

Advantages and Disadvantages on Contract Farming in Lao PDR

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Abstract

This research is a destination to know about the advantages and disadvantages of contract in Lao PDR, The destination has been proceeding by the standard approach by interview As well of farmer and company. On this basic of research revelation and probes into the path of contract farming which unified of farmer and company, The contract farming circulation and inheritable system under membership. The results found advantages and disadvantages of contract farming. Advantages on contract farming are farmer have product sales, Receive knowledge, The product meets standards set by the company, In the age of globalization pricing and delivery time clearly, Farmer improves management efficiency, It the efficiency of sharing from the company farm management, Skills was improved. And disadvantages is private sector usually of contract farming, High-risk farmers, Contract farming does not clearly and debts pesticides and insecticides. These are the advantages and disadvantages of contract farming in Lao PDR.

Keywords: contract farming, advantages and disadvantages, Lao PDR.

1. Introduction

Contract farming characterized by contract between farmer and company that will process and/or market the farmer's crop. It's a growing phenomenon in Lao PDR, it has been a component of some the most successful income generating projects for smallholder farmer, it has been composed of various schemes involving company processing company and the terms of the contract between farmer and company have major consequences for the financial viability of the company, hence, for the macro balance picture in Lao PDR economies¹. Contract farming is an alternative income scheme for rural farmland in Lao PDR. Contract farming offers new hope instead of conventional income from agriculture and brings higher returns for farmland. In practice, the raising of income from contract farming in agriculture has been faced with the number of challenges². contract farming is new to agriculture requiring farm management with regard to production, profit, skill, and knowledge. Moreover, the farmland is facing a dominant buyer in the factory owner and farms the provide an input to farmland as they. Maybe competitors of the farmland in the agriculture. contract farming is diversified and unpredictable as some farmland stopped growing³, while some expanded their farms and others become farmers. Therefore, farmland may have some things from contract farming in both advantages and disadvantages aspects. Example Some model of contract farming in Lao PDR. The first contract farming Income guarantee. This is a little investment. They have to invest in the house, equipment, and expenses for work, water, electricity. The company will in animal breeds, animal feeds, vaccines, medications, which contraceptives farm. The company is quite risky because the pork chicken is a property of the company. The creature is ready to be damaged. Therefore, the company must have the support staff closely. Farmers will earn the amount of income. It will be much less depending on the efficiency of the model⁴. This farm insurance income. It's promoted in the broiler chicken of farmers. The second contract farming. Price insurance, this will require more investment, they have to invest in housing, equipment, labor, water, electricity and animal and animal feed as well as vaccines and medicines. The agreement on the price of animal breeds and feed prices purchased from the company. The company has agreed to sell the product back to the company. Which will have to make a deal as a generation. contract farming is a price guarantee suitable for large farmers. Have knowledge and high investment. By using greenhouses. As a result, the cost of production decreased. The higher the income the company is still at risk. Animal feed the fries thing you need to do is to get your credit card. If the product is damaged, the company will bear the debt of farmer. This type of contract farming will be promoted in large broiler chickens. And encourage the chicken of farmers. The third contract farming insurance market, it's high investment group, is farmer good knowledge and experience in production. Most of the customers are confident in the quality and standard of products the animal and animal feed of company throughout. For example, he uses to farm one hundred thousand hens, he bought animals and feed at market prices and sell the product itself. Later he wanted to farm another farm (another 100,00) agreeing with the company to buy all the new farm products at a price that was down in

¹ Lao PDR contract and tort Law, article 1, no. 01/ Na. Vientiane Capital, 8 December (2008).

² Jackson, j. c, and Cheater, A.P, and Cheater (1994). Contract farming: partnerships for growth 160-161.

³ Lao PDR land law, article 15, no. 24/Na . Vientiane Capital, 20 October (2003).

⁴ Overview of contract farming in Thailand July (2008) ADB: lessons learned 9-10

the market. This group of farmers is ready to take risks in the field of animal product. Feed cost of price product, he wants the company to buy a product only. This group of the farmer is not very old, but nowadays there are more and more.

2. Advantages of Contract farming

Advantages on contract farming in Lao PDR is the quantity of product is continuously and sufficiently fed exporters can plan their marketing in advance is before and after contract farming including advantages on income, farming covenant, skills for farmland management, the establishment of farmer networks.¹ Agriculture systems, animal husbandry. Or cropping there is pre-production agreement between the farmers. The owner of the farm with the counterparties is 'guarantor' usually a private company the promises to buy the product from the other party at the agreed price from the beginning called 'insurance price' which will change only when the contract expires. This system will have the advantages. Farmers have definite output, raw materials can be brought into production process regularly and insurance coverage is guaranteed. Each area is not exactly the same, farmers get knowledge, academic standard farm plan layout and techniques to reduce production costs supply of raw materials and inputs may include financial support, productivity the same as the company and need the market². Advantages of contract farming have, 1). Advantages on income. When farmers have contract farming with the company, farmers have income is higher, the farmland knows exactly how much money they will get from their farm income from future, 2). Farmers have productive to sales. Raw materials can be fed into the production process and it's guaranteed prepaid price guarantee each area has different details, 3). Farmers receive knowledge. Academic standard farm plan layout and techniques to reduce production cost. Supply of raw materials and inputs may include financial support, 4). Skill for farmer manage. When a farmer has contract farming with the company, the company they have someone for teaching farmer how they can do farmland good the skill of farmland were improved both, directly and indirectly, farmland received training before planting, 5). The product meets the standards set by company meets and need of the market, 6). In the age of globalization pricing and delivery time clearly, believe in agrarian covenant can reduce the fluctuation of income and output of farmers. The return (income) is quite certain and higher, help farmer access technology and capital, 7). Help farmers improve management efficiency and management. Helps reduce state budget burden agricultural product it also boots employment opportunities in the agricultural sector and 8). It increases the efficiency of sharing from the company. Because of raw materials, cost control can predict marketing plan, the company also saves on the size of the economy (scale of operation) because it's large production, consumers benefit from higher product quality and lower prices.

3. Disadvantages of Contract farming

Disadvantages on Contract Farming in Lao PDR must be the way to plan, the operation is good and there are a lot of Contract Farming guarantee enough price to be profitable and successful, the private sector usually contracts in the form of contract farming. In terms of return, risk, and fairness. The investment is quite high compared to the income that will be made while the source of funds for farmers³. So if the company terminates its contract with the farmers in the short term or does not plan to produce it farmers may go bankrupt, high-risk farmers, in addition, there is the greater risk of lost productivity. Including operating expenses such as fire, fertilizer fee, medicine fee etc... the contract does not calculate clearly the revenue from stepped production farmers cannot predict that break even and when the profits from the investment. Cause disadvantages, from the Contract Farming it was found there, are some disadvantages including debts, exposure to pesticides and insecticides, poor social relations. At present most of Lao PDR farmer have a good understanding of agriculture product quality development, which comparable to world standard, the government budget is still lacking. But there are foreigner businessmen interested in investing agriculture because Lao PDR still has a lot of empty space. As result, the government recognizes the importance of the agricultural section. And more funding from outside the country to create opportunities for local people the original agricultural sector would be a form of concession. Foreign investors are allowed to lease various types of plantations such as rubber, sugarcane, banana, and cassava. However this way of doing business only involves employment, but farmers still have no market risk. So the government has up project " farming contract" is the cultivation of crops or breeding of animals with the pre-contractual agreement between company and farmers, where the company gives or sells inputs such as seeds and fertilizers. The price of insurance but most problems that occur at this time. Both parties agreed to buy the product. There are no insurance quotes. To reduce the risk of price volatility, the project is one way to help the Lao PDR farmers to sell their dream crops, such as market and even double employment but a gap of the problem is evident after the price of rubber in the world market downturn. Risk of contracting without

¹ Full brook, D. (2007). Contract farming in Lao PDR: cases and questions, the Laos extension for agriculture project (LEAP), ministry of agriculture and forestry, Lao PDR.

² Us Department of state. Background Note: Laos. <http://www.state.gov/r/pa/eibgn/2770.htm>,

³ Sashay Phoumanivong D. September (2013) the impact of contract farming on rural farm households, Lao PDR 24-26.

a minimum purchase price it problem for rubber planters hard¹. the disadvantage of contract farming Has, 1). Contract farming private sector usually in form of contract farmers, in terms of return risk and fairness, 2). Farmer is debts. It's found that farmer increased debts because of the high cost of inputs high cost of fertilizer, the high cost of labor, making the fence, difficulty to reduce cost, remainder became waste, the problem of the calculating process while low production, 3). Investments per farm are quite high compared to upcoming revenue, making payback takes many year, as farmers source of funds comes from loans from financial institutions, if company terminates the contract with farmers in short-term or does not plan production, moreover it's found proportion of expenditure (cost) on the income of farm is quite high about 27-92% so it's considered to quite risky, 4). High-risk farmers, in addition, there is a greater risk, loss of productivity, including operating expenses such as electricity, fertilizer, medicine and etc, 5). poor social relations. a study from Lao PDR by found that chicken contract farming farmer had conflicts with their community because their chicken farms created problems, there were a lot of flies, spiders and the smell affected nearby household, 6). The contract does not clearly calculate the revenue from step-by-step production farmers cannot predict that break even and when the profits from the investment cause disadvantage, 7). problems from farmers is a company that comes into the system are not reliable, no return, do not buy all the products, most of the business of China. Even with local authorities, the company has not been thoroughly checked there is the high standard of production. Inadequate training and some farmers are forced to harvest their produce under international agreement and 8). problem from company cannot trust the farmer often there is selling price for other buyers at high prices, low-quality lack of skill in agriculture, farmers crop calendar crop, poor quality road links in poor villages, high cost of transshipment, Lao traders cannot ship to China and Vietnam but traders in both countries can be transported into Lao and needs be declared. International crossing in crossing border.

4. Conclusion

Resolving issues of contract farming in Lao has major implications for agricultural production and social stability in rural farmland in Lao², the farmer and company must take meaningful measures to contract farming security for farmers and end illegal contract farming reclamation, in order to sustain the significant improvements in rural sector achieved through the adoption of the contract systems. As previously suggested, farmers rights contract must be clearly articulated and made enforceable. This will involve coordinating farmer and company action³. Though developing a meaningful system of dispute resolution and enforcement in Lao will be difficult and require systematic changes in the relationship between the villagers and investment, ignoring rising problems could prove disastrous. The underlying conflict between farmers and companies must be resolved in order for contract farming to truly operate according to Law. Farmers have productive sales, farmers receive knowledge, the product meets standards set by the company and need to meet the market, in the age of globalization pricing and delivery time clearly, farmers improve management efficiency and management, it increases the efficiency of sharing farm company farm management skills were improved and farmland networks were established. Resolving issues farmer are debts, exposure to chemicals, chemical fertilizer, poor social relations government should be measured to prevent and control the issuance of Laws or decrees, especially enforcement of contracts Law, land Law, Agriculture Law and public health Law. If the government and relevant parties can implement it, it's will be able to effectively address the issues mentioned above.

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