Smallholders' Perceptions and Experiences toward Participating in Eucalyptus Contract Farming: A Case Study of Khammouane Province in Lao PDR

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Date of Submission: 18 July 2023

1. Introduction

Eucalyptus is one of the promoted trees by the Lao government (GoL) for commercial tree plantations. There are three tree plantation forms: (1) company concession, (2) smallholders, and (3) contract farming (CF). CF forms various partnership models between investing companies and smallholders. Meanwhile, the typical CF, known as the "2+3" policy, has been promoted by the government since it has the potential to benefit investors and villagers (Fullbrook, 2007). The existing research shows the benefits and challenges of CF. However, there is no study on how local people consider the current CF practical model in Lao PDR. Therefore, this study aims to understand the smallholders' perceptions and experiences in CF and explore the company CF model.

2. Methodology

The research employed desk work (reviewing CF-related documents) and fieldwork. The purpose of the review was to understand the definition, benefits, and challenges of CF. The fieldwork was conducted in October 2022 for a preliminary study and in February 2023 for data collection. The location was one village that joined eucalyptus plantation CF with Mekong Timber Plantation company in HinBoun District of Khammouane Province, Lao PDR. I selected the village according to the following criteria: (1) a larger area of CF plantation, (2) a high proportion of non-CF participants, and (3) long experience with CF. A phenomenological and case study (Tomaszewski et al., 2020) was applied. I used a purposive sampling method to select households (HH) that joined CF from 2020 to 2022 to understand various perceptions and HH who did not join CF to see their views. The total number of respondents was 40, including 27 CF participants and 13 non-CF participants. I also interviewed key informants, including a company employee and a head of the village N to know the company CF model and village background information. For data analysis, I used the Thematic Analysis (Braun & Clarke, 2006) for the smallholders' perceptions and experiences. I also did Constant Comparative for the company CF case study. The analysis was to identify themes from smallholders' perceptions and experiences and to compare the company CF model with the one promoted by the government.

3. Results

CF model: The smallholders provided land, labor, and capital to buy the cheap seedlings from the company. On the other hand, the company provided planting techniques besides selling seedlings and reserves the right to be the first buyer of the harvested tree in seven years period. The buying price is not fixed but based on the market price. In a case where the company does not (or cannot) buy the harvested tree, the smallholders are free to sell it in the market.

Perceptions of CF participants (27 HH)
Input availability: In CF participation, the smallholders had available land, capital, and labor. Some respondents hired labor for land preparation, but all were ready to join CF.
Benefits: The respondents perceived the main benefits of CF are the potential for additional income sources because the company will buy the trees and use less capital for investment.

Table 1: Perceptions of Eucalyptus CF

	Use less capital	Additional/more income sources	Technical advice	The company will buy trees	Use vacant land
Perception of eucalyptus CF	22	8	12	9	4
Perception of potential benefit	12	15	13	13	11

N=27 (Multiple answers for one household)

Legal knowledge: All respondents had no legal knowledge of contracts (contract and tort law). They were only aware of the duties written in the contract but did not fully understand or remember all.

Risks: As the contract was still implemented, the smallholders perceived no risks in price, market, and contract non-fulfillment since they could sell trees to the company or other buyers.

Perceptions of Non-CF Participants (13 HH): The reasons for not joining eucalyptus CF were because rubber and cassava would generate more and regular income. Other reasons were the lack of labor and available land. Some respondents were afraid of the difficulty of selling to the company and of not being able to follow the company's advice.

4. Discussion

CF model: The Company Model is considered to bring better solutions to market and price risks which might be the main reason influencing smallholders' decision to participate, and it is linked with Barney & Van der Meer Simo (2019), which pointed out that these risks will become a challenge of contract fulfillment depending on the market.

Perceptions of CF participants: Most respondents were satisfied with the plantation as it has potential livelihood improvement for smallholders (Phoutthavong et al., 2020), but income will depend on the future eucalyptus market and price (Jele, 2012). No legal awareness of contracts (Schoenweger & Üllenberg, 2009) leads to less negotiating power. When it is combined with market risks, it may lead to contract breaking by both parties.

Perceptions of non-CF participants: The respondents' perceptions of rubber & cassava as income-earning alternatives are similar to these studies (Nanthavong et al., 2011; Rathnayake et al., 2021). Many are willing to participate in CF, and both behaviors depend on market trends and the smallholder's capacity to invest.

5. Conclusion

The respondents positively perceive CF, seeing more benefits than risks because of the widening market. Successful implementation of CF is necessary for the continued participation of smallholders, and actions are needed from concerned parties to ensure its success. Because of their investment capacity and risks, crops should be selected based on market trends. It is also important to note that the specific CF model may vary depending on the crop, contracting parties, and context in Lao PDR. In the future, further research could be done to evaluate the CF performance after the tree harvest.

References

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