

Policies for Raising Income and Promoting Participation in Economic Development of Rural Households in Viet Nam

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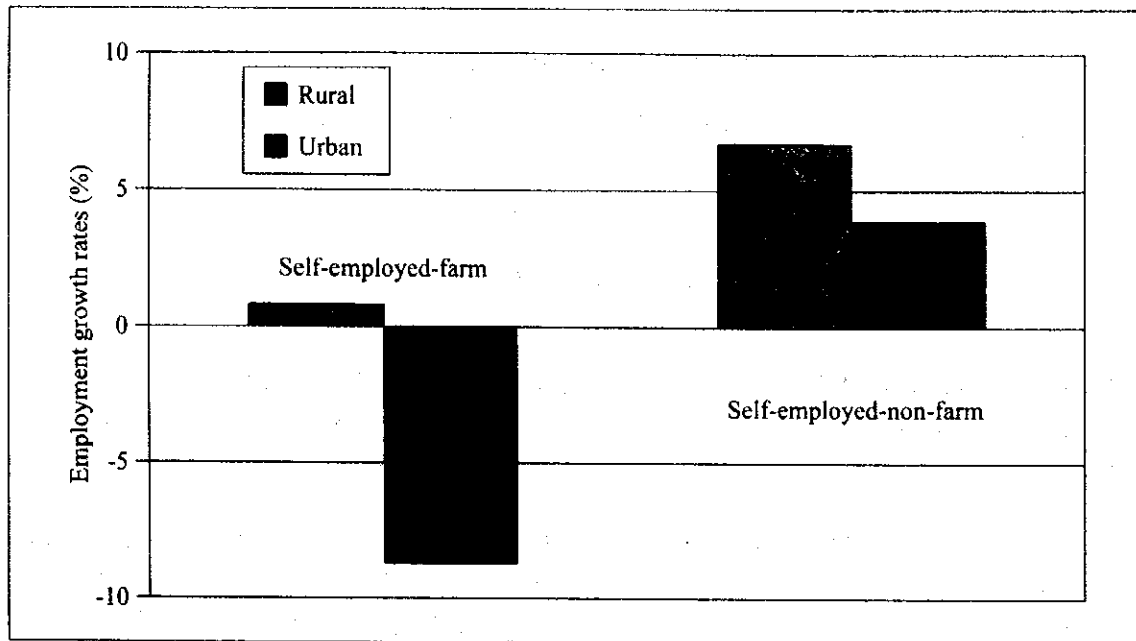
1. Policies and schemes to improve agricultural productivity and income of rural households

1.1 Importance of agricultural development and rural economy in the process of economic renovation in Viet Nam

Rural economy and agriculture of Viet Nam (including such primary sectors as agriculture, forestry, aquaculture and salt) play an important role in socio-economic development. In the period of 1976 - 1980, as production could not meet demand, Viet Nam had to import an average of one million tons of rice annually. From 1980 to 1988, the initial reform in agriculture assisted to reduce import volume. However, at the end of this period when the new policies' effects diluted, 9.3 million people from 21 provinces were suffered from serious shortage of food in 1988. During the next 10 years (from 1987 to 1997), reform took its effect, food production increased by 1.3 million tons a year, the growth of food was 3.4 times higher than that of population. This helped increase per-capita food consumption from 281 kg/year to 400 kg/year. Viet Nam becomes the second largest rice exporter with ever increasing export scale. Even in 1999 when fierce natural disasters has spread the country, paddy rice has still got bumper harvest, food price has stabilized, food has been timely distributed to areas in difficulty and food security has been maintained. Not only so, given the living standard has improved, quantity and quality of farmers' meals have also been improved.

Rural economic activities, especially agricultural production have created jobs and improved income for most of the population. According to the Statistics Bureau, from 1990 to 1997, for all GDP contributed by industry sector was up from 12 to 14 % a year, only 200 thousand jobs were created. Meanwhile, with an average growth of 4-5%/year, agriculture provided another 2.9 million jobs. In 1997 - 1998, agriculture, fishery and forestry offered employment for over 66% of laborers all over the country. Nominal income of agricultural householders rocketed 12% a year in the period from 1992/1993 to 1997/1998, in which 81% from agriculture. In coming years, agriculture will continues to provide employment for most of labor surplus annually.

Figure 1 Employment growth rates in Viet Nam by type of main employment 1992/23-1997/98



(Source: WB. estimates based on VLSS1 and VLSS2)

Most of arable land and fresh water resources are used in agriculture, forestry and fishery. In 1995, land for agriculture, forestry and fishery accounted for 57% of total natural land areas on nation wide. Therefore, agriculture, forestry and fishery production is the important factor deciding national ecological balance, ensuring clean living environment, preventing natural disasters, protecting and developing natural resources of the country.

Viet Nam rural areas consist of backmost areas, border and island regions, where most of minority peoples and 90% of people under poverty line are living. The hunger elimination and poverty alleviation has, therefore, closely associated with rural development. In 1999, 76% of population live in rural areas, so only by further developing rural economy and improving living standard of farmers, the country can maintain it's prosperous. In Viet Nam, rural areas are by far of significant importance in sustaining and developing culture, social and political security for the country.

In brief, with the contribution of 30 % in export value and 25% in total GDP, rural economy and agriculture, forestry and fishery play an important role in economy, politics, society, environment and human resource development of Viet Nam. Rural and agricultural development is foundation of economic development, ensuring national industrialization and modernization successfully.

1.2 Overview of applied policies and programs

Economic reform process in Viet Nam was initiated by transformations in agricultural development policies.

1.2.1 Institutional policies in agriculture

The biggest advantage gained from the reform by farmers is self-determination in production organization, business activities, turning them into real masters of fields, turning households into basic units in agricultural production. These important rights were declared by Decree No.100 of Policy Bureau issued in Jan 1998, stipulated in Central Resolution No 10 stipulated in April 1988, and legalized in Land Law published in 1993 and Cooperative Law in 1997. In seven years before the introduction of Cooperative Law, 17.4% of cooperatives and 93% of old-style production groups were disbanded. At present, there are about 10 million rural households mainly engaging in agricultural production, while new cooperatives play the part of supporting services to assist the major role of rural households.

During the implementation of renovation, numerous policies have been issued to encourage farmers to mobilize their internal resources in the production development process. Satisfying the demand of household economic development in the direction of large-scale commodity production, the Government stipulated resolutions on large-farm economy. The resolution unified awareness of characteristics and important role of large-farm economy, confirmed the State long-term policy of encouraging and protecting large-farm economy. Specific policies on stabilization of land use, exemption of income tax, support for investment development, encouragement of labor utilization, assistance to science and technology for market development, protection of investment assets and obligations of farms as stipulated have also been designed. Up to now, there have been over 11 thousand agricultural households doing large-sized farm economy. These households can obtain broader selections on labor tenure, bare land exploitation or land lease for production expansion.

Hundreds of agricultural and forestry state farms have been rearranged. Contracts have been signed with farmers and workers households; turning the state farms to be the units providing technical services, processing agricultural products and promoting markets for contracted farm's outputs.

Organization structure of state-owned enterprises has been completed in the direction of improving effective production and business. A number of beneficial enterprises have been equitized; several small-scale and less effective entrepreneurs have been considerably sold, rented or contracted. Commodity associations have been established to undertake the inter-enterprises activities.

With the issuance of Law on Domestic Investment Encouragement and Law on Foreign Investment, investors in agricultural production and business have much benefited from preferential of taxes, loans and rent rate of land, water surface. In the inception, small private enterprises have been supported to mobilize their active role in domestic circulation of goods and export activities.

1.2.2 Policy on natural resources management

Changes in laws and policies have provided legal framework for expanding chances for farmers to manage and utilize natural resources effectively, properly and a sustainable manner. Farmers have rights

to use, inherit, mortgage, lease, exchange, transfer land and use it as capital to invest in joint ventures. Although land ownership is of State, in case of using land for public purposes, farmers are satisfactorily compensated at market prices. With those mentioned-above broad advantages, farmers, indeed, consider land of their own; so market relations have appeared in this field. Besides, State also issued a number of regulations to prevent from land accumulation over certain limits. Up to now, nearly 70% of the households have been licensed with agricultural land use certificates.

The existing land policy has offered private households directly involving in agricultural activities, aquaculture and salt production with long-term land use right without paying fee for land use. The land here includes land for perennial, annual crops, bare hills and mountains, wasteland, horticultural land, encroached and resettled land, stabilized field land and aquaculture land. Periods of land use are 20 years for annual crops, aquaculture and salt production, and 50 years to perennial crop production. Maximum land rate of agricultural land in the South plain is 3 ha and in other plains is 2 ha. Land limit level for perennial crops in plain areas is 10 ha and in midland and upland areas are 30 ha. Land quotas for bare hills and mountains, tidal land, inshore-surface water and wasteland are decided by provincial and city committees under central control. Rented land offered for agricultural production, aquaculture and salt production purposes will be used within 20 years. Those households over using land quota can continually resort to and pay supplementary tax. The land will be transferred to rented land after half of the land use period. Land lease fee will be put into budget for improving local infrastructure. With these above-mentioned rights and benefits, farmers really consider land as of their own, providing good conditions for the establishment of market relations.

Concerning forestry resource, land for forestry sector in the long run is distributed and leased by the State to organizations and households. Forests here include special use forests (national parks, conservation forests, historic-cultural forests, environment); and production forests (plantation forests for wood and forest products business). Land use right certificate will be given to households and individuals. Special use forests' management boards will distribute forestry land to those households living in protection area and sign with them contracts of forest protection and plantation. Besides, organizations, households and individuals coming from within country as well as abroad can also rent forestry land that has been projected for developing production forests, less-critical riverhead protection forests, critical forests and tourist landscape. Forestry land limit is 30 ha and is decided by Provincial People's Committees. Land limit by projects is determined by the State. Long-term land distribution period is 50 years. But in case the trees' cycle is over 50 years, land will be continuously distributed. Land lease period by projects is less than 50 years, but if necessary, the Prime Minister may decide the length again, but not over 70 years. When the deadline comes, if those who use land on purpose and have demand to continue leasing land will be considered to keep on leasing. They are enshrined with rights to manage, protect, take care and get benefit from that forest area. Over 1 million ha of forestry land has been given to individual

households and another 5 million ha to socio-economic organizations.

Regarding water resource, people may enjoy investment for construction of main irrigation systems and use water for production activities. They are also assisted to exploit fresh water resource for daily activities. In only 10 years from 1987 to 1997, irrigated area has increased by 1.4 million ha. Irrigation has so far provided enough water for mostly watering 84% of paddy cultivation area (5.9 million ha), draining 1.4 million ha and 42% farm households are provided with fresh water for their use. Law on water resources and its sub laws have been introduced, stipulating rights and obligations of those who use water for production and daily activities, and those release wastewater into water source. Through these documents, mechanism managing and controlling water use has also been set up.

1.2.3 Production development policy

Agricultural tax policies are also changed so as to reduce farmers' contribution to state budget. Land-use tax is replaced by agricultural tax, tax rate is reduced, and certain kinds of taxes are removed. State investment in agricultural extension aims at providing necessary knowledge to agricultural households. Extension service have developed nation-wide, new and advanced technologies have been transferred to agricultural households, particularly those in poor areas.

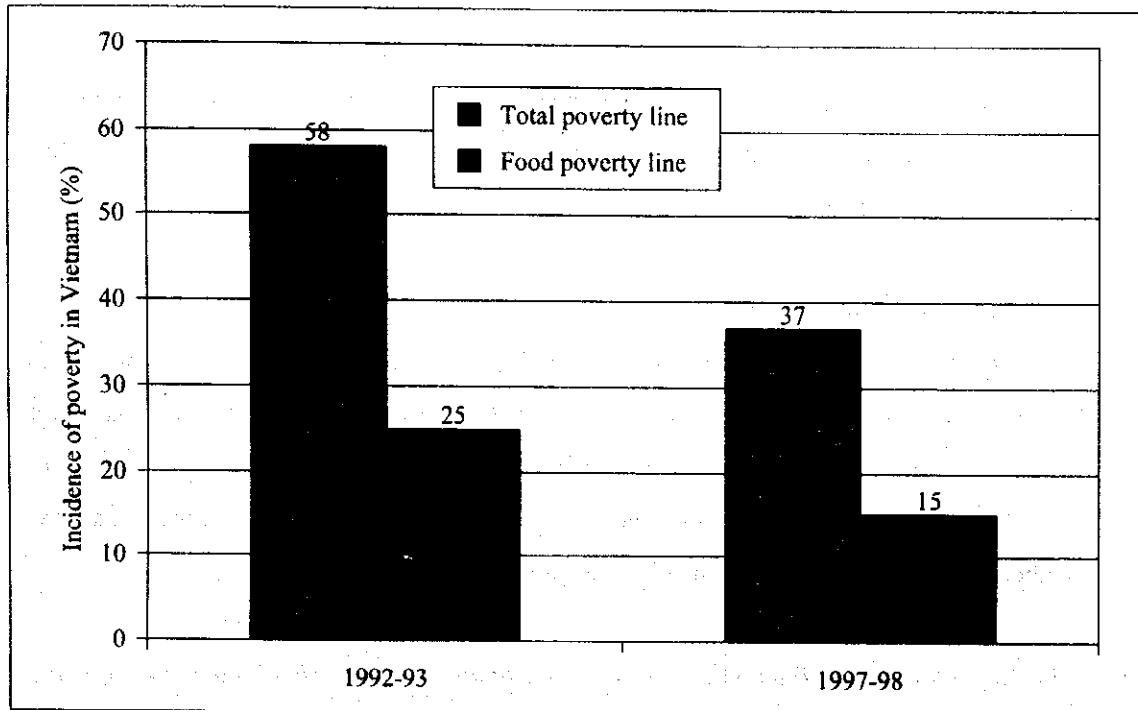
1.2.4 Policy on hunger elimination and poverty alleviation, and on raising income for agricultural households

Since 90% of the poor live in rural areas, reforms in agriculture and rural areas have recently been the most positive solution serving for the purpose of hunger elimination and poverty alleviation in Viet Nam. The achievements in poverty reduction have been largely attributed to rapid growth and agricultural diversification. During the period of 1992/93 to 1997/98, the growth rate of agricultural income per household increased from 60% with contribution from agricultural activities and that from other sources was 30%. Job Creation Programs, Infrastructure Construction for 1000 Poor Communes, "Lighting-point" Program, activities of Bank for the Poor and overall impacts of reform process have helped reduce the rate of the people living under poverty line from 58% in 1993 to 37% in 1998.

Revenue from agriculture over the last few years has experienced a more rapid increase than that from other income sources in rural areas and made decisive contribution to the remarkable improvement of living standard of rural population. As a result, the contribution rate of agriculture to household income increased from 37% to 47% while the rate of off-farm activities remained constant (about 19%) and the rate of other sources decreased from 44% to 34%. One of the main reasons explaining the rapid growth in income from agriculture is the quick diversification of agriculture. Provided with various opportunities of choosing thanks to the reform of economic mechanism, farmers get more favorable conditions to effectively use their natural resources to raise their income. After 5 years, income from paddy cultivation

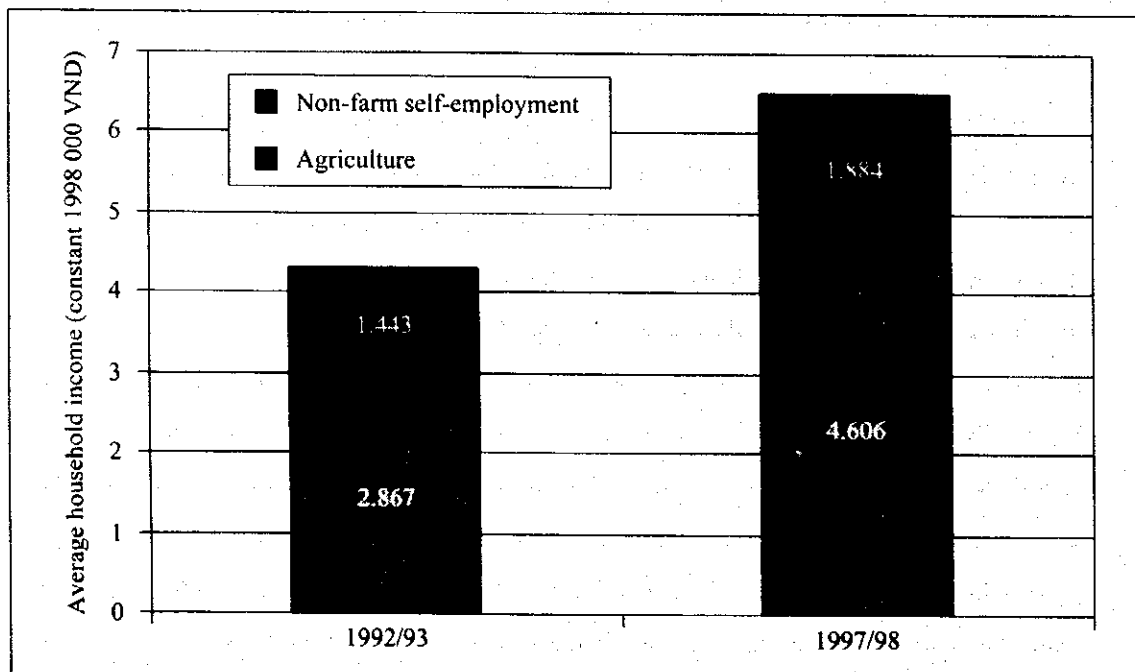
increase 21% while income from livestock husbandry and fishery activities 53%, from other food crops 55% and from industrial crops 66%. The biggest contribution of 127% is from industrial crops (such as soybean, cotton and sugar) followed by that of 112% from fruit trees.

Figure 2 Incidence of poverty in Viet Nam during 1992/93-1997/98



(Source: WB estimates based on VLSS1 and VLSS2)

Figure 3 Contribution of agriculture income in rural areas during 1992/93-1997/98



(source: WB estimates based on VLSS1 and VLSS2)

1.2.5 Social policies

In entering the renovation process, some residues of the former centrally planning mechanism have gone contrary to the rights taken by farmers in socio-economic activities. The infringement of democratic right at communal level has caused a tension in some areas. In Feb 1998, Policy Bureau issued an instruction on "establishing and implementing democratic regulations at grassroots level", and the government also stipulated the regulation of implementation of democracy in communes. The above guidelines and administrative reform have provided people with opportunities to participate in the State control, social management and community development, kindling creation and the sense of initiative of rural people, waking up responsibility and the pride of individuals and communities in managing and mastering their own homeland. National cultural traditions have been found and mobilized in many rural areas. Communal buildings have been mended, family annals (reports) and ancestral altar houses have been embellished, festivals and religious activities have been held everywhere. Traditional customs and village convention have been reviewed and improved appropriately. These activities have initially taken effects, helping adjust social life in rural areas. Public unions, not least Women Union, Farmers' Association, Veterans' Unions, have step by step affirmed their foothold in communal life. In parallel with the improvements in economy, political life in rural areas has been further liberalized and democratized.

1.2.6 Investment policy

Each phase of the reform process went hand in hand with reassessment of the importance of agriculture and rural economy in the cause of industrialization. Under the Central Resolution No.6 (1999), Viet Nam Communist Party called for the State attention on investment in agriculture and rural economy. The ever-increasing investment creates chances for rural population to get more access to services, infrastructure and social welfare in order to improve their lives. And indeed, their lives have been remarkably improved. 92% of communes have vehicle roads leading to the center of communes, nearly 70% the access to electricity, 98% primary school, 92% medical clinic, 58% good houses, and 42% can use clean water. Transportation, education infrastructure and medical conditions have made a great progress. Rural people in the South suffering from severe floods have been given loans to build houses above pillars, those cultivating poppy in mountainous areas have been provided with investment to transfer it to other crops, fishery folks have been supported in building ships for off-shore fishing, the poor has been able to borrow money at low interest rates from the Bank for Poor. Although income disparities between rural and urban areas are still wide, the great progress in such areas as transportation, communication, state investment to establish residence centers and public buildings (schools, clinics, cultural houses, post offices and markets) and other programs to improve sanitation conditions and enhance the access to electricity and water resources, have predominantly changed the face of rural

areas and living conditions of the majority of rural people.

1.2.7 Credit policy

Over last years, the rural credit system has been improved to mobilize all capital resources (savings, medium and long-term capital, ODA, foreign trade loans, budget), aiming at developing agriculture and rural areas in providing productive capital fund such as materials, field improvements; at supporting investment in processing and exporting agricultural, forestry products and seafood; at developing the industry and service sector and infrastructure in rural areas. Borrowing exceeding over 10 million dong must be met by placing a project proposal to banks. Commodity and business cooperatives can borrow capital fund by placing their assets as collateral.

The right of enterprises to obtain loans is guaranteed as stipulated by the Bank. The loans borrowed by poor households and by others who are assisted by natural disasters prevention program, offshore fishing support program and other aid programs are not necessarily required to do so. Lending periods differ depending on growth cycles of crops and animals, with the maximum short-term loans of 12 months, medium term loans of 1-5 years and long-term loans of over 5 years. In case agricultural households receiving loans for agricultural and rural development suffer from natural disasters, the State has to formulate policies to deal with damages that the banks and borrowers suffer. Rural Credit Program under the control of Agricultural Development Bank has given agricultural households an access to loans with interest rates much lower than the levels in unofficial credit market that have long existed in rural areas. Agricultural credit grows at an annual rate of 24-27%, outstanding debts in rural areas late 1997 amounted to 36,000 billion VND, and nearly 6 million households accounting for 50% of the total households can borrow from banks. Investment in seed and breed, capital, materials implemented through socio-economic development programs played the role of driving force for rural people to fully utilize all opportunities to improve their living conditions.

The Government designed investment development credit policies with preferential interest rates through using development assistant fund. These policies will be applied to investment projects in macro economic programs and to the difficult areas as designated by the revised Domestic Investment Encouragement Law. Investment forms include giving loans, post-investment interest assistance or guaranteed credit. Loans will be given through projects. The following sectors enjoy preferential loans: fertilizer production, micro-bio pesticides, agricultural machines manufacture, processors of agricultural and forestry products, salt production, production of exported goods and other numerous manned sectors. Besides, the centralized material forests, plantation of perennial industrial crops and fruit trees, aquaculture, milk cow raising, improvement of infrastructure, water supply system, transportation, extension of education and health care as well as cultural and sport activities may all enjoy preferential credit. Maximum borrowing length by projects is 10 years with yearly interest rates of 9% (on 2 March

2000, the Prime Minister issued a decision to adjust the interest rate to 7% a year). After the completion of an investment, interest subsidies to these loans from financing organizations are limited to a half of interest subsidies given to the state development investment. Projects subject to preferential loans are guaranteed in full amount of investment borrowed from financing organizations.

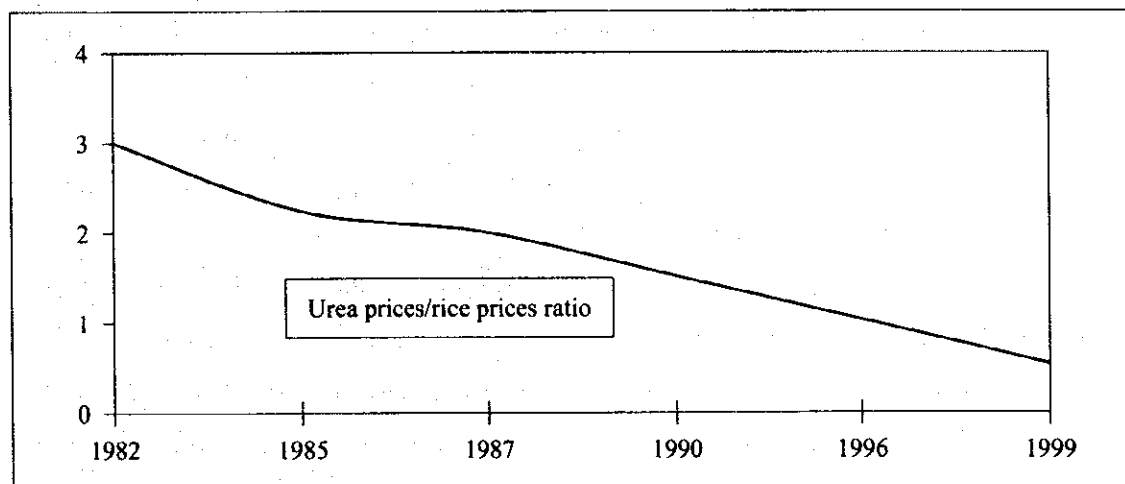
1.2.8 Trade policies

Market policies have been improved through the implementation of free trade and the elimination of price control regime. Since the late 80s, national and international trade has gradually been decentralized and liberalized, domestic materials' price has reduced at nearly the same level of international price while agricultural products price have been as approximately high as that in the world market.

In agricultural products, only raw and refined sugar and refined oil belonging to the Import Goods Products List are to be imported with license issued by Ministry of Trade. Exporting woods from natural forest is prohibited with the aim of forest protection. Imports of fertilizer and sugar are controlled through quantity and quota. Rice, one of exporting products is managed by quota to ensure food security. In addition, most of other agro-products and materials are traded freely but still under control of tax and SPS.

Rural economy is now, step by step, being integrated into the entire economy of the country, the nation-wide market and eventually the world market. Improvement of term of trade between rice and fertilizer prices during the last decade is clearly attributed to free trade policy.

Figure 4 Urea price /rice prices ratio during 1982-1999



Trade liberalization policies and international economic integration guidelines are offering chances for Vietnamese farmers to have closer relationship with domestic economy, culture, techniques and other fields of the economy and the world as well. Nowadays, rural workers become familiar with labor

market of the whole country. Vietnamese agricultural products have now specifically been characterized as commodities for trading. They are not only produced to meet domestic demand but also exported with high ratio (coffee 95%, cashew nut 80-85%, pepper 90% and tea 50%). Some of Viet Nam's exported goods (such as rice, coffee, cashew nut and pepper) have affirmed its solid position and prestige in the world market.

1.2.9 Macro policy

Macro policies have, in general, established convenient environment for rural people to maximize opportunities provided by reform cause. Reduced credit interest facilitates investment for production and business. Inflation rate remains low and stable, trade balance is more and more improved, reducing trade deficit. In addition, budget deficit is reduced.

In recent years, exchange rate of VND against other foreign currencies has gradually been adjusted to its real value identified by opened market. This policy allows exporting agricultural products remain their comparative advantages, to some extent, in the situation that many regional countries have continuously deposits also offer good conditions for farmers to approach public capital that was traditionally available for investors in other businesses with higher profit than that of agriculture.

Furthermore a number of programs for developing agriculture and rural areas are also being implemented. They are agricultural extension program, agricultural credit program, technical and economic program, infrastructure program for 1000 special poor communes, settlement programs, program of greening wasteland and bare hills, employment creation program and etc.

Since the late 1980s, thanks to assistant policies and programs, renovation process in rural areas has obtained remarkable advantages. Growth rate in agricultural production is rather high. GDP in agriculture increased 5% a year in the period of 1989–1998. The increase of food production averaged 1.2 million tons a year, helping remain food security. In 1999, rice volume gained 4.5 million tons. Commercial production has been established in some areas. Coffee output was over 0.4 million tons, rubber 0.2 million tons, sugar 0.75 millions and fruit trees 4.5 million tons. Annual growth rate of livestock sector averaged about 5-6%. In 1999, meat output was estimated at 1.75 million tons, increasing 7.7% against the level of last year. Growth rate of processing sector in agriculture was 10-15% a year.

Management measure of agricultural products consumption has been moved from administration measures to economic ones. Business system has been rearranged many times with initial success, corresponding to emerging requirements of agricultural production. Trading network of every economic sector is developing rapidly, helping improve the free circulation of agricultural products, keeping in line with the State policies and guidelines. State-owned enterprises have gradually reaffirmed their important position in circulation and preserving of agricultural products, and harmonization of supply and demand of several main agro-products.

A number of products have been exported with high proportion such as coffee of 95%, cashew nut 100%, rubber 80-85%, pepper 90%. At present, except a handful imported products including milk, edible oil, cotton, cigarettes, wood and paper meal, most of agricultural, forestry and fishery products cover the domestic demand and even with surplus for exporting. Viet Nam has now become the second largest rice exporter, the third in cashew nut exporters and the fourth in coffee exporters in the world.

In 1995, agricultural export value in compared with agricultural GDP was 25.5%. In 1999, the world agricultural products markets were affected by regional crisis, and prices of many products reduced (pepper 10%, coffee 11%, rice 13%, tea 7%). However, nation-wide export turnover was estimated at USD 2.75 billion, increasing 2.9% in comparison with the level of the same period last year. Over the last few years, exports of agriculture, forestry and fishery products accounted for 40% of the total export turnover of the country.

In short, influences of reform process over the last 10 years have turned the rural areas from simple, closed and difficult situation to a much more progressive one. A series of emerging opportunities in economy, politics, society and culture have been offered to rural population. New mechanism has also provided more knowledge on capital, information and economic integration for farmers to fully utilize available choices. Rural areas in Viet Nam have, step by step, become an opened system with dynamism. However, besides the above-mentioned opportunities, agriculture and rural areas have also faced many challenges.

1.3 Emerging challenges

Beside quite a few advantages, organization structure in Viet Nam in the past have only focused on production development, and attention has not been paid much to market demand. All activities from planning and projection, scientific research, extension and policies formulation have mainly focused on provoking demand. This method has, though rapidly improved production, failed to help increase products quality. Besides, production costs remain high, economic effectiveness is still low, product standard is not ensured and sanitary and phyto-sanitary measures remain weak. That is the reason why products competitiveness is low, supply and demand are not in balance, exaggerating the shortage of markets. Although agriculture growth has been continuously improved, farmers' income has not correspondingly increased. In 1998, about 37% of the Vietnamese were under poverty line and most of them are rural people. Production structure remains in backward situation, agriculture contributes 70% of total production value of rural economy. In agriculture, cultivation makes up for 70-80% of total agricultural gross production. Due to the increasingly fiercer competition in agriculture and forestry sector, bio-diversification and availability of water and land resources have been shrinking quickly.

Infrastructure in rural areas is in short, and over one million hectares of paddy land remain dependant on rainfed irrigation. The capacity of irrigation systems against flood is still insufficient, and many communes

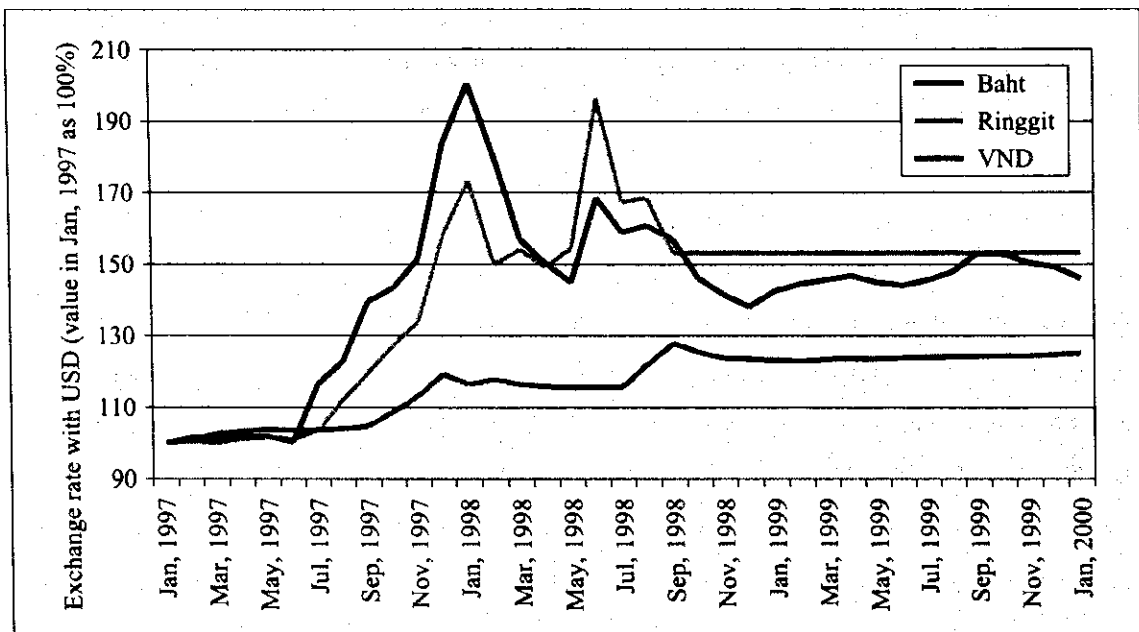
in mountainous areas do not have vehicle roads linking communes and highway. A small part of rural households has access to fresh water. Quality of health care clinics and rural schools is very low in comparison with that in urban areas. Coverage of forests is only 28%, while forestry development and protection are very difficult and take long time. Nomadic situation is now risking rural environment, leading to soil erosion and flood.

Poor investment for technological research and transfer has made technological level in production low and competitiveness of agro-products weak. Plantation and livestock outputs remain at low level, while production cost of their agricultural products such as sugar, meat, maize and soybean is high. Quality and technical standards of several products are very low. That is the reason why export prices of these items are much higher than that in international markets.

State management in many important activities is very weak; criteria of sanitary conditions, seed and breed quality, materials and agro-products are slowly made and issued. Organization of checking and monitoring activities is not very strong; bad-quality products, counterfeit items, food poison and animal diseases are popular and prolonged phenomena.

Forestry and agricultural products business has shown many disadvantages. High transaction cost, high commercial risks without standardized quality and small commercial scale have all negatively affected reputation of Viet Nam agro-products.

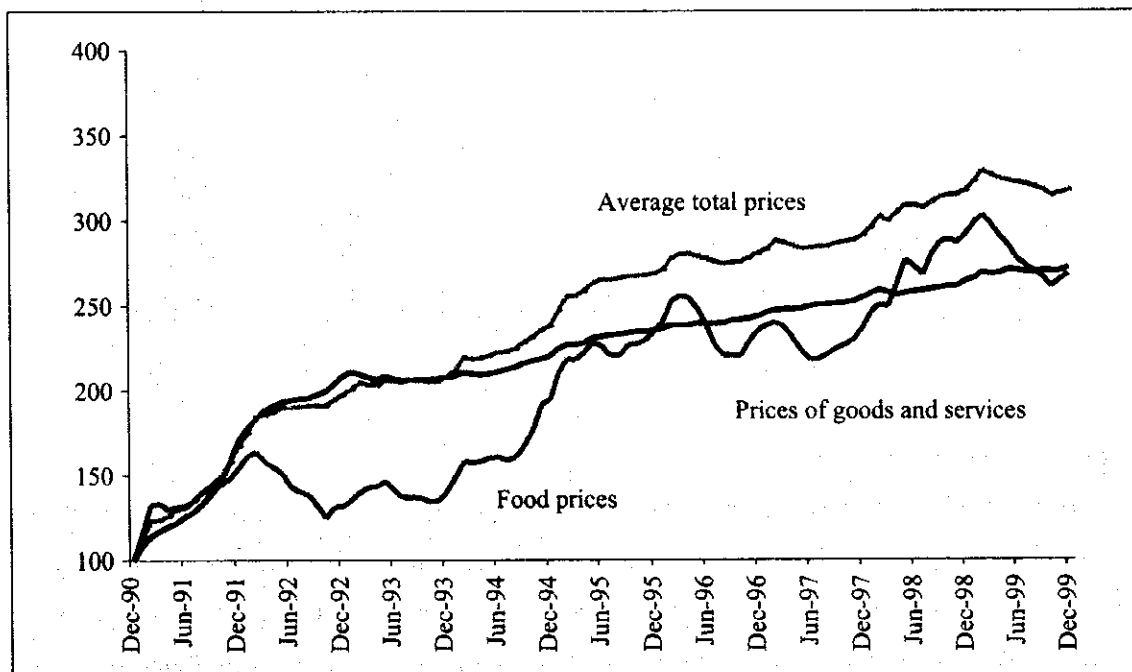
Figure 5 Comparison of exchange rate among Viet Nam, Thailand and Malaysia currencies 1997-2000



Market information research and trade promotion activities are too weak, marketing strategies are undeveloped, making difficult trading activities implement through mediators with low benefits and high

risks. Several macro policies have not provided favorable conditions for agricultural and rural development in comparison with those of other fields. Although exchange rates have been adjusted in due course to make it equal to real value in the markets, Viet Nam exported agricultural products are still suffered from great losses because regional countries had strongly adjusted their exchange rates to make its currency value lower than that of international hard currency (see Figure 5). Substitutes for imported products, of course, do not have to suffer from this kind of losses.

Figure 6 Price index differences in 1990-1999 (12/1990=100)

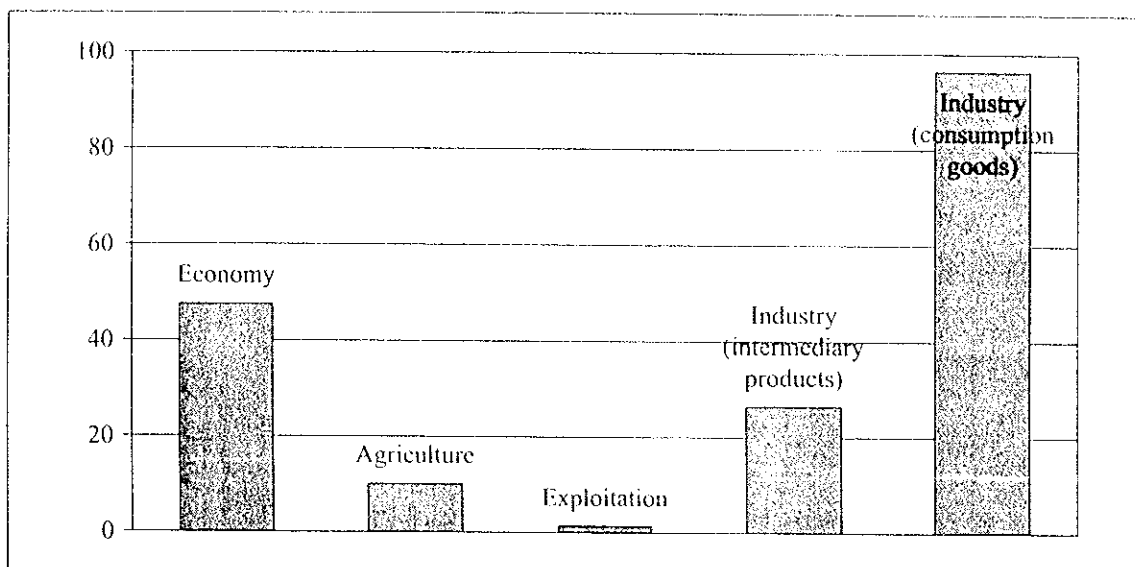


In parallel with advantages of domestic and foreign direct investment, priorities on infrastructure construction and improvement of labor quality and productivity have all established unbalanced terms of trade between agricultural and other sector's products and services in the unfavorable direction for agriculture. This disadvantage is reflected through relations between price index of food products and other items over the last 10 years (see figure 6).

In general, investment in agriculture and rural economy is considered as full of risks and low benefits. That is the reason why FDI in this very sector is so humble and domestic investors themselves have not paid much attention to this big and important sector. As a result, rural economic structure has slowly transformed, job creation is so modest against the increasing number of laborers and population. Employment shortage stands as one of the fiercest issues in rural economy. Average land area of each household is only 0.68 ha with growth rate of labor forces of 2.5% per year, leading to the situation that nearly 30% of rural people lack or have no job to do. Each year, there are over 1 million people participating in labor force while 85% of rural laborers have no professional or technical skills.

Regarding trade policies, the consumption industrial production sector has been more highly protected than agricultural sector (see Figure 7)

Figure 7 Protection coefficients of selected sectors



1.4 Future directions and plans

Agricultural long-term target is constructing a diversified and strong commodity agriculture on the basis of mobilizing comparative advantages, applying new technologies with high competitiveness in domestic and international markets. It is necessary to build a new, industrialized, modernized and urbanized rural area with suitable economic structure; synchronous development of agriculture, industry and service; more employment for laborers, comfortable life for people; democratic, justice and civilized society; maintenance of national identity; especially getting out of hunger and poverty.

Specific targets:

- Agricultural growth rate: 4 - 4.5%.
- Food output by the year 2010: 40 million tons.
- Satisfying urban food demand of diversified and safe good
- Agricultural export turnover by the year 2010: 6-7 billion USD
- Reforestation of 5 million ha with perennial trees and coverage rate of 43%
- Establishment of primary and secondary school, vehicle roads to the center of 100% communes
- Most of households have access to electricity and clean water

The above-mentioned targets can only be fulfilled through further transformation of agricultural and rural economic structure in the direction of effectively exploiting potentials of each localities; building production areas specialize in a commodity by applying advanced technologies, ensuring balance and

cooperation among production, processing and trade activities.

Rural and agricultural development was previously characterized by exploitation of natural resources and expansion of production scale. However, in the time to come, agricultural and rural economy will mostly base on increasing economic effectiveness and products' value through applying technologies and improving management pattern.

Agriculture and rural economy of Viet Nam can only be brought to higher plane if they are based on requirements of markets to identify scale, structure of the sector and to select technologies to develop suitably the production. In that direction, other relevant aspects such as technology service, scientific research and staff training should be appropriately reorganized to maximize competitive advantages of each regions and commodities. Thanks to that, high and sustainable economic effectiveness can be gained for agriculture, forestry sector, aquaculture and rural economy, attracting various domestic and international investments into rural areas, providing employment and income for the rural people.

2. People participation in rural development

2.1 Extended reproduction - a decisive factor for development

Most of Vietnamese population (76%) is now living in rural areas with per capita income of 170 USD/year; 3.6 times lower than that of urban areas. Therefore, income increase is the top priority in rural development cause. But the problem here is how to raise people's income while agriculture still accounts for 70% of total rural economy, in which 80% dominated by cultivation. Originally thriving from agricultural sector with backward technology and poor infrastructure, the best way to develop production is to expand area, and to further exploit natural resources and intensively utilize labor. However, after one decade of extensive growth, natural resource level is now approaching the safe exploitation limit.

There are now over 8 million ha of agricultural land on nation-wide. On average, each household posses 5162 m² of agricultural land, in which the level in Red River Delta is only 2277 m². Based on the number of agricultural laborers, the level is 3369 m², with 500 m² in Red River Delta. The fragmented production scale like this is only compatible to manual production, so mechanization is hard to get access to Red River Delta and the Central region.

Viet Nam has 3260 km along the sea with its territorial sea area of 226 thousand km², aquaculture area of 2 million ha, of them 1 million ha of fresh water, 0.62 million of brackish water and 0.38 million ha of salty water. The over-exploitation of inshore resources and seafood in fresh water region is now depriving of natural resources and negatively influencing ecological environment. Irrigating and daily life water is now over exploited and wastefully utilized. Localities in up-stream areas and near water sources who get maximum benefit from irrigation works may chose the farming method utilizing so much water and freely increase number of crops year-round. Whereas, many other regions so far away from water sources or in down-

stream areas even lack water for daily activities in dry season. Viet Nam obtains 19.6 million ha of forestry land, making up for two third of total land area. Total forest area from 1943 up to now reduced from 14 million ha (accounting for 48% total land area) to 9 million ha (including 1 million ha of natural forest, making up for 28% of natural forest, in which 56% is exhausted forests). Over 10 million ha is bare hill. This clearly proves that income cannot increase through further exploiting natural resources.

In order to move from extensive to intensive development, the most important factor is accumulating capital for investment. Only more funds can help us bring into full play human resource (including vocational training, physical exercise and spiritual development); acquire new technologies (equipments, machines); establish favorable production and business environment (infrastructure improvement, assistance service utilization); and especially make full use of the untapped natural resources (bare hills and waste land, offshore seafood). From that base, we can increase yield and production effectiveness and gain higher savings to facilitate production restructure to provide more jobs and raise income.

However, to the majority of people, fund savings seem to be very limited. Capital accumulation can only be expanded if farmers can raise production level much higher than self-sufficient level. However, this cannot be gained through available advantages of immense land resource because currently only 30% of farmers' households cultivate in the land area of over 0.5 ha. And in terms of production and business capability, only 15% of households are better off. In regard to real result of commodity production, the number of households involving in large economy accounts for only 1% of the total families. In short, about 70-80% of agricultural households have no advantages in terms of natural resource, capital, knowledge, excluding the abundant labor each year due to land losses and population growth. So the serious problem here is how to accumulate capital for extended reproduction.

2.2 International lessons

Different from models of Europe, America and Australia with big farm scale of tens or hundreds ha in the initial stage of industrialization; in Asia, land fund is generally limited, providing disadvantageous conditions to carry out simple accumulation that normally based on large land scale. After the World War II, land reform took place in many Asian countries. For instance, Japan, the first industrialized country, stipulated that average land area of small farmer households is 0.5 ha. In Taiwan, after land reform, any land plot of over 3 ha occupied by landlord was redeemed by the State to divide to farmers. South Korea also initiated its industrialization in agriculture by deciding land ownership limit of 3 ha, the same level with that of Viet Nam. Despite the much smaller scale of land for households in comparison with that of other industrialized countries, East Asia has successfully implemented the course of modernization and industrialization of agriculture and rural areas.

Since natural resources fail to be active motive for accumulation for extended reproduction, while production is only carried out by simple farming technique; farmers should be supported from outside to

have great kick start to make added value. Depending on situation of each nation, great fund from different sources have been poured into agriculture by the Government. In Taiwan, an important part of this source is from post-war restructure aid fund provided by the US. Indonesia transfers a great amount of money from the oil and gas sector to agriculture and many other nations got money from the state budget. Those funds are spent for such fields as scientific research, agricultural extension, rural infrastructure, irrigation system, and application of new crops' seeds, new equipments, materials serving agriculture. Investment in the first place played an important role in inception of agricultural development cause. It helped rural economy transform from extensive growth, after land reform, to intensive development to secure accumulation even in the context of limited production scale. In Taiwan, in the 1950s, 45% of agricultural growth gained through yield promotion and investment programs of the Government. Similarly, Indonesia, Thailand and Malaysia invested in agriculture at much higher level than other developing nations of medium and low income. Thanks to that, from 1965 to 1988, agricultural production yield in East Asia averagely increased 2.2% against 1.5% in Latin America and 0.3% in Sub-Sahara Africa.

Other supplementary measures for agricultural development in Asian countries is reducing direct or indirect tax imposed on agriculture. Many other countries in the world, for their eagerness to accelerate industrialization, have extracted most of surplus value gained from agriculture to invest in industry through imposing tax, controlling price, consuming government budget, protecting industry and keeping exchange rates high. Whereas, in many East Asian countries, resources were transferred from agriculture to industry at much lower pace than development level of agriculture, this helped maintain extended reproduction within the sector. Macro policies and inter-sector policies have provided favorable conditions for agricultural production, raising agricultural products prices, eliminating invisible tax imposed on agriculture through low price of agro-products. Take China as an example. From 1952 to 1980, price increase index of farming products was 234% while that of industry remained standstill. Since 1990, agricultural products prices have continuously been high, mostly 15-30% higher than prices in international markets.

Those foresaid conditions turns agriculture and rural areas an attractive investment environment, in which state investment has been considered as driving force for luring greater investment from people and foreign partners into agriculture. Capital spawns employment and improves effectiveness to increase income for farmers. That is the reason why annual income growth of agriculture in East Asia region is 3.2% against 2.3% in Latin America and 1.9% in Africa.

The two decades of 50's and 60's witnessed an impasse in the development of agricultural sector of South Korea because poor investment in agriculture was mostly concentrated on promoting irrigation system and importing fertilizer, while the Government maintained the policy of keeping food price low to encourage industry. The situation can only be changed since 1969 when agricultural products prices have been raised in parallel with strong growth of investment in agriculture.

However, unsuitable investment may cause bad effects. To accelerate rice production, from early 70's to

1990, the Indonesia's Government assisted rural credit program with interest rate lower than price increase speed. Recently, the Government keeps on investing in extension and raising domestic rice price to the level higher than average international price of 30% through activities of State monopoly companies. Though ensuring food self-sufficiency; non-market assistant methods such as irrigation subsidy, inputs and outputs price subsidy for both producers and consumers have pressed burden on the state budget, eliminated effectiveness and dynamism of production and business. In spite of rich investment, Indonesia could not maintain the dynamic development in rural areas. Thus, when financial crisis coincided with natural disaster, agricultural sector of this country fell down and the society is in upheaval.

Investment can only be effective if it goes to the right destination of mobilizing all resources of every sector in society. To this end, concerted action should be made between State and people. Two successful lessons drawn from Taiwan and South Korea clearly prove that.

Management mechanism of Taiwan operates very effectively. Headquarters taking responsibility of planning and circulating investment for rural areas of Taiwan Government is Joint Cooperation Rural Restructuring Agency (JCRR). Besides, farmers' association acts as a nerves system: transferring information on rural development demand to the central and guiding the state to provide rural areas with favorable conditions to get access to agricultural materials, credit and marketing measures. The close coordination between JCRR and farmers' association effectively facilitates the scientific research, varieties improvement, irrigation promotion, soil consolidation; construction of extension system, agricultural credit and health care network in rural areas.

In South Korea, headquarter of the program is Central Consultation Committee of "Saemaul Undong" Program headed by the Minister of Internal Affairs. At all administration levels from central to localities, management boards of this program are already in place. Most notably, development projects are selected, designed, managed and implemented by farmer communities in communes and villages. The State supports farmers with materials; technologies, credit and subsidies while people contribute their physical and material subjects. This program is initiated with infrastructure projects and then economic development projects and rural industrialization ones. In the period of 1975-1982, contribution level to the government increased from 42% to 48% while total investment rose 8 times. After just 10 years, rural houses have comprehensively been roofed; most of them have got access to clean water, electricity and even telephone. The income level of rural population has approached or even within some years exceeded that of urban people. Especially, accumulation fund of farmers has extremely increased. Average saving-income ratio per household was up from 10% in 1960s to 20% in 1970s.

In short, the lesson learnt from extended reproduction accumulation in just a small households' production scale is the state rational investment usage through organic relations between state agencies and leaders on the one hand and farmers on the other hand and through the active participation of farmers' community in establishing and implementing rural agricultural development programs. In comparison with regional dragon

economies, investment on agriculture in Viet Nam up to now has not been rich enough to create new incentive. Besides, rural environment has not been attractive enough to lure investment while investment effectiveness should also be taken into reconsideration in order to improve the participation of the masses in development programs.

2.3 Lessons of Viet Nam

2.3.1 Sound policies meeting needs of agricultural households: an impetus for mobilizing the whole population might

The success of 10-year agricultural reform stems from the unification between the will of State and the desires of farmers. The policies promulgated have covered reasonable demands of people to master land, markets and rural society; and to be supported in terms of technology, capital, information and etc. These stand as great motive to encourage every economic sectors actively participating in production and business activities in rural areas. Thanks to that, though technology has not yet reached at breakthrough and agricultural investment has by no means increased, agricultural output and exports have skyrocketed. For instance, over the last ten years, while land capital for rice has been constant, thanks to raising cropping intensity, cultivated area increased 2.7%, productivity raised 2.8% a year, paddy production 5.6% a year and rice exports 12% a year. There is every reason to say that the increase in agricultural GDP of 4-5% could be gained through the great efforts of the whole population supported by the state sound policies.

2.3.2 Linkage between producers and processors through contracts allows households to accumulate for extended reproduction

Entering the new development period, the new incentive to capitalize on the might of the whole people can only be obtained through a suitable investment strategy, in which both increase of investment for agriculture and rural areas and effectiveness of investment should be raised with the positive participation of the farmers. On enterprise scale, Viet Nam has undertaken a number of successful investment models as directed by this strategy.

The state farm of Song Hau in Can Tho province has long emerged as a typical case. After 8 years, outputs increased 17 times, contribution to budget raised 2.6 folds with revenue of over 1000 billion a year and 10 billion of returns (excluding tax). As a state-owned enterprise in charge of production, processing, import and export; the farms always get benefits while the other state owned enterprises have severely suffered from losses. The noteworthy is the fact that extended reproduction scale is so high: within 20 years, fixed assets of the farms increased from 49 million VND to over 100 billion VND. Except from completed field system and infrastructure with over 80 tractors, threshers, paddy-dryers system with capacity of 900 tons/day, 9 rice mill factories with capacity of 500,000 tons/year, 7 vegetable

and fruit processors, 2 upgraded wood firms were completely established and another livestock processor is on the way to be accomplished.

The farm consists of 2 integrated blocks: original block includes 2000 small farms with the scale of 3 ha totally owned by farmers' households. They are forces producing crude materials for processing and export. As a complete farm, each household is a business unit cultivating fields, gardening, culturing fish and raising animals. The second block is an enterprise really taking responsibilities of managing, providing technical services, processing, exporting and importing agricultural products and offering living and cultural services. At initial stage, profits of the farms mostly gained from available advantages such as immense land fund, abundant water resources and state loans. The noteworthy here is that households' accumulations in many small units have been poured into extended investment for intensive reproduction, implemented "industrialization" within the state farm. In return, mechanical-technical block could help all the small farms improve productivity, raise income for agricultural block. The export of agricultural products and import of fertilizer have rapidly multiplied the interests of the farm and transferred them to every members of both blocks, enhancing reproduction in each household, each firms and the whole union.

Song Hau farm established their career by its own fair hand, while Lam Son sugarcane cooperation took off from a nearly bankrupt enterprise. After 10 years, sugar output, revenue and contribution proportion to the budget have increased 100 times. The cooperation has established a modernized and industrialized production area, implementing integrated business activities with manufacturing as its core and such complementary activities as services, construction, materials, transportation and the belt area providing sugarcane materials and all kinds of agricultural products such as livestock, fruits trees and mushrooms. Notably is the strong reinvestment ability of the cooperation: in 1997, fixed capital was nearly spent up, but now its total value reaches 174 billion VND. By that way, the cooperation poured its investment to build an alcohol company with its capacity of over 1million litter/year, a sweet company with capacity of 500 tons/year, 1 micro-bio fertilizer of 20000 tons/year, 100 trucks and a sugarcane factory of 6500 tons sugarcane/day.

Like Song Hau, Lam Son is also organized into two integrated blocks: rural block manned by 15 thousands laborers from over 30 thousand agricultural households belonging to 60 communes and 4 state farms in the central plateau, west Thanh Hoa Province. Agricultural households produce sugarcane materials for the factory and diversified agricultural products. The second block is industry-service one, under the control of an association including processors, banks, transportation firms, providing technical services, credit loans and cultural services and consuming products for industrial block. The profit gained from intensive investment of the whole company, in certain level, has been redistributed to each household in the region. Average income of sugarcane growers has increased 5.7 times (15 million) after 7 years; even some household gained 24-26 million VND/year.

The above-mentioned two farms as well as many other examples in agriculture sector have been operating successfully through rationally combining 2 important components: agricultural material production and processing industry, building up an economy closely integrated within the internal enterprises. Both enterprises have invested for the agricultural households, transferring part of profit from enterprises to them for extended reproduction.

In theory, this method of organization has widely been called as "contract system". Under the "contract farming", agricultural businesses will buy products of farmers by contracts. The contracts stipulate conditions of quality and quantity, kinds of products that are permitted to be sold, responsibilities of enterprises in offering loans, technical assistance, input technologies and other services. In Viet Nam, the model of "contract system" has, though in small scale, been specifically viable, not least been able to meet the demand for capital, technologies and market for small-scale households, creating and maintaining reproduction ability and expanding reproduction for enterprises.

On enterprise scale, "contract system" models of Song Hau and Lam Son farms have spawned uncourageous outcomes due to the improvements in investment measure with the participation of farmer and state economies. On larger scale, new policies should be designed to successfully improve the linkage between investment from private sector and from state.

2.4 Theories and strategy suggestions

In many Latin American countries, industrialization process of the economy has been implemented under a disintegrated model: the state have made all efforts to invest and implement policies for rapid development of modern industrial sector and quick modernization, in ignorance of its backward and shrinking rural areas. After the successful industrialization, the state will gradually move natural resources from other sectors to agriculture that then became too small. In short, from the beginning to the end of development process, small household models remain in place, their quantity has experienced changes but the quality remains mostly constant.

On the other hand, economic development models in Asian countries allow the viability of "integrated" industrialization. In parallel with agricultural development process, industrialization has been implemented; industry and service sector, by this way or others, have been integrated into rural economy. For example, development of small and medium industry, decentralizing large scale industry, moving factories nearer to agricultural households to attract the abundant labor, promote service economy in rural areas will transferring profits from industry to agriculture during industrialization cause. The state facilitates the rural development in advance, allowing substantial changes of small households into small farms that closely associated with cooperatives or corporations through contract system. On the other hand, the rich people will be provided with favorable conditions to become enterprises.

Even "integration" seems to be suitable to our conditions, Viet Nam has to find its own way differed

from that of other regional first runners and based on its own specific features. The following are some typical features of Viet Nam:

- The state initial capital is not great enough to focus investment on agriculture.
- Agriculture has, though gained remarkable growth, been unable to improve exceptionally both income and reproduction capacity.
- Most of rural households have met difficulties in terms of capital, technology, and market to proceed with rural industrialization.
- Viet Nam industry has so far unfledged to be able to push agriculture forward to improve employment, income, technology and etc.
- With more favorable natural resources than many other regional countries, Viet Nam obtains superior advantages to develop agricultural production.
- The prevailing globalization in the world nowadays has made trade liberalization a positive trend for agricultural exporters.
- The recover of regional countries from economic crisis, the increasing economic growth of Asia and the transferring of economic structure towards industry and service may have all reduced competitive advantages of Viet Nam agricultural sector.

In the context of new opportunities and challenges, Viet Nam agriculture has to manage to link with industry through internal advantages; following the direction of both taking agriculture as a base for industry development and considering industry as a factor to speed up agricultural growth.

In conclusion, Viet Nam, on the one hand, should learn precious experiences from successful industrial countries regarding strategies such as rural and agricultural development and linking agriculture with industry. On the other hand, it should apply different measures to realize those strategies. Neither township and village enterprise model in China, nor industrial model in which urban farms located in rural areas in search of agricultural family labor, nor community development model (Saemaul Undong) of South Korea, Viet Nam should follow its own way as the following proposals:

(1) Development of contract system

In Viet Nam, even within small-scale application, "contract system" model have appeared to be exceptionally viable, satisfying 3 requirements of capital, technology and outlets for small-scale producers; establishing and maintaining reproduction capacity of households and enterprises. This model demonstrates extremely important way, never taken so far by any production organization forms on large scale in our country.

Contract system can be applied to domestic companies (private or state-owned), foreign ones (especially multi-national companies) and joint-venture companies. The core of this system may be a processor

(such as Lam Son), business enterprises, agricultural households and an integrated enterprise (such as Song Hau).

Different from any loose linkage among agricultural households, processors and consumers in which agricultural households often suffer from losses and risks, "contract system" eliminates the role of intermediaries such as assemblers, lenders and decoys, in order to directly protect producers, not least the poor when they sell their products. This model also gives up monopoly that often leads to the phenomenon of price pressure and benefits exploitation by processors and traders. Thanks to the elimination of monopoly, those processors and circulators have to focus more concerns on reducing production cost, increasing quality of agricultural products, establishing mechanism to share benefits, raise income and improve extended production capacity of the farmers.

In addition, processors and exporters do not have to worry about quantity and quality of agricultural materials. In 1998, while rice export enterprises were distressed due to the shortage of products; Song Hau farm still acquired good quality rice at reasonable price for processing and exporting. Lam Son cooperation have also solidly expanded and used up capacity of facilities while dozens of other sugar companies were in bustle to find materials.

These two mentioned above enterprises have implemented the method of mutual benefit, creating opportunities for intensive co-investment, applying uniformly new technologies in all chains of materials production, processing and marketing. In both two typical models, technologies have been applied from the first link of seed production to the last link of processing; reducing production costs and improving competitiveness of agricultural products. This demonstrates as a key factor for the brighter prospect of successful implementation of industrialization and modernization, offering good conditions for millions of small-scale producers who have not enough land to apply new technologies for surplus. And in addition, this is also an outlet for forestry products in Viet Nam.

(2) Development of cooperative economy

Vietnamese cooperatives can only become the organization actively supporting the development of rural economy in Viet Nam if they could obtain the following tasks:

- Providing 3 main services of technology, market and capital to cover urgent need of farmers that cannot be settled by farmers themselves.
- Becoming the bridge linking the state and people to implement agricultural and rural development program, opening up opportunities for farmers to actively participate in establishing, monitoring and managing invested articles.

To this end, basic improvements should be made in cooperative economy organization method, satisfying the following three requirements:

a. Being a representative for farmers with a mechanism serving people

Voluntary principle should be fully applied to the process of establishment and reformation of cooperatives. Cooperative staff has to demonstrate demand and desire of member farmers; leaders should be selected through down-top voting. Managers and staff should be professional and skillful enough to take all responsibilities. And they, including managers from enterprises and cooperatives, also must be selected and paid in accordance with their own capacities and demand of the job.

b. Obtaining enough ability to meet requirements of the households

Urgent demand of farmers can only be met through adding functions for cooperatives, focusing more efforts on such activities as credit, saving for investment, insurance, trade promotion and market expansion. Organization system of cooperative union must be strong enough to have rights and ability to implement financial and trading functions. The decentralization of some public services ran by state units need to be considered to associate farmers with management and utilization of the services of training, application research, extension and agricultural materials trading.

c. Gaining power and capacity to coordinate between management and investment program of the State on the one hand, and members' activities on the other

A mechanism should be established to provide cooperatives' leadership at all levels with good conditions to participate in such important activities as formulating strategies and policies, planning rural development program from central to local levels. Representatives of people should have seats in significant committees directly relating to establishing and monitoring the implementation of development decisions, including committee of land resource and water resource management, committee of seed and breed and etc. A two-way information system and close relationship with rural people should be set up to inform the government about the desire, demand and difficulties of all people; at the same time to disseminate guidelines and policies of the Party and State to population.

(3) Human resource development

Vietnamese people are widely known in the world by their diligence and good will to overcome difficulties. Viet Nam laborers are also characterized as cheap and skillful. Those are precious characteristics need to be maximized. However, when the Vietnamese economy enters into its new and intensive development phase, when the world comes to a new age of tremendous development of science and technology and when other nations in the world establish themselves an intellectual economy, a new dimension of human resource development in Viet Nam, on which creativeness should be capitalized, is an endless and priceless goal to expand the Vietnamese economy in the future.

Since Viet Nam agriculture steps in renovation with the development of farm economy and small

household economy, producers are offered opportunities and capacity to create and apply new technologies in production and daily life. Hybrid rice variety is a technological advancement requiring high intensiveness. This is why it has not yet been applied on large scale. In the North of Viet Nam, this kind of variety has been experimented on the area of 11000 ha since 1992. Up to now, this technology has been used commonly on an area 20 times larger than previously, becoming an important structure in rice sector. In Mekong Delta, after only 10 years, hundred thousands of floating rice—one of the most extensive rice farming systems in the world—has been transferred to intensive and multi-cropped rice farming system, building up intensive regions with the highest productivity. Technologies have been fast invented and applied while investment in search and extension is so limited, proving the dynamism and intelligence of Vietnamese people. A series of new technologies such as medicine cure nematode for coffee, treatment for Thanh Long to bloom all year round; anti-mouse trap by Thai Binh, tilting machine by An Giang and etc. are rapidly applied on large scale, making great contribution to agricultural development. Initiatives of Vietnamese farmers, in many cases, are not only indigenous knowledge, becoming inventions, including tilling machines, rice mills, measures to dig across-road culverts, hanging bridge in rural areas, moving construction works and etc.

Maximizing potentials of the resource requires the establishment of human development strategies to acquire enough and rational investment in training and education, health care, nutrition, information and culture; facilitating Viet Nam laborers to get access to high qualification, productivity and effectiveness.

(4) *People: active objects of rural development program*

Positive participation of farmers in development process requires rational organization and mechanism for them to involve in important investment decisions directly relating to rural and agricultural development cause.

a. Peoples' participation in macro-development process

State development strategies and policies can only ignite enthusiasm and active participation of people when satisfying its demand and desire. Therefore, people's unions and cooperative system at all levels should act as the voice of people, helping them take part in governmental activities.

The formulation of a rural development program needs further research, study, review, dissemination, and popularization of people's inventions, following the targets set out. Favorable environment of legal, material, spirit and organization should be set up to provide good conditions for the participation of people in development programs, and for the mobilization of creativity and internal strength.

b. People's participation in micro programs

In order to turn people the master of development investment projects, it is necessary to establish a

mechanism for them to decide investment priority, portfolio and to participate in execution, monitoring and taking over projects. When the development projects completed, local people need to have mechanism receiving, assigning and taking responsibilities of managing and operating the works. Each work, big or small, needs to designate its own controller from local community. The role of community should be enhanced in management of natural resources and infrastructure. The principle of “the state and people cooperate with each other to invest, implement and manage” should be respected. The state and foreign donors should not directly or fully subsidy any works even for poor or difficult communes. They should only support the main, inter-branch and inter-regional matters, while the rest by the people. It is necessary to eliminate the ideology of dependence, pessimism of the poor, and to help them active, creative, self-confident and self-responsible in the cause of poverty alleviation and hunger elimination as well as rural development.

c. Improve of investment environment in rural areas at all cost

- Improving agriculture and rural areas as sustainable, safe and beneficial investment environment.
- Establishing stable and sound legal framework to encourage small and medium enterprises from all economic sectors, both domestic and foreign ones to develop strongly in rural areas, making great contribution to the economic structure transformation and creating more employment for agricultural householders.

The above-mentioned proposals will make contribution to improving the participation of agricultural people in agriculture and rural development cause and to raise their income.

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Role of Rural Institutions in Improving Production Efficiency and Agricultural Household's Income

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Preface

In Viet Nam, the last decade has witnessed remarkable achievements of economic renovation, which are regarded as strong foundations paving the way for further development in the new era.

The greatest achievements could be seen in the agricultural sector, highlighted with a continuously high growth rate, significant increase in farmer's income, leading to an substantial improvement of farmer's living standard, a considerable reduction in poverty situation, remarkably positive changes in socio-economic profile in rural areas.

The great performance of agriculture and the rural economy over the past have been largely contributed by rural institutions, including social organizations, unions, agricultural cooperatives and other co-operation forms in rural areas, Viet Nam Bank for Agriculture (VBA), and other intermediate financial institutions in rural areas.

In order to speed up renewal progress of industrialization and modernization oriented economy, especially in rural areas, the role of these institutions, in which VBA and other financial institutions; agricultural co-operatives and cooperation forms play an active role, must be highly promoted. Therefore, this paper focuses on the operation situation and development perspectives of these institutions

Part 1 Financial institutions for agriculture and rural development

1. Viet Nam Bank for Agriculture (VBA)

The precursor of this financial institution is Viet Nam Bank for Rural Development established in 1988. Having twice renamed, now it is called Viet Nam Bank for Agriculture. Since 1996, VBA has been a special state-run institution having the autonomy in financial capacity and operation.

VBA has a nationwide network with over 20,000 cadres working in about 400 branches in districts and provinces, and has 8 joint ventures. VBA has a huge number of clients coming from internal and abroad, in which the major part is over 10 million of agricultural households. VBA has developed credit transaction

with over 20 foreign banks through their branches in Viet Nam and worked as a credit agent for over 500 foreign banks and international credit institutions.

Since 1996, VBA has developed continuously, marked by various significant achievements in capital formation both domestic and foreign currencies. Annually, the fund mobilized account for about 80% of total operation capital. On the other hand, credit has increased considerably both in lending amount and number of borrowers, meanwhile, its quality has been ensured. Accordingly, lending amounted to VND 17574 billion and nearly USD 100 million in 1996 and VND 47452 billion and USD 211 million in 1999. Also in this stage, VBA concentrated on giving loan to farmer families for production development, resulting in total outstanding loan of VND 18735 billion with annual growth rate of 17-19% and 18% respectively.

From 1992 onwards, the VBA could not able to cover its operating costs, however, since 1996 VBA has increasingly gained profit and provided better credit services to agriculture and rural development that performed in the following aspects.

1.1 Credit provision to households for production development

Among the Bank's clients, agricultural households have become the most important and believable. Yearly, there are over 3 million of households getting loans from the Bank, in 1996 it were 3300 thousand households; 3,300, 3,700, 3,964 thousand households from 1997 to 1999, respectively.

In 1999 total loan gave to household and co-operative sector was VND 20,362,258 million, increased by 19.5% comparing to that in 1998; at the end of year, the outstanding loan was VND 20,074,447 million, shared 62.3% of total outstanding loan of the bank, increased by 19.5% in comparison with that in 1998. Of VBA's debtors, there were 3,964,297 clients (99.7%) served as production households, on average, a client borrowed about VND 5 million, only 0.3% of its debtors was cooperatives. Generally, VBA's branches in almost all of provinces have focused on their lending activities to households.

Medium and long-term loans has been much concerned about, however, loans in short term has still dominated 57.6%. In the whole country, the growth rate of lending to households in 1999 showed an increase by 19.5% comparing to that in 1998, but there still were large differences in lending rate among regions. The lending rate increased by 43.7% in Central Coast Region, 37.8% in Central Highlands and 9.2% in Mekong River Delta. The lowest lending growth rate was found in Red River Delta, other regions had rate of about 13-18%. Consequently, credit amounts per client between regions were different, namely, it was VND 4.3-4.9 million in the Northern Mountain, VND 6.1 million in Mekong River Delta, and VND 13.4-14 million in Central Highlands and Southeast Regions.

In aggregate, while number of households accessed to credit services of the Bank accounted for about 34.67% of the total households, it varied from region to region. While this rate was only 19.59% in Red River delta, it reached up to 59.41% in Mekong River delta. Regions that had rate in range of 30-39% were Northern Mountain, North Central Coast, Northeast Regions and Central Highlands. 25.98% was

the rate of households accessed to credit in Central Coast Region.

In view of loan supplied to households mainly for development of agriculture and aquaculture production, total loan in agriculture sector have grown at the rate of 22%, accounting for 63% to total loan given to households and co-operatives. Particularly, loan for aquaculture development shared only 4.3% but leading to a rapid growth rate of about 25.6%.

Regarding loan repayment, as above mentioned, households in rural areas have been recognized as the most trustful clients of the Bank those have had credit transactions in transparency. In many past years, the non-performing loans showed the rate of only 4% approximately. The non-performing loan made by both households and co-operatives was 3.01%, in 1999, in which by household was only 2.98%, reduced by 1.34% comparing to that in 1998, considerably lower than that of other debtors.

In 1999, non-performing loan made by households and co-operatives reduced by 1.83% compared with 1998. The reduction in non-performing loan was seen in all regions throughout the country, especially in North Central Coast it was 4.96%, in other regions it was from 1.3% to 2.3%, while in Southeast Region the reduction rate was only 0.41%. In case of households, the situation varied depending on purposes of loan use. Generally, non-performing loan with regard to lending for development of agricultural and aquaculture production was low, only accounting for 2.5% of total non-performing loan in the whole agriculture sector. This rate reduced by about 1.99% for agriculture and 4.37% for aquaculture while in other sectors, it was reduced by only 1%.

Generally, non-performing loan in agricultural sector was low, only accounting for about 2.5% of total outstanding loan in agriculture, while in industrial and services sectors the respective rate was considerably high, consisting of 6 to 7.5% of total outstanding loan in these sectors.

In regard to lending to agricultural co-operatives, in the past, the VBA refused to lend to most of agricultural co-operatives. As the law on co-operative had taken effect, this worried situation has been gradually getting better. However, in 1999, out of over VND 20,000 billion of loan disbursed to households and co-operatives sectors, only VND 61 billion accounting for 0.3% made by agricultural co-operatives. Such a low rate is blamed for both sides. For agricultural co-operatives (ACs), they did not satisfy the lending conditions as an eligible bank's client. According to the result of the survey on 8343 agricultural cooperatives conducted by the bank in 1999, there was 12% cooperatives had capital demand and was able to meet the credit conditions promulgating by the Government, 35.5% had no demand, 37% had demand but was not met the credit conditions, and the rest of 15% needed to borrow from the bank but are requested to enjoy a concessionary interest rate as applied for the poor. On the other hand, the Bank has not worked out effective solutions to facilitate ACs to have access to borrow the money.

1.2 Lending procedures to households by development programs of the government

Apart from giving loan to households in pursuant to common commercial credit mechanism, the Bank

has provided credit services in accordance with targeted scheme assigned by the government. Total loan for this important purpose up to 1999 has obtained nearly VND 2096 billion, including:

- Lending for improving and constructing houses in flooded areas (Mekong Rive delta): 366,000 households who had access to a total loan of VND 1,281.3 billion constructed 25.7 million m² of housing area.
- Lending for overcoming damage caused by the storm No5 in 1997: VND 1016 billion and 47,370 households involved
- Lending for overcoming damage caused by the storm No.5 in 1998: VND 181 billion
- Lending for overcoming aftermath resulted from natural disasters (drought and flooding in some provinces in Central Coast Region in 1999: VND 233.8 billion.

These loans assigned by the government following specific programs have effectively contributed to help farmers overcome very difficult periods. However, some emerging problems for the Bank are on the rise, namely repayment rate reached only 53%, an interest collection was only 49%, thus, nearly VND 5 billion of doubtful debts had been hung up or wrote off.

1.3 Credit services provision entrusted by international investment projects

Since 1996, besides its operation in domestic currency, the Bank has focused on foreign currencies transaction activities that include guarantee services to borrow foreign currencies, lending from foreign banks, receiving deposit and making advances in foreign currencies, mobilizing foreign currencies etc. In term of foreign currencies, international payment services have experienced positively rapid changes. In 1996 total payment by foreign currencies reached only 984 million USD, while it increased by 21.5% in 1997; 37% in 1998, and 57.3% in 1999.

A very useful channel for agricultural households to have access to fund is credit projects committed by for international institutions. This service has generated an continuously increased loan, marked by a total loan of USD 59 million in 1996, USD 488 million (VND 6,200 billion in equivalence) in 1999, involving many support project, such as 3 projects of German, 1 project of French Development Fund, 3 projects of World Bank, 1 project of Asian Development Bank, 1 project of Euro Union and 1 project of IFAD. Such amount of fund was disbursed to nearly 200,000 households spreading among 41 provinces for their production and poverty alleviation.

1.4 Policies on interest rate

In recent years, the lending interest rate policies applied for rural areas have been gradually adjusted. At the beginning of 1998, ceiling of the lending interest rate was unified, defining the same level for both urban and rural area, along with the introduction of concessionary interest rates.

In early 1999, responding to Governmental policy on "encouraging consumption demand", the Bank reduced ceiling of interest rate of deposits in accordance with the reduction of loan interest rate that initiated by the State Bank. It also introduced priority interest rate for believable clients, disbursed loan to household in targeted scheme of government with reasonably low interest rates, especially for remote areas and ethnic minority groups.

1.5 Flows of loan to households

So far, VBA has given loan to households under 2 forms: direct lending and indirect lending, i.e., lending through teams or groups.

For loan of large amount, direct lending is applied, and accounted for about 83% total loan for households in 1999. Indirect lending or lending through group and team is made to small loan, accounted for 17%.

In some localities, indirect lending is popular, in which Ha Tay and Nam Dinh are typical. The branch of VBA in Nam Dinh gave a loan of VND 5 million to households mainly through teams or groups. In Ha Tay, this form accounted for 48.8% of total loan to households. The rate of bad debts by this form is very low, only 0.08% of total bad debts through indirect lending.

1.6 Recommendations on the role of VBA

As a big commercial bank playing decisive role in rural financial market, the Bank always determines rural areas as a major market, agricultural production as the objective of credit services provisions and farmer as major client. Since the establishment in 1996, the Bank has continuously developed.

Given that the bank has closely approached rural financial market as well as its clients, it has attained encouraging achievements. However, because of large operating range, the Bank's operation revealed some constraints that require the Bank to work out effective measures to overcome and develop.

1.6.1 Achievements

Credit provision has spread to all rural areas in 7 economic-ecological regions in the country. Every year based on the real socio-economic status and perspective for development of individual regions, the Bank prepares the plan of credit provisions for agriculture and rural economy development of specific regions.

Among industries operating in rural area, agriculture and fishery are paid much attention to provide with loan for development, especially, investment in production input expenses. In 1999, total disbursed loans increased at the growth rate of 22% for agriculture and 25.6% for fishery sector, resulting in significantly remarkable performance of those sectors

Lending has been broadened to a lot of borrowers of different ownership, in which agricultural

households are regarded as major client. Yearly, there are about over 3 million of agricultural households getting loan from the Bank, in 1999, nearly 4 million were involved.

Lending to households in pursuant to governmental targeted plans has provided a great help to household to upgrade their houses, mitigate negative impacts of flood and drought, improve farmer's living standard and, in addition, played a very important role in social and political stability of the whole country.

Besides giving loan to agricultural households under the form of direct lending, the Bank has provided credit services to state-owned enterprises to buy agro-products, such as rice, coffee etc. with an eye to reduce negative impacts of price fluctuation that strongly influence to agricultural income.

Foreign currency transaction activities, in which credit provision service supplied by international organizations shared a major proportion, have been boosted continuously, creating a capital supplying channel for households.

Above achievements derived from the fact that VBA has continuously attempted to reform credit provision procedures, provide professional training to thousands of cadres. These achievement gained by the Bank during the past time are highly appreciated and further stimulated.

1.6.2 Limitations and constraints

However, for the time being, because of larger demand for fund, along with an significant increase in number of borrowers, the Bank are facing with some major limitations and constraint as follows:

Lending to agricultural households is not been closely related to socio-economic development planning, structural transformation in cultivation and livestock, as well as agricultural product market in each region. Credit services in some regions were provided with moderate extent, some provincial branches were afraid of giving loan to high-income regions and/or remote and mountainous areas.

Although the Bank's clients have increased continuously, many agricultural households have not been able to access to credit services provided by the Bank. In 1999, only about 34% of total rural households, accounted for only 50% of household who had demand of capital, had access to the credit services.

Appraising procedures of lending plans of clients were conducted improperly in a number of cases, as a result, many household in need of loan were ignored. On the contrary, households who are not in need of fund or did not satisfy conditions of loans were served, resulting in high risk of non-repayment of loans. For instance, in 1999, 4,784 loans valued at VND 50,200 million, accounted for 16.5% of total loans, were at risk of non-repayment because of failure of loan objects.

The above situation resulted partly from credit cadres in term of their working capacity. Credit cadres that account for about 30% of total cadres of the Bank, although they have been trained and retrained and had some experiences, are still working with the limited capacity. Furthermore, the fact

that presently each credit staff has to be in charge of loan management for 600 clients with nearly VND 400 million involved.

In some localities, credit cadres have to manage number of clients and loans up to twice times higher than that of average level. This fact has had a large negative impact to lending status to agricultural households both in term of quantity and quality.

2. Viet Nam Bank for the Poor

Viet Nam Bank for the Poor (VBP), established under the Decision No 252/TTg dated August 31st 1995 of the Prime Minister, officially operates based on the fund for the poor transmitted from VBA since January 1st 1996. VBP operates in principles of non-profit, self-maintaining fund, mobilizing funds from individuals and institutions at home and abroad, receiving credit funds for the poor from state budget and other sources permitted by the Government in order to set up lending fund to the poor for the purpose of poverty reduction.

VBP's organizational structure spreads from central to district level. So far, VBP has its network of branches operating in 61 provinces and cities with over 500 districts.

At central level, there is the Board of Director and a Consultant Group. At province and district level, there is also a Board of Director and a Consultant Group operating on a part-time working basis.

Staffs in professional working units from central to local level almost are appointed by VBA.

Thanks to strictly following operation principles, VBP has continuously developed as described in the following aspects.

2.1 Mobilizing funds

At the establishment of 1996, total capital of the VBP was only VND 1,958 billion. However its capital reached to VND 2,340 billion in only one year afterward in 1997, (increase by 19.5%), VND 3,422 billion in 1998 (increased by 46.23%), and VND 4,086 billion at the end of 1999 (increased by 19.4%, and twice of the establishment).

Out of total capital in 1999, fund mobilized from central shared the major proportion of 91.7%, while the rest mobilized from local level.

The central fund was formed mainly from borrowing. The registered fund was only VND 700 billion (18.3%) and trust fund accounted for 1.1%. The local fund was formed mainly from trust fund in localities, fund mobilized from resident deposits showed a small proportion of less than 10%.

Accordingly, it is noticeable that the capital formation of VBP is mainly from state budget under form of subsidies of lending interest. Such a moderate subsidy leads to the passiveness and dependence of the Bank in its operation, yet to a certain extent, this situation shows a great attempt of the Bank in capital formation.

2.2 Lending performance

The Bank serves directly to poor households for their business development based on selected lists of poor households. The selected list of poor households is set up through discussion and negotiation of members of mutual-help groups or credit-saving groups in villages and approved by commune people's committee or director of poverty alleviation committee in commune and district branch of the Bank.

Over the past four years of operation, total cumulative loans amounted to VND 6,982 billion at the end of 1999. An amount of loans of VND 3,897 billion was given to poor households during 1999, up 25.7% from 1998. There have been about 3 million households involved in the credit services for four years, and specifically 1,011 thousand households in 1999. Currently, there are 2,320,000 households having loan from the bank with a loan of 1.6 million VND each.

Out of total borrowers, ethnic minority groups, mainly Hmong and Thai groups, including 380,000 households had access to a total amount of loans of VND 590 billion.

Poor households received loans mainly for the purpose of agricultural production development. In 1999, loan invested in agriculture was 88.6%; in fishery and salt production shared 2.42%, small services and trading 2.44%, small industries and forestry 1% each and others 4.48%.

Naturally, poorer regions have more poor households having credit relation with the bank. In comparison to 1998, loans given to poor households in 1999 in Northern Mountain Region increased by 33%, In Central Highland increased by 16% and in other regions by 22-25%. In general, fund is directly delivered to the poor in accordance with purposes of lending such as purchase of production materials, creating more jobs and increase in production with an aim to improve income and living conditions of the poor.

During its operation, VBP have attempted to renew some lending procedures, such as:

- Enlarged the maximum loan size from 2.5 million VND to 3 million VND per household
- Focused on medium term loans to facilitate the poor in their production expansion. In 1999, although middle term capital was only 39% but medium term loans given to households reached up to 72.18%.

The above encouraging achievement imply a great attempt of the Bank in providing necessary assistance in term of loan for business development of the poor, facilitating job creation for million of rural labors. Obviously, nearly 330,000 poor households have escaped from poverty, and more will be seen in coming years.

However, besides achievements, the following issues are raised in VBP operation, which require effective measures to be worked out.

2.3 *Some emerging problems*

Since all members of the Board of Directors and its Representative Committees, Consultant Group and Supervising Group of the Bank are government officials, they serve the Bank on a part-time basis. Therefore, they pay little time for the Bank's operation. Furthermore, power of the Board of Directors is limited regarding some operating activities that involve other agencies and state authorities. Not all members of the Board of Directors attend the meetings, often less than half of members. Therefore resolutions are not fully implemented, as a result it is difficult for the Board to fulfill the functions to advise the government in making policies.

In terms of operational matters:

- Indicators of poverty lines as a base for lending proceeding are much inconsistent from region to region, even within the same region, leading to difficulty in classification of eligible objects. In addition, the classification of poor households issued by the Ministry of Labor, War Invalid and Social Affair is no longer appropriate, not in accordance with the living standard in many regions. Consequently, in some cases, number of poor households approved for loan access is higher than real statistical number of poor households.
- Poor linkage between credit services and agriculture extension services
- Function of supervising conducted by some representative boards for the poor is ineffective, resulting in failure in lending object identification
- Increasing loan amount per household up to 3 VND million maximum seems to be appropriate. However, in some regions where industrial crops, animal breeding, aquaculture and fishing activities have a great advantage, the loan should be raised in order to help the poor exploit natural sources as well as develop their key production activities effectively.
- Credit term: the medium term loans account for about 70% of total loan, while the lending fund for medium term were only 40% of total fund. It is thus necessary to determine the need of medium term loan in each region.
- Interest rate:
Monthly interest rate reduced from 0.8% to 0.7% has applied to all regions, bringing positive effects, however, the same rate applied to poor households in zone III (remote and high mountainous areas with many difficulties) are inappropriate.
Compensation fund for the differentials between commercial interest rate and interest rate awarded to the poor is defined by the Government or supplied by some state authorities through annual plans but the Bank usually receives this information too late.

Given these constraints, there have been controversial questions about the existence of VBP.

On one side, it is said that establishing the Bank means an establishment of subsidy system; the poor

usually uses capital ineffectively, resulting in low capacity of loan recovery; the Bank has been dependent in term of organization structure, thus, ineffective operation especially lending to the poor is distorted at grassroots level. Therefore, the Bank's operation should come to an end.

On other side, some people said, poor households in Viet Nam are in high rate; their starting point in term of economic situation are too low; their ability to access credit services from other commercial bank is low; they may be born high interest rate if borrow from private credit sectors. Although there are rather a lot of weak points appearing in operation of the Bank but these constraints can be removed through suitable policies and effective measures.

In our opinion, both arguments are right in certain extent and reflex the actual situation of the Bank, hence, it is essential to have more intensive researches to make a right decision.

3. People's Credit Fund (PCF)

3.1 From credit cooperatives to people's credit fund

From 1956 to 1985, almost communes in the country had credit co-operatives with total number of 7,160 units (3,960 in the North and 3,200 in the South). Since the economic renovation, this number had increased by 500, leading total credit cooperatives up to 7,660 units by 1990.

However, given the old operation mechanism is not suitable, a long with slow transformation into market mechanism, many credit cooperatives fell into recession, and went to bankruptcy.

It was not until October 1990, when State Law on Banking, Credit Cooperatives, Financial Companies has become effective, over 6,000 credit cooperatives had to stop their operation as a result of being unsatisfied the operation conditions as regulated. Over 2,000 units went to bankruptcy. Up to July 1993, in the whole country, only 62 credit cooperative were re-registered their operation under the law, but their operation were limited because of poor linkage among them.

Accordingly, the Decision 390/TTG dated July 27th 1993 was issued to experimentally establish credit cooperatives under form of people credit fund.

3.2 Experimental establishment of PCF

Experimental establishment of PCF was conducted through several stages. In early 1998, 53 out of 61 provinces had PCFs with 977 grassroots units, 21 PCFs in regional level and a central PCF. PCFs at grassroots level were operating in communes, taking advantages of proximity of households and simple lending procedure. PCFs have attracted a total of 64,1701 members, VND 153.149 billion of registered capital, VND 1,857 billion of working capital and VND 1,189 million of deposits, VND 1613 billion of outstanding loan so far.

Regional PCF is a coalition association of grassroots PCFs, established on a voluntary basis in a province or city for the purpose of coordination of capital among grassroots PCFs and linking them to the central

PCF. Within 21 regional PCFs, there are 2,209 members, with total capital of VND 450 billion, increases by 91 billion comparing to that in 1998, in which registered capital shares VND 21 billion and VND 161 billion borrowed from the central PCF.

Central PCF was established in August 1995 with regional PCFs as its main members. Its function is to coordinate fund among its members, supports fund to the members and mobilizes fund from others sources to strengthen financial capacity of the whole system. In 1999, the central PCF consisted of 788 members and VND 393 billion in working capital, up VND 74 billion from 1998, in which VND 112 billion is registered capital (VND 80 billion come from state budget), deposits of VND 38 billion, borrowing from others of VND 152 billion and reserved fund for coordination of VND 5.5 billion

3.3 Transformation by the cooperative law

In October 1997, State Bank issued the Circular 6 guiding on implementation of Model Statute of PCFs. By that time, almost all PCFs were transformed and provided instruction on transformation and registration procedures corresponding to the cooperative law provisions by State Bank.

After transformation, PCFs have been gradually improved in term of organization structure, operation mechanism, debt payment and operating planning.

3.4 Performance of PCF system's operation

Experimental establishment of PCFs and their transformation according to the law on credit cooperatives were accepted by most people, especially rural people, and attracted many voluntary participants

PCF is a legal entity, operating on principles of self-finance, autonomous operation and mutual help. Based on its capital formation, PCFs provide credit to its member to expand their business, increase income, and improve their living standard.

PCFs at grassroots level have lent VND 10,000 billion to nearly 3 million households. Its outstanding loans at the end of 1999 was VND 1,845 billion, averaging VND 2 billion per PCF. Regional PCFs have provided VND 308 billion to grassroots PCFs, supervised and helped their operation. Central PCF have lent VND 260 billion to its members and received 50 thousands USD aided by ACCT, borrowed USD 16 million (20 years of repayment term) from ADB to provide to its members.

For four years, PCF system has obtained the following results:

- Mobilized idle money from local residents and directly lent to its members. Some 100,000 agricultural households have deposited and had access to the loans.
- Contributed to effectively exploiting local resources for economic development, transformation of agricultural structure, recovering traditional industries and handicrafts, developing VAC movement, creating more jobs, reducing poverty, and restricting the situation of lending at high interest rate.

- Provided training for over 700 cadres at grassroots level in order to help them initially approach credit business

3.5 Major limitations

3.5.1 Organization structure

PCF system has not been complete both in term of organization structure and operation mechanism. To some extent, the capital co-ordination in the system has still underdeveloped, only provided fund from higher level to lower level. The financial capacity and operation mechanisms are not strong enough to ensure their operation security, especially at grassroots level. Series of weak points have been revealed in the linkage with the government, state bank, other credit institutions established by inside and outside NGOs.

3.5.2 Operation quality

PCFs at grassroots level: a lot of PCFs have operated for the purpose of benefit only, the principle of mutual help sometimes is ignored. Many PCFs still operate in small-scale; non-performing loans seem to increase because of weak control and poor checking mechanism; security of fund have not been ensured, in some cases, there is a shortage of money safe so money have to be kept at cashier's home; financial transaction activities bring low effectiveness, about 40% of PCFs have low share dividend, even lower than demand deposit to commercial banks; during transformation by law on cooperative, a lot of PCFs implemented their transformation procedures in perfunctory, leading to slow renovation.

Regional PCFs: Usually perform below their registered function; low in registered capital, over 50% of the total have not reached VND 1 billion of registered capital as regulated; borrowing capital is higher than owned capital; low in loan to their clients. Regional PCFs operation much depends on State Bank both in term of personnel input and material technical base. Generally speaking, regional PCFs are facing a lot of difficulties, leading to their unstable operation.

Central PCF has very important functions but like regional PCFs. It provides and co-ordinates fund among its members; it is unable to control loan using of its members; both the registered and mobilized capital are still low; the dividend of share is half lower than dividend of deposits in commercial banks; principle of mutual help has been paid inadequate attention.

3.5.3 Reasons of limitations

The intervention of Communist Party units and local government in the following two tendencies is blamed as obstacles on PCF development. The first tendency, at commune level, the communist party unit regards PCF as a section of the State Bank as established by the State Bank, so little attention is

paid on PCF. The second tendency, on the contrary, local governments regard PCF as a bank for the commune and deeply intervene in operation of PCF, even organize many inspection teams to check PCF's operation, resulting in unstable development of the PCF.

Branch of State Bank in some provinces has not fully implemented their duty of consulting local governments in giving instructions to PCF. The managerial role of some relevant state authorities toward PCF has not been clearly defined.

Inappropriate policies on PCF operation have been issued, such as regulation on applying income tax rate of 25 % to PCF business are too heavy. There is a lack of policy on compensation for PCF in case of inevitable risk (drought, flooding impacts).

3.6 Major recommendations on development directions of PCFs

Given above situation of PCF system, some argue that: PCFs' operation brings about too low efficiency, its depositors suffer relatively high losses; beneficiaries - both borrower and loan amount - are in narrow range; representative committees of PCFs show poor managerial skills. Therefore, attempts should be focused on state owned commercial bank development only.

However, in our opinion, lending fund of commercial banks only meets about 50 % of total demand for credit and it is necessary to develop more credit channels, in which PCF is an important option.

PCFs, which have transited by cooperative law, show better operation. It is expected that with an effective review of the experimental establishment of PCF and determining a right organization structure as well as having appropriate policy, PCF will play really active role as an important channel in capital formation and giving loan to agricultural households to promote their production and in limiting usurious lending practices.

4. Other informal credit institutions in rural area

Besides formal financial, credit institutions as mentioned, there are some informal credit institutions beyond of legal regulation provisions having considerable impacts on capital mobilization and credit provision in rural areas

Three informal institutions are mentioned below:

Credit services provided by agricultural or agricultural service cooperatives. They are described in next sections regarding agricultural cooperatives.

Fund for Poor Women was found by Viet Nam Woman's Union in renovation period many years ago. This fund aims at providing loan to poor women who are lacking capital for production development. Initially, its operation capital was in small size, including a small proportion subsidized by state budget. By mobilizing savings from its qualified members then give it to poor women in the form of loans, at present operation capital of the Fund has amounted to several VND billion and hundred thousands of women have

access to capital for production expansion. The Fund shows an active role in helping poor women out of poverty. A lot of poor women have succeeded improving their living conditions. Many cases proved the fact that many poor women had basically changed their life thanks to borrowing only 300-500,000 VND each.

Assistant Fund for Agricultural Households was established in 1996 by the Viet Nam Farmer's Association: The Fund aims at supporting farmers to develop their business for their income improvement. Poor agricultural households are subject of the Fund. However, other farmers who are not supposed to be poor but have credit demand also are able to involve. In 1996, at the beginning of its operation, the fund was granted VND 40 billion from state budget as initial working fund. Annually, the fund mobilizes idle money from farmers to increase their lending fund. As of the end 1999, after 4 years of active operation, 459 districts and 4,065 communes had established assistant funds for farmers attracted a total working capital of VND 113 billion. These Funds are highly appreciated by farmers. 196,830 agricultural households have joined these Funds, by which, a lot of them escaped from poverty and made their living better off.

Part 2 Role of cooperatives in agricultural households economic development

1. Executive summary of cooperative situation before the Cooperative Law

Agricultural cooperatives in Viet Nam were firstly introduced in 1955 in the North and 1975 in the South. In spite of twenty years of interval between the North and the South, the same operation and management mechanism were applied for the cooperatives in both regions.

After a very short time of experimental establishment, agricultural cooperative movement was expanded widely to the stage of junior agricultural cooperatives for just two to three years. Experienced the next four to five years, superior agricultural cooperatives basically formed in the principle of collectivization.

In the agricultural cooperative, land and other production materials were owned collectively and centrally managed. Its members worked under administration of the board of management. Equal distribution and largely subsidized mechanism were applied. The operation was based on distributing materials from higher managerial level and delivering products from lower level. Collectivization of production materials put cooperatives in the situation of not being owned and ineffective use of production materials and no working motivation among its members.

However, the cooperative movement in the North worked out in the context that the resistant war expanded throughout the country. By that time, country's reunification became the most vital purpose, so cooperatives played a very active role in association with all people to ensure the agricultural production in the North and strongly support the resistant war in the South.

When the war came to an end in 1975, the same model of cooperative were applied both in the North and in the South, as a result inherit constraints of the cooperatives are increasingly revealed.

In 1981, model of operation based on economic contract in agricultural cooperatives was introduced in pursuant to the Instruction No. 100 of the Political Bureau in which cooperative was responsible to three out of total eight production stages. This regulation initially generated more benefits for cooperative members; limited centrally planned management mechanism; reduced negative impacts of collectivization in production materials and equal distribution and largely subsidize situation within cooperative - typical characteristics of the agricultural cooperative model in this period. Although it was regarded as a break-through of the economic renovation, the Instruction No. 100 still was a contingent solution. Materials ownership, management and distribution mechanism in agricultural cooperatives basically were unchanged.

Up to 1988, the Political Bureau issued the Resolution No. 10 on renovation on agricultural organizations that was to be considered to be a crucial and comprehensive solution paving the way for agricultural development. In the agricultural cooperative, applying contract-based mechanism for production to agricultural households basically removed negative impacts of collective cooperatives. Agricultural households were determined as autonomous economic units.

The Resolution No. 5, Congress VII of Communist Party stated: *"continuously implementing renovation in agricultural cooperatives both in term of organization and operation bias further mobilizing potentials and active role of households, strictly following principles of voluntary, democracy, and mutual help to develop cooperative movement"*.

In 1993, the National Assembly promulgated Law on Land, by which, agricultural households were awarded 5 land using rights for a long time that regarded as the most important element to help agricultural households become autonomous economic units.

As agricultural households are regarded as autonomous economic unit, there was an urgent need to completely remove the mechanism of materials collective ownership, centrally planned management, equal distribution and large subsidizing. Agricultural cooperatives were not in need of deep intervention in production as done before. Alternatively, their operation focused on providing related services to its members. During the years of renovation, however, there were few cooperatives (about 10%) that were able to provide necessary services to their members, while many units collapsed and others existed in name only.

In March 1996, the National Assembly approved the Law of Cooperatives. In May 1996, Political Bureau issued the Instruction No. 68 to implement the Law. Also, during this time, the government issued many decrees and circular related to agricultural cooperatives. Since then, cooperative movement has entered into another development stage.

2. Enforcement of the Cooperative Law in agriculture

Over 3 years of cooperative law enforcement, outcomes in such provinces as Hai Duong, Hung Yen, Ha Noi, Binh Dinh and An Giang are summarized from related reports of several ministries and localities and from some study reports, show both many encouraging achievements as well as emerging problems in

implementing agricultural cooperative law, as follows:

2.1 Transformation of former cooperatives

2.1.1 Before the law enforcement

By early 1988, there were 17,022 agricultural cooperatives (ACs) and 36,352 production groups (PG) that in fact were junior ACs with small scale in the South. When the economic renovation has taken place, ACs and PGs were not corresponded to market mechanism and had no reasons to exist.

At the end of 1994, the situation of cooperative movement in agriculture was as follows:

- 2,958 ACs and 33,806 PGs that mainly in the South and accounted for 17.4% and 93 % respectively of the total in the whole country collapsed
- ACs and PGs members reduced sharply from 86% of total agricultural households to 10% in the South, from 91% to 45% in the Northern Mountain region

In 1997, there were 13,664 ACs (including the additional number of 2,171 ACs newly established from the separation of commune wide cooperatives to smaller coverage. The board of management was reorganized in reducing managerial cadres by 50%, equal to about 300,000 people. The then existing ACs were classified as:

- | | |
|----------------------------|--|
| - Fairly good performance: | 2,494 ACs, accounts for 18.3% of total ACs |
| - Good performance: | 44% |
| - Operation in name only: | 37.7%. |

In general, the renovation of ACs before the law was low. However, basic relationships within the ACs changed:

- Production materials ownership was transited bias transferring or selling almost materials to households to manage. Especially, right of agricultural land using for long term was awarded to agricultural households.
- In term of distribution, equal distribution and large subsidize mechanism were removed and transformed into capacity-based distribution mechanism. Members had rights of autonomously making their decision on their product distribution after paying tax
- In term of management mechanism, ACs had no longer controlled production as done before and only provided necessary services to its members. The links between ACs and its member were defined basing on the economic contracts. Furthermore, the government abandons its intervention in ACs' operation, alternatively controlled ACs though policies and legal provisions, canceled physical production indicators assignment and separated social functions from ACs instead assigned them to local government. Initially, ACs enhanced their active

role, while reduced their dependence on the government.

2.2 Transformation of ACs by the Cooperative Law

For three years of the Law enforcement (1997-1999), many provinces basically completed the transformation of ACs from old model to a new one under the Law. By the end of 1999, 5,740 ACs (66.5%) out of 7,531 ACs conducted their transformation. 51.7% of which were granted business registration license with the main task as services provider for their members

Hanoi capital basically completed the transformation process, out of 248 ACs, 84.27% of eligible ACs was transformed at the end of 1998, and by the end of 1999 it reached 88.7%.

A high rate of transformed ACs could be seen in Red River Delta, 81.5% at the end of 1999. For instance, in Nam Dinh province, 96.8% of eligible ACs were transformed by 1998 and 98.4% by 1999. All ACs in Vu Ban district, Nam Dinh province was transformed by 1998. Hai Duong province implemented the transformation for 93.4% of ACs in 1998, reached to 95.6% in 1999. Phu Xuyen district, Ha Tay province also shows the remarkable results with 100% ACs transformed by 1998

In the North Central Region, the transformation has been conducted gradually. In Nghe An province, out of former 1,000 ACs, after the collapse of 500 ACs, about 54% of the rest completed the transformation by 1998, and 56% by 1999. In Quang Binh province it was 22% and 92.5% by 1998 and 1999 respectively. In Central Coast Region, there was a quite high rate of ACs transformed. Binh Dinh province: 95.1% by 1998, 96% by 1999. Quang Nam province: 96.3% and 100% by 1998 and 1999 respectively.

In Mekong River Delta, out of 175 ACs remained, 88% by 1998 and 100% by 1999 were transformed. In Southeast region, out of 117 ACs by 1998, few of them was transformed. By 1999, there were 59% ACs completed

In Northern Mountain Region, there were 6,075 ACs existed at the end of 1996, after two years of slow transformation, by the end of 1999 48.8% of total 3,689 eligible ACs was transformed. Very low rate was shown in Hoa Binh province (14.6%), Ha Giang (16.9%), and the lowest, Lai Chau (2.5%).

In Central Highlands, before the Law, almost of 296 ACs and 175 PGs collapsed by the end of 1996, and 48.8% of the remaining ones (172 ACs) were transformed by the end of 1999.

2.3 Dissolution of ineligible ACs for transformation

Dissolution by the Law: at the end of 1999, out of 4,818 ineligible ACs (excluding ACs had already collapsed before the Law), 2,902 ACs completed procedures for dissolution, 2,248 ACs were likely considered as to be dissolved. Such ACs mainly existed in the Northern Mountain Region (50% -2,384 ACs), particularly, Son La province: 1,397 ACs; 1,572 ACs in North Central region (in particular, Thanh Hoa province: 1,463 ACs)

Voluntary dissolution: Some ACs dissolved by themselves but still existed as nominal. Almost all of

them dissolved in 1992-1993, its debt and asset were transferred to commune people's committee. This situation is common in Bac Giang, Thanh Hoa, Nghe An, Quang Binh and Yen Bai provinces

No longer operating, ineligible to transform but have not been dissolved.

Those ACs are in the situation of no capital, no fund, small existing asset and lack of liquidity. The management board is not in operation, all of related services are arranged by agricultural households who no longer have relation with their cooperative. However, these ACs have not been dissolved. Most of those ACs are existing in Northern Mountain, Central Highlands, North Central Coast, namely, Daklak: 122 ACs; Yen Bai: 150; Lai Chau: 200; Hoang Xu Phi district of Ha Giang province: 120, Nghe An 230; Quang Tri: 132; Quang Binh: 120, and so forth. Generally, these ACs have been in situation of "no operation but no solution".

2.4 Constraints and emerging problems in transformed or dissolved ACs

2.4.1 Transformed ACs

Situation of "nominal members" has been in common in many transformed ACs.

Rights of land use in long term have not completely been awarded to members in some ACs. In some places, besides agricultural land area reserved for common purposes, land was reserved by AC. These ACs justify for their acquisition that their members have been in debt to the ACs or violated their own rules. Even in some communes, agricultural land areas reserved for common purposes is up to 1.5 or 2 times higher than regulated by the Government. Several ACs have reserved 50 hectares, even 100 hectares in order to deliver to some members in the form of economic contract as stipulated in "Instruction No.100", which is the mechanism no longer effective. The land use right certificate has been granted to about only 70% of total members. Accordingly, there is an urgent need to solve such situations in order to promote the active role of ACs.

During the transformation, auditing ACs' capital, funds, and debts have not reflected their actual situation, not strictly followed legal regulations.

Former ACs are in serious debts, of which receivable loan reached to thousands of VND billion (over 150 million per AC), payable debt was in the same situation (over 80 million per AC). Consequently, in transformed ACs, receivable loan is hardly to be collected because of the spreading ideal among members "if you don't borrow, you lose a chance. If you pay back the money you borrow, you are stupid". ACs, in turn, are in very poor liquidity.

Working fund have been limited because the registered capital that established from members' contribution is small in nature but incompletely collected, and the ability to get loan from commercial banks and target socio-economic development programs is very low.

Generally, assets of former ACs have already valued. However, except damaged things, others such as kindergarten, clinic, school, road, etc., are difficult to determine their current value but only

historical value.

ACs cadres are mostly in low competence both managers and professional cadres, far lower than required. Consequently, many management boards are reluctant to develop their AC business services. Some ACs deposited their contributed capital to banks or their commune people's committee under form of demand deposits.

Inherit constraints of former model had existed for several years, while the transformation duration was defined very short, resulting in the "massive implementation" with low quality. Most transformed ACs is facing with difficulties in their operation. In term of business, good ACs accounted for only about 30%, Bad ACs: 20%, the rest are in moderate level. Most good ACs have focused their business on input provision, such as irrigation, electricity, and production materials but ignored output marketing activities.

Economic efficiency of AC business has been still low, making transformed ACs less attractive.

2.5 Constraints and emerging problems of dissolved ACs

- For ACs dissolved before the Law: In general, many issues are arising in those ACs after their voluntary dissolution. So far, no organization or individuals have responsibility for dealing with these problems. Some local authorities intend to ignore such bad consequences, creating a negative phenomenon in rural communities
- For ACs dissolved after the Law:
 - Granting certificate of land use rights in long term to farmer has been still slowly conducted, only about 60% of the total.
- Receivable loan is hardly collected while payable debt is unable to repay, assets originated from bank borrowing have already been transferred to commune people's committee while related official regulations are yet to be issued.
- For ineligible ACs but unable to be dissolved: The major constraints in those ACs is that their operation have stopped while record of fund, capital, debts, assets were not defined clearly.

2.6 Newly established ACs by the Law

2.6.1 Increase in quantities

In early 1998 there were 211 newly established ACs, the number increased to over 300 ACs at the end of the same year and 1,093 ACs by the end of 1999, 4 times higher than that in 1998. Newly established ACs mainly appear in the regions of Red River Delta: 414 units; Mekong River Delta: 393 units; less appear in the regions of Central Coast: 6 units, Central Highlands: 6 units. The following provinces can be considered as main spots of newly established ACs: Hai Duong: 179 units; Hung Yen: 168 units; Soc Trang: 104 units; Can Tho: 81 units; Thanh Hoa: 76 units; An Giang: 74 units; Ha

Giang 27 units; Tien Giang 27 units; the rest provinces have few newly established ACs (one to two each).

Almost all newly established ACs have been generated from cooperation group of agricultural households.

2.6.2 Establishment procedures of ACs and its operation

Initially, as founders, heads of agricultural households, who have demand for cooperation, voluntarily join together to organize a general meeting to establish a cooperative corresponding to legal regulation provisions. The operation of AC is under the legal regulations, not to be intervened by any other institutions or individuals. AC members democratically determine their business, vote to their director, board of management and board of supervision.

As preeminence features of new model, newly established ACs do not contain any inheritance from former collective model. The first purpose is to provide services to its member. Profit earning is the secondary purpose.

2.6.3 Constraints to newly established ACs

- The planning to develop cooperative movement as specified in Decree No.02 has not been actively implemented in localities
- Lack of managerial cadres, especially those who have deep knowledge of services and marketing
- Lack of capital and material technology base, in addition to poor capital formation capacity

About a half of newly established ACs is facing with such limitations and constraints that derived mainly from their superficial establishment, consequently many boards of management are wondering how to operate effectively.

2.7 Development of cooperation groups

Besides ACs as mentioned, many cooperation forms have developed years ago. At the end of 1999, out of over 90,000 cooperation groups in the whole country, Mekong River Delta has over 49,000 groups accounting for about 50%, while provinces like Hoa Binh, Dak Lac, Dong Nai, Long An, An Giang, Vinh Long and Bac Lieu have over 3,000 groups each.

Almost such groups are small in scale and seasonally simplified cooperation under different names that closely link with their basic jobs such as irrigation group, groups for field protection, for mutual help, for savings and credit for animal breeding, etc.

Such cooperation groups, though in simple and small scale but seem to be suitable with current production level and show efficiency. Many groups are operating with an eye to develop community and

mutual help. As an example, In Ca Mau and An Giang provinces, members of some groups contributed money to help poor members to redeem some 100 hectares of land that already mortgaged to others. Some other groups established to promote agricultural extension services and cooperate in their products consumption or to get new production techniques. During the establishment and development, these cooperation groups received a great help from public organizations, especially, farmer association and woman union.

However, besides some positive influences those farmer cooperation groups have revealed some following limitations and constraints:

- Most of them were established spontaneously, having no legal entity, thus they are mostly unable to access to supports from state authorities;
- Weak in the economic capacity and the services provisions;
- Management and accounting activities are not carried out properly, leading to risks of failure.
- Most of heads of groups have poor managerial skills.

3. Role of ACs in production efficiency and income improvement of its members

ACs in this section include transformed ACs and newly established ACs since the Law has taken effect. They are called agricultural cooperatives or agricultural services cooperatives or clean vegetable production and marketing cooperatives, etc.

In spite of several limitations, those cooperatives have operated in correspondence with the Law regulations for their member's benefit, met production requirements, and resulted in significant achievements. It is hardly deniable that ACs' activities have shown considerable efficiencies and positively influenced their member's income, paving the way for overcoming constraints of former model. Such encouraging results can be presented as follows:

3.1 Contribution to production efficiency

This result is seen in about 30% of good ACs that locate in almost all regions. The following 15 ACs are highlighted:

Out of 15 ACs, eight ACs were transformed from the former model, seven were newly established in accordance with the Law. Geographically, two ACs locate in the Northern Mountain, seven in Red River Delta, three in North Coastal Region, three in South Coastal Region and two in Mekong River Delta.

These ACs ensure from two to eight kinds of services. Four ACs act as production input providers only; nine engage in both production input and output services; two operate both input and output services as well as agro-product processing activities. Specific operations of each ACs is presented as follows:

3.1.1 ACs engaging in production input services

A. Me So agricultural services processing cooperative (Chau Giang district, Hung Yen province)

During the transformation by the Law, the general meeting decided to dissolve the former cooperative and established the new one. The new cooperative aimed at providing agricultural services to its member. Total members: 147 (1,800 members in former cooperative).

In the commune that the cooperative is operating, there is a heterogeneous crop structure in total 1,058 hectares of cultivated land: Rice growing land: 30 hectares; maize growing land: 90 hectares; soybean growing land: 90 hectares; peanut growing land 180 hectares; vegetables growing land: 45 hectares, peppermint growing land: 45 hectares; other medicine plants land: 50 hectares; jujube tree growing land: 200 hectares; mandarin planting land: 50 hectares; mandarin orange-tree: 123 hectares etc. In term of livestock, there usually are over 600 pigs, 18,000 chickens and others. Besides agricultural production, non-agricultural business such as jobs of mechanic, wood processing, construction, agricultural product processing etc are also available.

During two years of operation under the new Law, the AC focused their operation on services, such as, irrigation, electric supplying, plant protection, resulting in the below encouraging achievements:

Irrigation service: Constructed 3 pumping stations serving for alluvial land, 5250m of concrete canal; 16 road culverts, 4 small bridges crossing canals..

Besides upgrading irrigation system in alluvial land, the cooperative maintains the good operation of 7 electric pumping stations.

So far, cultivated areas in alluvial land have been irrigated and drained, facilitating crop structure transformation, especially in favor of growing high-value vegetables, bonsai, valuable medicine plants, etc.

Electric power supplying: The cooperative has satisfied the demand for electric consumption of all households within the commune. In 1997, 1,018,000KWh were supplied to households, now it is 1,218,000 kwh. The electric price ordered by the cooperative has also been reduced from VND 660 per kwh to VND 650 per kwh. Thanks to electric price reduction and stable supplying, electric using handicraft has also increased in number. For instance, 2 units of wood processing, several rice processing units, 1 beer production cooperative has been established. On other side, due to the availability of electricity, many electric appliances have been purchased that help to improve rural socio-economic situation.

Protecting plants: Like other cooperatives, the cooperative also provides protecting plants service to its members. As a highlight, in 1999, when valuable vegetables crop grown by farmers were destroying by rat epidemic, the cooperative quickly disbursed VND 15 million to buy 450 kg of raticide to sell on credit to its members, as a result the damage was significantly mitigated.

Given the above positive achievements, after two years of operation, the cooperative has attracted

additional 19 people to join as its members.

B. Quoc Tuan agricultural services cooperative (Nam Sach district, Hai Duong province)

Established from model of commune-wide cooperatives (all commune's residents were cooperative members) that had 2,980 members. In December 1997, the general meeting was held and decided to cancel the former cooperative, alternatively the new one was established and attracted only 56 members, equals to 1.9% of the former one.

The cooperative has provided five types of services, namely irrigation, electricity, land preparation, plants protection and agricultural extension.

Total working capital is 77 million VND. Fixed assets are rented from former cooperative that managed by the commune people's committee.

In spite of a short time of operation (for two years), the cooperative has shown relatively high effectiveness:

- Irrigation fee per ha reduced by 62 kg of rice
- Electricity price reduced by 100 VND per kwh
- Land preparation fee reduced by 15-20% comparing to the price ordered by Provincial Land Preparation Company
- Agricultural extension conducted several training courses on new production techniques for members and non-members.
- Operation efficiency: total revenue 1032 million VND; profit 38.2 million VND, share dividend 1.5%

C. Minh Tan agricultural cooperative (Vu Ban district, Nam Dinh province)

The cooperative locates in flooding plain, and the former cooperative had 2,615 members out of a total of 4,857 people. Agricultural land per capita is over 1000 m². The production is dominated by agriculture activities.

In 1997, this cooperative decided to transform by the Law. The cooperative provides its members with five types of services focused on irrigation. Five pumping stations are well operated, the irrigation and drainage canals are upgraded to ensure water to be supplied to over 90% of cultivated area. As a result, total irrigation fee of VND 226 million was collected, obtaining VND 16 million as profit.

With 65 plough buffaloes, 25 tractors and three mini plough machines, land preparation services have been well ensured up to 97% of cultivated land of its members, collecting VND 130 million of revenue, resulting in VND 5 million of profits.

Service of agricultural production material supply such as fertilizer, pesticide and animal feed, and service of output marketing have been put much attention. Annually, the cooperative provides 250 tones of fertilizer and ensures marketing of 150 tons of rice, obtaining VND 350 million of revenue and VND 5 million of profit.

In 1999, profit from service provision activities was VND 115 million, in which VND 30 million were paid back to its members to encourage them to use the cooperative services.

D. Xuan thien agricultural cooperative (Tho Xuan district, Thanh Hoa province)

Operating in a midland region, the cooperative was found in 1998 and has 300 members, accounting for 23.5% of agriculture households in the commune.

The cooperative focused on providing services to 187 households growing sugar cane and 113 households growing paddy as well as providing veterinary services to related households.

For one year of operation, the cooperative gained VND 65 million as total profit, of which profit of VND 32 million was achieved from providing service for sugar cane growing households. Of total profit, the cooperative extracted VND 10 million to pay as share dividend (2% per month)

3.1.2 ACs act as production input and output providers

E. Son Nam agricultural cooperative (Son Duong district, Tuyen Quang province)

Total members are 1,353, in which 691 belong to ethnic groups. Paddy cultivated area: 328 hectares, other food crops area: 100 hectares, mixed garden area: 217 hectares. Located in mountainous area with poor production conditions and faced with many difficulties in living conditions, for three years after transformation by the Law, the cooperative have attained the following achievements:

- Invested VND 283 million in upgrading canal system to ensure supplying water for paddy cultivation
- Organized 57 training courses on agricultural technique, demonstrated a model of high yield crops such as rice, maize, soybean and sugar cane
- Worked as an agent for the provincial material supply company to provide adequate production input in time to members
- Using its owned and borrowed capital of VND 100 million to give loans to 132 members at a monthly interest rate of 1.2%, which facilitates its members to increase crop yield, purchase additional 50 plough buffaloes, 3 breeding sows and expand pig breeding (45 households), duck breeding and raising fish (4 households)
- Helped its members to sell 4500 tons of sugar cane, 12 tons of rice, 12 tons of maize, 45 tons of potato

Such results significantly contributed to develop the local economy. Total food output increased by 510 ton, food per capita increased from 275 kg to 347 kg for three years, income per capita achieved VND 1.5 million per year, and poverty incidence reduced from 20.6% in 1997 to 11.2% in current year.

F. Phu Nham agricultural services cooperative (Van Chan district, Yen Bai province)

The cooperative locates in mountainous region with the participation of 67.5% of total households. The cooperative put its attempt on 7 types of services, in which agricultural extension activities are focused. As a result, rice yield increased to 10.05 ton/ha, 1.57 ton higher than that in 1996. Based on over VND 500 million of its operation capital, the cooperative provides credit services to its members under the form of advance of inputs (sell on credit). It furthermore helps farmer to sell 400-500 ton of maize and rice. Its service provision contributed to reduce poverty situation, from 21.3% in 1996 to 13.5 % at present.

G. Xuan Chau sugar cane cooperative (Tho Xuan district, Thanh Hoa province)

This cooperative is also located in a middle region growing sugar cane. Found in 1998, at the outset there were 79 members, and now 107 members, in which 87 households are growing sugar cane in 57 ha, and another 20 households are engaged in lime production. The cooperative provides related services to the members such as selling seedling sugar cane on credit, giving loans to 20 members to improve their limekiln.

For one year of operation, the cooperative helped the member to sell 2,400 tons out of total 3,400 tons of sugar cane, and sell 1,500 tons of powdered lime, 1,000 tons of quicklime block, 125 laborers were employed for this job. The cooperative is going to develop more 73 hectares of growing sugar cane associated with breeding chicken that is expected to bring about 15 tons of chicken per hectares of sugar cane.

H. Co Cang agricultural cooperative (Tuyen Hoa district, Quang Binh province)

After transformation, there were 366 members accounting for 63.4% of members of the former cooperative. The cooperative are facing many difficulties such as land limitation, crowded population, heavily based income on agriculture. Some results are highlighted as below:

- Land preparation by machine: Using borrowed capital, the cooperative bought 2 plough machines that also be used as transportation vehicles after land preparation. Land preparation fee had reduced by 1/3.
- Agricultural extension: Besides applying new varieties to agriculture production, the cooperative helps its members to sell 15 tons of paddy seedling to the provincial varieties company.
- Organized production of brick and macadam for its members, resulting in nearly 300,000 bricks and 150 m³ of macadam. The cooperative is responsible for product marketing. The profit from those activities is nearly VND 20 million.

I. Cat Trinh No1 agricultural cooperative (Phu Cat district, Binh Dinh province)

There are currently 2,643 members from 1,106 agricultural households. The transformation was commenced in September 1997. Having completed transformation procedures, the cooperative has focused on providing services to its member, resulting in following results:

- Agriculture extension: 70% of its members have been trained on agricultural technique
- Ensured watering for nearly 100% of irrigation demand
- Land preparation: Acted as a coordinator between 32 tractor owners and members to define reasonable fee, technical standard, location and timetable. This arrangement ensures to satisfy demand for land preparation of all members.
- Providing 60 tons of paddy seedling and 150 tons of sugar cane seedling that satisfied 60% of demand of the members
- Helped its member to sell 110 tones of paddy, 30 tons of soybean, over 3000 tons of sugar cane
- Credit service. The cooperative extracts 25% from VND 600 million of working capital to lend the members, gives priority to preferential and poor households. Thus 90% of credit demand of its members is satisfied

Consequently the production of members is carried out more effectively, members' income increases and the cooperative gains profit. In 1998, its profit was VND 113 million, from which 25% were paid as share dividend and 15% were distributed to members according to extent of using services.

Besides focusing on business activities, social welfare benefit is also ensured. Annually the cooperative pays VND 10 million for purpose of giving present to under-privileged households to help them in case of risk.

J. Binh Thanh agricultural cooperative (Thach Hung district, Dong Thap province)

The cooperative focuses on credit and output marketing services. Annually, the cooperative helps its member to sell several thousand tons of paddy and lends billions of dong to its members.

K. Long Hoa agricultural cooperative (Cho Moi district, An Giang province)

Commercial paddy output of An Giang province accounts for a considerable proportion comparing to the whole country and the output marketing are facing with difficulties. The cooperatives in An Giang involves in paddy marketing at a low degree however. Good models include Long Hoa cooperative founded in 1998 has achieved significant results. By associating with the An Giang Food Company, the Long Hoa cooperative actively helps its members in product marketing activities. This service benefits all three partners: the company is able to buy paddy, farmer are able to sell and the cooperative get commission fee. Annually, the cooperative gains VND 55 million as commission fee, accounting for nearly 70% of total profit from its operation.

L. Van Duc agriculture service cooperative (Gia Lam district, Ha Noi capital)

There are 1,060 members, accounting for 83% of total households of the commune. After transformation, the cooperative attempted to transform agricultural structure, which centered on clean vegetable, hybrid maize production and lean meat pigs breeding for export. The cooperative bought

green pea seeds from Dalat city and sell them to 120 members for production, thus they generated significant results (VND 160-190 million of revenue per ha). In addition, member households grew 100 hectares of clean vegetables, up 50 hectares from previous year; 233 hectares of hybrid maize with the harvest of 3,000 tons up from 2,500 tons. Lean meat pigs breeding households have rapidly increased to 260 households from 10 households in the beginning, some are breeding 30-40 pigs, attaining profit of about VND1.5-2 million for 35-45 days.

The cooperative was in charge of product marketing of two products:

Clean vegetables: Directly collected 500-600 tons of clean vegetables including cauliflower, pimento, cabbage, Chinese cabbage, soybean to deliver (100 tons) to agents in Hanoi and other provinces

Lean meat pigs: The cooperative bought from members to sell to pork processing factories for export. In 1997 it collected 1200 pigs and 1800 pigs in 1998.

M. The Van Tri clean vegetable cooperative (Van Noi commune, Dong Anh, district, Hanoi capital)

Established in August 1999. Presently, the cooperative has seven members of agricultural households with a total contributed capital of VND 50 million. Traditionally, those households use to grow clean vegetable to sell to merchant. When clean vegetable production is expanded considerably, those merchants forced them by charging cheap price. Therefore, to continue the production that brings a high profit, they joined together to establish the cooperative.

Since establishment, the fresh vegetables growing area have been maintained. In addition the cooperative opened 2 marketing agents inside Hanoi, which take charge of marketing about 0.7 to 1 ton of clean vegetables every day.

3.1.3 ACs operating both production input and output as well as in agro-product processing

N. Ngang Noi agricultural service cooperative (Tien Son district, Bac Ninh province): involves five types of services, of which the following two types are regarded to bring high economic efficiency:

- Land preparation service (amount of 74 hectares), in which reduced the service fee from VND 405 thousand to VND 297 thousand per ha. As a result, its members saved VND 108 thousand per ha.
- Collaborated with some companies to process and sell agricultural products.

Two contracts with its members to produce qualified seeding rice (20 hectares) and sell to provincial varieties company; total revenue: VND 156.6 million; its members earned VND 46.9 million, the cooperative earned VND 825 thousand

Three contracts with the members to produce seeding peanut: The cooperative helped to sell 68 tons. Its members earned VND 25.8 million and the cooperative VND 1.8 million

Five contracts with the members to produce cucumber for export and domestic consumption: The

cooperative helped to sell 170 tons of cucumber, especially created jobs for over 50 labors from cucumber processing

P. Dong Xuan agricultural cooperative (Soc Son district, Hanoi)

Established in June 1997 with full name of Dong Xuan Cooperative for Agriculture and Processing Services. The cooperative aims at providing production services and acts as marketing channel to help its members in vegetable marketing. In 1999, total vegetables growing areas were 68 hectares, including:

- 6.8 hectares of cucumber and harvested 18,000 kg of premature cucumber
- 36 hectares of maize and harvested 40,000 kg of premature maize
- 25 hectares of tomato and harvested 140,000 kg

All of those products are consumed through economic contract signed between the cooperative with three export companies, including Central Vegetables Corporation, a company in Hai Hung, and another one in Hanoi. The revenue from vegetable production was VND 689 million.

Above cooperatives have made a considerable contribution to increase production efficiency and to significantly improve income of their members as well as to all residents to a certain extent.

3.2 Contributions of agricultural cooperatives in improving members' income through provision of necessary services

Above mentioned cooperatives' activities in various aspects have proven their important contribution to improve agricultural production efficiencies. However, the following section will give detailed justification in highlighting important impacts of services provided to improve ACs' member income.

Most cooperatives regard irrigation services as the main activity. Usually each agricultural cooperative establishes a professional group or team responsible for managing and operating pumping stations and upgrading irrigation canal system to provide enough water for crop cultivation. Almost all of agricultural cooperatives improved irrigation canal system, ensured irrigation and drainage in time and reduced irrigation fee.

The extent of other service provision depends on situation of each cooperative. Normally, when a cooperative is able to provide a few services in addition to irrigation, it focuses on activities of supplying electric power and plant protection in the North or preparing land in the South.

In Mekong River Delta, most cooperatives take responsibility for irrigation and land preparation while other services are limited. In general, in this region, 4.7% cooperatives ensure five types of services, 4.7% ensured four, 9.4% ensured three, and the rest of 80% of ACs are able to provide only two services.

In the North, except irrigation, about 50% cooperatives fully involves in electric power supply, about 70% ensures plant protection, and a lower ratio of ACs ensure other services.

In Central Coast and Highlands, cooperatives focus on irrigation and then provision of seed, electric power and others materials. A table of 1,686 agricultural cooperatives in Central Coast and Highlands shows this situation (see the annex).

Generally speaking, in term of services provision, both transformed and newly established cooperatives to various extents benefit their members. In principle necessary services are provided and service fees are significantly reduced.

However, those cooperative have not yet involved in some services that bring about significant results, which remarkably affect to income of agricultural households, particularly processing and marketing services of products. Out of surveyed 1,686 cooperatives, only 10.3% have marketing activities, 0.4% involves processing. The lowest ratio is seen in Red River Delta, only 1.2% cooperatives involved in output marketing.

Although credit services are not studied for 1,686 cooperatives, in fact many cooperatives run this service. At least, 30% of fairly good cooperatives among transformed and newly established cooperatives may be involved. The following examples show information of credit services in some ACs:

In Nam Dinh province, 13.8% out of 313 cooperatives provide credit to its members. As an example, Nghia Hung agricultural cooperative (Nghia Hung district) gives loans of VND 100 million to 20 members to help them equip mini-tractor.

In Binh Dinh province, out of 212 cooperatives, 38% involve in credit services. The agricultural cooperative in Binh Dinh district town (An Nhon district) lends VND 954 million to 750 households.

Dong Phuoc agricultural cooperative (Quang Dien district, Thua Thien Hue province) lends VND 650 million to 920 households.

Kenh 4A agricultural cooperative (Tan Hiep district, Kien Giang province) annually lends about VND 1 billion to households in which 10 households bought grinders, 12 households bought mini tractors, 25 household cooperatively bought a threshing machine

Quyêt Thang agricultural cooperative (Cuzut district, Daklak province) lends VND 750 million to its members from sources of owned and mobilized capital.

In reality, the difficulty of most households is lack of fund, thus cooperatives are best suited to provide credit to its members. In this sense, its members can easily get loans from credit fund of cooperatives, in addition neighborhood relationship in commune and village is likely to be strengthened.

Apart from above service provision, some cooperatives have actively created job opportunities for their members through employing them in service activities such as joint transportation groups, although this aspect is not in common but should be expanded.