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# **Policies supporting for agricultural cooperatives in Vietnam: An experience from agricultural cooperatives in the Red River Delta**

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**Abstract.** Agricultural cooperatives have been established in Vietnam since the 1950s. During its development, agricultural cooperatives have made significant contributions to the growth of agricultural sector and to the improvement of farmers' income who are members of the cooperatives. Since Vietnam implemented the "*Innovation-Đổi mới*" in 1986, the Government has continued to issue many policies to support for agricultural cooperatives. However, the impact of these policies on the development of almost all agricultural cooperatives has not been as expected. This paper aims to analyze the implementation of several policies supporting for agricultural cooperatives; to identify advantages and disadvantages of these policies; and to propose solutions for improving policies in the future. In addition to secondary data from the Vietnam Cooperative Alliance, this paper uses primary data collected from 60 agricultural cooperatives in the Red River Delta to analyze the implementation of policies on cooperative staffs training, cooperative finance supporting, and cooperative land supporting. Basically, the results show that the policy on training cooperative staff is quite well implemented, it helps to improve the capacity of cooperative managers in all surveyed cooperatives. In contrast, the finance supporting policy has many regulations that make it difficult for agricultural cooperatives to access capital, only nearly 30% of surveyed cooperatives get loans for production. Similarly, the land supporting policy also has unreasonable regulations which prevent agricultural cooperatives from scaling-up production because of the lack of farm-land. Consequently, about 60% of surveyed cooperatives are supported to rent farm-land for expanding agricultural production.

**Keywords.** Policy, agricultural cooperative, the Red River delta, Vietnam

## **1. Introduction**

Agricultural cooperatives have been established in Vietnam since the 1950s and have experienced different stages of development: flourishing (1955-1986), recession (1986-2003) and renaissance from 2004 to present [1]. As of 2020, agricultural cooperatives account for 65 percent of the total number of cooperatives in the whole country; attracting the participation of 6.8 million farm households which is accounted for more than 33 percent of the total individual households in Vietnam's rural area. It can be said that the development of agricultural cooperatives has significantly contributed to improving the lives and incomes of nearly 30 million people in rural areas of Vietnam [2].

Economic policies, cooperative law and other cooperative development policies are considered as important factors affecting the development of agricultural cooperatives in Vietnam. Since Vietnam implemented the “*Innovation – Đổi mới*” in 1986, the Government issued the Cooperative Law in 1996 with many changes in the principles of organization and operation of cooperatives. This change caused agricultural cooperatives formed before 1986 to fall into recession [3]. The Cooperative Law in 2003 and the current Cooperative Law issued in 2012 have promoted the development of agricultural cooperatives through a variety of supporting policies, such as policy on training cooperative staffs, finance supporting policy, land supporting policy, taxation policy, agricultural products trading policy, infrastructure construction policy, etc. However, these policies aimed at developing agricultural cooperatives in the past many years has not been implemented effectively. In other word, these policies have a modest impact on the development of agricultural cooperatives [4].

Taking the above mentioned issues into account, the objective of this paper is to analyze the implementation of supporting policies for agricultural cooperatives, including policy on training agricultural cooperative staffs, finance supporting policy and land supporting policy. Based on analyzing the difficulties in these policies implementation, this paper proposes recommendations to improve the implementation of these policies in agricultural cooperatives in Vietnam.

## **2. Research Methods**

The Red River Delta of Vietnam, where Hanoi capital is located, together with the Mekong river Delta are the two main agricultural regions of the country. In recent years, agriculture in the Red River Delta is facing many challenges such as shrinking agricultural land area due to urbanization, shortage of skilled labour in agricultural production and climate change. In order to cope up with these challenges, agriculture of this region is moving towards the trend of using high technology, saving land and water resources, and creating more jobs for farmers [5]. In agricultural sector of the Red river delta, agricultural cooperatives play an important role in collecting the participation of small farm households. The number of agricultural cooperatives in this region is accounted for more than 26 percent of total agricultural cooperatives in the whole country. This is the highest proportion comparing to other regions of Vietnam [4]. In comparison with small farm households, agricultural cooperatives are considered as crucial actors that take more advantage in applying high technologies for agricultural production [6]. Therefore, promoting the growth of agricultural cooperatives is a key objective in agricultural development of the Red River Delta. For this reason, the Red River Delta was selected as the research site.

Besides secondary data gathered from Vietnam Cooperative Alliance, this research uses primary data collected from 60 agricultural cooperatives in 5 provinces (12 cooperatives per each province) of the Red River Delta including Hanoi, Bac Ninh, Hai Duong, Thai Binh, and Nam Dinh in 2019. These primary data contribute to analyze the actual situation of supporting policies implementation at 60 agricultural cooperatives.

Primary data was collected through in-depth interviews with agricultural cooperatives managers. Each cooperative has two managers were interviewed, they are leaders and vice-leaders of the cooperative. The total sample is 120 respondents. The primary data, after being cleaned, are analyzed by descriptive statistical methods to examine the situation of supporting policies implementation at agricultural cooperatives.

### **3. Research Results and Discussion**

#### **3.1. Overview of supporting policies for agricultural cooperatives development**

Since the new Cooperative Law has been launched in 2012, the government has issued Decree 193/2013/ND-CP detailing some articles of the new Cooperative Law. Accordingly, Article 24 of this Decree stipulates the "supporting policies for cooperatives' development" as follows:

##### **1) Policy on training agricultural cooperative staffs**

Cooperative staffs who are benefited from this policy include persons in the director board, supervisor board, chief accountant, and cooperative members who are doing technical work of the agricultural cooperative. When participating in training courses, these staffs are supported as follows: reimbursement for return tickets by public transportations (except for aircraft) from the cooperative headquarters to the training places; reimbursement payment for course materials expense, and funding for all other expenses relating to the training courses.

##### **2) Finance supporting policy**

According to this policy, agricultural cooperatives with new investment projects are entitled to borrow the investment credit from the Cooperative Development Fund in accordance with the provisions of Decree No. 106/2004/ND-CP. Agricultural cooperatives which need finance support for new investment projects, for upgrading or expanding business capacity shall be created favorable conditions for applying and borrowing a loan.

By the rule, the borrowers of the Cooperative Development Fund are cooperatives and unions of cooperatives. The Vietnam Cooperative Alliance and the Provincial People's Committees stipulate who are prioritized for lending from this fund based on the fund's development strategy. Regarding the scope of lending, the central fund lends to the above-mentioned subjects on a national scale; the local fund provides loans to subjects within the provinces where the fund is established.

##### **3) Land supporting policy**

The agricultural cooperatives need to use land to build warehouses, drying yards, and service establishments directly serving members are entitled to apply for land allocation. Provincial People's Committees, based on local land funds, consider and decide on land allocation without land use fee and grant land use right certificates to agricultural cooperatives.

#### **3.2. Policy on training agricultural cooperative staffs**

The data in surveyed agricultural cooperatives shows that on average, each staff in the cooperative can attend one training course per year. Particularly, the cooperative director usually attends 2 courses including a course on management skills and other course on technical skills. Most of the training courses are held from 2 to 7 days; funding for staff's expense is 50,000 VND (2 US dollar) per day. In addition, all training materials are provided free of charge to the participants.

Compared to other four provinces, Hanoi is one of the leading localities in strongly implementing the policy of training human resources for agricultural cooperatives. Every year, the Hanoi Cooperative Alliance cooperates with localities to organize training courses for managers and members of cooperatives. It can be said that training cooperative staffs is a practical policy, so it has received full participation from the cooperatives in the survey.

Interviewed cooperative managers said that training skills and expertise for cooperative members is very important because it directly affects the ability to manage and operate the cooperative. However, during these training courses, cooperative staffs encountered some difficulties in terms of training duration and support funding. Regarding the duration, 92 percent of the cooperative staffs who participated in the training in Thai Binh thought that one week

was too long, making it difficult for them to arrange the cooperative's work to join; this rate is 75 percent in Bac Ninh, Hai Duong and Nam Dinh and the lowest in Hanoi with 67 percent (Figure 1). Regarding the support funding, 100 percent of interviewees in these provinces said that the funding to support them to attend training courses is very limited, they have to pay themselves for attending the courses.

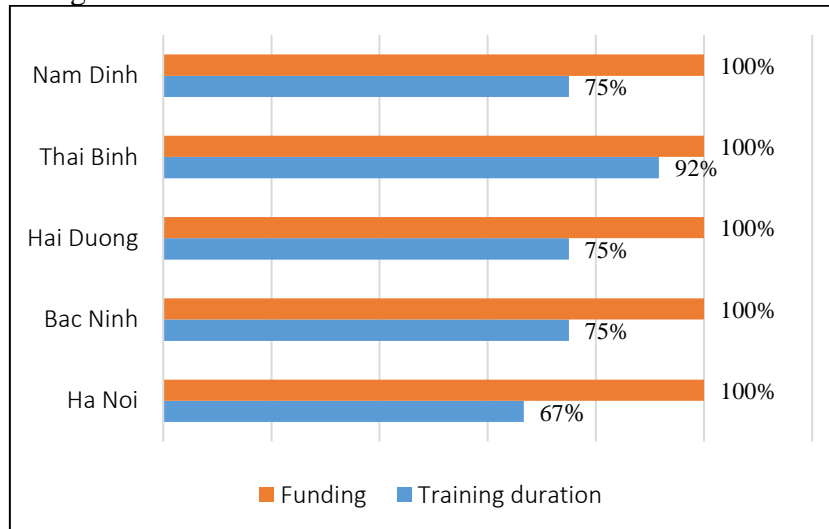


Figure 1. Difficulty in implementing the policy on training cooperative staffs

*Source: Surveyed data, 2019*

In general, the policy on training human resource for agricultural cooperatives has improved knowledge and skill in management for many cooperative officials. However, according to cooperative managers's opinion, this policy has not really impacted on developing human resource for agricultural cooperatives because the training content is still theoretical and has not much connection to the actual operation of the cooperative; and more importantly, the training content is not tied to the demand of the operation and development of each cooperative.

### 3.3. Finance supporting policy

Table 1. The agricultural cooperatives' demand of loan

Provinces	Number of cooperatives	Demand of loan		Number of cooperatives accessed the loan	
		Quantity	Proportion (%)	Quantity	Proportion (%)
Hanoi	12	12	100	4	33,33
Bac Ninh	12	12	100	4	33,33
Hai Duong	12	12	100	2	16,66
Thai Binh	12	12	100	2	16,66
Nam Dinh	12	12	100	4	33,33

*Source: Surveyed data, 2019*

To facilitate cooperatives access to credit, the Government of Vietnam established the Cooperative Development Fund in 2008 [7]. Since its establishment, this fund has contributed to meet the loan needs of many agricultural cooperatives through 107 investment projects of agricultural cooperatives in 35 provinces across the country. In 2020, there were 47 Cooperative Development Funds established nationwide with a total capital of 1470 billion VND [8]. In

general, the establishment of Cooperative Development Funds in Hanoi, Bac Ninh, Hai Duong, Thai Binh, Nam Dinh... has played an important role in encouraging agricultural cooperatives to invest in technology innovation, product innovation, and production expansion to increase the competitiveness and profitability of cooperatives.

The survey results of 60 agricultural cooperatives in five provinces showed that all of the cooperatives had a need for loans, but only 16 cooperatives were able to get loans from the Cooperative Development Funds, reaching the rate of more than 26 percent (Table 1). This percentage is very low compared to the actual demand.

Table 2. Difficulty in accessing the loan

Difficulties	Difficulties	
	Quantity	Percentage (%)
Project evaluation	50	83,33
Collateral	56	93,33
Lack of effective business plan	44	73,33
Complicated loan documents	46	76,67

*Source: Surveyed data, 2019*

In all five surveyed provinces, the demand of agricultural cooperatives for loans is very high, and at the same time, the amount of money from cooperative development funds has not been fully disbursed. Nevertheless, the proportion of agriculture cooperatives that have access to the cooperative development funds is very low. Regarding the difficulties faced by agricultural cooperatives when applying for a loan from the cooperative development fund, the majority of respondents said that the most difficulty is that the cooperative does not have collateral (Table 2). Moreover, in order to get a loan, agricultural cooperatives need to present a specific business plan to effectively use capital loan, which is also a hindrance to cooperatives because the management staffs lack of business knowledge and skill to be able to design an effective business plan. The complicated loan application procedure is also a difficulty that prevents cooperatives from accessing the capital of the Cooperative Development Fund.

In fact, the biggest problem that exists in most of agricultural cooperatives in Vietnam is the incomplete awareness of cooperative managers about the role of cooperatives in the new cooperative law [5]. Consequently, agricultural cooperatives are operating illegally; production scale is still small; loosely linked in production and business activities; and the management staffs are mostly untrained. These above limitations prevent many agricultural cooperatives from developing appropriate and feasible business plans. Statistical data of the survey shows that 10 percent of agricultural cooperatives do not have an effective business plan to convince the Cooperative Development Fund to borrow money. In addition, 10 percent of the surveyed cooperatives do not know the information about loan procedures.

### 3.4. Land supporting policy

Land allocation and land lease to agricultural cooperatives is a special policy in order to further promote the development of this type of cooperative, and contributing to create more jobs and income for cooperative members in Vietnam rural area [2]. According to the results of the cooperative survey conducted by Vietnam Cooperative Alliance, each cooperative is allocated and used about 48,094 m<sup>2</sup> on average. However, the land area that agricultural cooperatives are using with land use right certificates is occupied for about 13.5 percent only. This percentage accounts for a very small proportion compared to the total land area managed and used by all cooperatives. In which, the region with the largest number of cooperative land areas granted land use right certificates is the Mekong River Delta, accounting for 21.46 percent [8].

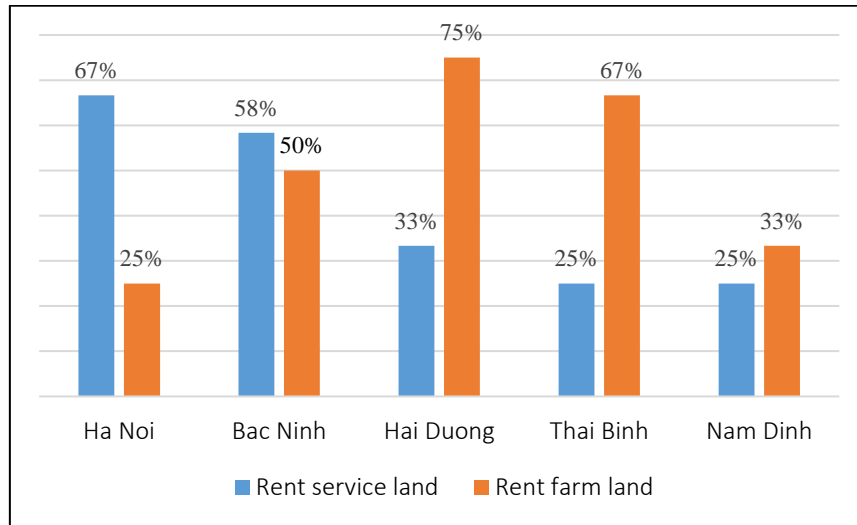


Figure 2. Implementation of farm land supporting policy the five provinces

*Source: Surveyed data, 2019*

Figure 2 illustrates the implementation of land policy for agricultural cooperatives in surveyed provinces. Basically, agricultural cooperatives are supported to rent land for doing services or for expanding their production. Regarding the land leased for doing services, Hanoi and Bac Ninh are the two leading provinces in implementing this policy in order to create good business conditions for agricultural cooperatives after their transformation under the new Cooperative Law 2012. Regarding the land leased for expanding production, Hai Duong and Thai Binh are provinces where crop and livestock cooperatives have formed early and developed quickly, so the demand for land lease for agricultural production of cooperatives is also large.

Regarding difficulties and obstacles in the process of implementing land support policy for agricultural cooperatives, most cooperative managers said (83.33%) that although the local authorities wanted to allocate land for cooperatives, they did not have enough land area. Especially for agricultural cooperatives that need to support land for service activities, the land needs to have a convenient location and easy transportation, which is not available in every locality. In addition, 20 percent of respondents said that local leaders are not aware of the cooperative's role in the rural development, so they have not supported land for agricultural cooperatives.

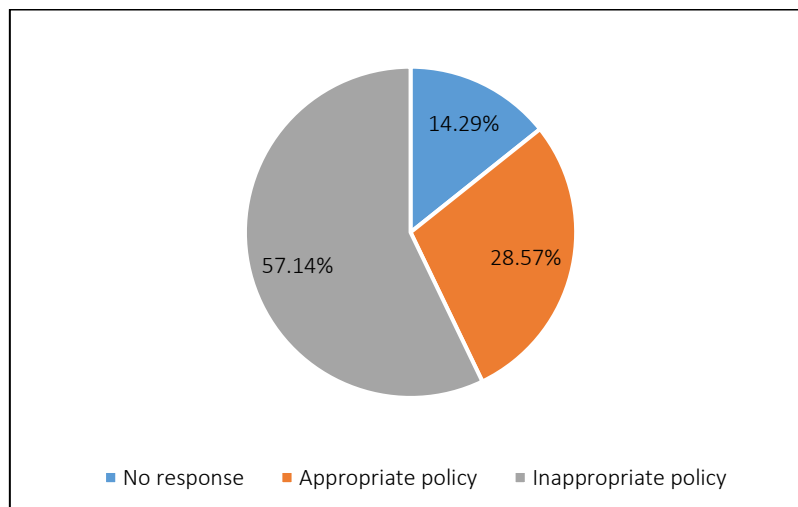


Figure 3. Opinions of cooperatives manager on land support policy

*Source: Surveyed data, 2019*

In Hanoi, Bac Ninh and Thai Binh, despite being supported land for doing services and agricultural production, most cooperatives do not have land use right certificates. In fact, the land is still owned by Commune People's Committee. This has hindered agricultural cooperatives in expanding production when they need the loan from banks or carry out other activities related to land ownership.

In order to clearly understand the effect of the land support policy on the development of agricultural cooperatives, the author collected opinions of the cooperative's leaders on the implementation of this policy. Accordingly, 57.14 percent of the opinions said that the land support policy is not appropriately implemented and only 14.29 percent thought that the land support policy is well implemented. Many cooperatives are able to build feasible projects, but still facing many difficulties when applying for land allocation or land lease to implement their projects.

One of the main reasons is the lack of attention and facilitation of local authorities in allocating and leasing land to agricultural cooperatives. In addition, the awareness of local leaders about the role of agricultural cooperatives is very limited, so that they do not want to allocate or lease land for cooperatives. In addition, the most difficulty currently is that public land is often scattered, divided, and fragmented; meanwhile, agricultural cooperatives usually propose to rent large areas of public land for production and business establishments.

#### **4. Conclusion and recommendations**

##### **4.1. Conclusion**

The introduction of the Cooperative Law in 1996 has made agricultural cooperatives to become more autonomous, less dominant from state administrative agencies. This has contributed to improving the principle of autonomy of agricultural cooperatives. Moreover, the Cooperative Law in 2003 has contributed to promoting the development of agricultural cooperatives through allowing legal entities to participate in cooperatives. However, the participation of legal entities has created profit or business orientation of many agricultural cooperatives.

In order to overcome the limitations of the Cooperative Law 2003, the new Cooperative Law 2012 was born. Parallel to this law, the government of Vietnam has given and implemented many different policies to promote the development of agricultural cooperatives. Consequently, these policies have partly affected the development of agricultural cooperatives, but these effects are limited. These limitations on one hand reflect the implementation of non-thorough policies. On the other hand, restrictions also reflect the lack of synchronization and coordination of relevant agencies in implementing cooperative development policies.

Regarding the policy of training cooperative's staffs, most cooperative managers in 5 surveyed provinces participated in training courses argue that too low training support funds do not encourage their enthusiastic participation. In addition, the training content has not been close to the needs of the cooperative so the effectiveness of applying the knowledge of the training for the specific situation of each locality is not high.

Regarding the finance supporting policy, most agricultural cooperatives need to borrow money to invest in expanding production and business activities, or to invest in developing innovation, building infrastructure, etc. However, the demand of cooperatives' loan is not always met because of many obstacles including assets to ensure loans, feasible project proposals, etc.

Regarding land supporting policy (land allocation and land lease): although local authorities want to create favor conditions for agricultural cooperatives to have land for

expanding production, but 83.33 percent of cooperative officials said this could not be able to implementation because the localities do not arrange the appropriate land fund.

#### **4.2. Recommendations**

For the Government: promulgating policies to support capital (reducing interest rates, unsecured loans) for agricultural cooperatives, especially for cooperatives with effective and feasible production and business projects.

For the local authorities: it is necessary to implement the current regulations that prioritize, give incentives, support and encourage the development of cooperatives, allowing cooperatives to be allocated land or lease long-term land for offices and factories.

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