AGRICULTURAL COOPERATIVES IN VIETNAM: INNOVATIONS AND OPPORTUNITIES

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ABSTRACT

This paper presents a comprehensive review of the role of agricultural cooperatives (AC) in the national economy of Vietnam. It also presents a 40-year historical development of agricultural cooperative in the country from a command economy to the recent market-oriented economy; the legal basis for AC which is the Cooperative Law; institutional arrangements and business scope and performance; and governance system. Recent developments, innovations and opportunities were also discussed, as well as some strategies in coping with shortage of working capital such as diversification of capital mobilization and horizontal expansion of agricultural cooperatives. Some of the implications and needs arising from these new developments include: joint marketing and material supply acquisition; diversifying services to cope with capital demand; strengthening of agricultural extension; and increased farm mechanization.

Key words: agricultural cooperatives, Vietnam

ROLE OF AGRICULTURAL COOPERATIVE IN THE NATIONAL ECONOMY

Agricultural Structure and its Development

Vietnam's rural landscape which constitutes 9.3 million ha of agricultural land, 76 percent of the population and 72 percent of labor, is an important economic area contributing 40 percent of the country's Gross Domestic Product (GDP). In 2005, the export volume of farm, forestry and aquaculture products accounted for 26.2 percent of the total economic turnover.

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

The main feature of agriculture in recent years is the speedy and continuous increase in food output, which reached to 36.3 million tons of rice equivalent in 2005. Food per capita increased from 458 kg (2000) to 517 kg (2005). From a nation which once suffered from food shortage, Vietnam has become a top rice exporting nation next to Thailand and the US. In 2005, the country's total rice export was 4 million tons with a revenue of about US$1 billion.

The aquaculture sector accounts for 23 percent of the total agricultural value, and has become a major exporting sub-sector in the economy. Aquaculture shares 31 percent of export value of agriculture and about 9 percent of the nationwide export revenue. In 2005, it contributed a revenue of US$2.6 billion.

The forestry sub-sector, owing to the implementation of various pilot programs and projects, has gained initial success in halting its decreasing forest coverage. From a mainly state-owned sector, efforts are now concentrated on afforestation where people’s participation is the main force in maintaining, restoring and planting forest trees. The devastation of forest in 1995-1996 averaged more than 22,000 ha/year, leaving only 9,400 ha in 2001-2005. The coverage of forest increased from 35.7 percent in 2000 to 38.5 percent in 2005.

At present, Vietnam is preparing to join the World Trade Organization (WTO). Under the agreement, once Vietnam joins the WTO, it will open its agricultural products market to importers. As expected, this agreement will have a strong effect on the agricultural sector, considering that most farmers...
are involved in small-scale production and will need to be more self-sufficient. Joining the WTO is also a big challenge to many agricultural cooperatives in the country.

History of Agricultural Cooperatives

In Vietnam, agricultural cooperative (AC) movement has over 40 years of history, starting in 1958. During that period, AC operated under conditions of a central economy and the influence of war.

The AC movement experienced a rise and fall from 1958 to 1986. This is the stage of command economy. The activities of agricultural cooperatives followed guidelines of the state authorities. Cooperatives were formed with collective assets, labors and distribution. In this stage, the number of ACs reached a peak of 13,782 (by the end of 2005, the number was reduced to 8,322).

The year 1986 up to the present is the period when Vietnam initiated economic renovation and changed into market-oriented economy. Farm land is allotted to individual farmer-household to use for production. Farmer households become independent units of production. Agricultural cooperatives have become providers of services as demanded by the members. Collective system was replaced by independent farm household economy system.

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

The transformation process of AC as stipulated by the Cooperative Law since 1997 resulted in good achievements. Some cooperatives transformed successfully, while 2,196 new cooperatives were established.

Legal Framework

ACs mainly work under the Cooperative Law. This Law regulates the organization and management of all kinds of cooperatives, including ACs. The government has also issued four decrees to define and guide the implementation of the Cooperative Law. Those are decrees on: i) Policies to support cooperative’s development; ii) Guidelines in forming cooperative’s statute; iii) Guidelines in the registration of cooperatives; and iv) Guidelines in detailing some articles of the Cooperative Law.

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

In general, the AC regulations were made based on the premise that an AC is a private enterprise managed by its members, and in which the government only provides support and guidance.

CURRENT SITUATION OF AGRICULTURAL COOPERATIVES

Institutional Arrangement

Membership. Following are the conditions to become a cooperative member in Vietnam:

- Vietnamese citizens, 18 years old and above with full capability of civil acts, contribute capital and labor, agree with statute of cooperative, and join the cooperative on a voluntary basis.
- Officers and civil servants are allowed to join as members of cooperatives as stated in the regulations of cooperative’s statute but not allowed to work as either a director or manager and controller.
- A individual farm household, as a legal entity, can be a member of a cooperative according to the regulations of cooperative’s statute. In this case, a representative of the household, a legal entity, fitting the requirements of an individual member shall be appointed to represent as member in a cooperative.
- Individuals, households, or any legal entities can become members of many cooperatives in case it is not prohibited by the by-laws of the said cooperatives.

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

Organizational structure: vertical and horizontal per sector. At present, the system of agricultural cooperative in Vietnam is mainly primary level and operated with very limited horizontal cooperation. Recently, a little horizontal structure among neighboring cooperatives was formed in order to establish intercommunal-based cooperative federations for carrying out some services in the fields of joint marketing and input supply. The model of province and district-level cooperative’s chairmen club has been adopted 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 been established.

Research & development and international partnership. In Vietnam, there is no organization or institute specializing in agricultural cooperative
research. Research and development activities are carried out under specific projects and implemented by several organizations. In general, research activities are mainly applied researches rather than basic researches.

Upon entering the ASEAN, Vietnam also became a member of the ACEDAC which is under the ASEAN body. Every year, ACEDAC holds seminars and study exchanges to share development experiences in the field of agricultural cooperatives among ASEAN member countries.

**Business Scope and Performance**

*Business activities and scope of agricultural cooperatives.* Depending on the conditions of each locality and the management capability of the cooperative board, each cooperative could operate different services. Overall, the proportion of agricultural cooperatives offering irrigation services reach 80.5 percent; plant protection service, 57 percent; inputs supply, 46.2 percent; extension service, 46.3 percent; and electricity service, 43.2 percent (Table 1). Some new services have been opened by cooperatives such as: farm product processing and marketing, internal credit, clean water supply, and waste collection. Agricultural cooperatives have likewise organized new business services such as: marketing, 8 percent; and internal credit, 8.4 percent. As a whole, only good cooperatives are able to manage services in the fields of marketing, internal credit, and processing.

Irrigation was the most popular service. Agricultural cooperatives construct and manage irrigation canals and pump systems. Large-scale irrigation projects were constructed by the government and handed over to state-owned irrigation companies to manage. In the past, the government was the one implementing the concrete canal support program. Many cooperatives strongly invested in constructing the canal system, therefore, drainage and irrigation work has been improved and irrigation time has been shortened. Despite the increased price of electricity, petrol, spare parts and labor, irrigation fee has been showing a downward trend.

In recent years, input supply service (insecticide, fertilizer, seeds/seedlings) has become very competitive. This service is currently the most popular service of many agricultural cooperatives.

Internal credit service achieved rapid development among agricultural cooperatives in recent years. This service shows great potential in the future. Agricultural cooperatives have also been responding to increased demand for micro-finances.

In terms of electricity service, while the government is still unable to construct electric power transmission and supply system in all rural areas, numerous cooperatives have mobilized their own resources to invest and build up this system. This is also one service that greatly contributes to the agricultural cooperatives' profit.

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

**Business coverage of agricultural cooperatives per sector.** Except for special services such as irrigation and electricity supply, which require

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

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Table 1. Activities of agricultural cooperative, 2005

Unit: No. of cooperatives
infrastructure and monopoly power, the cooperatives' market share of other services vary depending on each specific cooperative and locality. In general, the market share of cooperatives is as follows: fertilizer, over 20 percent; seeds, over 50 percent; and farm product marketing, about 5 percent.

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

**Governance System and Management Performance**

_Financing._ At present, agricultural cooperatives mainly rely on self-financing to carry out business activities. A few cooperatives get small amount of loans from banks which they mainly use for short-term business schemes (Table 2). At present, the government do not have any pilot program or project to financially support cooperatives.

Profit distribution based on member share is implemented in a number of cooperatives. As a popular practice, cooperatives use 30-50 percent of their net profit to distribute as dividend on share while the other 50-70 percent is used as cooperative funds. In the past, cooperatives have been using 100 percent of their net profit as cooperative funds (e.g., Business Development Fund, Welfare Fund, Reserve Fund), without giving dividends to members despite the fact that such is stated in the Law of Cooperative.

_Decision making by voting system._ The rule of voting based on the majority to approve a cooperative decision at the Member’s Congress was adopted based on the guidelines of the International Cooperative Alliance as well as that of other ASEAN countries. The one-member-one-vote principle is implemented strictly to approve any decision of the cooperatives.

The Management Board is responsible in implementing the decision of the cooperative members. Members of the Management Board are elected from among the members of the cooperative.

The Law of Cooperative introduced another model of leadership for cooperatives. In this case, members shall elect the Board of Directors, after that the Board of Directors shall take responsibility in recruiting the manager and other employees. However, this model is used only in very few cooperatives.

**Taxation and Government Support System**

_Financing._ A cooperative is entitled to exemption from enterprise income tax for the first three years after its establishment. Tax obligations levied on cooperatives are basically similar to private enterprises in rural areas.

_Support activities:_
- **Support and encouragement to establish cooperatives.** Cooperatives which are in the process of establishment can receive free consultant service from local officers for the preparation of cooperative statute, business plan, registration, etc.
- **Training.** The staff of the cooperative are entitled to receive 50 percent of training expenses from the government whenever they participate in government training programs. Besides, cooperative officers, who are assigned to obtain regular or in-service training course at universities, colleges, technical schools, and vocational schools

<table>
<thead>
<tr>
<th>Region</th>
<th>Turnover</th>
<th>Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>North central</td>
<td>24218</td>
<td>38200</td>
</tr>
<tr>
<td>Mekong river delta</td>
<td>12800</td>
<td>14909</td>
</tr>
<tr>
<td>Red river delta</td>
<td>41676</td>
<td>34363</td>
</tr>
<tr>
<td>South central</td>
<td>66400</td>
<td>61928</td>
</tr>
<tr>
<td>Northeast</td>
<td>21229</td>
<td>28582</td>
</tr>
<tr>
<td>Southeast</td>
<td>40006</td>
<td>33302</td>
</tr>
<tr>
<td>North mountain</td>
<td>5367</td>
<td>4514</td>
</tr>
<tr>
<td>Highland</td>
<td>48820</td>
<td>35546</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>34732</strong></td>
<td><strong>33890</strong></td>
</tr>
</tbody>
</table>

Table 2. Business figures, average per cooperative, 2005

Unit: USD
are provided at least 50% of the training fee.

- **Land policies.** Agricultural cooperatives are given free land use for office buildings, storages, drying ground, service infrastructures, etc. For other types of land use, cooperatives must pay land use fee to the government.
- **Support on technology transfer and trade promotion.**
- **Support to cooperatives in participating in rural development projects and programs.**

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

**Government Management System for Cooperatives**

The Ministry of Agriculture and Rural Development (MARD) is mandated to perform state administration over agricultural cooperatives.

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

The contents of the state administration consist of the following main items:

a. Promulgation of legal documents related to cooperatives;
b. Preparation of cooperative promotion plan and strategy;
c. Cooperative registration;
d. Training for cooperative staff;
e. Supervision of the implementation of laws concerning cooperatives; and
f. Promotion of international cooperation in the area of cooperative.

**RECENT DEVELOPMENTS, INNOVATIONS AND OPPORTUNITIES**

**Challenges**

The most important challenges for the development of agricultural cooperatives in Vietnam are discussed below:

*Competition becomes more and more severe.* At present, private traders are very active in the rural areas. One area which has become highly competitive is the agricultural supply services. This service used to be managed solely by agricultural cooperatives. Services such as supplying materials, fertilizers, seeds, animal feeds, and land preparation experienced a vigorous participation from the private sector. Marketing for farm products used to be dominated by state-owned enterprises but now agricultural cooperatives and the private sector have become more and more active.

**Diminishing paddy fields due to changes in market demand and urbanization.** Agricultural production has been transforming from self-sufficiency into commercial production. As for many farm households today, they believe that production is not only to meet their own consumption but rather how to get the highest income from land cultivation. Many farmers realize that producing rice is not profitable, so they shift to producing high-value crops such as flowers, vegetables and other plants and breeds, which can meet their target of increasing income. This change is also to satisfy consumer demand especially in the urban areas where income is increasing relatively fast. The urbanization process has also resulted to a sharp decrease in rice cultivation areas. The decrease in rice land and increase in other planting areas have affected the needs of cooperative members for services related to irrigation and materials supply.

**Organizational Structure**

*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 adopted changes in capital mobilization policies as follows:

a. **Transfer share dividend to increase member share in cooperatives.**

b. **Promotion of joint use for land preparation service.** Some cooperatives, when engaging in activities such as land preparation or transportation, have to mobilize a relatively big amount of investment. Hence, instead of sole use of cooperative fund to purchase machines as done before, they initiate joint use. Cooperative members or group of members would pool capital to purchase machinery and other facilities. In the meantime, the management shall take responsibility to: i) coordinate a plan for land preparation service and other services aiming at effective use of those purchased machines and facilities; ii) set service fees to a level that would satisfy both the users and the investors; iii) collect service fee; and iv)
settle conflicts, if any. In the meantime, members are responsible in: i) managing usage and maintenance; and (ii) following the coordinated plan of the cooperative.

c. **Pursuing partnership with suppliers in input supply services.** Many cooperatives provide input supply services without using their capital. There are two ways for cooperatives to do so: i) several cooperatives get inputs from suppliers in advance basis which they pay at specified periods. Both sides shall negotiate the contract conditions which may compromise interest of all parties concerned; and ii) cooperatives work as an agent for suppliers to deliver inputs to members. The suppliers pay the cooperative a certain commission based on delivered volume of inputs. In both cases of partnership, cooperatives do not have to mobilize capital for buying materials.

d. **Mobilization of members’ savings.** Some cooperatives initiate mobilizing small savings from members. Monthly or quarterly, each member deposits a small fixed amount of savings to the cooperative. This way, together with the temporary unused capital, the cooperative can satisfy the needs for internal credit service.

e. **Capital for constructing infrastructure.** Infrastructures such as canal system and power transmission system are constructed with various capital sources. Under this scheme, members’ contribution and support from the government are relatively larger than the cooperative’s capital.

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

**Expansion of horizontal structure and appearance of agricultural cooperative federations.** At present, agricultural cooperatives are starting to realize the disadvantage of small-scale businesses, such that 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.

### Business Scope and Performance

Recently, the trend is to expand business scope based on the model of multiple purpose cooperative. Many cooperatives recognize that it is difficult to exist and develop if they would only rely on traditional agricultural services. Some cooperatives have opened new services such as: handicraft, internal credit, joint marketing of agricultural products, and off-farm services. Most cooperatives have succeeded in the diversification of their business. The key motivations of this innovation are: i) to reduce the management cost which is allocated to traditional services, which in turn will bring about reduction of service fees; and ii) to increase remuneration for cooperative staff. Many cooperatives use part of their profit from off-farm services to compensate for expenditures of agricultural services. Some services such as irrigation, plant protection, and veterinary service are even free of charge in several successful cooperatives.

### Governance Structure and Management Performance

**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 cooperatives currently still pay quite high interest for share capital and encourage members to transfer their dividend payment to their share in cooperatives.

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

IMPLICATIONS AND EMERGING NEEDS
The business scope of farm households, who are members engaged in production, has increased rapidly in recent years, and therefore the demand for services from these members is increasing accordingly.

Cooperation in joint marketing and material supply. Cooperation in terms of joint marketing and material supply in large-scale animal and fruit farms must be established. Some cooperatives are newly established owing to this new cooperation trend. In addition, existing cooperatives try to find ways of meeting new demands from this group of members.

Capital demand. Besides the traditional agricultural production, many farm households enter other fields such as trading, services and other off-farm business. One goal of the farm households is to expand the scope of their agricultural production. Hence, the demand for financial service from this group increases day by day. In the rural areas which have been urbanizing and in some specialized production areas, the demand for this service is relatively higher than in other regions.

Demand for agricultural extension. Many farm households do not have easy access to technologies and information on new breeds, plant protection, veterinary and other agricultural technologies. On the other hand, since the state agricultural extension service is not enough to meet diversified demand of farmers, cooperatives play an important role in providing extension services.

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 labors tend to leave agriculture for new employment. Agricultural labor gradually becomes more expensive. The appropriate solution is to use machinery as substitute for labor. Accordingly, demand for farm machinery 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 agricultural services which will accelerate mechanization process in agriculture.