

2006 FFTC-NACF International Seminar on  
*Agricultural Cooperatives in Asia: Innovations and Opportunities in the 21<sup>st</sup> Century, Seoul,  
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## **Agricultural Cooperatives in Vietnam**

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## **COUNTRY REPORT**

### **Agricultural Cooperatives in Vietnam, Innovations and Opportunities**

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#### **I. Roles of AC in the national economy**

##### **1. Agricultural structure and its development:**

Vietnam's rural with 9.3ha of agricultural land, 76% of the population and 72% of labors is an important economic area, which contributes 40% of GDP. In 2005, export volume of farm, forestry and aquaculture products accounted for 26.2% of all exporting economic turnover.

GDP structure of agricultural sector of Vietnam in the recent years as follows: agriculture is 73%; aquaculture is 23% and forestry is 4%.

The main feature of agriculture in the recent years is the speedy and continuous increase of food output which reached to 36.3 mil ton of rice equivalence in 2005. Food per capita increased from 458 kg (2000) into 517 kg (2005) and starting from a nation of food shortage, Vietnam has become a nation to export rice with volume just after Thailand and US. In 2005, total rice export was 4 mil ton with revenue of 1bil USD approximately.

Aquaculture sector accounts for 23% of agricultural value but it has become the main force of exporting sub-sectors in the economy. This sub-sector takes a share of 31% of exporting value of agriculture and about 9% of nation-wide exporting revenue. In 2005, it contributes a revenue of 2,6 bil USD.

Forestry sub-sector, owing to implementation of various piloted programs and projects started to terminate the decreasing of forest coverage. It changed from a sector of mainly state-owned, and emphasized on exploitation into the sector which concentrated on afforestation, and considered the people's participation is the main force to maintain, restore and plant forests. The devastation of forest in the period 1995-1996 averagely was more than 22 thousand ha per year, period 2001-2005 it left only 9.4 thousand ha. In 4 years (2001-2005) it planted 0.845 mil ha of forest, maintained 946 thousand ha (increased 2 or 3 times of the period 1995-2000). It was about 1.4 mil ha of newly planted forest, 1.246 mil ha replanted. The coverage of forest increased from 35.7% in 2000 to 38.5% in 2005.

At present, Vietnam is under preparation to join WTO. Under agreement, once Vietnam joins WTO, it will open market for agricultural products for importers. As expected, this agreement will have strong effect to agricultural sector while most of farmers still produce with small scale and self-sufficiency. It is also a big challenge to many ACs in the near future when Vietnam joins WTO.

## **2. History of agricultural cooperatives**

In Vietnam, the movement of ACs was over 40 years of history, started since 1958. During the period, ACs operated under conditions of central planed economy and influence of the war.

Period from 1958 - 1986: AC movement experiensed the rise and fall. This is the stage of command economy. The activities of each AC follow guidelines of the state authorities. AC

organization formed in kind of collectiveness of all assets, labors and distribution. In this stage, the number of ACs reached a peak of 13782 ACs (by the end of 2005, the number reduced to total of 8322 ACs).

From 1986 to now: in this period Vietnam initiated economic renovation, changed into market orientated economy. Farming land is allotted to individual farmerhousehold to use for production. Farmers households become self-control unit in production. AC become a organization which provide services as demanded from members. Collective system was replaced by self-control farmhousehold economy system.

Since the first ever enactment of Cooperative Law in 1997 based on basic principles introduced by International Cooperative Alliance, legal framework for ACs was somehow complete.

The transformation process of AC as stipulated by the Cooperative Law since 1997 resulted in good achievements. Some cooperatives transformed successfully. On the other hand, 2196 new cooperatives were established.

### **3. Legal framework**

ACs mainly work under the Cooperative Law. This Law regulates on organization and management of all kinds of cooperatives, including ACs. The Government also issued 4 decrees to define and guide more detailedly the implementation of the Cooperative Law. Those are Decrees on (i) Policies to support cooperative's development (ii) Guidance in forming cooperative's statute (iii) Guidance in registration of cooperatives (iv) Guidance in detailing some articles of Cooperative Law.

Besides, ACs also work under other laws such as Land Law and Law on Income Tax.

In general, the regulations on AC are made based on the viewpoint that AC were considered as a private enterprise and managed by members. The government plays only role of support and guidance.

## **II. Current Situation of Agricultural Cooperatives**

### **1. Institutional Arrangement**

*a. Membership:* Conditions to become a cooperative member in Vietnam is as follow:

Vietnamese citizens, who are from eighteen years old have full capability of civil acts, contribute capital and labor, agree with statute of cooperative, join in cooperative on a voluntary basis can become a member of cooperative.

Officer, civil servant are allowed to join in cooperative as a member of cooperative as stated in the regulations of cooperative's statute but not allowed to work as either a director or manager and controller of the cooperative.

Individual farm household, a legal entity can be a member of cooperative according to the regulations of cooperative's statute. In this case, a representative of household, legal entity, who has enough conditions as similar as conditions of an individual member shall be appointed to represent the role of membership in cooperative.

Individual, household, legal entity are able to become member of many cooperatives in case it is not prohibited by the by-law of respective cooperative.

In 2005, the total membership of agricultural cooperatives was 6.9 million. The rate of participation in agricultural cooperatives reached 57.6% as compared to total farm households.

### *b. Organizational Structure: Vertical and horizontal per sector*

At present, the system of agricultural cooperative is mainly primary level and operated with very limited horizontal cooperation. Recently, a little horizontal structure among neighbouring

cooperatives were appeared in order to establish inter-communes based cooperative federations for carrying out some services in the fields of joint marketing and inputs supply. The model of province and district-level cooperative's chairmen club has been started in some places in which the main purpose is to exchange information and management experience. At present, the horizontal structure of agricultural cooperatives in Vietnam has not yet established.

### ***c. Research & Development and Internalization***

In Vietnam, there is not any organization or institute specializing in agricultural cooperative research. Research and development activities were carried out under specific project and implemented by several organizations. In general, research activities are mainly applied researches rather than theoretical concerns. .

Together with entering the ASEAN, Vietnam is also a member of the ACEDAC which belongs to the ASEAN body. Every year, this organization holds seminars, study exchanges in to share development experience in the field of agricultural cooperatives among ASEAN member countries.

## **2. Business scope and Performance**

### ***a. Business Activities and Scope of Agricultural Cooperatives***

Depending on the conditions of each locality and management capability of cooperative board, each cooperative could operate different services. In whole country, the proportion of agricultural cooperatives offering irrigation service reaching 80.5%, plant protection service 57%, inputs supply 46.2%, extension service 46.3% and 43.2% for electricity service. Some new services have been opened by cooperatives such as: farm product processing and marketing, internal credit, clean water supply and waste collection. The ratio that the number of agricultural cooperatives have organized new business services is

as following: 8% for marketing, 8.4% for internal credit. As a whole, only good cooperatives can be able to manage the services in the fields of marketing, internal credit, processing.

Irrigation was the most popular service. Agricultural cooperatives construct and manage irrigation canals and pump system. The large-scale Irrigation projects were constructed by the Government and handed over to Irrigation state-owned companies to manage. In the past years, the Government implemented the concrete canal support program. Many cooperatives strongly invested in constructing the canal system, therefore, drainage and irrigation work has been improved and times of irrigation were saved. Despite the increased price of electricity, petrol, spare parts, labour, irrigation fee is showing a downward tendency.

In recent years, inputs supply service (insecticide, fertilizer, seeding) is the service that has a blazing competitions. However, this service is very one of the most popular services of agricultural cooperatives currently.

Internal credit service inclines to a fast development in agricultural cooperatives in recent years. This service showed potentially development perspective in the coming years. Agricultural cooperatives seem to take advantage in offering micro finance service.

Electricity service: Wwhile the Government is still unable to construct electric power transmission and supply system in whole rural areas, numerous cooperatives mobilized their own resources and from members of cooperatives to invest and build up this system. This is also the service that makes a great contribution to agricultural cooperatives' profit.

Additionally, agricultural cooperatives also supply more or less other services such as: agricultural extension, advance technology transfer, animal feed supply, veterinary, processing, and consumer goods. A few others entered fields of aquaculture, afforestation, animal husbandry.

***b. Business coverage of Agricultural Cooperatives per sector***

Except the special services such as irrigation and electricity supply, which need to have the infrastructure and then having monopoly power, the other services' market share of cooperatives is very different depending on each specific cooperative and locality. In general, market share of cooperatives is as follows: fertilizer: about over 20%; seeds : over 50%; and farm product marketing: about 5%.

In the other aspects, almost agricultural cooperatives is operated under the model of multi-purpose and provide many kinds of service to members. Many cooperatives supply more than 10 different services. Those services supplement to each other and bring about reduction of management cost of cooperative.

### ***3. Governance System and Management Performance***

#### ***a. Financing***

At present, agricultural cooperatives mainly rely on the self-financing basis to carry out business activities. A few cooperatives get loan from banks with small amount of money and mainly use for short-term business schemes. At present, the Government do not have any piloted program or project to support financially to cooperatives.

Profit distribution based on member share is implemented in number of cooperatives. As a popular practice, cooperatives use 30%-50% of net profit to distribute as dividend on share and the other 50%-70% is used for cooperative funds. In the past, cooperatives used to use all 100% of net profit for cooperative's funds (e.g: Business Development Fund, Welfare Fund, Reserve Fund). However, distribution to patronage dividend has not implemented though it is stated in the Law of Cooperative.

#### ***b. Decision Making: Voting System***

The rule of voting based on the majority to approve a cooperative decision at the Member's Congress was applied similar to the Guidance of International Cooperative Alliance

as well as the other ASEAN countries. In principle, one-member-one vote principle is implemented strictly to approve any decisions of cooperatives.

Managing Board is the organization agency to conduct the implementation of decisions of members. Members of the Managing Board are elected among members of cooperative.

Moreover, The Law of Cooperative introduced another model of leadership for cooperative. In this case, members shall elect Board of Directors, after that the Board of Directors shall take responsibility to recruit manager and other employees. However, this model performed in very few cooperatives.

### ***c. Taxation and Government Supporting System***

#### ***Taxation***

Cooperatives are entitled to the exempt from enterprise's income tax for the first 3 years after its establishment. Tax obligations levied on cooperatives are basically similar to private enterprises in rural areas.

#### ***Supporting activities:***

- Support and encourage to establish cooperative: the cooperatives which are on the process of establishment can receive free consultant service from local officers for preparation of cooperative statute, business plan, registration.etc.

- Training: Cooperative's staff are entitled to receive 50% of training expenses from the Government whenever they participate in the Governmental training programs. Besides, cooperative's officers, who are assigned to obtain a regular or in-service training course at universities, colleges, technical schools and vocational schools are supported at least 50% of training fee.

- Land policies: Agricultural cooperatives are given land free of charge for the land use where it is used for building offices, storages, drying ground, service infrastructures. For the other types of land use, cooperatives must pay land use fee to the Government.

- Support on the technology transfer and trade promotion:

- Support cooperatives in participating in rural development projects and programs.

The Government's assistance to agricultural cooperatives are focusing on the capacity building, infrastructures and not in form of financial support direct to cooperatives.

***The Governmental Management System on Cooperatives:***

Ministry of Agriculture and Rural Development (MARD) is assigned to be a core body in performing state administration over agricultural cooperative.

In each region, The People's Committee (local authority) at city and province level is responsible for performing the state administration functions over agricultural cooperatives in the region.

The contents of state administration consists of main items as follows:

a) Promulgation of, legal documents related to cooperatives;

b) Prepare cooperative promotion plan and strategy;

c) Cooperative registration,

d) Training, for cooperative staff.

e) Supervision the implementation of Laws concerned

f) Promote international cooperation on cooperative

**III. Recent Development: Innovations and Opportunities**

***1. Challenges***

The most essential challenges for the development of agricultural cooperatives at present are as follows:

***a. Competition becomes more and more severe***

At present, private traders is very active in the rural areas. One of the fields, which is getting more severe in competition is the agricultural supplying services. , This service used to be managed solely by agricultural cooperatives. The services such as supplying materials, fertilizers, seeds, animal feeds and land preparation experienced a vigorous participation from private sector. Marketing for farm products used to be dominated by state-owned enterprises but now agricultural cooperatives and specially private sector are more and more active. .

***b. Narrowing paddy fields due to the change of market demand and urbanization***

Agricultural production is transforming from self-sufficiency into commercial concern. As for many farm households today, they think that production is not only to meet their own consumption but rather how to get the highest income from cultivation land. Many farmers realize that producing rice gives low income, then they change into planting flowers, vegetables and other plants and breeding, which can meet their target of increasing income. This change is to satisfy the consumer demand especially in the urban area where income is increasing relatively fast. The urbanization process also has affected sharply to the decrease of rice cultivation area. The decrease of rice land and increase of other planting areas have affected to the needs of members to agricultural cooperatives especially the services related to irrigation and materials supply.

***2. Organizational Structure***

***a. Diversification of capital mobilization methods***

One of the inherent difficulties of agricultural cooperatives is the shortage of working capital. In order to solve this problem, many agricultural cooperatives have changed capital mobilization policies as follows:

(i) Transfer share dividend to increase member share in cooperatives

(ii) Promote joint use for land preparation service: some cooperatives, when engaging in activities such as land preparation or transportation, have to mobilize a relative big amount of investment, So that instead of sole use of cooperative fund to purchase machines as done before, they initiate form of joint use. To follow this innovation, cooperative and member or group of members shall pool capital to purchase machinery, facilities. For management, Cooperative shall take responsibility to (i) coordinate plan for land preparation service and other services aiming at effective use of those purchased machines and facilities (ii) set service fees to level that could satisfy both the sides of user and investor. (iii) collection of service fee (iv) conflict settlement, if any. Pooled members shall take responsibility to (i) manage usage and maintenance (ii) follow coordination plan of cooperative.

(iii) Pursuing partnership with suppliers in input supply services: many cooperatives organize input supply service by not using cooperative's capital. There are two ways for cooperatives to do so (i) several cooperatives follow model that cooperatives shall get inputs from suppliers at advance basis and pay up in identified period of time. Both sides shall negotiate the contract conditions which may compromise interest of all parties concerned. (ii) cooperatives shall work as an agent for suppliers to deliver inputs to members. The suppliers shall pay cooperative commission based on delivered volume of inputs. In both cases of partnership, cooperatives do not have to mobilize capital for buying materials.

(iv) Mobilization of members' saving: Some cooperatives initiate mobilizing small savings from member. Monthly or quarterly, each member shall deposit a small fixed amount of saving to cooperative. By this way and together with the temporary unused capital, cooperative can satisfy the needs for internal credit service.

(v) Capital for constructing infrastructure: infrastructure of ACs such as: canal system, power transmission system are constructed with various capital sources, of which members' contribution and support of the Government are relatively larger than cooperative one.

***b. Encouraging legal entities to join cooperative***

In order to enhance and manage effectively the activities of agricultural cooperatives and improve the competition ability, some cooperatives choose the way of sharing capital with legal entities or encouraging them to become member. At present, there are more than 3,000 legal entities having membership status in agricultural cooperatives.

***c. Expansion of horizontal structure and appearance of agricultural cooperative federations***

At present, there is a tendency that agricultural cooperatives realize the disadvantage of small-scale business resulted from separate operation, then they tend to set up some forms of horizontal cooperation. This process results to the formulation of some agricultural cooperative federations in the fields of materials supply and marketing. This development process is rather slow but seems effective.

***3. Business Scope and Performance***

Recently, the trend of expanding business scope based on the model of multiple purpose cooperative have been developing firmly. Many cooperatives recognize that it is difficult to exist and develop if only relying on some traditional agricultural services. Some cooperatives have opened new services such as: handicraft, internal credit, joint marketing of agricultural products, and off-farm services. . Most of cooperatives have succeeded with the diversification of business . The key motive of this innovations are (i) to reduce the management cost which is allocated to traditional services, as a result it will bring about reduction of service fees (ii) to increase remuneration for cooperative staff. Many cooperatives use part of profit of off-farm services to compensate for expenditures of agricultural services. Some services such as: irrigation, plant protection, veterinary are even free of charge in several successful cooperatives.

#### ***4. Governance Structure and Management Performance***

##### *a. Allotment of profit based on contribution capital*

In order to encourage members, the Law of Cooperative introduces the allotment of profit based on capital (dividend on share) as well as the allotment of profit based on level of service use (dividend on patronage). However, patronage dividend policy is rarely applied while dividend on share policy is popular in many cooperatives. A lot of cooperative currently still pay quite high interest for share capital and encourage members to transfer their dividend payment to their share in cooperative.

##### *b. Effective use of working capital and asset maintenance responsibility of Management Board*

During the centralized economic system, cooperatives operate under the collective model and take part in almost production activities and members' life. Therefore, a number of assets,

facilities were installed in order to satisfy the requirements of the above mentioned activities. Many assets did not or rarely put in use after the transition of market-oriented economic mechanism. A new problem has arisen that is how to organize and use effectively either such assets or working capital accumulated. One of the solutions that many cooperatives apply is to assign so-called management responsibility to Management Board. This innovation aimed to make use and keep in good maintenance all cooperative assets and working capital. Following it, the Management Board is responsible to find out and propose the way of using and maintenance as well as management of fixed assets against loss, damaged or without maintenance and a certain identified rate of profit as compared with total working capital should be at the end of fiscal year. The Management Board is given necessary rights to manage and use the assets and capital.

#### **IV. Implications and Emerging Needs**

Business scope of a part of farm households, who are the members engaging in product making increase rapidly in recent years, therefore demand for services of these members is increasing accordingly.

##### *1. Cooperation in joint marketing and material supply*

Cooperation in terms of joint marketing and material supply in large-scale animal and fruit farms are in need to establish. Some cooperatives are newly established owing to this demand for cooperation. Besides, existing cooperatives try to find the way of meeting new demand of this group of members.

##### *2. Capital demand*

Beside the traditional agricultural production, many farm households enter other fields such as trading, services and other off-farm business. A part of farm households are to expand

scope of agricultural production. So that, the demand for financial service from this group increases day by day. In the rural areas which have been urbanizing and in the specialized production areas of paddy, coffee, etc. the demand for this service is relatively higher than other regions.

### *3. Demand for Agricultural Extension*

The rapid progress in production of new seeds, plant protection, veterinary and other agricultural technologies makes many farm households embarrassed to access information and technologies. In the other hand, since the state agricultural extension service is not enough to meet diversified demand of farmer, cooperatives shall play an important role to offer extension services.

### *4. Demand for machinery utilization*

At present, off-farm job opportunities which could offer higher income as compared to agriculture has been increasing in rural areas. Young labours tend to leave agriculture for new employment. Agricultural labour gradually becomes more expensive. The appropriate solution is to use machinery as substitution for labour. Accordingly demand for machinery utilization is increasing rapidly. In many rural areas, machine is used intensively for land preparation and harvest. This change reveals a series of new demands for in agricultural services which will accelerate mechanization process in agriculture.

Table 1: Activities of Agricultural Cooperative, 2005

Unit: cooperative

No	Region	Total	Irrigation	Marketing	Electricity	Extension	Credit	Other
1	North Central	1591	1124	9	660	608	124	997
2	Mekong river delta	764	316	15	9	105	65	29
3	Red river delta	3463	3047	15	1696	2019	100	2560
4	South Central	707	636	11	418	263	327	191
5	Northeast	1010	627	58	348	307	67	324
6	Southeast	282	107	13	19	37	54	51
7	North mountain	305	180	4	20	97	9	117
8	Highland	200	69	28	31	56	24	62
	Total	8322	6106	153	3201	3492	770	4331
	Share (%)		80.2	2.0	41.5	45.3	9.9	56.1

Table 2: Business figures, average per cooperative, 2005

Unit: USD

TT	Region	Turnover	Capital
1	North Central	24218	38200
2	Mekong river delta	12800	14909
3	Red river delta	41676	34363
4	South Central	66400	61928
5	Northeast	21229	28582
6	Southeast	40006	33302
7	North mountain	5367	4514
8	Highland	48820	35546
	Total	34732	33890