

On the learning curve: sustainability in the making in the Laotian coffee sector

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FRAMEWORK & OBJECTIVES

CRP6: Emerging countries in transition to a green economy: Will it make a difference for forests and people?

- Q: In the transition to a green economy, how does the development of emerging economies change resource access, use and trade.
- Focus on the strategies of SEA agro-forestry companies.

Analyze the tensions, adjustments and learning processes that stem from the modernization policy of the Lao PDR.

Understand:

- how different types of stakeholders –e.g., local authorities, private investors, smallholders– interact,
- how power is distributed among these stakeholders,
- the outcomes of such interactions.

CONTEXT 1/3

1986, le *New Economic Mechanism* (NEM)

- Authorization of Foreign Direct Investment authorization, exchange rate adjustments, fiscal reform, price and trade liberalization, etc.

FDI:

- 294 Mn \$ (2012) → 913 Mn \$ (2014),
- Sectors: hydro-power, mining, **agriculture**.
- 2010: ~ 1.1 Mn ha estimated to be under concessions/land leases (5% of agricultural area).

The State is the ultimate owner of the land + equal access to the land → land transactions + large concessions + expulsions.

CONTEXT 2/3

Model of agricultural modernization promoted by the large agro-industries, international financial institutions and some international organizations.

Hypotheses of the model:

- FDI is crucial for economic development;
- large-scale agriculture is more efficient than smallholder farming in terms of development;
- the privatization of land will facilitate investment and thus contribute to an increase in land and labor productivity;
- subsistence agriculture/upland populations (ethnic minorities) → agricultural wage work;
- the modern economy will absorb the surplus of labor released by the farming sector.

CONTEXT 3/3

Very few benefits of this policy: privatization of benefits by the elites and mixed investments.

Problems with concessions:

- deforestation and loss of biodiversity (monoculture);
- problems of pollution (banana, rubber);
- local populations lose their access to individual and communal land (forests, grazing).
- few compensations, negotiated on case-by-case basis with the companies;
- limited employment opportunities: only some villagers work on the plantations (work conditions).

THE PROTAGONISTS

Olam: transnational commodity trader from Singapore,

- *Outspan Bolovens Limited* (OBL): subsidiary company created in 2009 to manage the plantations on the Bolaven plateau.

Government of the Lao PDR: local authorities (province/district):

- PAFO/DAFO: agriculture and forests,
- PONRE/DONRE: natural resources and environment,
- PICO/DICO: industry and commerce,
- PPI/DPI: planning and investment.

Coffee farmers on the Boloven plateau (CPC, ACL, JCFC, smallholders, etc.)

Villages on the plateau.

THE FACTS

“growing demand for single
estate or
traceable coffees”



2009

- Olam creates its subsidiary company *Outspan Bolovens Limited* and obtains a 230 ha concession over 30 years (Thevada estate).

2010

- OBL applies for another 1,150 ha: 150 ha (authorized) + 1,000 ha  (pending on the decision of the central government);
- Begins the land preparation work for the coffee plantation (1,150 ha);
- Encroachment on villagers' land: 300 ha of forests, coffee trees, village tombs and ancestor shrines are destroyed.

2011

- Delegation of villagers → District governor → Provincial governor → Investigation team.
- Provincial committee is set up (compensation).

THE FACTS

2012

- Villagers are authorized to settle on new land but refuse to do so (UXO).
- Two delegations of villagers go to Vientiane:
'We don't want an agreement or even compensation. We want our land back'
- Authorities are VERY embarrassed (and furious).

2013

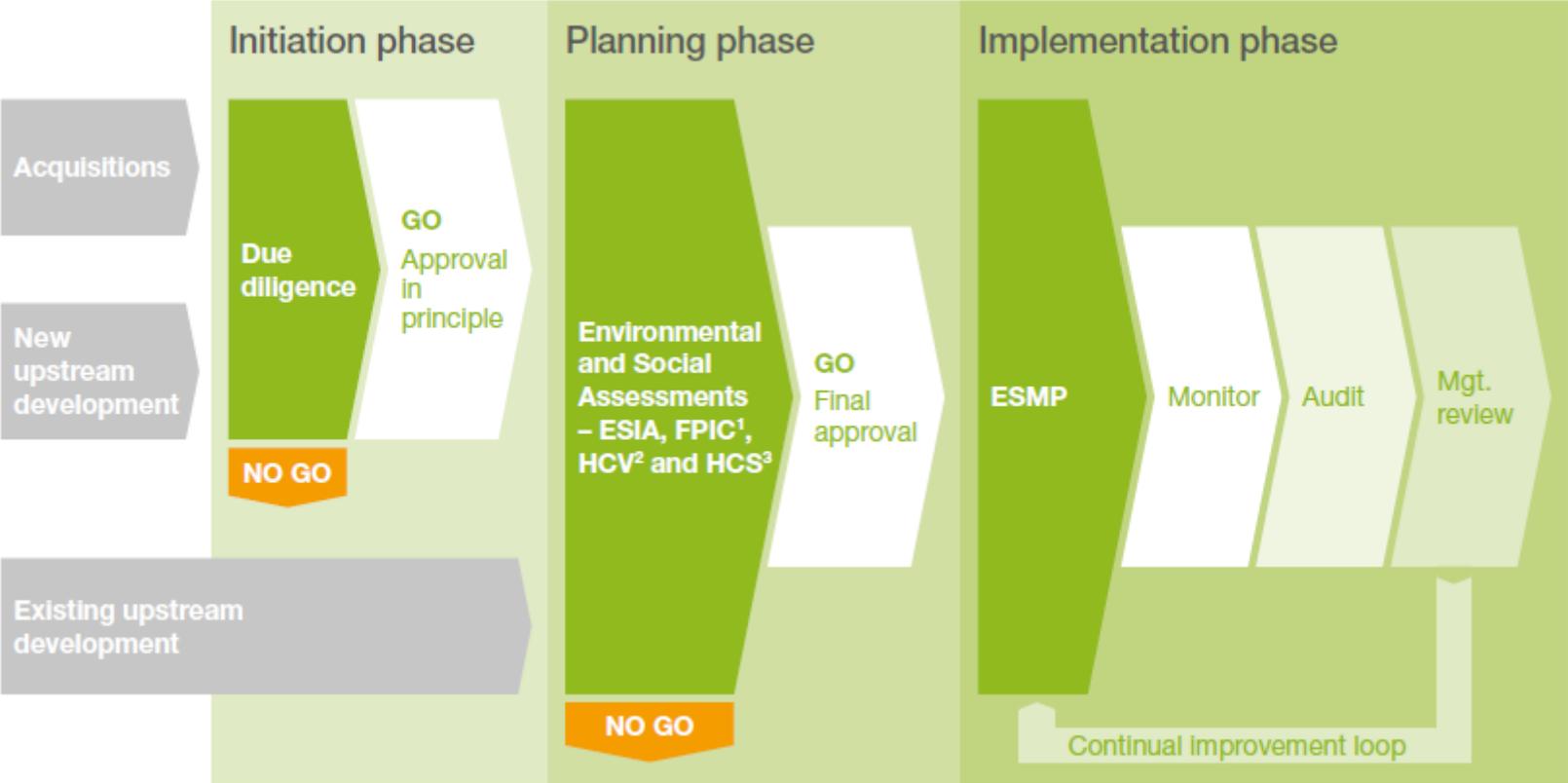
- Olam changes all of its staff on the plantations and hires a CSR person (ex-GIZ),
- Settlement: Olam gives back their land to 225 villagers + financial compensation,
- Olam Plantation Code → Olam Plantation, Concessions & Farm Code,
- Certifications (4Cs, Rainforest Alliance, Utz).

2015

- Laos Plantation Corporate Responsibility & Sustainability project

Farmer Suppliers		Olam-managed plantations, concessions and farms
Small farmers	Large Farms	
Olam Livelihood Charter	Supplier Code	Plantations, Concessions and Farms Code.
<ul style="list-style-type: none"> ▪ Principles: <ul style="list-style-type: none"> - Finance (interest-free short & LT finance) - Improved Yield (training and supply of inputs) - Labour Practices - Market Access (fair and competitive price) - Quality - Traceability - Social Investment - Environmental Impact 	<ul style="list-style-type: none"> ▪ Comply with national laws and respect contractual obligations ▪ Guarantee the quality of the goods and services they supply ▪ Uphold labor standards and human rights ▪ Conduct business in a way that honors the local community ▪ Ensuring compliance with the code. 	<ul style="list-style-type: none"> ▪ Legal, social & environmental due diligence before any acquisition or new land development. ▪ Environmental & Social Impact Assessments before any acquisition is completed or land development begins ▪ Environmental and Social Management Plan to manage the risks and impacts related to: Biodiversity and habitats - Energy usage and GHG - Natural resources - Waste and recycling – Chemicals - Labor and working conditions - Transport safety - Local communities and local economy - Animal welfare

Investment process (PCF Code)



¹ Free Prior Informed Consent ² High Carbon Value ³ High Carbon Stock

LEARNING PROCESSES

Government agencies

- Various levels of government agencies admitted their errors;
- More detailed process of land allocation (Champassak province):
 1. Investor applies for land concession to PDPI;
 2. Discussion about the zoning with PDPI, PAFO et PONRE
 3. Preliminary assessment of the availability and suitability of the land for the proposed use (PONRE, PAFO, DAFO, DONRE, village authorities) → PONRE informs the governor
 4. Official application made to the governor of the province;
 5. Topographic study (surface, type of soil, slopes, etc.) and environmental impact analysis by PONRE → reporting to the governor;
 6. Investor send application documents;
 7. Governor sends a letter of approval.
- 2015: land allocation process seemed to involve the districts/villages earlier in the process; concessions seemed more controlled (% of land used for the crop).

INTERPRETATIONS

Evolution of Olam's **risk management approach**:

- No CSR.
- *Consumer-oriented CSR* motivated by the need to protect against a risk in terms of demand (Plantation Code, certifications).
- *Farmer-oriented CSR* motivated by the need to protect against a the risk in terms of supply (contract farming + improved relations with local communities to access the coffee).

Evolution in the **implementation of regulations** in Laos:

- Government of Laos already has a set of environmental regulations, yet very few are actually implemented;
- Slow improvement of the level of awareness of government staff in the provinces.

CONCLUSIONS

Optimistic interpretation

- A collective and **multi-level ethical learning process** took place that ultimately led to a more concerted management of land.
- This process involved the private sector and the government of Laos. Driver = violence of social contestation.

Darker interpretation

- CSR helped Olam acquire a “**social license to operate**”,
- Compensation:
 - part of both the CSR & the land grabbing toolkit,
 - means to acquire acceptability, using the rationale of the market,
- This story did not happen just anywhere: **process of experimentation at the margins of the State.**
 - How does CSR deploy itself on the edges of a weak State?

Authorities empowered to grant concession licenses

Type of land	Concession Size			
Degraded forestland ^a	< 150 ha	150-15,000 ha	> 15,000 ha	
Barren forestland ^b	< 300 ha	300-30,000 ha	> 30,000 ha	
Total investment	< USD 5 million	> USD 5 million	< USD 10 million	> USD 20 million
License delivered by	Provincial Authorities	National Authorities	President of DDFI ^c	Prime Minister

Notes: ^a Degraded forestland: areas where forests have been heavily and continually damaged and degraded (may not be able to regenerate naturally); ^b Barren forestland: areas without trees due to natural or human destruction; ^c Department of Domestic and Foreign investment.

Source: Pommier, 2009; Schönweiger and Üllenberg, 2009

