

Encouraging better land use practices among agricultural businesses in Laos:

A Story of Change about Niphonsub Tea Company



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Published by:

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Internationale Zusammenarbeit (GIZ) GmbH

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Photo credits/sources:

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On behalf of

German Federal Ministry for Economic Cooperation and Development (BMZ)

Bonn, Germany

GIZ is responsible for the content of this publication.

Printing and distribution:

Printed on 100% recycled paper, certified to FSC standards.

Eschborn, November 2020

A Story of Change about Niphonsub Tea Company

For more than a decade, the government of Lao PDR has promoted commercial uses of agricultural land by private investors. While investment in land has enormous potential to promote Laos' economic development, benefits have been unevenly distributed across society*. Some business practices affecting land use have also been associated with displacement, environmental degradation and land disputes.

Since 2015, the GIZ Land Programme in Laos has supported the Ministry of Planning and Investment and local authorities in better managing agricultural investments, as part of its bilateral project *Land Management and Decentralised Planning* (LMDP) and since 2017 as part of the *Global Project on Responsible Land Policy*. The programme supports

authorities in systematically monitoring investments and following up on commitments that all sides agree on. For this, the government uses digital rating tools and a list of quality criteria developed with the support of the programme. The aim is to create a more regular exchange of feedback between investors, involved communities and local authorities and improve oversight. These are expected to lead to investments that benefit local development more.

The Land Programme has developed three Stories of Change to illustrate how effective its support has been in the area of Quality Investment Promotion, the other complex factors influencing land-based investments and the challenges encountered.

Closing information gaps for a small family business committed to compliance with regulations

The case of Niphonsub Tea Company illustrates the opportunities and limits of supporting a small business that already has a low impact on the environment. Comparing its relatively low monitoring score – indicating non-compliance with good practice and regulations – to larger and better equipped companies gives us a skewed image of how well the business is performing in reality.

Name of the company	Niphonsub Tea Company (formerly Phou Ngern)
Plantation location	Dontan Village, Xienghone District, Sayabouri Province
Product	Tea, consumption-ready, designated for export to China
Ownership	100% Lao
Area used	0.52 ha



Wild Miang tea has a long tradition of growing in Xienghone District in Northern Laos.

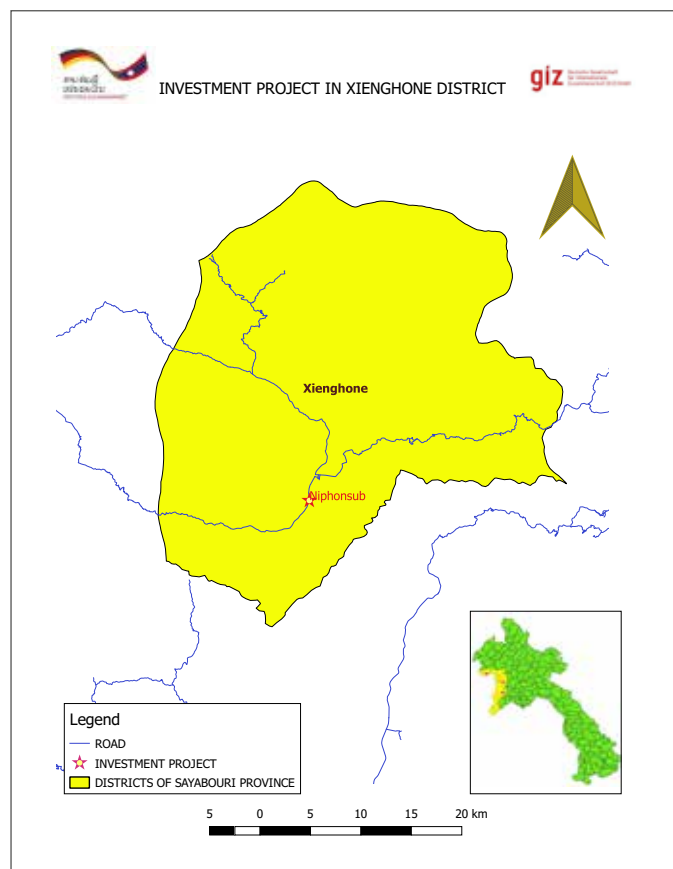
* Centre for Development and Environment (CDE) (2018): State of Land Report. https://boris.unibe.ch/120285/1/Ingalls_2018_State_of_Land.pdf



Ms. Khamphen, the company owner, at her home

Niphonsub Tea Company is a “proud” company representing Xienghone District in Sayabouri Province, as the only local investor in tea processing and exporting.

Local authorities refer to the company as a “proud company of Xienghone District” as it is the only one with a processing facility in the area. Niphonsub is a local pioneer in using technology for tea processing and helps the community members raise their income in the process. The owner of the company, Ms. Khamphen, is a local of Xienghone District. In 2012, she and her husband started out buying wild tea leaves (“miang”) from the villagers in Dontan but later on also received permission in three villages to use some of the land for tea plantations. Miang tea usually grows wild and is often fermented and eaten as a caffeinated snack. However, Niphonsub has recognised the potential of the tea as an attractive export commodity.



Niphonsub Company is based in a remote area of Sayabouri Province, a four hour drive from the provincial capital.

Some aspects of running a business, such as accounting and compliance with local regulations, were new to the family in the beginning and they are still eagerly expanding their professional capacity and knowledge in these areas. Exporting tea to China seemed like a logical conclusion to Ms. Khampen and her family. Her husband is from Phongsali Province in the far north of Laos, bordering China, and the family already had connections to markets there.

Niphonsub Company has also made significant contributions to support the village and the district, specifically to the village office, police and military offices as well as the village school and important festivals and ceremonies.



The company's tea expert at work sampling a fresh batch of tea.

As with other businesses, the business owners prefer to employ workers mainly from outside the province as local workers require additional time off for local festivities and holidays. They employ about ten people overall both to run the office, to harvest, check the quality of produce and to process the tea in the factory they built. Some of these are relatives. During harvest season, Ms. Khampen may decide to hire more workers locally.

The tea leaves the company uses are grown without the use of chemicals and there is a lot of awareness among community members and the company of the importance of this. Tensions have arisen as the company temporarily stopped buying produce from villagers without providing an explanation to them. Villagers fear the company suspects the use of chemicals, indicating problems in their communication.


Miang tea grows naturally in forests in Xienghone and other parts of Laos and northern Thailand. It has recently caught the eye of biodiversity proponents and tea consumers.

THE BUSINESS IS INDIRECTLY AFFECTED BY GEOPOLITICAL TRADE TURBULENCE.

As Ms. Khampen explains, accessing markets in China has gotten more difficult since the China-US trade war started in 2018 as China abolished its quota for tea imports. The result of this turbulence is price fluctuations and unpredictability for small businesses like hers.

The inhabitants of Dontan Village grow rice and rubber trees. The tea growing naturally in their area has been a part of their daily lives for a long time – it can be consumed as a beverage or as a snack. When there is information to be shared by the company, the head of the village calls a public

meeting. Overall, community members believe the role of the company in the village’s economy is limited to some families’ increasing their income through land lease and the selling of tea.

2012	2015	2016	2017	2018	2019
The company is set up.	Systematic quality monitoring supported by GIZ begins.	Annual quality monitoring and commitment to improvement actions, supported by GIZ		The fourth annual monitoring cycle is completed.	The business is still using land it is not supposed to but discussions with the government are ongoing.
					

Outside the harvest season, the company’s drying and storage rooms are empty.



Since 2015, the GIZ Land Programme has supported Xienghone District officials from four line agencies in systematically monitoring how companies comply with legal requirements and good business practice. This monitoring process includes annual checks on whether the company adheres to environmental regulations, whether it respects land tenure and land-related agreements, how it treats its workers and what relations with local communities are like. District officials also systematically capture recommendations made by affected communities and follow up on commitments

made by the company and district officials, as part of the so-called Minutes of Monitoring process. This approach acknowledges that all three parties play a big role in turning an investment into a mutually beneficial endeavour.

Environmental compliance was verified by a team of provincial government staff, who conducted a comprehensive survey in the area, including communities, as part of the process of issuing the environmental certificate the government requires the company to have.

USING DIGITAL TECHNOLOGY TO SUPPORT A PROCESS OF MONITORING

During annual monitoring visits to the investor, local government officials will enter their observations on a list of criteria, using a mobile app that calculates a weighted total score for each investment. Involved officials are able to access the list of identified issues and areas not in compliance with government standards at the click of a button on a mobile device, from anywhere. In-between monitoring visits, they can continue to feed new information into the system. In a similar vein, there is another app that captures the commitments resulting from both informal and formal exchanges. One such occasion is the Exchange Day, bringing together communities, local government and investors, supported by the GIZ Land Programme in situations where the need for additional dialogue arises.

The mobile apps were designed by Land Programme staff, using the software Appsheet, which provides a convenient interface for displaying and keeping track of monitoring data. The programme has gradually reduced its direct support and handed over the process to the authorities.

The dimensions of quality investment captured by the monitoring process



According to the monitoring process, there continue to be issues with the company's land practices.

Overall score: After systematic monitoring started in 2015, the company gradually improved its land-related business practices. However, their 2018 score dropped slightly. According to involved district officials from the District Planning Office, the company has made quite significant progress since monitoring started.



Niphonsub is considered a pioneer in tea processing in the local district.

Accounting and organizational set-up: The company was initially reprimanded for a lack of required certificates, accounting system and transparency in ownership structures. Four years on, the authorities point to clearer and more transparent ownership and staffing structures, openly displayed in the factory's office. Improvement measures identified by district officials have all been implemented by now: an organisational structure has been transparently established and the processing technique used at the factory has been verified by relevant authorities.

The company also began issuing written work contracts to its employees and employment policy, after collaborating with the local office of the Ministry of Labour and Social Welfare. It also adopted a template for an accounting system provided by the local authorities as well.

Environmental practices: They note that in terms of environmental issues, the company has had none of the usual impact on the surrounding area – no contaminated wastewater, no chemicals or air pollution. When monitoring was introduced, the company applied for the mandatory environmental certificate, to ensure it was in compliance with all regulations.

The one issue that significantly decreases the overall score of Niphonsub Company during investment monitoring is their ongoing use of state land beyond the officially agreed land boundary, where they built a wall. Both the company and the district officials are aware of this and interested in resolving the issue.

Concerns about how involved communities and the company communicate remain.

Land lease contract: While the company has introduced contracts for its employees, community members involved in tea tree plantations deplore the lack of formal land lease contracts.

District Forum does not attract enough participants: In 2018, with GIZ support, district officials organised a District Forum, inviting a number of local investors and village authorities for mutual information exchange. However, the event was not a success. Only one investor joined the meeting, a Chinese rubber company. Niphonsub Company did not send a representative as the owner was away on a business trip.



The fresh tea undergoes several phases of drying.

Information exchange: There are some concerns based on a lack of understanding among community members of the company's actions. For instance, the company does not want to buy tea during the rainy season when the leaves grow more abundantly because they have an astringent flavor that decreases the quality of the final product. They prefer buying and paying more for dry season leaves that have a better flavor profile even if they grow more slowly. It appears that the involved community members, however, are not fully aware why the company is not buying their tea during the rainy season or buying it only at lower prices.

Lack of competition: There only being one local company in the field of tea processing, they get to dictate the price of unprocessed tea. Villagers are interested in learning how to make their own tea products, but they lack access to markets and thus continue to rely on Niphonsub Company. There is also a risk that an overuse of wild-growing tea leaves will damage the trees.

Overall, what difference did GIZ support make?

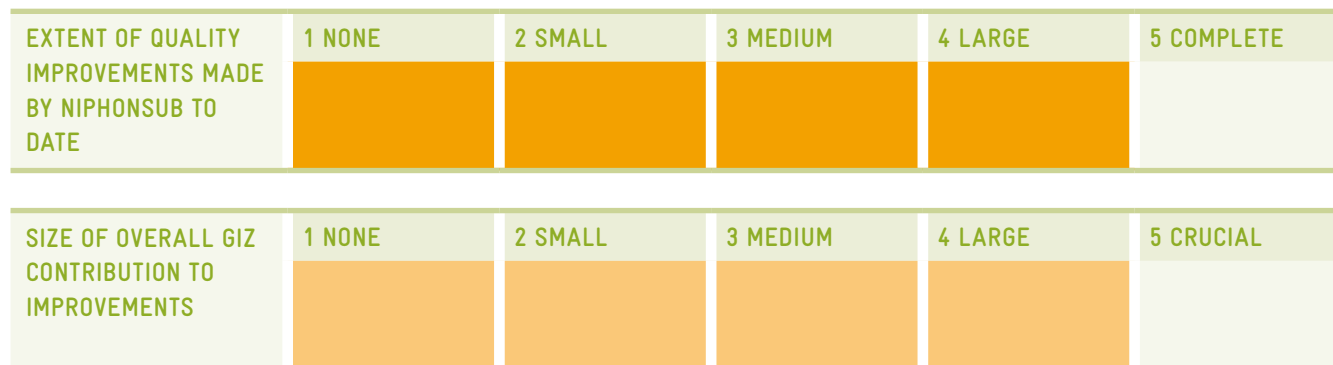
The GIZ Land Programme trained and supported local government staff in systematically following up with Niphonsub Company on business areas that needed improving. The owner of Niphonsub, was appreciative of the pro-active stance of the district officials, as they had started their company with expertise on tea and not on how to run a sustainable business. This has translated into a smooth process of business growth supported by good accounting, written contracts for workers, compliance with environmental laws and improved labour policies. The issue of a wall built beyond the land officially managed by the company is being discussed at different levels of government and the company is eager to resolve this.

While the government made efforts to monitor investments even prior to GIZ support, they did not do so systematically or regularly, using paper-based formats to capture information.

The case of Niphonsub Company demonstrates that there are different reasons why companies often do not follow regulations and good practice before more systematic monitoring was instituted. Larger companies often have experience in other provinces or countries. Particularly communities may feel that larger investors may try to cut corners when it comes to environmental and social responsibilities. On the other hand, the small family business in Xienghone District was perceived to have started from scratch, lacking staff and experience in accounting, documentation, while focusing more on working with tea experts. They have been very responsive to government feedback.

A simple comparison of monitoring scores thus does not convey an accurate “ranking” of businesses. This smaller Lao family business in Xienghone was perceived by the government and communities to overall make an important contribution to the district, piloting a new product while so far not causing any environmental damage. Larger investors – for instance banana plantations – , on the other hand, often do better on the final score, even though adjacent communities still bring forward specific complaints not yet addressed by the district or the investor. Thus, the annual monitoring score should not be used to compare companies with each other. It is to be seen as a tool to facilitate a conversation and for structured documentation of issues and agreements.

Estimated extent of progress made by Niphonsub and GIZ's contribution



Both the community and the company are looking ahead to the future.

Instead of selling processed tea leaves to China, the company is piloting its own line of branded products for retail with attractive packaging. The company is also working on adding an official environmental logo to their higher-value packaged products to certify that their production does not use chemicals. However, even though they have made inquiries with the local authorities, they do not know where to get more information on the process and pre-conditions. The company is also struggling to find qualified management staff to deal with the increasing administrative workload.

Generally speaking, the community wishes for greater involvement of the company and the government in facilitating an expansion in business activities. They requested local officials from the Ministry of Industry and Commerce to monitor the accuracy of scales used by the company when weighing the harvested tea.



Attractive packaging is the latest innovation Niphonsub has introduced.

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