



## Business Activities of “Transformed” Agricultural Cooperatives and their Role in Supporting Local Agriculture in Northern Vietnam

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**Abstract** This study investigates the potential of “transformed” agricultural cooperatives in northern Vietnam to support local agriculture as the market-oriented economy develops. This case study approach examines four agricultural cooperatives introduced by the local government. This study finds that, first, cooperatives try to provide agricultural support to members, but the private sector mainly leads this business. Second, the range of agricultural cooperative business activities is expanding from production to livelihood support. Third, quite a few cooperatives provide marketing support and began to direct production instead of selling their members’ products in order to secure the quantities required to fulfill their contracts. The results empirically indicate that cooperatives’ business activities has limited impact on local agriculture or their members.

**Keywords** Vietnam, agricultural cooperatives, local agriculture, business activities

### INTRODUCTION

The Vietnamese government began strengthening agricultural cooperatives’ (created by small holders) ability to operate in the market economy. First formed under Vietnam’s planned economy (similar to China’s Model), the cooperatives have changed and lost their social role since the “Doi Moi” economic reformed. A Cooperative law in 1996 forced them to choose between transformation into a new type of cooperative serving their members according to International Co-operative Alliance (ICA) rules or dissolution. In twenty years after the enforcement, there have been currently two types of agricultural cooperatives. The first is the “transformed” cooperatives resulting from the 1996 law. The second is newly established cooperatives formed after 1996. Transformed cooperative are multi-purpose organizations organized around the community and based on regional relationships. Newly established cooperatives are organized based on members’ products, such as flowers, fruits, vegetables, fish, livestock, and other single purposes.

Transformed cooperatives generally take over the organization, assets, activities, and businesses from old cooperatives, which existed as politically controlled organizations. Accordingly, transformed cooperatives are seen as nominal organizations, which business activities are diminishing. On the other hand, after the transition, and particularly because of the new cooperative law established in 2003, there is a clear lack of identity for such cooperatives. It is difficult to distinguish among limited companies, charity organizations, and cooperatives. Aside from acceptance as a registered legal entity as a cooperative member, cooperatives similar to a joint stock company are growing rapidly, especially in the South of Vietnam. Most cooperatives, in this case study, offer agricultural marketing output or business efficiency, and are newly established. These are economically effective compared to transformed cooperatives, though they have lost the cooperative’s fundamental purpose.

Previous studies of agricultural cooperatives in Vietnam discussed changes in cooperative functions after the Doi Moi reforms (Nghiem, 2006; Miyazawa, 2005). Trends or changes in activities

at the provincial or national level were also studied (Wolz and Bao Duong, 2010; Trung, 2009). Some researchers investigated the role of cooperatives in agricultural distribution and marketing (Moustier et al., 2010; Takanashi and Sakazume, 2013) and compared Vietnamese agricultural cooperative characteristics with those in Japan (Dung, 2010). These studies concluded that most agricultural cooperatives worked mainly on irrigation management, assisted with starting difficult new businesses to address the shortage of capital, and human resources. Most transformed cooperatives had economically stagnated while new cooperatives achieved good economic performance. However, Miyazawa et al. (2005) argued that agricultural cooperatives maintained some security for their members by maintaining the traditional rural community and working as a mutual cooperative, even after Doi Moi, and emphasized the importance of “transformed” cooperatives.

Transformed cooperatives organized around rural communities have the potential to coordinate to counter the power of capital, support small holders’ livelihoods, and the local subsistence agriculture that is the foundation of food security and an important part of the socio/economic/ecological landscape (FAO, 2013). Although previous studies mainly focus on efficiency in developing commercial agriculture or cooperatives’ economic performance, few researches emphasize on how agricultural cooperatives support local agriculture through their business activities.

## **OBJECTIVE**

The main objective of this research is to examine the potential for “transformed” agricultural cooperatives to support local agriculture and members as the market-oriented economy deepens.

## **METHODOLOGY**

This study takes a case study approach to explore the trends in business activities of northern Vietnamese “transformed” agricultural cooperatives. In-depth interviews were undertaken with four agricultural cooperatives in Hanoi and Hai Duong provinces between November 2012 and January 2013 with the heads and management boards of each cooperative. They were asked about their business activities, how they started each business, and the businesses’ management systems. The cooperatives were introduced to the researchers by the Department of Agriculture and Rural Development in Hanoi and Hai Duong provinces, in accordance with the study purpose. This paper is organized as follows. The next section provides general statistical data for current Vietnamese agricultural cooperatives, as background information. The subsequent section presents the main results and a discussion of the field research. The paper then concludes with findings and implications.

## **RESULTS AND DISCUSSION**

### **Current Status of Agricultural Cooperatives in Vietnam**

**Cooperative sector and agricultural cooperatives:** Table 1 summarizes the number of cooperatives and agricultural cooperatives in Vietnam by type and industry sector in primary production. Vietnam has 14,500 cooperatives, of which 44% are agricultural. The Red River Delta has a relatively high number of cooperatives, as 62.4% of all cooperatives are agricultural, and almost half are of the transformed type. A high number of cooperatives are located in the North part of Vietnam. However, the new type of cooperatives tends to be established in southern Vietnam. Previous studies show that the most popular activity or business for agricultural cooperatives is irrigation, carried out by 73.4% of agricultural cooperatives (Table 2). This is because most transformed cooperatives maintain irrigation canals taken over from the old cooperatives and hold as a fixed asset. Technical extension comes and

42.0% of agricultural cooperatives providing these services is usually done through collaboration with the District Office of the Department of Agriculture. Providing electricity (38.5%) is the third highest activity. Marketing output considered as the most expected activity from an agricultural cooperative accounts for only 1.8%, so only a limited number of agricultural cooperatives engage in this business.

**Table 1 Cooperatives in Vietnam (2008)**

	Total	Transformed	Newly established	By Industrial sector (primary production)		
				Agriculture	Forestry	Fishery
Total	14,500	5,742	8,149	6374.0	59	200
Red River Delta	5,059	2,926	1,857	3155.0	9	26
North- East	2,628	385	2,214	354.0	17	57
North-West	604	123	402	190.0	3	11
North-Central	2,754	1,051	1,612	1462.0	11	18
Central coast	985	719	245	527.0	4	13
Central highland	490	87	380	136.0	9	3
North-east	834	306	505	109.0	3	13
Mekong Delta	1,146	145	934	439.0	3	59
Hanoi city	561	335	218	274.0		3
Ha Tay**	672	468	115	519.0	1	1
Hai Duong	701	183	475	318.0	3	5

\* “To Hop Tac” (Farmer’s Group) is a voluntary association of farmers without cooperate personality

\*\*Ha Tay province is absorbed by Hanoi city

Source: Ministry of Planning and Investment (2009)

**Table 2 Agricultural cooperatives’ business activities by region (2005)**

	Total	Irrigation	Marketing	Supplying electricity	Agricultural extension	Credit	Others
Total	8322	6106	153	3201	3492	770	4331
Red River Delta	3463	3047	15	1696	2019	100	2560
North- East	1010	627	58	348	307	67	324
North-West	305	180	4	20	97	9	117
North-Central	1591	1124	9	660	608	124	997
Central coast	707	636	11	418	263	327	191
Central highland	200	69	28	31	56	24	62
North-east	282	107	13	19	37	54	51
Mekong Delta	764	316	15	9	105	65	29
Ha Noi (2012)	958	-	-	-	-	-	-
Hai Duong (2011)	349	315	4	0	27	0	-

- : no data

Source: data by region: Nghiem (2006), Data for Hanoi: DARD Hanoi (2012), Data for Hai Duong: DRD, Hai Duong (2011).

**Outline of sample cooperatives:** The four sample cooperatives are of the transformed type, which each includes 2-4 communes; so there is a relatively large number of cooperatives (888 for A, 1,680 for B, 2,440 for C, and 1,457 for D). A and D cooperatives can secure some government land for housing and industrial use because these cooperatives are located close to the center of Hanoi or Hai Duong provinces. A cooperative lies along the dike of the Red River, an area that traditionally suffers from frequent floods. It is recognized as a disadvantaged production area. However, Hanoi city approves A cooperative as a safe vegetable production and marketing cooperative and the city has invested in irrigation. Consequently, safe vegetable production is rapidly growing, especially for leafy vegetables as this area has good access to the center of city. B cooperative is 18 km from the center of Hanoi and is strongly influenced by urbanization though it maintains the traditional production system dominated by rice. C cooperative is located between Hanoi and Hai Duong city. D cooperative is between Hai Duong and Hai Phong city. As many industrial zones have been constructed, there is an outflow of farm labor, and the number of part time workers has significantly been increased.

Previously, new members without cultivated land in a cooperative's jurisdiction could not join a transformed cooperative, and these cooperatives did not accept capital injection from members. B and C cooperatives revised their constitutions to solicit new members in 2008, and 38 and 43 new members were registered for B and C. The cooperatives pay dividends to these new members based only on their capital contribution invested in the cooperative's operations.

Additionally, business activities for daily support are growing, especially in the two cooperatives in Hanoi city. Agricultural cooperatives pick up garbage, supply household water, manage consumer markets in the commune, and subcontract construction. Table 4 shows that these activities provide a large percentage of total business profit.

### Business Activities of Transformed Agricultural Cooperatives

**Overall business direction:** Table 3 shows the sample cooperatives' current business activities. Most are engaged in irrigation, technical extension, pest extermination, purchasing inputs, and distribution of electricity, which they continue from the old cooperatives. In terms of agricultural production, these cooperatives begin contracting agricultural work such as plowing by tractor, agricultural production, and marketing after the transition.

**Table 3 Business activities of sample Cooperatives**

	Agricultural production						Daily life support							
	Irrigation	Support for agricultural work					Production*	Group purchase	Marketing	Electricity	Garbage pickup	Water	Management of market	Construction
		Extension	Plant protection	Pest Extermination	Plowing									
A	○	○					○	○	○	○	▲	○	○	
B	○	○	○		○		●	○		○	○	○		○
C	○	○	○	○	○			○						
D	○	○		○	○			(seed)						

*Shaded activities are taken over from old cooperatives*

*\*cooperatives' own farm. Cooperatives manage the farm as their business*

▲ Until 2011 (from 2011, People's committee undertaking)

● From 2012, started on a trial basis

Source: Field Research (2011-2012)

**Table 4 Annual profit and rate by business activity**

	Total revenue	Profit	Rate by business activities								
			Irrigation	Plant protection	Veterinary	Production	Group purchase	ElecTricity	Garbage pickup	Marketing	Construction
	(mil. VND)		(%)								
A	NA	750	10.0	-	-	30.0	10.0	-	-	50.0	-
B	10,012	373.4	-	-	-	-	3.0	75.0	10.0	-	12.0
C	1,292	4.09	49.7	48.8	0.4	1.0	-	-	-	-	-
D	0	-0.1	-	-	-	-	-	-	-	-	-
Whole country	1,011	833									
Hanoi	950	70									
Hai Duong	491	11									

\*\*including all cooperatives (not only agricultural cooperatives)

\*\* - = no benefit, space=no data

Source: Field research (2011-2012), MPI (2009), DARD Hanoi (2012), DRD Hai Duong (2011)

### Support for Agricultural Production: Plowing

Of the cooperatives, three of them contract plowing by tractor. However, *B* and *C* cooperatives do not own a tractor, and so coordinate and mediate contracts between members and a contractor.

Contractors are usually a local group with members contributing capital that own a tractor. Each commune has several groups with contracting services that cooperatives coordinate, so all members have equal access to the service. Cooperatives determine contracting needs through board members or the heads of internal groups before plowing season, then negotiate prices with a contractor, allocate and request the work. Once complete, the cooperatives collect bills from each farmer and settle the payment. Contract fees are presented for consideration before a general meeting of cooperative representatives to ensure that the price is reasonable. *B* cooperative does not take commission for this work.

*C* and *D* cooperatives, which do not have enough contractors in their commune to provide plowing services to all households, make an effort to meet members' needs. For these cooperatives, members' demand for plowing service has increased with the development of contractors in neighboring communes. *C* cooperative has started its contract plowing service since it received government financial support in 2008 to purchase three tractors. Now, two board members are engaged in this business, and the cooperative has hired six operators. Accordingly, these groups can plow all agricultural lands in the commune.

*D* cooperative also lacks the contractors to meet members' demand and considers purchasing tractors. Though the cooperative cannot follow through the plan, it is unable to obtain a loan or government support. As a result, six board members, managers of the cooperative, executive members of the People's committee, and farmer's union together capitalized on this new business by purchasing three tractors, which are owned and managed by the cooperative. The six invested members can receive dividends when this business earns a profit.

### Support for Agricultural Production: Marketing and Production

Among the four cooperatives, only *A* cooperative markets agricultural outputs. *A* and *B* have begun cooperative farm management and production on a trial basis.

Since Hanoi city was selected as a safe vegetable production area in 1999, A cooperative has arranged contracts with supermarkets and vendors for school meals since 2003. It is to provide a stable distribution outlet for members' products. It has become difficult to secure enough supply to meet the contract amounts in terms of quality and assortment because agricultural labor is declining as the number of farm households. A cooperative opens the cooperative's land by leasing land from members and hiring labor. Some of the cooperative's farms are used as experimental fields for new agricultural techniques.

B cooperative has started producing and marketing seed potato since 2012. The cooperative provides training and information for all members, and 14 interested members invest to hire labor and lease 3 ha of agricultural land to produce seed potato. All products from this field are sold to other cooperatives through B cooperative, which will consider investing in cold storage if more members participate in this business in the future.

## **CONCLUSION**

Transformed agricultural cooperatives took over the business and activities from old cooperatives. The cooperatives have recently expanded their activities to include daily life support. Quite a few cooperatives market their agricultural outputs. Some of the cooperatives distribute agricultural products due to changes in the local agricultural production structure. Cooperatives have now become a business organization and a competitor to small households.

The consumer market is scattered, as the population has not yet concentrated in Vietnam's big cities. Additionally, agriculture in Vietnam is traditionally very small and multi-item production, so it is still not specialized and geographically concentrated. Under these conditions, it is difficult for cooperatives to organize marketing by taking advantage of scale, especially in urban neighborhoods. Marketing support through other means, as supporting farmer's markets, might be required in the future. Due to structural changes in the business sector and an outflow of labor, demand for agricultural production support is expanding. Most agricultural cooperatives act as intermediaries between contractors and members, though farmers' groups usually lead this business rather than the cooperative. However, contractors who can not provide services to meet members' demand for contract work have started to provide plowing services as their own business. This kind of effort will be important to maintain local agriculture.

There are three basic trends in cooperatives' business activities. First, the private sector mainly leads agricultural support. Second, business has expanded to include daily life support. Third, many have begun to own land; and because of coming from the same background, they have suffered from a serious capital shortage. All agricultural cooperatives have tried different means to earn active capital and profits. Under existing conditions, transformed cooperatives have prioritized keeping profits from business activities for the cooperative itself rather than for its members, so these business activities have limited impact on members or local agriculture.

There are several limitations to this study. The sample consists of cooperatives located in only two provinces, which are too small to draw conclusions about the entire cooperative movement in Vietnam. Future studies can explore some of the issues identified in this study by using a larger sample of "transformed" agricultural cooperatives.

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