Community in 2015, market demands are expected to change tremendously in the coming years, particularly in terms of product quality and volumes. To respond to the challenges of an international market, the country must reorganise the intermediary layer of its agricultural economy, which is a complex network of small agro-enterprises, intermediaries, traders, and emerging farmer organisations. The GoL idea of maintaining a vibrant smallholder-based agriculture alongside larger agribusinesses requires bridging institutions between the ground floor and the second floor of the Lao economy. Cooperatives play a key role in maintaining smooth communication among all stakeholders (e.g., farmers, intermediaries, agribusinesses, government officers, policymakers) and in striking a balance between smallholder-based and business-based agricultures.

As the cooperative movement unfolds, it is essential to build upon experiences from pilot farmer organisations in Lao PDR – both successes and failures – in designing support policies. Instead of designing and applying a fixed model for future cooperatives, it will certainly be more rewarding and cost effective to provide (1) an enabling policy framework and business environment, and (2) long-term support mechanisms to emerging organisations.

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### Note

1. Contact the authors for a detailed overview of the Association for the Development of the Rural Society in Laos, based on interviews with Dr Sisaliao Svengsuksa and M. Rattapraseud Nhouyvanisvong, and adapted from Guegan 2007.

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