

Preamble

This research study has been jointly conducted by the Research Centre for International Agrarian and Economic Development (FIA), Heidelberg and the Institute of Agricultural Economics (IAE), Hanoi. It is in line with the long tradition of activities at the Research Centre. Since the 1950s staff members have analysed co-operatives and rural institutions in developing countries as well as since the early 1990s in transitional economies. The project is concentrating on the transformation of agricultural co-operatives and the establishment of a rural finance system along co-operative principles in the rural areas. It started in September 1998 and lasted up to mid 2001. The major findings of the field survey have been presented and discussed at a national workshop in Hanoi at 27 April 2001.

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List of Abbreviations

ADB	Asian Development Bank
CCF	Central Credit Fund
CECARDE	Center for the Consultation on Investment Supporting Agriculture & Rural Development, now CRP
CIEM	Central Institute for Economic Management
CRP	Center for Rural Progress
DARD	Department for Agriculture & Rural Development
DPI	Department for Planning & Investment
FAO	Food and Agriculture Organisation of the United Nations
GRET	Groupe de Recherche et d'Echange Techniques
GTZ	Gesellschaft für Technische Zusammenarbeit
KAS	Konrad Adenauer Stiftung (Konrad Adenauer Foundation)
MARD	Ministry of Agriculture & Rural Development
NGO	Non-Governmental Organisation
PCF	People's Credit Fund
RCF	Regional Credit Fund
SBV	State Bank of Vietnam
SOE	State-owned Enterprise
UNDP	United Nations Development Programme
VBARD	Vietnam Bank for Agriculture & Rural Development
VCA	Vietnam Co-operative Alliance
VICOOPSME	Vietnam Central Council for Co-operative Union and Small and Medium-Sized Enterprises, now VCA
VND	Vietnamese Dong
VBP	Vietnam Bank for the Poor
b	billion
m	million

Exchange Rate

US\$ 1 = 11,745 VND (1997);
13,288 VND (1998);
13,922 VND (1999);
14,168 VND (2000)

Source: EIU (ed.), various issues

Introduction

Despite a rapid economic development achieved over the past 15 years, Vietnam can be still characterised as an agrarian state. Agricultural production dominates both, the society and the economy. About three quarters of the population live in rural areas. More than 70 percent of the total labour force is mainly engaged in agricultural production although the share of the agricultural sector to the GDP declined to 26 percent in 1998. With an average annual income per inhabitant amounting to US\$ 330 (1998) the country belongs to the poorest in the world (WORLD BANK, 2000: 276-299). Therefore, there is no doubt that Vietnam can be labelled as a developing country.

Besides being a developing country Vietnam belongs to the group of transitional economies. During the last two decades severe steps from a planned socialist economic system to an open market-oriented one could be observed. First informal steps of economic liberalisation had already been implemented, mostly at the local level, since the mid 1970s. But, particularly, since 1986 after having experienced far-spread hunger and malnutrition among the population the adoption of the *doi moi* policy opened the way for an economic transformation process. However, the adoption of market economic principles has been gradual. Similarly, the opening to the outside world has been more on a step by step basis. Central planning is still setting the priorities of economic activities to some extent. The socio-economic change is guided by the government and the Communist party. But the economic liberalisation affected the various sectors differently starting in general with the agricultural one. This more cautious approach to further reform has been confirmed at the last two congresses of the Communist Party in July 1996 and April 2001.

Since the adoption of the *doi moi* policy Vietnam has experienced rapid economic growth. The people have witnessed a shift from a centrally-planned economy to one operating on the market mechanism with the following identifiable features (TRAN: ix-x):

- (1) From an economy in which the state played a decisive role in nearly all economic activities to a multi-sector economy in which the state sector is being restructured and the private sector is encouraged to develop.
- (2) From an economy aimed at supplying the people with the basic necessities of life to an export-oriented one.

The basic nature of the economic system could no longer be based on the command economy, but one based on voluntary and autonomous transactions by all economic players including small-scale entrepreneurs, like private farmers, and consumers (FFORDE/de VYLDER: 32). The effects of these economic liberalisation policies on the agricultural sector had been profound. Up to the end

1980s agricultural production had been either within agricultural production co-operatives predominantly in Northern and Central Vietnam or on a household level but very closely linked to the state-owned upstream and downstream sectors, which had been predominant in Southern Vietnam. Since that time, the household economic system has been introduced all over the country leading to about 12 m households engaged in agricultural, forestry and fishery production. In addition, free markets for inputs and agricultural products are gradually being established. The average farm size per household, however, is relatively small. At 2000, it just stands at about 0.7 ha, of which, on average, about 0.3 - 0.4 ha are paddy land. The average annual gross agricultural income comes up to about 9 - 10 m VND (NGUYEN PHUONG VY: 5). At the national level, the economic liberalisation of agricultural production resulted in a sharp increase in production output. While up to the mid 1980s Vietnam used to be a rice importing country, it has become the second largest exporting nation of that commodity by now. In light of the recent past, when famine and poverty were common occurrences in rural areas, the present abundance of food represents a major step forward. In addition, the country has become one of the major exporters of coffee, pepper and rubber.

This transition from a socialist-oriented central planning system to a more market-oriented one can only be of a lasting manner if appropriate institutions and organisations¹ will be established to facilitate the transformation process. This process will be successful only if it contributes to economic development and ensures lasting benefits for the population, i.e. if it leads to more productive employment and higher income at the household level. The traditional institutions and organisations developed for the central planning system have become obsolete. The re-emergence of private farming requires a different set of organisational infrastructure based on market-economic principles. Otherwise private farmers will not be able to contribute to as well as to participate in economic development. It has to be avoided that small-scale farmers barely survive on subsistence farming. At that stage, there had been, at least theoretically, two options: On the one side, new institutions and organisations could have been designed from scratch that can efficiently provide the services needed. As it could be observed all over rural Vietnam a number of new organisations emerged. On the other side, already existing institutions and organisations could have been adapted to make them responsive to the changing requirements (ADAMS: 117).

With respect to the agricultural sector, both options had been adopted by policy makers which will be analysed in detail in this report. All those institutions

¹ According to NORTH, institutions can be defined as 'the rules of the games'. They define and limit the set of choices of individuals based on values and goals in a given society. Organisations are developing in consequence of the framework set by the institutions. They can be looked upon as concrete instruments for keeping the social system going on the basis of institutional patterns. Therefore, the rules have to be distinguished from the players. The purpose of the rules is to define the way the societal game is played. But the objective of a group of individuals within that set of rules is to accomplish certain tasks (i.e. 'to win the game') (NORTH: 3-5).

and organisations serving collective large-scale farms had to change their *raison-d'être* in order to serve the re-emerging private farmers efficiently or there had been no need for them anymore. Particularly, the collective agricultural producer co-operatives lost all their classical functions. Many of them were dissolved, but it had been the objective of the government to transform as many of them as possible into efficient service co-operatives in order to overcome the disadvantages of small-scale private farming without reducing their autonomy. With respect to formal rural finance systems the private farmers had to deal with new organisations which had been established since the late 1980s. The former system collapsed almost completely. The most important rural bank, the Vietnam Bank for Agriculture and Rural Development had been set up out the State Bank while the once strong credit co-operatives had collapsed almost totally by 1990. Hence, most of the necessary capital needed for the large expansion of agricultural production had to be financed by the farmers themselves and through the informal sector. However, this strategy will not lead to a sustainable development of the agricultural sector in the long run.

In addition, there are other factors affecting all developing countries which steadily push for the permanent adjustment of existing and the development of new institutions and organisations. Due to the limited availability of agricultural land and a steadily increasing population, farming will have to become even more productive in the future despite the successful development during the last years. Effective support services, including a viable finance system focusing on small-scale farmers are needed not only to stimulate agricultural production of traditional crops, but also to diversify farm activities away from paddy to other annual and perennial crops. This also includes a better integration of animal husbandry into the farming system. Improved technology and water resource development are also regarded as routes to higher farm incomes. In addition, the fact has to be acknowledged that even a highly productive and efficient agricultural sector cannot absorb the growing labour force fully anymore and more non-farm employment opportunities will be needed. These types of activities are expected to grow mainly through more processing of farm products, but also higher farm incomes will stimulate the growth of the non-farm sectors in the rural areas.

It is the objective of this analysis to contribute to the understanding of the transition/ transformation process from a centrally planned to a market economic system keeping the fact in mind that Vietnam is also a developing country. Emphasis has been laid on the transformation of agricultural co-operatives and rural finance systems as these two organisations predominantly affect the economic development of the rural areas. In this analysis it has not been tried to study this transformation process from a national perspective, but to focus on the perspective of the farmers and their leaders as members and clients of the two major co-operative systems in the rural areas. Similarly, it had been focussed on the representatives of the local administrations who often have been members and clients of these co-operatives as well. Hence, the perceptions of those affected by this transformation process at the local level had been the centre of interest in this analysis.

The volume is structured as follows: Within the next chapter theoretical aspects concerning the need for new institutions and organisations in transitional economies with emphasis on rural co-operatives will be discussed. In the second chapter the development of the central planning system in Vietnam and its gradual liberalisation up to the eve of setting up new organisations in the mid-1990s will be assessed which will be finalised by a brief discussion about the methodology applied in this analysis. This volume is mainly made up by the third and fourth chapters, i.e. a detailed analysis of the transformation of agricultural co-operatives and rural finance systems, respectively. Within the final chapter the major conclusions will be drawn.

1 Need for New Institutions and Organisations Promoting Rural Development in Line with the *doi moi* Policy

The re-emergence of private farming as the main decision-making unit in agricultural production required a different set of organisational infrastructure in support of the family farms. The institutional set-up of the command economy was no more applicable. A new set had to be established based on market-economic principles requiring a profound institutional change. Without the appropriate institutional set-up private farmers were not able to contribute to as well as to participate in economic development. It had been quickly realised that the decentralised producing small family farms were in urgent need of new service organisations integrating them effectively into the gradually developing market-oriented economy.

The agricultural co-operatives previously established as collective units, had to face and adjust to this complete change of the legal environment. While they were supposed to guide and support the production activities of the individual farms, they had to respect the economic and social autonomy of the farm households. They had to become attractive for the farmers to justify their participation. If these conditions were met agricultural co-operatives had a very important role to play, since the private sector had not been strong enough to set up an economically efficient supply and marketing network to the benefit of the farmers (HARMS, 1995: 14). Otherwise, they had no function anymore and had to be dissolved.

In order to participate in economic development effectively, the newly established private farmers had been in urgent need in getting access to viable financial services, particularly credit. Such a system had not been available by 1990. The credit co-operatives had collapsed almost completely. Therefore, new financial organisations had to be established from scratch. VBARD had just been set up, but had to gain its first experience. Hence, farmers had to rely on informal sources which used to be very expensive. Soon, it had been realised that a complementary finance system based on co-operative principles was needed in order to serve a larger share of private farmers and other rural entrepreneurs more efficiently.

At this stage, it may be asked whether co-operatives are really needed to support agricultural production and other enterprises in the rural areas or whether other types of organisations might be more appropriate, e.g. private traders, banks, agri-business enterprises or government agencies. In an economic environment characterised by concentration and globalisation, individual small-scale farmers and entrepreneurs have difficulties to compete, e.g. to get fair prices for their products and to pay fair prices for needed services. The set-up of service co-operatives as a countervailing power has been the answer since more than 150 years in many countries. It has never been the intention of the co-operative movement to achieve monopolistic market positions, but to establish a competitive environment for all types of organisations.

In Vietnam, service co-operatives have an important role to play in order to support the decentralisation of agricultural production and the transition to a market-economic system. These co-operatives have to be voluntary organisations. They have to be competitive with other types of service providers. Hence, co-operatives have to be attractive to their members, i.e. they have to promote members' businesses. In other words, service co-operatives are supplementary organisations to support the household economy of their members. In this way, the members have a better chance to operate as small-scale entrepreneurs.

1.1 Role of Co-operatives in General

Since the establishment of service co-operatives at the middle of last century, they are rooted, like co-operatives in general, in the insight that individual people who have the same economic difficulties achieve more if they unite. They are inspired with the idea not to draw on outside help but rather to improve their situation through their own initiative. Often this self-help approach used to be the only way to get access to much needed services at all. In general, people voluntarily group together and form a co-operative to take advantage of potential economies of scale in pooling their own meagre individual resources, including the benefit of expert management and pecuniary gains due to stronger bargaining positions.

Basically, the co-operative movement is guided by three major principles, i.e. self-help, self-administration and self-responsibility. (1) Self-help means that people join forces, raise the necessary financial means for the joint co-operative undertaking themselves and are prepared to give mutual help. (2) Self-administration means that the members organise the internal conditions of their co-operative society themselves ("internal democracy"). Hence, the co-operative is not subject to third party's orders. While the broad rules and regulations of all types of co-operatives are outlined in the national co-operative laws, they have to be specified in the bylaws of each individual co-operative. Classically, decision-making was based on the rule of equal rights of all members regardless on the value of shares subscribed ("one member – one vote"). Depending on their number members are either directly or indirectly represented at the general assembly, the highest decision-making body of a co-operative. Usually it is convened once a

year. It is electing the management and supervisory boards. At least among the smaller co-operatives, these persons fulfil their functions on an honorary basis and they are just entitled to a small compensation. (3) Self-responsibility means that members themselves are responsible for the foundation and upkeep of the co-operative enterprise with respect to business partners in order to establish confidence in economic life ("joint liability"). While formerly members were liable with all their property, they are now liable with their shares only. Members of the management and supervisory boards might be liable with their private property if found guilty of mismanagement (IRU, 1991: 9; in more detail. ZERCHE et al.: 9-14). In this way the internal autonomy will be ensured.

The most important objective of co-operatives is to promote members according to their needs, i.e. co-operatives do not aim to make the highest profits possible but to strengthen members' economic capacity and improving their position on the market. Actually, there are three basic directions how the promotion task can be fulfilled. The promotion task might be fulfilled by offering advantages to the members in one, two or all three areas (HAHN: 19):

- Services are offered to the membership which are not available otherwise.
- The quality of the services offered are of higher standard than those otherwise available.
- The prices of the services offered are lower than those offered by competitors.

Thus, co-operatives basically comprise individuals who voluntarily join a social group ("co-operative society"). At the same time the co-operative represents a business unit which has to be registered to participate in economic life ("co-operative enterprise"). Hence, co-operatives are characterised by their dual nature (DRAHEIM: 16). In addition, there is a two-fold connection between a member and the co-operative. On the one side, a member is a shareholder and therefore co-owner of the co-operative enterprise. On the other side, a member is a client of the co-operative to take advantage of its offered services. It follows that members are integrated as holders (i.e. providers of capital or shares), clients (e.g. making use of the activities offered) and decision-makers (or controllers), simultaneously ("identity principle") (WÖLFLE: 26).

In this way, the members themselves have to contribute all necessary resources, particularly capital in form of shares, to make the co-operative enterprise operational. The total sum of shares subscribed by the individual members makes up the share capital. Often, a certain minimum amount of share capital has to be met before the co-operative will be registered as a legal entity to do business activities. In general, the individual shares are not tradable, but have to be returned to the managing board in case the membership has been cancelled. The monetary value of one share is fixed. At the beginning the subscribed share capital is making up the equity capital. Once the co-operative is operational and is showing annual profits (surpluses), a part of it will be retained in form of legal and voluntary reserves to increase the equity capital while the other part might be distributed in form of dividends and/or patronage refunds among the members.

Therefore, the equity capital of co-operatives, in contrast to joint-stock companies, can be divided into divisible capital in form of share capital and into indivisible capital in form of reserves. This fact could turn into a disadvantage if members might cancel their membership. In that case they have the right to get their subscribed share capital refunded. Hence, in extreme cases the volume of share capital and equity capital might fluctuate significantly which might even undermine the financial position of co-operatives. Therefore, co-operatives try to limit these effects in stipulating long cancellation periods in their bylaws, e.g. one or two years. The reserves have been labelled as the "hard core of equity capital" (BALKENHOL: 5) and all co-operatives are advised to build them up as quickly as possible.

If they are economically successful, co-operatives might have access to external sources in form of credits. Concerning savings and credit co-operatives a special issue comes up. In general, they encourage their members to save additional funds with them. While these savings are increasing the own funds of the respective co-operatives available for credit they are strictly speaking a form of external capital. Members might develop a closer bond to their co-operative and will not withdraw all their savings in case the co-operative is short of funds. More important, however, is the fact that the mobilisation of savings among members is cheaper for savings and credit co-operatives than applying for credit from other sources.

In order to be successful in the long run in a market economy co-operatives had to build up their own supportive or federate structures based on the principle of subsidiarity, i.e. the organisation at secondary or even national levels will respect the autonomy of the primary groups and member organisations by strengthening their economic capacity. Basically this principle of subsidiarity means: Whatever individuals, smaller institutions (families), groups and primary organisations (e.g. local co-operatives) are capable of doing on their own, should not be taken over by any higher authority or organisation, so that each unit closest to the grassroot or local level maintains its autonomy, authority and responsibility. On the one hand this involves recognising the responsibility and ability of lower level organisations to carry out certain tasks and duties. On the other hand it also involves the irrevocable right of organisations on the lower level to practise self-help. The higher organisation should only intervene to provide aid if the tasks go beyond the capability of the lower unit. It should do so not by taking over, but by supplementing the efforts without hindering the development of the grassroot or local organisation, i.e. to provide help to help oneself (KIRSCH et al.: 90-93). The return to the household economy system and the transformation of collective type co-operatives to service co-operatives can be considered a very consequent application of the principle of subsidiarity.

With respect to savings and credit co-operatives the need for federate structures at a secondary or, even, tertiary level becomes more necessary in order to spread risks due to the effects of seasonality and synchronic timing in small localities. Savings and credit needs do not need to coincide at the same period for all members. This problem may become very urgent with a highly homogeneous

membership structure, e.g. all members are farmers cultivating the same crop. Secondary organisations can channel surplus funds from one region to another and balance them between the needs of various professional groups. Tertiary organisations might perform such a function as the national apex organisation.

Both a certain degree of economic efficiency and viable federate structures are needed in order to reach the necessary degree of external autonomy of co-operatives. Both aspects, i.e. internal as well as external autonomy have to be fulfilled if co-operatives as self-help organisations are supposed to establish a certain economic viability and to be socially accepted by its members.

During the discussion so far it had been assumed that members subscribe share capital in order to set up their common co-operative enterprise while they themselves concentrate on their own enterprise, either their own farm or non-farm enterprise. In addition, it might be possible that members contribute not only share capital but also their labour force. In this case, they do not have an independent economic existence and, thus, they cannot act as clients. For them, the production co-operative is the only source of employment and income. During periods of economic slow-downs and relatively high levels of unemployment this type of production co-operatives were set-up more often in the market economies. But, in general, this type of co-operatives is of a very minor importance. In agriculture, farmers are free to contribute not only share capital and labour, but also their agricultural land and assets, e.g. animals, machines and buildings in forming agricultural production co-operatives on a voluntary basis. But there have been very few experiences with agricultural production co-operatives based on a voluntary membership in market economies. These few are in general founded on a common belief or common ideals. Actually, it had been observed that after more than 100 years of successful service co-operatives not even one agricultural production co-operative, which had been formed voluntarily, could be quoted in old settled European villages (SCHILLER: 5-6).

1.2 Role of Co-operatives in Transitional Economies

With the adoption of the Soviet model of co-operatives by the socialist states, like Vietnam during the 1950s, it had been called into question whether these co-operatives are co-operatives in the full sense of the term defined above. They have been created and controlled by the state and party machineries which left little latitude for internal decision-making, and which sometimes have employed coercion as an internal control device. Actually, they have been described as "pseudo-co-operatives", as voluntary membership, autonomy of the enterprise and other essential characteristics of a true co-operative association were not found there. In general, co-operatives were seen by the state as a transitional step in nationalising the production and distribution channels of the agricultural sector. Ultimately it was aimed to transfer all production factors into state or people's property (SCHILLER: 182-183).

After the re-emergence of the family farming, it had been questioned under what conditions will service co-operatives be successful and contribute to economic and social development. Roughly, this question had been discussed under three different aspects although they might overlap to some extent.

(a) From an economic point of view it has been stated - as it had been discussed above - that they have to be competitive to alternative forms of organisations. For individuals it makes only sense to join a co-operative if they experience an economic and/or social benefit. Otherwise, they will rely on alternative options.

While service co-operatives, in general, have to compete with private traders and other companies, savings and credit co-operatives have to compete with commercial banks. This fact might not be decisive at the time of establishment as financial services are mostly lacking at all, but it has to be kept in mind in the long run. There are two main reasons why co-operatives might function better than conventional banking arrangements in less developed economies. In general, they can apply social sanctions in sustaining non-opportunistic behaviour among members which are not available to a bank. In addition, co-operatives are sustained by repeated interactions among the members, e.g. only if one loan is repaid fully the respective member qualifies for another one, which curtail privately optimal, shortsighted behaviour (BANERJEE et al.: 491-492).

Besides these factors, co-operatives seem to be the only option for many resource-poor rural entrepreneurs to get access to financial services at all. Although credit risk appraisals conducted by co-operatives should not differ from the procedures employed by commercial banks, the personal integrity of the credit applicants and the economic viability of the proposed investment are seen as more important factors than the provision of collateral. Banks mainly look at the value of collateral first when deciding on credit. The provision with credit based on the availability of collateral does not only seem to reinforce the status quo of the actual asset ownership and income distribution, but even to increase the unequal distribution pattern. In that case only those who own some assets and have a certain level of income, i.e. the better-off, have access to financial resources to improve their economic well-being even further. If, however, the decision to provide credit is based on the prospective rate of return of the intended investment ("economic indicators") and the personal integrity of the borrower there is the opportunity to promote the economic and social advancement of economically weaker, but innovative farmers and artisans. The joint liability of the members is one decisive advantage of savings and credit co-operatives provided they pay up an equivalent amount of share capital. Savings and credit co-operatives can even do without the submission of collateral at all as members are forced to repay due to peer-pressure within the co-operative society. In case of non-payment all members will be liable and have to bear the losses (ARMBRUSTER: 232-235).

(b) From the transitional point of view it had been argued that co-operatives will help to smooth the painful and unknown transition process from a centrally planned to a market economic system for the rural people. Most of the rural people were affected significantly by the transformation process. Former workers of the

collective co-operatives became independent private farmers who had to take all decisions with respect to agricultural production by themselves. Since co-operatives form a stabilising element in market-economic systems, it had been concluded that they might perform a similar function during periods of drastic changes in society and the economic system (HARTWIG: 189-192). Thus, they can support the establishment of a more market-oriented economic system. Co-operatives provide clear guidelines to the population having to act as newly established entrepreneurs in learning the new rules of a market-oriented economic system, gradually.

More specifically, it had been stated that, since the overall transition process mainly depends in the first phase on a broad upturn of the agricultural and small-scale industrial sectors, co-operatives might prove to be an appropriate instrument in implementing the modernisation process. To a large extent, they can contribute in mobilising the necessary resources among the population, particularly labour and capital. Co-operatives are confronted with two major tasks: On the one side, in periods of clear-cut breaks they are supposed to stabilise the economic system. The economic effects of the transition process can be summarised in a rapid increase of economic uncertainties and risks, an increase in transaction costs, the development of new power structures, often in establishing monopolistic positions in the upstream and downstream sectors, and, thus, emerging one-sided dependencies. These negative side-effects can be balanced by the newly established private farmers and rural entrepreneurs, to some extent, in forming their own type of economic self-help organisations, e.g. co-operatives. Or, to put it differently, co-operative risk pooling can become an important strategy to deal in such periods of uncertainty when many events cannot be foreseen and markets are absent or ill-developed (RÖPKE; MATHIJS: 7) On the other side, co-operatives can support the creation of an economically more prosperous middle class which will contribute in building-up a market economy.

(c) From a political point of view it can be argued that the establishment and promotion of co-operatives in Vietnam is in line with the official policy of decentralising and devolving economic power structures, i.e. they are instruments in smoothing the process from a centrally planned agricultural production system to the household economy (family responsibility system). In addition, this decentralisation process can be understood as a link to creating a more open civil society. Co-operatives, or self help structures in general, are tools in building a more democratic society at the local level. They can support the creation of an economically more prosperous middle class which will stabilise the political system. Hence, co-operatives can be regarded as an instrument to set up and strengthen the civil society. They form a self help approach of the disadvantaged to build up countervailing power, first in an economic sense, but then in a political one as well. The co-operative approach might also encourage the better-off in the local communes to contribute some of their personal wealth in improving the economic situation which can be seen as an organised and well-known form of solidarity in a restricted area with a familiar population.

But it has to be understood that co-operatives are not immune from the influence of the government as Vietnam implemented a cautious process of economic transformation, but not a political one like the countries in Central and Eastern Europe. But first steps to a more open civil society have been laid and co-operatives as well as the various mass organisations and other non-government organisations form crucial components in reaching this goal (GRAY: 703). At this stage their autonomy might be restricted to some extent but, in the long run, it is important whether they can provide services and support where the state is unable and, thus, build up a commitment and strong bonds with their members.

Besides these more economic and political arguments the fact has to be acknowledged that co-operatives provide a psychological protection for the rural population in overcoming the uncertainties of the transformation process at the personal level. Despite all their deficiencies the former co-operatives used to be a well-known and experienced form of organisation. Although the co-operative model had to be adjusted to the market-oriented system, the co-operative organisation might still provide some security and familiarity for a large part of the rural population within a well-known group for the time being.

2 Socialist Development and Repercussions on Agricultural Co-operatives and Rural Finance Systems up to the mid-1990s

With the collapse of the socialist regime in Central and Eastern Europe and the Soviet Union as well as the implementation of the market economic system in Vietnam and China, the guidance of the economy through central planning had to give way to a decentralised management through markets. Collective property had to be privatised. It is evident that those organisations which had been characteristic for the former system were no more compatible with the market-economic system. New types of organisations had to be established in all of these countries (CSABI/NASH). With respect to agricultural production, this transformation process referred to a conversion and restructuring of the collective enterprises. This required, in part, a legal conversion and, in part, an organisational restructuring of the 'socialist' entities into viable business units. Basically, there were two broad options with respect to the organisational set-up (or legal forms):

- (1) There had been a complete dissolution of all former agricultural production co-operatives. All land and other assets had been distributed totally among the former members and newly established small-scale private farmers. Hence, new organisational structures to their support will only be established over time. For example, Albania, Romania, the Kyrgyz Republic and Mongolia have adopted this development path.
- (2) Alternatively, the transformation of former collective entities into a legal structure which were compatible with the market-economic system had been envisaged. It had been planned to preserve the co-operative entity under the new legal form so that a certain share of the available assets could be kept together for common use in the future. It was the objective to avoid the complete individualisation of all common property. Again, two main options could be followed:
 - (a) A complete privatisation of all assets, i.e. agricultural land, animals, machines and buildings had been legally required. The former members as well as the heirs of those farmers who had contributed

the land and other assets during collectivisation had become the legal owners. The former collective enterprises had to be transformed into a legal entity which is compatible with the market economic system within a certain time frame, i.e. joint-stock companies, limited liability companies, or agricultural production co-operatives based on voluntary membership. The newly established private owners of all the agricultural assets were free to use them as private farmers or leave them with the successor organisation of the former collective enterprise, i.e. either they became member of it and contributed their assets as share capital or they did not join, but just rented their assets to it. In most cases, the former management continued in running the common enterprise in keeping almost all assets. Not that many private farms had been established as it had been anticipated. But it has to be admitted that the economic conditions during the first years of the economic transition had been that unfavourably that not many volunteered to take up private farming. Former East Germany, Czechia and Slovakia can be cited for this development path (WOLZ et al.).

- (b) Already before starting the transformation process almost all agricultural land of the production co-operatives had been distributed among the members. Private family farms had been re-established. While the co-operatives kept most of their machines and buildings, they had lost their major traditional tasks with respect to agricultural production. It had been the objective by the government to transform as many of them as possible into efficient service co-operatives based on voluntary membership. China and Vietnam followed this path of development.

In Vietnam, it was soon realised that the agricultural co-operatives had only a chance of survival if they were transformed into viable service co-operatives meeting successfully the emerging competition of private rural entrepreneurs. This required that they had to aim at initiating economic benefits to their member holdings. Otherwise, members will lose interest and they had to be dissolved. On the other side, the millions of small-scale farmers were in urgent need of new institutions and organisations, e.g. to provide efficient support services, in order to improve agricultural production. Transformed and newly-established agricultural service co-operatives based on three major principles, as briefly discussed in Chapter 1.1, have been regarded as the main tool to achieve this objective.

Similarly, the whole financial sector had to be reorganised. Up to now, this process has not been terminated, yet. The newly emerging private farmers and non-farm entrepreneurs in the rural areas need, among others, a viable rural finance system in order to make full use of their potential and, hence, to ensure an adequate level of income for the rural population. As one of the four, and since 1995 of the five, state-owned commercial banks the Bank for Agriculture and Rural Development (VBARD) had been entrusted with a rural credit mandate in

1990. However, different to the policy with respect to the agricultural co-operatives the government had no intention to save or to promote a transformation process for the former credit co-operatives. When they became too indebted, it had been decided in 1990 to declare them bankrupt and to start anew with a rural savings and credit scheme following co-operative principles which had been called People's Credit Funds (PCF).

Before proceeding the term of (rural) finance systems (or financial sector or financial infrastructure) needs to be clarified. Within this analysis it will be understood as follows. They comprise "all savings and financing opportunities and the financial institutions which provide savings and financing opportunities, as well as the valid norms and modes of behaviour related to these institutions and their operations" (KRAHNEN/ SCHMIDT: 3-4). According to the degree how these systems fall under the rules and regulations in a given country they can be distinguished between formal, semi-formal and informal systems. The formal financial system comprises all institutions and transactions which are legally subject to national financial market regulation (banking legislation and supervision). The semi-formal system covers all formalised ("registered") financial institutions which are not subject to banking supervision, e.g. in many countries credit co-operatives, if not considered to be co-operative banks, or financial activities supported by NGOs or mass organisations. The informal financial system falls completely outside of the legal infrastructure of the economy. It comprises all financial activities among family members, friends and neighbours, money lending and pawnbroking, as well as mutual savings and credit associations. These institutions are not registered and, hence, are not subject to supervision by the banking and monetary authorities. Generally, these activities are not covered by the national statistics (KRAHNEN/SCHMIDT: 31-32).

Before analysing the formal transformation process in great detail (in Chapter 3 and 4), it will be briefly looked at the historical development of the organisations of agricultural production and of the rural finance systems from the 1950s up to the eve of setting up new organisations, i.e. up to the mid 1990s. Keeping in mind this experience the later development can only be fully understood.

2.1 Collectivisation and Decollectivisation in Agricultural Production

The process of collectivisation² following the Soviet model has been started in the North in the late 1950s. On the one side, it had been aimed at solving the problem of a resurrected socio-economic differentiation within the peasantry. The collectivisation of agriculture was also an attempt to transmute the cohesion between generations and kin into class consciousness and solidarity among

² See for a more detailed analysis of collectivisation and decollectivisation of agricultural production: TRAN THI QUE: 12-97; FFORDE/de VYLDER: Chapter 4-7; TROGEMANN: 24-93; GROBHEIM: 222-266. Other sources are quoted in the text.

workers. The collective work was organised in production brigades, and the brigades in their turn were divided into working teams or special task groups. The brigades were not only production units, but embraced the workers' whole live. They were set up as total environments in an attempt to dissolve the strong community spirit and the lineage-based family (LILJESTRÖM et al.: 75).

On the other side, it had been the objective to increase agricultural production and to procure resources for an accelerated industrialisation process within a centrally planned and collectivist political economy (LOUNG: 196). In this model, co-operatives had to be understood as peripheral units of a strongly centralised party-state system. The decision-making powers of members and management were almost non-existent as co-operatives had to follow the instructions of the central plans. Membership of an agricultural co-operative was almost compulsory and not voluntary. When long-settled areas had been collectivised, co-operative membership was usually determined by place of birth (FFORDE, 1987: 198). For organisation and management, the party organs provided clear rules, including the convocation of general assemblies every two years, the election of management committees and office peers, the election of control committees, distribution of surplus, internal work organisations etc.

Already at the end of 1960, over 41,000 agricultural production co-operatives were formed by 2.4 m households representing 84.8 percent of the rural population and cultivating about 76 percent of the agricultural land. By 1975, 95 percent of Northern rural households were members of agricultural production co-operatives cultivating 95 percent of agricultural land and producing 92 percent of total agricultural output. Since the late 1960s, the government encouraged a process of amalgamation of co-operatives, thereby reducing their number from over 40,000 to less than 20,000. By that time, co-operatives comprised, on average, about 300-500 households and an area of 200-300 hectares.

In the South, after unification, several attempts have been made to introduce collectivisation, i.e. from 1976 onwards. By 1980, 1,750 agricultural production co-operatives have been set up as well as 18,800 production teams. These units accounted for 50 percent of rural families and 36 percent of the cultivated land. However, these attempts proved to be largely unsuccessful. Many of these newly formed organisations existed on paper only and members continued to cultivate individually making use of mutual self-help groups in case of need, only. In the Mekong delta, these mutual self-help groups included about 80 percent of all agricultural households. By 1985, only about 750 of the agricultural co-operatives had been still active (KIRSCH, 1994: 5-6).

The agricultural production co-operatives used to directly manage the land, organise production activities, the input supply as well as the marketing of the products. The income of farm households was proportional to their contribution of labour to the co-operative. In addition, 5 percent of land in each co-operative was allocated to farm households for their own use. There was little or no incentive for the labour force to work diligently nor disincentive to farm poorly within the co-operative system. The level of production was quite low. Actually, in many co-operatives people did not have enough to eat. Farmers put their efforts in their

small household plots. It is estimated that these plots contributed 40-60 percent of all production and 60-70 percent of farmers' income at that time (DAO THE TUAN: 156).

Due to the poor results the organisation of the production co-operatives underwent changes. Already in the late 1960s, a number of co-operatives in the North started tinkering with production arrangements to motivate the labour force, which deviated from the authorised model without attracting unwanted attention from officials. At commune and sub-commune level, local authorities modified what central directives stipulated in order to meet some of the villagers' needs and demands (KERKVLJET: 69). Similarly, the southern peasantry (i.e. in the Mekong delta) refused to be fully co-operativised during the 1976-78 period. Both developments seem to have provided the basic framework of the contract output system. The contract system was adopted by the Government in January 1981 and stipulated in Directive 100.

With the enactment of this directive the first steps of a gradual decollectivisation process had been implemented. The limits of the enforced collective system in agricultural production had been acknowledged. It initiated the first stage in decentralisation of power to farm households and away from the production co-operatives. Households were allocated specific plots of land for cultivation. A contract had been concluded between the farmers and the co-operative. The co-operative was supposed to provide the inputs while the farmers were responsible for transplanting, weeding and harvesting, i.e. the crop management had been under their own responsibility. Similarly, the contract stated a certain level of output to be produced on the respective piece of land, which had to be sold to the state at a fixed price. All output beyond the contracted amount could be kept for home consumption or sold at the market. However, farmers were given a rather limited scope of decision-making. The contract and the allocation of the respective land were mostly covering one year. In general, the farmers were not free to grow according to their choice but had to take care of the crop fixed in the contract, i.e. in most cases paddy. In addition, the co-operative still held a monopoly over the provision of inputs and the marketing of outputs (DAO THE TUAN: 139). However, co-operatives generally were late in supplying the inputs right in time, thus making it quite difficult for the farmers to improve land productivity. Due to the negative experience these contracts were often called "empty contracts" by the farmers.

Nevertheless, this partial decollectivisation of land management (i.e. between 1981 and 1988) gave the farmers at least at the beginning some incentives to increase production. They were encouraged to improve the productivity of their land, but the lack of any secure tenure meant that any improvements they made had to yield results within a very short period of time. The maintenance of long-term productivity was neglected. Besides the (regularly) late delivery the necessary inputs the co-operatives very often could not procure all the contracted production at the harvest time. The latter regularly resulted in a crash of the free-market price, which negatively affected the income opportunities of the farmers (VO-TONG XUAN: 188-189). Therefore, when shortages of food became regular during the

mid 1980s the *doi moi* policy opened the door for more autonomous ways of production under the responsibility of the household.

It was realised that the role of the agricultural production co-operatives had to be reduced further. With the adoption of the Land Law in 1988 (Resolution or Decree No. 10) farmers were given the opportunity to farm on their own, again. From now on, the farm households and no more the agricultural production co-operatives were considered the basic unit of agricultural production. Farmers were allowed to manage plots of land on their own which were allotted by the production co-operatives, i.e. they were given the land use rights in exchange for paying a tax while the state retained ownership rights. Most farmers opted to undertake farming on a family farm basis. However, the Law restricted the transfer of land use rights to occasions such as a farm household moving in or out of the co-operative and the death of the person holding land use rights.

However, at that time, it had not been the intention to formally abandon the collective system. Instead, co-operatives were to be given far greater economic independence. While contracts signed with state bodies still had to receive priority, district administrations were prohibited to issue orders to local co-operatives, anymore. In this respect, Decree No. 10 contributed to the decline of the command economy. The co-operative management was free to buy and sell all economic assets apart from land in any place they chose, after paying taxes and meeting economic contracts with the state. The co-operatives were allowed to raise capital, including foreign currency, from their members and to pay a return for it. They were supposed to supervise, to guide and to serve production activities of the farm households. In addition, they had to promote non-farm activities, handicrafts and small-scale industries in the rural areas. A model co-operative statute was planned for 1988, but it never appeared (FFORDE/de VYLDER: 157).

During the following years the Land Law from 1988 had been overtaken by reality. In an environment of strengthened market economy, land use rights became a kind of property. An informal, technically illegal market emerged in which land use rights were transferred, mortgaged, rented and, in exceptional cases, even bought and sold. A gradual process of land concentration could be observed.

Although the Constitution, as amended in 1992, reaffirmed that land and other natural resources in Vietnam are owned by "the entire people", there was a clear need to legalise the transferability of land use rights and to provide the security to land use which a market economy needed. With the adoption of the revised Land Law in July 1993 the land use rights of the farmers have been strongly secured. From now on, households and individuals to whom the state has assigned land have the right to exchange, transfer, rent, inherit, and mortgage land use rights. In this respect, the revised land law sanctions the emergence of a land market. The land can be rented for a period of 20 years for annually cropped land and aquaculture and 50 years for perennially cropped land, with the possibility of renewal at the end of the first contract. With respect to the amount of land per household, the Law puts an upper limit at three hectares per household for annually cropped land, with specific limits in each locality to be defined by the

Government. Land can be assigned to individuals, households, and state offices. While under the former law the co-operative management had the right to assign the land use rights to individuals and households, it was now the right of the people's committees at the district, district capital and city level to do so. Similarly, only officials at the district level were allowed to process the transfer of land use rights from one household to the other (KERKVLIIET: 82-85).

While the idea of collective farming had been pushed aside, the concept of agricultural co-operatives remained. Available information from the late 1980s and early 1990s suggest that farmers did see a role for co-operatives to accomplish things that they could not do individually (KERKVLIIET: 71-72). Farmers were urgently looking for ways to ensure the provision of necessary services. However, these co-operatives had to respect the basic co-operative principles. The traditional co-operatives had a very low reputation among the farmers. Hence, a new image had to be established.

Already in the early 1990s³ many agricultural co-operatives started with first steps of a transformation process in order to become more efficient as service co-operatives. At that time there was still a lot of liberty how to do it, as guidelines and rules were rather vague. Quite a number had split up. There were different ways to start the transformation process. In general, most assets and activities not directly related to agricultural production have been handed over to the communes, e.g. kindergartens, nursery schools and other communal services. Only, the agriculturally related services were supposed to be continued by the new-style co-operatives. These assets were kept by the co-operative. Some co-operatives sold all the remaining assets so that nothing is left. Others divided equally all assets in cash and in kind among the members. Members can join these re-organised co-operatives voluntarily and subscribe shares, although there have been not many cases where members had contributed additional cash. The decision-making power of the members increased as all members of the management and supervisory boards were to be directly elected by them. In addition, the number of elected and employed co-operative staff was gradually reduced.

Almost all agricultural production co-operatives started to adjust to the new situation, but not so many had been successful. During the early 1990s more and more co-operatives were either disbanded or stopped operating due to their own decision. Their number had been higher than the increase due to a split up. Hence, their total number declined. While their number stood at about 17,000 in 1987, it decreased slightly to 16,243 in late 1994. In addition, another 2,548 mutual assistance groups were registered, based on the members of former production teams. Most of the agricultural co-operatives were located in the North and most of the mutual assistance groups were located in South where collectivisation had not been very successful. In areas, where the co-operatives no longer existed, peasants were urged to set up co-operative organisations to assist in labour exchange, irrigation and other tasks such as marketing. Particularly, in the

³ If not indicated otherwise, the following parts are based on several rounds of discussion with staff members of the Institute of Agricultural Economics, Hanoi in April 1997.

Northern villages many new, mostly informal, self-help groups were emerging and taking over some service functions either spontaneously or on behalf of the people's committees of the communes as the co-operatives had been dissolved (THAYER: 43).

Although the number of agricultural co-operatives had been given with 16,243 in late 1994, their performance was not very satisfactorily (HARMS, 1995: 2-3). On average, it was stated that about 10 percent of the co-operatives were working well. Another 40 percent just showed a decent performance and it could not be taken for granted that they could survive in a market-economic environment. These co-operatives were mainly engaged in providing irrigation facilities and some additional services, but they were not very efficiently organised. Although members had to pay high contributions coming up to 1.5 - 2 percent of their total paddy harvest, this source of income could not cover the high costs involved. Many of these co-operatives lacked sufficient capital and funds. Members seemed to be no longer satisfied with these co-operatives and tried to get the necessary services elsewhere, either through informal self-help groups or private rural entrepreneurs. Finally, about 50 percent of the co-operatives were not operational anymore and existed on paper only. The main reason why these co-operatives were still registered seemed to be that many of them were burdened with debts, which had to be written off in case of bankruptcy or closure. This option, however, would have crippled the weak banking system at that stage.

Another reason why so many non-operational co-operatives had been still registered had been the fact that during the early 1990s they were still entitled to collect fees from the farmers. In general, these fees came up, e.g. in Quang Binh Province, to about 50 kg of paddy per ha and year. But many co-operatives could not provide any services in return. Actually, these fees had the character of an internal tax. In 1993 there had been a big change as co-operatives were no more allowed to collect fees without providing services, anymore. So, many co-operatives collapsed in the following years. Hence, their number stood at 13,782 by the end of 1996. Another 3,000 co-operatives had been dissolved. At that time it had been estimated that just 10 percent out of that number could be regarded as successful ones. During these three years only a very few improved while many stagnated and declined in their performance even more.

This decline in their number seemed to have affected co-operatives differently according to their spatial scope. With respect to their spatial size they were, and still are, not uniform. Agricultural co-operatives covered either a whole commune, several villages of one commune (inter-village co-operatives), or just one village. The main reason of the various sizes of the co-operatives refers to the various sizes of the catchment areas of the irrigation systems. But it also depended on the type of economic activity pursued, the skills of the management staff ("cadre") and the social coherence and harmony among the members. Depending on the service area, membership varied between about 200 in a village co-operative to more than 1,000 in a commune co-operative. For example, in Quang Binh Province, 146 out of 354 agricultural co-operatives had already been dissolved up to the end of 1996. However, the collapse of co-operatives had been most remarkable at the inter-

village level. Among that type their number declined by about 60 percent, i.e. from 225 to 92. The number of commune co-operatives was reduced by about one third, i.e. from 28 to 18. On the other side, just 3 out of the 101 village co-operatives collapsed. DARD officials did not have any explanation, but it seemed that social factors had been very important in ensuring the survival of these co-operatives⁴.

Parallel to the decline in the number of agricultural co-operatives a rapid increase in the number of informal farmers' organisations can be observed. These organisations might be called self-help groups, associations and/or pre-co-operatives. They have been either formed by the villagers/ farmers on their own initiative or, in most cases, local people were encouraged by the Party or the various mass organisations to do so. These groups emphasise the promotion of agricultural production and/or the improvement of rural infrastructure in general. Already by December 1992 their number was estimated to stand at 30,000. By the end of 1996 their number stood at about 50,000.

2.2 Financial Sector Reforms since 1988 with Emphasis on Formal Rural Finance Systems

Financial sector reforms have been an important part of the overall economic reform process under *doi moi*. The pre-reform period was characterised by a state monopoly over finance, a pervasive subsidy system, negative real interest rates and an inverted interest rate structure with deposit rates above lending rates. This led to unrestrained budgetary expenses, excessive money supply, financial disintermediation and hyperinflation. It seemed to be no exaggeration that "the financial system went out of control" (SEIBEL, 1996: 36). Initial reforms in 1987 were directed at trade and monetary liberalisation, but were not very successful. The reforms of 1989 were mainly anti-inflationary, and included sharp increases in the interest rate, devaluation of the official exchange rate and limits to credit expansion. This was complemented by measures to reduce the overall fiscal deficit through the elimination of budget subsidies, the reduction of credit to state enterprises and streamlining of the bureaucracy (ABIAD, a: 8). The enforcement of these measures contributed to the rapid collapse of the credit co-operatives in 1990-91.

Before 1988, Vietnam was characterised by a mono-tier banking system, comprising the State Bank of Vietnam (SBV) and two specialised institutions, i.e. the Bank for Investment and Development, established in 1958 and the Bank for Foreign Trade (Vietcombank), established in 1963. Through its network the SBV provided all domestic banking services. As in other socialist countries, SBV became the interface between planning and budgeting processes and state enterprises according to the central plans. Resources were allocated administratively. Loan appraisal, risk management and other key elements of

⁴ Personal communication: Tran To, Dep. Director, DARD-provincial office, Dong Hoi, Quang Binh Province, 20 October 1998

banking became irrelevant. Basically, the SBV had two functions (SEIBEL, 1992: 59-60):

- facilitating and implementing the flow of allocated resources from the government to the economic units in accordance with national plans, and
- channelling surpluses from the economic units back to the national treasury.

New institutions and organisations had to be established, which not only had to gain the confidence of the population (i.e. the access to banking services is available on a large scale) but also had to provide these services in a cost-effective manner. Actually, the newly-established financial system has to be cost-reducing for the clients to meet the Schumpeterian qualification for financial innovations (v. PISCHKE: 122-123). There have been first indications that these innovations did in deed lead to cost-reductions for rural clients in making use of banking services.

In 1988, the country gave up the mono-banking system and adopted a two-level system, with the SBV retaining its central bank functions. Two state-owned commercial banks were created out of departments of the SBV - the Agricultural Bank of Vietnam (VBA) (later renamed Vietnam Bank for Agriculture and Rural Development, VBARD) and the Industrial and Commercial Bank of Vietnam (ICBV). During the ten months following the reform of early 1989, which allowed for positive real interest rates, deposits with the two government-owned banks grew at 335 percent. It has been remarkable that household deposits showed a growth rate of 630 percent, while enterprise deposits just grew by 185 percent (SEIBEL, 1996: 37). This just reflected the fact that financial resources of the households could be tapped by the formal system if the conditions were right. However, soon fundamental weaknesses of the financial infrastructure in intermediation became apparent. The newly-formed commercial banks were but arms of the SBV, which in turn failed to carry out central bank functions. The financial discipline was not maintained and inflation re-emerged. Without new reforms further progress would have been difficult. These were implemented in adopting a new banking law, effective 1 October 1990. Among others these reforms enabled VBARD to undertake commercial banking operations. In addition, it was given greater autonomy (SEIBEL, 1992: 52; ABIAD, a: 1).

This reform laid the foundation for the expansion and differentiation of the financial infrastructure, moving from state finance to commercial banking. Banking has been one of the first areas of the economy to be deregulated and opened up to the private sector. While in 1993 the banking sector was dominated by the four state-owned banks which together accounted for about 90 percent of lending, total banking assets came up to about 38.8 trillion VND. This just equalled about 30 percent of the GDP, which has been low compared to other countries in Asia (ABIAD, b: 13). Vietnam has been and still is underbanked, although major improvements have been accomplished. But a lot more has to be done until a viable system will be operational. In 1996, still about 80 percent of the lending is handled by the four state-owned banks (KEENAN a). During the last years this share did not change much.

From the clients' point of view, it can be concluded that the most important developments affecting the rural finance sector during the transition from central planning to a market have been the changes of the formal (and semi-formal) financial infrastructure and its way of operation. In line with the effects of the national policies the traditional credit co-operatives rapidly collapsed in 1990-91. On the other side, new institutions and organisations have been built up in order to ensure economic development in rural areas. The most important developments with respect to the formal finance system have been the following ones:

- a) the establishment of the VBARD;
- b) the establishment of the Vietnam Bank for the Poor (VBP) as the fifth state-owned bank in 1995;
- c) the emergence of new private joint-stock banks (rural share-holding banks), and
- d) the set-up of the people's credit funds (PCF) under the supervision of the SBV, which will be discussed intensively in Chapter 4.

These developments will be discussed below. In addition, it will be assessed whether the rural population can make use of these financial innovations in order to improve their economic situation, or whether they have to rely on informal financial arrangements.

Collapse of the Traditional Credit Co-operatives. The present situation of the rural finance system can only be fully understood if one takes note of the development of the rural credit co-operatives up to their collapse in the early 1990s. They were already established in 1956 in North Vietnam, and 1983 in the South. Their main purpose was to gather small deposits and provide credit to individuals, farm households, small businesses and production co-operatives. Already in the early 1960s about 5,500 rural credit co-operatives had become operational, about another 2,000 were set-up during the early 1980s. In the late 1980s, their number stood at 7,180 (ABIAD, a: iv).

Although they were set up as local financial intermediaries on behalf of the SBV, they were operating in isolation from each other, without any network links. In reality, they were predominantly established within small communities beyond the direct reach of the SBV and managed by local people's committees. Actually, the term co-operative did not describe a form of mutual self-help, but rather reflected an operation which was organised by the administration. (DAUBERT: 23).

Most of them have fallen prey to the financial reforms of the late 1980s. As rural collectives went out of business, their loans from credit co-operatives became non-performing. There was no system of reserve assets or deposit insurance. The SBV did no more automatically refinance the credit co-operatives as it used to do before the banking reform in 1989. With arrears mounting, the large majority of the credit co-operatives collapsed. By the end of 1990 only 160 of those rural credit co-operatives were still operational (SEIBEL, 1992: 64). With the adoption of the new banking law in 1990, just 80 of them received a licence to go on

operating. Almost all of them have been transformed into PCFs in the coming years (SEIBEL, 1997: 20).

Besides the effects of the monetary and banking policies in the late 1980s, the credit co-operatives were badly prepared to function as full-fledged rural banks. The supervision by SBV was poor, the staff in charge of management were badly trained, often incompetent. In addition, a number of cases of fraudulent behaviour by the staff and (local) officials had been reported. Therefore, it was no surprise that panicked depositors rushed to withdraw their money. (Small) private enterprises - in general just recently established - were particularly affected by the collapse of the credit co-operatives. At that time these co-operatives were their only source of formal credit (FFORDE/de VYLDER: 265).

The major effect of the collapse of the credit co-operatives seemed to be psychological. "The public's faith in the financial system was seriously damaged, and the issue of corruption and economic crime in general came to the surface. The confidence crisis - and, of course, the negative real rate of interest all through 1990 and 1991 - also affected the formal banking system; many people withdrew their deposits to buy gold and dollars, as illustrated by the sharp increase in the price of these assets during the latter half of 1990 and 1991" (FFORDE/ de VYLDER: 266). Therefore, the acceptance of the formal finance system has been somewhat tarnished by the bad experience from the past. (Rural) people had to rely mainly on informal arrangements.

As already discussed above, the government implemented far-reaching monetary and banking reforms in the late 1980s which were required to lay the foundation of a sound formal finance system, but which also led to the collapse of the credit co-operatives. The state was no more in a position to bail out these co-operatives. At that stage the majority of the rural population had no access to the formal financial system. On the other side, there had been tremendous efforts to build up a viable network of the Agricultural Bank.

The Bank for Agriculture and Rural Development (VBARD). Of the four, now five, state-owned banks, VBARD has a rural credit mandate. While it has been created in 1988 out of a department of the SBV, it could only start operating once the new banking laws became effective 1 October 1990. It actually started to become operational in December 1990. Although it is empowered to undertake all commercial banking functions, its focus lies on financing all types of enterprises in the rural areas, i.e. public institutions as well as the emerging private sector (ABIAD, a: 20).

At its start VBARD took over the branch network of SBV in the rural areas. Over the years it has steadily increased in network and provides the largest one of all banks in Vietnam. At the end of 1996, it managed 2,564 branch offices spread all over the country (SEIBEL, 1997: 4). In order to reach more and more clients in the rural areas VBARD has introduced a number of innovations, like using mobile banking units, operating transaction offices at the commune level and experimenting with a system of group lending. In addition, VBARD has a number of agreements with mass-organisations covering provisions of financial services to

groups made up of mass-organisation members (JOHNSON: 2), which will be discussed below. It has to be stressed that while the network has been expanded, the number of staff has been reduced at the same time by about one fourth.

With the expansion of its network VBARD had been able to enlarge its clientele rapidly. In its first operations in 1990 VBARD provided credit almost exclusively to state-owned enterprises. However, it quickly adapted to changed economic conditions when private farming became the dominant mode of agricultural production. It changed from being essentially a conduit of government funds to the state-owned enterprises to being a bank with a commercial outlook, lending primarily to farm households (JOHNSON: 2). Authorisation for lending to farm households was given in July 1991, and within six months the bank had lent about 405 b VND (about US\$ 36 m at that time) to 558,680 households. The average size of loan came up to about US\$ 65 per household. Initial repayment rates were excellent. At that time farm households just accounted for about 10 percent of the total loans. In the following year VBARD reduced its credit delivery to the state-owned enterprises and the agricultural production co-operatives, significantly (LE/McCARTHY: 121).

The share of rural households having access to credits managed by VBARD increased rapidly from 9 percent in 1992 to about 30 percent in (early) 1994 (BOSCHERT et al.: 16). In 1995, it was estimated that about 5 m out of a total of 12 m farm households (or about 42 percent) received a loan by VBARD. In 1996 even about 7 m households (or about 58 percent) have been reached. This rising share of rural households with access to financial services of VBARD is reflected in their rising share of its total loan portfolio. While 1991 rural households received about 10 percent of the total loans, their share increased to 43 percent in 1992 and to 65 percent in 1993 (BERGERET: 19). In 1995 about 82 percent of all credits went to rural households while state-owned enterprises received the rest (KEENAN b).

When VBARD started handing out credit to rural households they were provided on an individual basis. It used to ask for collateral and a guarantee by the authorities of the local commune. At that time family farms had been fairly recently established and a proven repayment record did not exist. Therefore, it is not surprising that VBARD's action had been limited by the type of clientele it could reach, i.e. the medium-sized and well-to-do farmers who could provide collateral. Hence, its scope was limited to about 20-30 percent of all farmers (BOUSQUET: 73-74). Starting from 1995, the bank adopted a new credit policy and made use of credit groups. In general, the group leaders negotiate with bank staff about the credit modalities and co-ordinate repayments. Usually, members are not liable for each other in case of default by one. However, all group members will be not eligible for another credit, anymore. At that time, no collateral had been needed or loans up to one m VND. Small loans had been only made available via groups. For loans between 1 - 10 m VND a guarantee by a third party had been required. In the late 1990s, this requirement had been waived. For loans over 10 m VND there is still a need for a collateral. Land use rights are accepted. In case of non-repayment, the VBARD tried to recover the loan with the help of the local

people's committees since there had been no formal land market at that time. Therefore, most commonly, houses, motorbikes and durable consumer goods had been accepted as collateral. Those who owned assets used to go on to approach the staff of VBARD directly on an individual basis. (ABIAD, a: 27-28).

Therefore, the expansion of its customer base among rural households can be explained to a large extent by the fact that VBARD opened up for those rural households who could never dream of getting a credit on their own but only under the umbrella of a credit group. In 1995 about 74,000 credit groups had been set-up which had been voluntarily joined by poor households. In early 1997 about 150,000 groups had been supported. While about 100,000 groups are pure credit groups, the other 50,000 are savings and credit groups. All these groups are informal ones and are not registered in a strict sense. However, all these groups are supervised and looked after by the various mass organisations. Similarly, all groups have to be certified by the people's committees at the commune level. Otherwise they will be not eligible for any loans. Credit for these groups is only provided on a short-term basis, medium to long-term credits is not available for the time being. Most of these activities with respect to these groups have been shifted to the newly established Vietnam Bank for the Poor (VBP). Hence, the number of clients declined again, but even for the bank staff it is difficult to distinguish exactly between the clients of VBARD and VBP respectively, as VBP does not have any field staff.

The Vietnam Bank for the Poor (VBP). The VBP established by a decree in August 1995 became the fifth state-owned bank. It is not supposed to be managed along commercial lines, i.e. it is a non-profit bank. It was intended that the approaches of VBARD and VBP complement each other. Its objectives are to contribute to hunger eradication and poverty alleviation in Vietnam. All poverty lending programmes are to be centralised by it. VBP started operating 1 January 1996. It did not set-up its own national infrastructure but makes use of the existing branch network and staff of VBARD, under the terms of an agency agreements. Therefore, with respect to the clients bank personnel at the local level handling both VBARD and VBP activities is the same.

VBP intends to alleviate poverty through the provision of credit to those who do not qualify for individual loans because of limited ownership of potential collateral. Therefore, loans are only provided to those eligible households which are members of a credit group. VBP makes use of the network of the existing 150,000 groups. Eligible households are only those which are classified as poor under the strict Vietnamese criteria. As (absolute) poor are defined those households which earn less than a certain monthly income converted into rice value: (a) in urban areas under 25 kg per person; (b) in flat land and midland rural areas under 20 kg per person; and (c) in mountainous areas under 15 kg per person. Based on these criteria, it was estimated that in 1995 about 3.3 million households (or 22.8 percent of all) had to be classified as poor. By far the majority of those were living in rural areas (HA: 25). Up to 2000, the share of poor people

declined to 11 percent, but still the share of poor people is three times higher in the rural areas compared to the urban ones (N.N.: 14/11/2000).

Those eligible for loans get credit at preferential interest rates. In addition, clients are not charged any commissions or fees. Loans are only provided for production or related purposes. In most cases borrowers are not handed over the credit in cash but in kind. The credit programme is linked with extension in order to ensure that it leads to higher incomes. VBP closely collaborates with professional organisations and appropriate ministries in addition to the mass organisations for supervising and supporting the groups (HA: 26).

Lending by VBP has spread over the country fairly quickly, particularly to the far-inland, remote and highland zones. By 15 May 1996 731,000 households have borrowed 735 b VND (on average over 1 m VND or about US\$ 90 per household) through 69,000 credit groups. The repayment of both principal and interest is good and overdue loan rate is very low (HA: 25). As of 31 December 1996, the total amount borrowed increased to 1,769 b VND distributed among 1.3 m households. The average credit stood at 1.37 m VND or about US\$ 120 (BOSCHERT et al.: 5). It is unlikely that VBP may be able to cover the entire costs that must be incurred in reaching out to the poor. In order to cover the preferential interest rates VBP has to receive budgetary subventions and contributions from SBV (ADB, 1997: 112), which seems to be the price for the preferential credit rate ceilings. No exact figures about the scope of this subsidy are available.

Private Banks in Rural Areas. Banking has been one of the first areas of the economy which had been deregulated and was opened to the private sector. Soon the number of joint-stock banks increased rapidly. In 1997, there had been 54 joint-stock banks, but only 16 of them operated in rural areas. Most of these are located in the south. The private joint-stock banks can be classified according to their ownership into three groups:

- (a) banks whose stockholders are state-owned enterprises (SOEs);
- (b) banks whose stocks are owned by SOE and private individuals; and
- (c) banks owned exclusively by private individuals.

Joint-stock banks owned by SOEs usually have a large equity base and operate in the main cities of Hanoi and Ho Chi Minh. These banks provide a full range of banking services and cater mainly to large companies. In general, SOEs are also the majority stockholders of mixed joint-stock banks. The joint-stock banks owned exclusively by private individuals or entities are those operating in the rural areas. Their equity base is small, ranging from 300 m VND to 3 b VND. In general, the rural joint-stock banks are small in their geographical coverage (one district) and in their business activities (ABIAD, a: 14).

The focus of lending by rural joint-stock banks is on farm households and traders in their service area. Loans are generally small, ranging from 1 to 3 m VND, and for short-term purposes, only, i.e. for purchasing seeds, fertilisers and insecticides. Lending through joint liability groups has cut down their transaction costs, and so has the simplification of their loan procedures. Starting from a low

basis the expansion in savings mobilisation of these banks had been encouraged. The interest rate charged to the clients is generally about 0.5-1 percent per month higher than the VBARD rate. All banks require collateral for loan approval, which includes land use certificates and appliances like motorbikes and television sets.

One of the main drawbacks of joint-stock banks is the fact that they remain vastly undercapitalised and are suffering a liquidity crunch (SOLOMAN). Therefore, they rely heavily on other banks as a source of funding, particularly on VBARD. This system makes the supposedly private rural banks, in effect service centres or de facto branches of VBARD. Hence, they cannot effectively compete with VBARD in the loan market. Another major constraint of these banks is the deposit interest rate limitation imposed by SBV which limits their effort to attract more savings and to expand their equity base. However, first steps have been taken to encourage savings from rural traders. In addition, the lack of medium and long-term funds impedes their development (ABIAD, a: 15).

In conclusion, it becomes evident that rural joint-stock banks do not play any significant role as financial intermediaries. Their market share is marginal and seems to decline over time. In early 2001, just 34 joint-stock banks were still operational. But no figures about those still operating in the rural areas could be given (N.N.: 22/6/2001). Due to their heavy reliance on VBARD as a source of finance they are in a no position to compete, just to fill gaps left by that bank.

Semi-Formal Finance Systems in Rural Areas and Their Links With the Formal Sector. While the formal banking system has been and still is expanding to reach more and more rural clients demand for credit is by far outpacing supply. More capital for providing capital is needed to preserve growth in the agricultural sector and the rural economy in the years to come. As the vast number of rural households could not get access to the formal financial sector due to lack of collateral, they set up credit groups on a self-help basis. Since the early 1990s the mass organisations, to a limited extent, supported by foreign NGOs encouraged micro-finance schemes and the formation of groups. At the beginning the emphasis was laid on the provision of credit. Most of these groups are linked to the formal financial system, in general to VBARD or VBP. For the banks the credit groups opened a way to increase the number of their clients rapidly in a cost-effective manner. Transaction and administration costs could be kept at a low level.

A number of mass organisations are active in microfinance, of which the Vietnam Women's Union (VWU) is the most active nation-wide. Many of the others, such as the Farmers Association and the War Veterans Association, assist in the disbursement of loans under specific programmes. To some extent, these programmes are supported by NGOs which might influence the focus and rationale of the respective programme. In general, a credit group comprises 5 to 30 members. Depending on the scheme the implications of being member varies. They vary between full joint liability for any loans taken by group members up to individual liability for individual loans (JOHNSON: 3-5). All groups are characterised by the fact that a certain solidarity among group members has to be

established and that peer pressure replaces collateral. This solidarity can be most probably realised if the following key requirements are met (JOHNSON: 12):

- regular voluntary meetings;
- strong group processes such as open discussions;
- regular rotation of group responsibilities on the basis of members' votes;
- a focus on savings and credit activities in the meetings; and
- a common bond e.g. neighbourhood, socio-economic status etc.

Since 1991 the mass organisations were encouraged to help their members to get access to the banking system. They do not on-lend funds, but act as brokers rather than as financial intermediaries bearing credit risks. Since starting the number of voluntary self-help has increased steadily. As of December 1993, there were about 35,000 of them (TRAN/ NGUYEN: 203). At the end of 1995 VWU alone was looking after more than 50,000 women's savings and credit groups spread all over the country (JOHNSON: 3). In early 1997 more than 150,000 groups have been operational, most of them under the auspices of VWU. Concerning their number it can only be estimated since while groups are easily registered at the local commune committee, they can easily dissolve themselves as well.

At the beginning, when credit groups have been set up, emphasis had been laid on the provision of credit. The mobilisation of savings has not been stressed. Only recently, it was realised that savings have to be encouraged to enable the schemes to generate their own funds. Some schemes are too dependent on external resources and have no chance to become sustainable. When it comes to borrowing, loans are in general provided on an individual basis. In addition, the applications of group members have to be screened and approved by the local people's committee.

Most credits in rural areas are borrowed for a period up to six months. All schemes report very high loan repayment rates. At present, the semi-formal finance institutions show two major draw-backs. On the one side, their resource base is very small. As the promotion of savings had not been their priority, they can be described as a simple transmitter of fund for the banks. In the meantime, they have realised this drawback and have started to mobilise internal funds. On the other side, the credit groups are more or less informal groups. They are registered with the local people's committee but they can dissolve themselves easily. These groups lack the capacity to transact legal business. In the long run, this might be required to do larger and long-term finance transactions. As a matter of fact, these semi-formal groups might join an PCF or might establish their own PCF once they fulfil the basic requirements (BOSCHERT et al.: 18, 45). Another option might be to strengthen and systematise the existing links with VBARD (ABIAD, a: 48).

Informal Finance Systems in Rural Areas. Knowledge about informal finance systems in Vietnam remains weak and primarily based on anecdotal evidence. Therefore, not many facts are known or figures about its size can be given.

Although formal and semi-formal systems have expanded rapidly during the last years the bulk of financial intermediation still seems to be done informally. Based on rough calculations referring to economic growth in the early 1990s when an annual economic growth rate of 10 percent could be observed, it is assessed that most of necessary investments had been contributed by the private sector. As it was shown above, the formal financial sector could not fulfil this task. What has been typically Vietnamese in this situation, is "that almost all of the financial intermediation required to shift these flows around the economy was occurring *informally*." (FFORDE/VYLDER: 306).

Nevertheless, there are some scattered information about the importance of informal finance systems in the early 1990s, particularly with respect to credit. The data collected by the Vietnam Living Standards Survey 1994 reveal private individuals are the most important source of credit, in most cases family members, relatives, friends and neighbours. Their share comes up to about 40 percent. Another third of the rural households borrow from private money lenders, while about one quarter relies on banks and other sources. In general, there is no obligation to pay interest for those credits obtained by private individuals. On the other side, money lenders charge an interest rate of more than 100 percent p.a. (ABIAD, b: 15). However, the survey seems to have neglected other informal finance institutions which play an important role, particularly the savings and credit associations. Actually, four major informal financial institutions can be distinguished (SEIBEL, 1992: 73). These are:

- (1) Mutual lending among friends and neighbours at negotiated rates depending on social relationship, reputation of the borrower, maturities, etc. The annual interest rates to be paid vary between zero and more than hundred percent.
- (2) Rotating savings and credit associations have a very long tradition in Vietnam. Usually these groups are referred to as *ho* in the North and *hui* in the South. They are promoting periodic savings contributions which in turn are rotated as a fund among a limited group of persons who trust each other. Members of these associations come mainly from the same hamlet. The savings and credit can be made either in cash or in kind. In general, membership averages 10-15 persons. The period of each lending cycle varies, but the most common is three to five months. Decision on interest rates, membership and loan amounts are made either jointly by all members, by a bidding process or made solely by the organiser. The lifecycle of a specific savings and credit association ends when every participant has obtained once the total fund collected at each turn. While in general rural households make use of these institutions to bridge short-term needs, they can also be set-up to finance long-term investments, e.g. a group may last over a couple of harvest seasons (ABIAD, b: 17; LOUNG: 58).
- (3) As already reported in the Vietnam Living Standards Survey rural households rely to a large extent on specialised moneylenders, which includes pawn-brokers as well.

- (4) In addition, traders are giving advances in cash or kind on the basis of the promise to receive or buy the products at harvest time. However, as rural traders have to become established themselves during the last years their capital base is rather limited. But it can be assumed that they will become a more important source of rural credit in the years to come.

Informal financial systems are characterised by two facts. On the one side, all funds lent in the informal market are locally mobilised. The borrower and the lender (often) live in the same community. They have a good understanding of each other. This facilitates open lending-borrowing relations. In general, lending is very flexible to meet the needs of the borrower. They can obtain loans quickly at any time under simple procedures at low costs, e.g. there is no taxation, simple book-keeping and low transaction costs. The loans are granted on confidential basis (CECARDE: 23). On the other side, the interest rates charged used to be above the inflation rate in the early 1990s and bear positive real returns. In these days, they reportedly are above the formal sector rates. There is no denying that an easy access to credit, timely availability and quality of service are more important to farmers and rural entrepreneurs than the level of interest rates.

2.3 Legal Basis for Setting-up New Organisations Promoting Agricultural Production and Rural Finance Systems

Giving up the concept of the agricultural production co-operative as a collective economic organisation and acknowledging the right of private farming, the new freedom of association and voluntary membership required a general Co-operative Law. Only in March 1996, after years of discussion, a general Co-operative Law has been adopted by the National Assembly, which became effective 1 January 1997. Up to that time no co-operative law has been existed in Vietnam. In the past, the legal environment for agricultural production co-operatives was changed, sometimes drastically, on the basis of government decrees and party resolutions. The new Law covers all the various types of co-operatives and reflects the will to renovate co-operative principles. In fact, the legal basis has been laid to establish genuine co-operative structures in order to ensure the autonomous development of farmers' self-help. This law reflects the basic principles of the international co-operative movement. Since then, immense efforts have been undertaken to transform, dissolve and establish new agricultural co-operatives in the country.

Already some years earlier it had been agreed upon a regulation by the SBV which provided the legal basis for setting up the people's credit fund system along co-operative lines. In June 1993 the Regulation on the Organisation and Operation of People's Credit Funds had been adopted. They are classified as formal financial intermediaries and, therefore, do not only fall under the stipulation of the Co-operative Law, but also under the jurisdiction of the Banking Law. At the time of establishing the first PCFs in the rural areas a number of drafts of the Co-operative

Law had already been discussed. Hence, it had been only a formality to transform these PCFs accordingly once the Co-operative Law had become effective.

2.4 Research Design - Methodology

Within this analysis it had been looked at the transformation process of old-style agricultural co-operatives as well as the establishment of new agricultural co-operatives and people's credit funds through the eyes of the management and the local administrations. It is an analysis based on a number of case studies which aims at contributing to explain the present state of the co-operative movement in rural Vietnam. The findings are not based on a representative sample. Besides having conducted in-depth interviews and discussions in Hanoi over the whole research period starting in 1997 up to the middle of 2001, in-depth interviews have been held with key informants at the provincial, district and commune level in the study areas. In Hanoi, regular discussions were held not only with representatives of the Ministry of Agriculture and Rural Development (MARD) and the Central Institute for Economic Management (CIEM), but also with team leaders and staff members of various internationally supported development projects which are focusing on agricultural development, the equitisation of state-owned agri-business and the promotion of rural finance systems. Similarly, in-depth discussions were held with representatives at SBV in charge of the PCF-system and at the CCF. The major findings of the field survey had been presented and critically assessed at a national workshop in Hanoi by the end of April 2001.

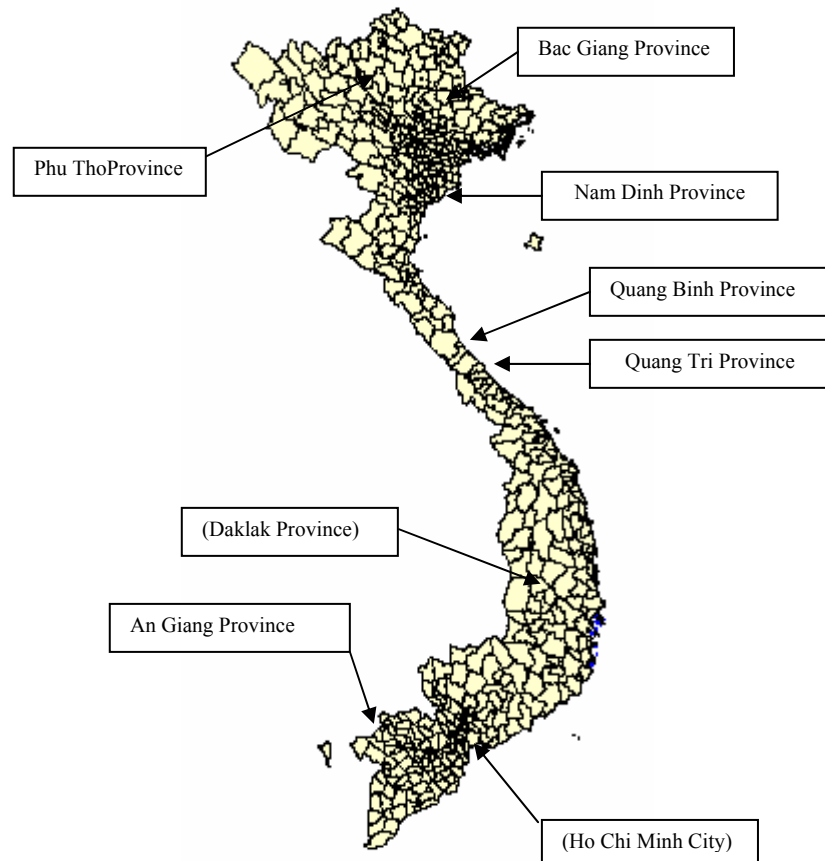
Originally, it had been envisaged to analyse the transformation process as well as the formation process in six different provinces, spread all over the country with the restriction that two provinces should be located in the northern, central and southern parts, respectively. Due to financial and time limitations the second province in the southern part could not be studied anymore. It had been decided to analyse a third province in the northern part, instead. Finally the distribution of the provinces studied looks as follows, i.e. the Provinces of Bac Giang, Nam Ding and Phu Tho in the North, the Provinces of Quang Binh and Quang Tri in the Centre and the Province of An Giang in the South (see Map below). In addition, a transformed agricultural co-operative had been analysed at the outskirts of Ho Chi Minh City and managers of the Regional Credit Fund and the provincial branch office of SBV in Daklak Province could be interviewed. However, due to unreliable data the case studies of Nam Dinh Province have not been included in final analysis of Chapter 3 and 4. The overall set up of the survey is summarised in Table 2.1 below:

Table 2.1: Number and Distribution of In-Depth Case Studies of the Field Survey, 1998 - 2000

Province, Time of Survey	Agricultural Co-operatives		Informal Groups under Village Committees	People's Credit Funds
	Transformed	Newly Established		
Bac Giang (Oct. 1998)	2	2	1	2
Quang Binh (Oct. 1998)	2	-	2	1
Nam Dinh (Feb. 1999)	3	-	-	2
An Giang (March 1999)	1*	5	-	3
Quang Tri (March 2000)	4	-	-	5
Phu Tho (Dec. 2000)	3	-	-	2
Total	15	7	3	15

* Case study in Ho Chi Minh City
Source. Own Survey

In each province, it had been restricted to two districts, on average. In general, two to three agricultural co-operatives and/or informal groups as well as two or three PCFs have been analysed in great detail per district. At the provincial level, the respective staff members of the people's committees, Ministry of Agriculture and Rural Development, the provincial office of the State Bank and, if established, of the Regional Credit Funds have been interviewed. The provincial staff selected the respective districts for the case studies and, in general, decided which agricultural co-operatives, informal groups and PCFs were visited at the commune and village levels. At the district level, in-depth interviews were held with the respective staff members of the people's committees and of MARD. In this respect, it has to be admitted that the findings might be a bit biased to the better-off cases, but the discussions with the key informants had been frank enough to review also the not so successful cases in their respective areas of jurisdiction.

Map 1: Selected Target Provinces in Vietnam

The basic topics discussed with the co-operative management focused on the following subjects (see Annex 1):

- major pushing factors and steps in the transformation process, the formation of agricultural co-operatives, and PCFs
- size and structure of membership
- financial position of the co-operative, e.g. volume of share capital, reserves, profits and losses, role of dividends
- main activities
- reasons for serving as managers

Within the lifetime of the project, the duration of the interviews increased significantly. While during the first round of in-depth interviews with co-operative managers an interview lasted for about one to one and a half hours, the time increased to three or, even, three and a half hours during the last round. One factor of explanation had been the fact that the survey team accumulated more knowledge over time so that many topics could be discussed in greater detail. Similarly, the replies could be compared and rechecked with those given in the former interviews. Besides the opinion of the co-operative managers ordinary members had been interviewed about their views on co-operatives. In general, these discussions lasted for about 30 minutes. The outline for the in-depth interviews of the managers and the major findings of the respective provinces and of the most distinguished case studies have been summarised in Annex 2 and 3, respectively.

Finally, it has to be stressed that the field survey had been executed over a two-year period. Hence, it might be difficult to compare the findings of the last round with those from the beginning. Therefore, this analysis is concentrating on qualitative data. When quantitative figures are given, it has to be kept in mind that they just represent a trend. Despite these shortcomings it is hoped that this study will contribute to throw more light on the present state of co-operatives in the rural areas of Vietnam.

3 Transformation of Former Agricultural Production Co-operatives and Setting Up of New Agricultural Co-operatives

With the implementation of the Co-operative Law all co-operatives had to be transformed accordingly⁵. In addition, newly established co-operatives could be registered under the Law. During the first years, however, the major question had been how to transform traditional agricultural co-operatives, i.e. from “old-style to new-style co-operatives”. This included the basic challenge of how to change the existing co-operatives (“state-managed style”) into share-holding co-operatives with individual shares. As already discussed above, the number of agricultural co-operatives declined since the late 1980s although many of them split up as well. A number of co-operatives which used to cover the whole commune were already subdivided into various inter-village or even village co-operatives (KLEINEN: 9). It is evident that their number of members and volume of activities declined while the social homogeneity increased. The following chapter is structured as follows: After briefly reviewing the development of the transformation process at the national level, it will be discussed in more detail at the co-operative level, which

⁵ If not indicated otherwise, this and the following chapters are based on several rounds of discussion with staff members of the Institute of Agricultural Economics, Hanoi starting in April 1997 up to May 2001. Similarly, in-depth discussions were held with Prof. Nguyen Van Bich, Central Institute for Economic Management, Hanoi, 15 April 1997 and 22 April 1998, Dr. Chu Tien Quang, Central Institute for Economic Management, Hanoi, 8 October 1998, 6 April 1999 and 23 March 2000, Ms. Chu Thi Hao, Dept. of Agricultural Policy and Rural Development, MARD, Hanoi, 21 April 1998 and 6 November 1998 and Mr. Nguyen Phuong Vy, Department for Agriculture and Rural Policy, Ho Chi Minh City, 23 March 1999, and later on since having become Director of the Dept. of Agricultural Policy and Rural Development, MARD, Hanoi on 13 April 2000 and 29 November 2000. In addition, it is drawn on the findings of the interviews in the provinces whereby the main findings are summarised and attached in Annex 2.

implies the transformation procedure, the nature of main activities of the transformed co-operatives and the main problems encountered, so far.

3.1 National Development

At the beginning of 1997, once the Co-operative Law had become effective, the number of agricultural co-operatives stood at 13,120. In a revised statistic published by MARD at a later stage the total number of agricultural co-operatives by the end of 1996 had been given with 13,782, as it is shown in Table 3.3 below. Most of them could be found in the Northern and Central provinces comprising the Northern Mountainous, Middle Land, Red River Delta and the Northern Central Regions, as it is shown in Table 3.1.

Table 3.1: Status of Agricultural Co-operatives Before Implementation of the Law

Region	Total No. of coops	Still operate	Of which			do not operate
			better off	medium	poor	
1 Northern Mount. Region	5,407	3,158	546	1,568	1,044	2,249
2 Middle Land	1,111	998	345	452	201	113
3 Red River D.	2,561	2,525	402	1,544	579	36
4 Northern Cent.	2,384	2,186	445	1,083	658	198
5 Southern Cent.	838	796	249	547	-	42
6 High Land	266	159	28	131		107
7 South East	418	302	70	232		116
8 Mekong River D.	135	95	41	54		40
Total	13,120	10,219	2,126	5,611	2,482	2,901

Source: MARD (ed.): One year's implementation of the Co-operative Law and other governmental decrees in agriculture. Hanoi, 2 June 1998.

Out of the total number of registered agricultural co-operatives 2,901 (or about 22 percent) were not operating at all anymore. The remaining 10,219 agricultural co-operatives were classified as operational, but again 2,482 of them (or about 24 percent of them) as poor meaning that there might be just one service offered but run very badly. Just 2,126 co-operatives (or about 21 percent) have been classified as better-off, indicating that they were offering more than three different services to their members in a quite efficient manner. This group has been regarded as the core group, which might work efficiently as transformed co-operatives. Nevertheless, it was doubted whether all of them could do so. Another 5,611 agricultural co-operatives (or about 55 percent) were classified as operating unstable. In general, these co-operatives offered up to three services. It was expected that some of them had a certain chance to continue as a transformed co-

operative if economically viable business activities could be identified. All in all, it was estimated at that time that about 50 percent, or about 5,000 - 6,000 agricultural co-operatives, could operate well under the new Law.

Once the Co-operative Law became effective various decrees had to be issued during the first months in order to implement it effectively at the local level. The most important decrees are the following ones (HARMS, 1999: 4-5):

- Decree No. 02-CP of the Government (dated 2 January 1997) on Tasks, Powers and Responsibilities of Ministries, Ministerial Level Agencies, Agencies attached to the Government, the People's Committees of various levels makes provisions for the state management over co-operatives. It assigns various tasks, powers and responsibilities to these agencies to direct, guide and promote the development of co-operatives that operate legally within the scope of the Co-operative Law.
- Decree No. 15-CP of the Government (dated 21 February 1997) on Policies to Promote the Development of Co-operatives aims at promoting the development of co-operatives. The government has promulgated various policies with regard to arable land, taxation, investment, credit, co-operative training which take into account the new production relation in rural areas.
- Decree No. 16-CP of the Government (dated 21 February 1997) on the Transformation, Registration of Co-operatives and the Organisation and Operation of Unions of Co-operatives provides guidance for the handling of capital and assets, debts to be claimed from members of former agricultural co-operatives and also makes provisions for the operation of the new form of agricultural co-operatives. It also prescribes what needs to be done to register a co-operative in accordance with the Law on Co-operatives. The transformation of former co-operatives to new co-operatives operating under the new Law on Co-operatives as well as the changed rules on ownership, management and distribution of profits/surplus of agricultural co-operatives are also mentioned.
- Decree No. 43-CP of the Government (dated 29 April 1997) on Model Statutes for agricultural co-operatives provides the general legal framework for the new form of agricultural co-operatives with regard to their organisation, management and operation. The provisions of this Decree enable the development of co-operatives, which are no more based on collectivisation of land ownership and other production means of farmers but are based on the characteristics of self-help, self-management and self-responsibility. Contribution of capital and labour and equal voting rights of each member are guaranteed, too. Farmers benefit from their business operations with their co-operative and bear at the same time the risks within the scope of their contributed capital. The model of the co-operative prescribed in the Model Statutes aims at developing the household economy not mainly based on profit making but on the provision of services to member households in the market-oriented economy.

Based on Decree 16 the transformation process could be implemented. Originally, a deadline for the completion of the transformation process had been set at 15 March 1998, i.e. actually one year after Decree 16 has become effective. At that time it was hoped to proceed with the transformation process as quickly as possible. Those with business opportunities should be quickly re-registered, the others quickly dissolved. But the process had been rather slow, so far. By the end of March 1998, the picture summarising the development in 39 selected provinces looked as follows, as it is shown in Table 3.2.

Table 3.2: *Preliminary Results of the Transformation of Agricultural Co-operatives in 39 Selected Provinces (31 March 1998)*

Region	Total Number	Transforming Co-operatives			
		Total Number	of which		
			Preparing	Applying	Registered
1 Northern Mountainous Region	4,773	438	189	194	55
2 Middle Land	1,111	408	132	184	92
3 Red River Delta	2,405	1,453	310	573	570
4 Northern Central	1,283	451	277	65	109
5 Southern Central	369	358	40	63	255
6 High Land	261	127	51	34	42
7 South East	62	27	7	12	8
8 Mekong River Delta	16	8	4	2	2
Total	10,280	3,270	1,010	1,127	1,133

Source: MARD (ed.): One year's implementation of the Co-operative Law and other governmental decrees in agriculture. Hanoi, 2 June 1998.

At 31 March 1998 there had been 10,280 agricultural co-operatives in the 39 selected provinces. Out of these 3,270 (or about 32 percent) had started with the transformation process. But just 1,133 (or about 11 percent) had been registered as new-style co-operatives, so far. Another 20 percent had been in the final stage of the transformation process. It seemed to be that the most efficient co-operatives had been transformed most quickly. By the middle of 1998, based on provincial reports, 2,494 agricultural co-operatives (or about 18 percent) had been transformed and newly registered (NGUYEN SINH CUC: 33). Due to the large number of problems in the process, which will be discussed below, the deadline of finalising the transformation process had been extended to 31 December 1998. But, even, by the end of September 1999 the transformation process had not been terminated and the deadline extended to 31 December 1999. Since that deadline could not be met either, no formal date has been set anymore. As it is shown in Table 3.3, 8,598 agricultural co-operatives still remained by the end of 1999 which means that during the three year period between the end of 1996 and the end of 1999 5,184 agricultural co-operatives (or about 38 percent) had been dissolved. Just 4,449 agricultural co-operatives (or about 52 percent) had been re-registered as transformed co-operatives, so far. In Northern Vietnam the transformation

process is a bit slower, but on the other side, there are not that many co-operatives to be transformed in the South.

Table 3.3: Development of Agricultural Co-operatives, 1996 - 1999

Region/ Area	Number (Dec. 1996)	Remaining Co-operatives (Dec. 1999)				Newly establ. Co-ops. (Dec. 1999)	Total No. of Co-ops (Dec. 1999)
		Total Number	Perce ntage	of which: registre	Perce ntage		
Northern Mountain Region and Middle Land	6,075	3,689	60.7	1,123	30.4	115	3,804
Red River Delta	2,558	2,224	86.9	1,477	66.4	414	2,638
Northern Central	3,479	1,443	41.5	896	62.1	125	1,568
Southern Central	917	761	83.0	700	92.0	6	767
High Land	295	172	58.3	75	43.6	6	178
South East	398	271	68.1	140	51.7	34	305
Mekong Delta	60	38	63.3	38	100.0	393	431
North Vietnam	12,112	7,356	60.7	3,496	47.5	654	8,010
South Vietnam	1,670	1,242	74.4	953	76.7	439	1,681
Vietnam, total	13,782	8,598	62.4	4,449	51.7	1,093	9,691

Source: MARD (ed.): The Successful Implementation of the Co-operative Law in Agriculture. Hanoi, MARD, 2000, unpublished manuscript

While detailed figures are missing the national situation in early 2001 looks as follows: There are just some 7,349 agricultural co-operatives remaining. Hence, about another 1,100 of them had been dissolved during 2000. The number of transformed co-operatives increased to 5,692 by the end of June 2000 and to 5,764 by December 2000, i.e. another 1,300 have been re-registered during that year. At that time, about 78.4 percent of all remaining agricultural co-operatives had been transformed already. It is assumed that the remaining 20 percent will have accomplished this process by the middle of 2001. One of the biggest stumbling blocks in finalising the transformation process is the still unsolved issue of outstanding debts. There are about 1,000 agricultural co-operatives which are supposed to be dissolved, but could not, so far, due to this problem. Since these debts could not be written off up to now, the respective co-operatives still are listed as agricultural production co-operatives although they are no more operational (NGUYEN PHUONG VY: 1-2).

Legally, old-style agricultural co-operatives had the option to transform themselves into another legal business entity. In that case they will fall under the Business Law (Company Law). But no case has been reported that any co-

operative did so. One reason seems to be the fact that co-operatives are taxed to a lesser extent than other legal forms of business entities. Another reason concerns the relative simplicity of the registration process. While all other business entities have to get registered at the Department of Planning and Investment (DPI) at provincial level, only co-operatives are registered by the same department at district levels.

One of the main issues in the transformation process had been the identification and economic valuation of assets of the old-style co-operatives and their transfer to the transformed ones. The average value of assets of a selected number of agricultural co-operatives undergoing the transformation process is summarised in Table 3.4.

Table 3.4: *Value of Assets of a Selected Number of Agricultural Co-operatives Undergoing the Transformation Process (31 March 1998) (Unit: Million VND)*

Region	No. of Co-ops	Average value before transfor.	Assets transferred to which organisation		
			new-style co-op	commune	sold
1 Northern Mountainous Region	499	61.7	33.9	27.7	0.1
2 Middle Land	417	324.1	280.9	33.5	9.7
3 Red River Delta	1,138	571.2	455.2	113.2	2.8
4 Northern Central	261	313.3	291.2	19.7	2.4
5 Southern Central	382	961.3	854.2	91.1	16.0
6 High Land	108	435.2	304.6	87.0	43.6
7 South East	27	313.2	312.0	1.2	-
8 Mekong River Delta	3	1,238.0	606.0	632.0	-
Total	2,835	470.6	387.4	75.7	7.5

Source: MARD (ed.): One year's implementation of the Co-operative Law and other governmental decrees in agriculture. Hanoi, 2 June 1998.

All old-style co-operatives had to make an inventory of all assets and their value had to be assessed. On average, the value of all assets had been estimated to be around 470.6 m VND. Those assets directly related to their business activities (production or services) were transferred to the transformed co-operatives. Other assets which were of common use for the entire community such as kindergartens, health care stations, media systems etc. have been transferred to the communes. On average, co-operatives had to transfer assets of a value of 75.7 m VND or about 15 percent. However, at the local level this rule was handled rather flexible as will be discussed in Chapter 3.2.2 below. In addition, some co-operatives sold some of their assets to raise cash, either to repay debts or to distribute some funds among the members. But this option has been rarely practised. On average, each

co-operative sold assets amounting to about 7.5 m VND or less than 2 percent of the total value of assets.

When looking at the spatial distribution of the transformed agricultural co-operatives, one aspect is very striking: Actually, all of them can be found in the lowlands concentrating on the promotion of paddy production. One reason is the fact that quite a number of agricultural co-operatives in the uplands which were promoting perennial crops or cash crop production have been amalgamated with state farms during the 1970s. Most of the remaining ones in the uplands which concentrated on annual crops collapsed quickly during the late 1980s and early 1990s, already. Hence, agricultural co-operatives still concentrate on the production of annual or food crops while the state farms used to concentrate on the production, processing and marketing of cash crops, e.g. pepper, coffee, rubber or tea. Most state farms are supposed to be equitised (privatised) in the coming years. The production of these crops has been completely handed over to the former workers, first as tenants and now as independent farmers. Only recently, after the former farm workers got sold the trees and got allocated the respective plots, these farmers in the uplands have realised the need of agricultural co-operation. Since the year 2000, the foundation process of more and more agricultural co-operatives in the uplands has been started.

The Co-operative Law sets the stage not only for transforming "old-style" co-operatives, but also for establishing new ones. By the end of 1997, as many as 99 agricultural co-operatives have been newly registered, 53 in the north and 46 in the south (AAP, 18 February 1998). Their number increased rapidly during the following years. By the end of 1999, the number of newly established agricultural co-operatives stood at 1,093, already, as it is shown in Table 3.3. By the end of June 2000, there were 1,319 co-operatives that have been newly registered. By the end of December 2000, according to the reports of the provinces, there have been 1,415 newly established co-operatives, of which 850 are in the Northern and 565 in the Southern Region (including 484 in the Mekong River Delta). In general, newly established co-operatives have been formed from pre-co-operative organisations (e.g. former production brigades) in the Southern provinces, whereas in the North, these co-operatives have been formed when the old-style co-operatives had been dissolved already and after some time it was agreed to start as co-operatives again (NGUYEN PHUONG VY: 4).

Besides the transformed and newly established agricultural co-operatives, there are about 100,000 agricultural groups of a pre-co-operative type, which might be able to get registered as co-operatives in the long run. In general, these are informal groups which are pursuing one specific activity only. In general, they are not registered at all for the time being.

3.2 Transformation Process at the Local Level

As discussed above, already quite a number of agricultural co-operatives split up during the late 1980s and early 1990s. Many co-operatives have been

amalgamated during the 1970s to cover one commune. With the introduction of the family-responsibility system many of them split up again into intervillage or village co-operatives, again. The members felt more close to each other. It is evident that this break-up had some repercussions on the number of members and the volume of activities or services provided at the eve of the transformation. In addition, a number of agricultural co-operatives split up during the transformation process. These split up co-operatives will be discussed briefly in Chapter 3.4 as they are statistically recorded as newly established agricultural co-operatives.

3.2.1 Transformation Steps

Once the Co-operative Law had become effective, the transformation process had to be implemented at two levels; (a) in a more general way at the provincial and districts levels, and (b) in a very detailed way at each agricultural co-operative itself. While the guidelines have been set in Decree No. 16, there had been a lot of liberty at the local level in solving concrete issues, such as assessing the value of assets, funds, capital, debts of the individual co-operative as well as identifying its members and the value of individual shares after transformation.

Before starting the transformation process at the co-operative level, steering committees at provincial and district levels had been established to ensure the proper implementation of the new Law. Usually, the vice-chairman of the respective people's committee was heading these committees. Members were delegated from various departments and mass organisations, e.g. agriculture, planning and investment, economic department (which comes under the party), farmers' union, co-operative alliance, women union, etc. The main function of these steering committees had been to support the transformation process. Their main tasks had been to disseminate all information available, e.g. to familiarise all persons concerned with the Co-operative Law and relevant decrees. In addition, workshops and training courses for co-operative staff and farmers were organised about the law and governmental regulations (MARD, 1998: 1). In general, it had been the management staff of the old-style co-operatives who had been targeted. With respect to implementing the broad national guidelines each province and district seemed to have had their own particular way. Provincial and district leaders have sought ways proving that their method was appropriate to their province's and district's conditions (FFORDE, 1997: 3). Once the transformation process had been on-going, the role of the steering committees declined. Nowadays, it is the staff of MARD at provincial and district level who is giving guidance to the agricultural co-operatives, e.g. offering short-term training courses for co-operative chairpersons, or in-depth courses in accounting.

At the local level each agricultural co-operative had to undergo various steps until it could be registered as a transformed unit. After a period of information and awareness creation in line with the public relation campaigns by the steering committees at the provincial and district levels, the necessary transformation steps looked as follows:

- (1) In a first step, a transformation board had to be established. Usually, the board itself comprised 5-7 persons. It had been appointed by the people's committee at the commune or district level. The government administration and the various mass organisations had to be represented. In addition, there were representatives from the former management board of the old-style co-operative and ordinary members. Usually, each individual member of the transformation board represented various groups or organisations simultaneously. Within the following 3-4 months this transformation board had to accomplish various tasks as stipulated under Step (2) to (5). In general, the board set up various sub-groups to accomplish these specific issues. Additional resource persons were invited to give their support.
- (2) Once the transformation board had been set up, its main task was to identify and validate all assets and to estimate all debts. Usually, assets comprised fixed assets, i.e. irrigation facilities, electrical equipment, buildings, machines, etc. and current assets, i.e. inputs in store, cash, etc. As it was shown above, some assets had been turned over to the respective commune or sold as the transformed co-operatives were supposed to concentrate on those services, which promote agricultural production of their member farms. The board and the people's committee had to agree which assets were to be transferred to the commune. The problem of debts included two sides: (a) debts of the co-operatives to other companies and banks, and (b) outstanding debts of members to the co-operatives. Both types of debts had to be assessed very carefully, whether they were still valid or whether they were to be released. Based on the value of all assets and the amount of debts an opening balance sheet had to be prepared.

Formally, the transformation board had to apply for an application form at the DPI-office at the district. This form had to be filled in and returned when submitting all the application documents. Depending on the district an application form costs about 15,000 - 25,000 VND.

- (3) The calculation of shares required that all members willing to join the transformed co-operative had been identified. A new membership list had to be prepared which had to be confirmed by the people's committee of the respective commune. Very often transformation boards had to start from scratch as many old-style co-operatives have not kept any list. In general, almost all former members re-applied and joined the new-style co-operatives as they felt the need of the services offered. Those few members who did not want to join the transformed co-operative had the option to get their individual share in cash, paid out on an instalment basis over a couple of years. On the other side, the transformed co-operatives were ready to accept new members. In this respect, two types of members can be distinguished: (a) former members of the "old-style" co-operative joining the transformed unit, and (b) new members who had no connection with the old-style entity. These persons had to buy a share in cash. But, as reflected in the case studies, there are no cases reported that new members were

joining. However, this will happen in the years to come. On average, membership comes up to 500-700, in some cases to even 2,000 persons.

Based on the value of the existing assets and once the number of members had been known it had to be decided on the value of the individual shares. These individualised shares form part of the equity capital of the co-operative. It might also be decided that each member had to contribute some extra cash to fill up the value of their respective share. These additional contributions in cash might differ according to specific groups of members. This problem of deducing individual shares will be discussed in more detail in Chapter 3.2.2. With respect to the registration, there are no minimum requirements concerning the amount of share capital.

- (4) The transformation board had to draft the rules and regulations, i.e. bylaws and statutes of the co-operative. Bylaws have to be in conformity of the Co-operative Law. Within the bylaws the name, purpose and location are specified. In addition, the amount of share capital, the power of the general assembly, the number of members in the managing and supervisory boards, the lengths of election periods, the distribution of any surplus (profits) has to be regulated.
- (5) In addition, the transformation board had to work out a work plan (business plan) indicating what type of services the co-operative will offer in the future. This (draft) business plan has to be in line with the market economic principles. Business plans have to cover one, two and five year periods, respectively. Similarly, the budget of the co-operative had to be drafted stating the prices and fees for the respective services. The salaries and/or compensations of the elected and employed staff had to be stated. Finally, it had to be proposed how the envisaged profits will be distributed.
- (6) Once these points had been sorted out, a general assembly of all members who wanted to join or, in most cases of their representatives, was convened. The main activities were: (a) to discuss and approve the opening balance sheet, which included the membership list and the value of individual shares; (b) to elect the management and supervisory board; (c) to adopt the bylaws, and (d) to adopt the future business plan. The general assembly was free to accept, amend and/or reject all proposals made by the transformation board.
- (7) The minutes of the inaugural general assembly together with the application form, membership list and a copy of the bylaws and the work plan had to be sent to the DPI of the district people's committee for registration. It is at the district level where all agricultural co-operatives will be registered as legal entities. If all necessary documents are complete, DPI is processing registration applications within 10 days. For this registration DPI charges a small fee of about 5,000 VND. Only if registered ("having the right for a stamp"), the co-operative is legally recognised as a business entity and can start operating.

In general, it has been a very slow process to become registered. Usually, the whole transformation process took 6-12 months. Therefore, the national deadline for the transformation process had been overstepped several times already. As the main reasons it was stated that the management capacities at the local level were too low to do the various transformation steps. Similarly, there was not enough support available from the government. In most provinces there were just 1-2 persons at MARD who were knowledgeable enough in the transformation procedure to advise the transformation boards. The main critical issues will be discussed below.

3.2.2 Critical Issues at Transformation

The implementation and finalisation of the transformation process had been rather slow. The guidelines available as stipulated in the various decrees left a lot of leeway to the transformation boards in finding feasible solutions to specific problems. The most critical issues were (a) the valuation of existing assets, (b) the assessment of debts, (c) the identification of members, (d) the determination of the individual share value, which includes the aspect whether reserves have been built up right at transformation, (e) the distribution of profits which touches a perennial problem of co-operatives whether to distribute annual surpluses in form of dividends among the members or to keep them in form of reserves for future investments, and (f) the decisive role of the administration in stimulating and supporting the transformation process.

Valuation of assets. In all cases the transformed co-operatives were supposed to take over the remaining assets of the old-style co-operatives. The first problem which had to be solved was due to a lack of a proper file system in many co-operatives. Hence, at the time of transformation, it was difficult to identify what items had been bought in the past. In the old days co-operatives used to subsidise their respective communes a lot. Hence, it was difficult to define what property and assets actually belonged to them. As stated above the general guideline had been to transfer all social and cultural assets to the respective commune. In reality, there was much scope for interpretation whether a specific asset should belong to the commune or the transformed co-operative. Particularly, with respect to electricity networks it depended on the local leadership whether the co-operative could continue this service, which is only indirectly related to the promotion of agricultural production, but an attractive source of income. Once this problem had been settled, a list of all property items was written down which included both, fixed and current assets.

The major problem, however, had been to quantify the value of all assets available. Actually, most of these assets were fixed and in kind, anyway. They had to be evaluated according to their current value. As books and documents were not always complete, it was not only difficult to identify what assets have been bought in the past but also at what price. The value of the assets was supposed to be

assessed according to the procurement price minus the depreciation value. Besides, the problem in identifying the procurement price the rate of depreciation can be highly influenced by subjective estimates. At that stage, some argument might have come up due to different estimates. On the other side, in those cases, where books had been kept properly, the original investment costs have often been copied from previous record-keeping books without evaluation or adjustments by the transformation boards. In reality, many assets had been completely depreciated already. In case there had been no agreement on the estimation of value of a specific item, there was the option to assess the value indirectly by inviting open tenders. But this option had been applied very seldom. In general, it was agreed on a certain value in the end. In many cases, the final book value as shown in the balance sheets was inflated and did not reflect the actual market value. In general, the actual value of fixed assets is quite low. On average, the value of all assets amounted to about 300 - 800 m VND per transformed co-operative, as shown in Table 3.4 above.

With respect to the current assets it was much easier to identify and to validate them. These current assets comprised inputs in store, available cash, if at all, and also outstanding debts by members, an issue, which will be discussed below. In general, the value of the current assets is not very high either. That is why only a few transformed co-operatives had enough operating funds at their disposal to provide any services effectively. On average, the value of current assets just comes up to about 10-20 percent of the value of all assets. Hence, it stood at about 30 - 150 m VND per transformed co-operative.

With respect to the final ownership of the fixed assets the actual situation is somewhat ambiguous. In general, these assets are mostly made up by the irrigation and drainage facilities as well as the electricity equipment. While the transformed co-operative is registered as the owner of these assets, it does not, in general, have the right to sell these items, e.g. to a private entrepreneur. It is argued that past generations have built up these assets and they are public goods. Hence, the co-operatives are only the assigned managers of these assets (CECARDE: 25). This is just one of several aspects which complicate the access to credit by transformed co-operatives.

Assessment of debts. In a next step all debts and creditors (liabilities) had to be assessed. As with assets all debts had to be transferred to the transformed unit. The issue of debts covers two aspects: (a) On the one side, many old-style agricultural co-operatives were indebted to banks and companies. (b) On the other side, many members had outstanding debts to their co-operatives, sometimes dating back to the contract farming system up to 1988, but in general from a later period. To some extent, the debts of co-operatives to outsiders and those debts by the members to their co-operatives are linked to each other.

The debts situation of agricultural co-operatives at the start of the transformation process by the end of 1996 is summarised in Table 3.5.

Table 3.5: *Debts of Agricultural Co-operatives at the Start of the Transformation Process*

Indebted to	Amount (b VND)
Banks	125.4
Land Tax Offices	22.4
Companies (irrigation companies, input supply companies, seed companies, etc.)	236.3
District Administration Offices, Mass Organisations, Members, etc.	168.2
TOTAL	552.3

Source: MARD (ed.): The Development of Agricultural Co-operatives. Executive Summary. Hanoi, MARD, August 2000, draft report, p. 3

According to the reports from 60 provinces, total debt of agricultural co-operatives up to 31 December 1996 came up to 552.3 b VND. The major debtors have been state-owned companies (SOE) which supplied the necessary inputs. The total debts came up to about 236 b VND. In general, these inputs were given as credit-in-kind, but many co-operatives could not repay them. Government agencies, mass organisations and their own members were the second most important source of credit amounting to 168 b VND. Banks, i.e. in most cases the Bank for Agriculture and Rural Development (VBARD) still had outstanding debts of about 125 b VND. In addition, many co-operatives still have not paid their respective land tax during the past. That amount stood at 22.4 b VND.

While the total amount of debts is known, knowledge is missing for what purposes the money has been used/invested. In the old days co-operatives used to carry out public investments which were only indirectly related to agricultural production, but were more to the benefit of the whole village or commune. In addition, very often co-operatives had to sell their agricultural products at low prices to the government, which were not covering their costs. Then, credits had to be accepted to finance all running operations. However, records were not always kept properly and the repayment was not strictly enforced.

In the long run, it has to be decided which debts can be forgiven or cancelled. To start this procedure co-operatives have to submit legal documents for what purposes the money had been originally invested. Only if it is known for what purposes the money has been spent in the past a process of cancelling or reducing the indebtedness can be started. For the time being these debts cannot be written off or waived due to the principle of equality with respect to those co-operatives which have repaid their debts or which are not indebted. It is a question of justness for all. However, there has been no clear policy how to proceed with debts, even up to now. While some transformed co-operatives had to sell some of their assets

in order to repay debts, others were not pressed to do so. Many agricultural co-operatives did not have to repay interest or principal during the last years, anymore. In this respect, this debt can be termed as an irredeemable interest-free loan.

Nevertheless, it is understood by all sides that transformed co-operatives will only have a chance economically if they can start operating without any debts. At least, the value of debts should be lower than the value of all assets otherwise transformation does not make much sense, as nobody will be inclined to join. Even in that case the economic situation of the transformed co-operative is still quite precarious. Similarly, a large number of co-operatives can only be dissolved if the remaining debt problem can be solved, i.e. the outstanding debts have to be written off totally. But it is assumed that, in this case, VBARD itself might have difficulties to survive.

But there is also another side when it comes to debts. Actually, many co-operatives would not have any problem in repaying their debts, if their own members were repaying their debts to the co-operatives. While most co-operatives lacked the cash to provide credit, they were providing production inputs in form of credit-in-kind which they themselves received on credit from the state-owned companies. However, many farmers failed to produce the necessary quantity of products after harvest to repay the loans. Hence, they became indebted to their co-operatives which themselves were indebted to the companies and banks. This process already started during the time of contract system, i.e. the period between 1981 and 1988 when there were very specific contracts between the government with the districts, the district with the co-operatives and the co-operatives with the farmers.

Generally, the co-operatives have waived those debts of their members accumulated from before 1988. Most of the present day debts have been accumulated during the last years. Already before transformation management reduced the debts of those households, which were classified as poor, comprised just a single working member or were burdened by war invalids or war dead. In addition, debts of those families moving to other places were, in general, cancelled. On the other side, some co-operatives have mobilised the debts of their members. Debts do not need to be repaid in cash only, but can also be repaid in form of labour contributions, like feeder road construction, construction and maintenance of irrigation canals, etc. This form of repayment might be labelled "work for debts".

Identification of members. At transformation one big problem had been the identification of the members. Membership used to be determined by place of birth and, often, management did not bother to update membership lists. Actually, in many co-operatives membership lists were missing at all. When it came to determining the value of individual shares, it has to be defined first who actually is a member of the respective co-operative. In general, it had to be decided whether all working members of the farm households, both active and retired, or just the households represented by the household head were becoming members of the

transformed co-operative. In addition, other co-operatives opted for a third alternative in accepting all land owners as members. In a strict sense, this alternative contradicts the Co-operative Law which states that members must be at least 18 years old. According to the Land Law from 1993 all living persons were entitled to a piece of land. The stipulated date, in general, refers to 15 October 1993 when the Land Law became effective. Hence, also newly born household members got agricultural land allocated in their name. If it had been decided that all landowners were eligible to join the co-operative at the time of transformation, all land-owning children from about four years upwards had this option. For example, in one case in Quang Binh Province (see Case Study 2), the number of eligible persons stood at 1,346; all of them became member. However, the number of members with voting rights was restricted to all active and retired working members, i.e. those older than 18 years whose number came up to 733 persons. In this respect, there are two types of members; i.e. members with and members without voting rights.

In conclusion, it becomes evident that the membership criteria were influencing their number, significantly. Hence, the number of members ranges from about 300 - 2,000. Different to the people's credit funds (PCF), membership is only open to private individuals and not to legal entities. At the moment there are discussions whether to open agricultural co-operatives to institutional members as well.

This decision about the membership criteria usually had to be taken by the transformation board and approved by the respective inaugural general assembly as a membership list had to be prepared. However, in some cases this decision had been taken by political bodies, e.g. in Quang Binh Province where the people's committee had decided that all entitled persons in working age and not households will be registered as members of the transformed co-operatives. In general, the transformation boards preferred individual membership as it was argued that those households with more working members contributed more to the co-operative in the past than those households with very few working members. In those days all working members were regarded as members. But, even in case of political guidelines, the findings of the field survey reveal that the transformation boards could proceed according to their own wishes.

There are no figures at the national level, how many of the former members joined the transformed co-operatives. Based on case studies the figure varies between 80 and 100 percent, but in most cases the figure comes close to 100 percent. Nobody wanted to be an outsider when all others joined. In this respect, the principle of voluntariness of membership sounds a bit theoretic. With respect to irrigation facilities all farmers benefiting from them had to co-operate, hence they all joined. In addition, many member realised the benefits of joining the transformed unit in form of better services, e.g. in form of lower prices for irrigation water or electricity, or the reliable supply of inputs at reasonable prices.

However, for the farmers there were also other reasons to join. Agricultural co-operatives, even if not operational anymore, had an important role to play, particularly in North and Central Vietnam, when it came to the distribution of land

titles among the farmers. In line with the Land Law from 1993, it is the function of the people's committees at district level to hand out land titles ("red book"). But, in general, the district administrations are not contacting the individual farmers, but act through the agricultural co-operatives when it comes to identify the respective pieces of land, physically. Hence, these co-operatives act as an intermediary. The individual farmers get their titles through or with the help of their co-operatives. At a first stage farmers just get a preliminary title deed ("green book"). In order to get the final land use rights ("red book") a land survey including mapping and an entry in the land register has to be performed. The co-operatives have to help otherwise it is difficult to do it. Hence, farmers always joined the transformed co-operative out of fear that they might not get the proper title deed.

Depending on the number of members either all members can participate at the general assembly or they have to elect their representatives (indirect presentation). In case, just the households are members and presented by their household heads, the number of members is smaller and a direct presentation might be still feasible. In case, all working persons of the commune or village are members, the indirect system has to be adopted. In general, if the number of members is higher than 100, an indirect representation system has become the rule.

Determination of the individual share value. Once the value of all assets and the level of debts have been assessed as well as a membership list been prepared, the value of the individual shares of the members can be deduced. Again, there had been a lot of leeway how it was done at the co-operative level, as there have been no general guidelines. It was up to each single general assembly to decide on that. But it was soon realised that the concept of individual shares was not always understood properly at management level.

According to the officials at MARD the value of shares was supposed to be based on the difference of the value of current assets and the debts. The balance was to be divided equally by the number of eligible members in order to deduce the value of an individual share. Similarly, that value should be paid out if a member wants to leave the co-operative. On the other side, if a new member wants to join she/he has to subscribe a share of the same value. The value of the fixed assets should not be included as part of the share capital, but be set-aside as reserves, particularly for future investments. Only in this way the transformed co-operatives would have a basis for development. In addition, it had been emphasised that all members should get a certificate of their share to increase their sense of ownership of the transformed co-operative.

Contrary to the general guidelines most transformation boards opted to propose different approaches to the general assemblies in deducing the value of the individual shares. On the one side, the transformation boards followed different concepts when defining the total amount of share capital. On the other side, they followed again various concepts when it came to defining the individual share capital of each member.

With respect to the total amount of share capital and, consequently, on the amount of reserves, four different approaches had been identified during the field surveys.

- In most cases (see e.g. Case Studies 2 and 3), the total value of all assets minus the debts formed the basis in calculating the share value. Hence, no funds had been booked as reserves but it was left to the future to build them up as required by the Co-operative Law. In this respect, the value of an individualised share might be quite high. This figure just represents the average value of the total assets (i.e. fixed plus current assets) per member. But it is expected that any person willing to join the co-operative has to subscribe a share of that value. However, on the other side, in case a member might cancel his/her membership, he/she will be paid out the equivalent value of the current assets only. Hence, the concept of individualised shares is still ambiguous and needs to be clarified in the future.
- A small number of co-operatives followed the rough proposals by MARD. They booked all fixed assets as reserves and just the equivalent of the current assets has been booked as the equivalent of the share capital (see Case Studies 1 and 4).
- Very few co-operatives even booked a higher share of their assets as reserves since they just allocated that part of the current assets as share capital which had been readily available in cash (see Case Study 5). That part of the current assets which had been made up by outstanding debts to the co-operative (receivables) had been booked as reserves, in addition to the fixed assets, as it was not known at the time of transformation whether this amount will be repaid at all.
- Finally, another few co-operatives took an even a more drastic step. Here, all fixed and current assets have been booked as reserves at transformation and members had been asked to subscribe a certain amount in cash each as individual share capital. This approach corresponds to the modern concept of co-operatives and equals the one adopted by most newly established agricultural co-operatives and PCFs.

While the amount of share capital and the number of shares are listed in the balance sheets, co-operatives, in general, have been slow in handing out share certificates to their members. Hence, many members were not familiar with this new concept and did not know anything about their own shares. In some co-operatives, it was tried to call for more cash contributions from the members to expand business activities. While, in general, it is up to the respective general assembly to decide on that, in some cases the provincial people's committees have set a ceiling. For example, in Bac Giang Province, there has been the rule that a cash contribution should not be more than 40,000 VND per member. In general, members did not contribute any cash, but waited and observed how the co-operative was operating. In that sense, it can be stated that members might have subscribed shares but have not fully paid up, yet. In general, just a few co-

operatives asked their members to contribute additional cash in order to increase the working funds of the co-operative. For example, a co-operative in Quang Tri Province (Case Study 4) asked their members to pay up 100,000 VND each at transformation. Not all eligible persons did so. Therefore, this has been one of the few transformed co-operatives where not all of them joined the transformed entity. In general, the members have been regarded as too poor to ask them for additional funds in order to increase the available working capital.

When it came to defining the share value of the individual members, again, various criteria have been adopted by the general assemblies. Three main different approaches can be distinguished within the country.

- (1) The most common pattern had been the equal distribution of shares among all members (see Case Studies 1 and 4). This is the most easy approach as the equivalent value of assets minus debts had to be divided by the number of eligible members only. While it was understood that not all members contributed equally to the economic success of the co-operative in the past, it was stated that it would have been too complicated to calculate the value of shares for each individual according specific criteria.
- (2) Alternatively, the shares were distributed according to the age or the number of years worked for the co-operative in the past. It was argued that those persons who had been members for more years and had worked for the co-operative in the past should get a higher amount of share value than those who only joined recently. Those who joined later, i.e. the younger ones, were entitled to a fraction of that value. For example, in a co-operative in Quang Binh Province, the value of one share had been set at 645,000 VND which was based on the value of both fixed and current assets. However, only those who had been member for 24 years and longer were entitled to a full share. For the others it was agreed on the following pattern: Those who had been member for up to 8 years just got 15 percent of a share; those who had worked for 9 – 13 years got 30 percent; those who had worked for 14 – 18 years got 50 percent and those who worked for 19 – 23 years got 70 percent of a share. On the other side, if a person wants to join the co-operative he/she has to subscribe a share of the full value.

In one transformed co-operative in Quang Tri Province (see Case Study 3), the transformation board had been even more precise. The value of the individual shares had been calculated according to the number of work points in the past. All work points of the deceased members had been transferred to their legal heirs. Already in the past the labour days had been adjusted as males usually got their labour days multiplied by 1.0 while females only got the multiplication factor of 0.8. Hence, for each individual the total labour points in kg of paddy had been calculated. The number of the individual shares depended on the individual amount of work points in kg of paddy. Those with more work points received a higher amount of individual shares. In the end, 3,231 shares could be deduced. The monetary value of each share had been set at 325,000 VND

which represents the value of all assets coming up to 1.05 b VND divided by 3,231 shares. It is evident that a lot of calculations had to be done in order to be fair to each member. The chairman admitted that this had been only possible as this co-operative had been set in 1977, only and, hence, the number of years were limited.

Other co-operatives opted for a more easy approach in differentiating long-term against short-term members. As summarised in Case Study 5, the management wanted to be as fair as possible to all those who had contributed to the wealth of the co-operative in the past. Actually, two categories of share holders have been distinguished at the time of transformation: (a) "old" share holders, and (b) "new-ones". Under the first group all those had been classified who were in working age in 1993, i.e. at the time when the Land Law had been implemented and the agricultural land distributed. In total, there have been 1,252 persons who qualified for this category and each of them had been entitled to an individual share amounting to 65,000 VND. Under the latter group all those persons were listed who reached the working age between 1993 and the actual date of transformation. In total, 179 persons qualified for this category and each of them had been entitled to an individual share amounting to 20,000 VND.

- (3) A few co-operatives (see Case Study 2) opted for a distribution of shares according to the size of land over which the person has the land use rights. This implies that the more land is under one's jurisdiction the higher the value of shares assigned to that respective person. However, at that time this fact was not very decisive as in Northern and Central Vietnam all agricultural land had been distributed relatively equally. As discussed above, there are two types of members, i.e. members with and members without voting rights.

Hence, it is no surprise that the value of the individual shares varies to a great extent. While in some transformed co-operatives it just stands at 20,000 VND per member it can go up to even 1 m VND. When it comes to such a high value it is more of a theoretical meaning as it is mostly made up by the high value of the fixed assets and not by any cash contributions. If a member cancel his/her membership, he/she might be just entitled to his/her respective share of the current assets only. Some co-operatives even refuse to pay any cash to a leaving member as it is stated that all assets are common property and cannot be individualised at all. Again, this reflects the poor understanding of share capital.

Concerning the rules about the number of shares each member is allowed to subscribe and the application criteria for membership each co-operative is free to elaborate its own stipulation in the bylaws. In general, there is the option for members to subscribe more than one share. There is just the legal stipulation that limits the number of shares one person might own to 30 percent of all. In praxis, only members of those co-operatives which were asked to pay up additional cash at transformation sometimes had the option to subscribe more than one share. Particularly, in well-managed co-operatives, which ensured attractive dividends

each year, a number of members subscribed more than one share. For example, in the relative well-run co-operative at the outskirts of Ho Chi Minh City the general manager had signed even four shares. Voting rights were still practised according to the rule "one person - one vote". In some other co-operatives there had been the rule that the management staff is required to subscribe shares of a higher value; e.g. in some co-operatives, ordinary members were asked to contribute additional 10,000-50,000 VND each while the members of the managing boards had to contribute an amount of 0.5 - 3.0 m VND per capita (MARD, 1999: 3). However, in most co-operatives it was decided that each member is entitled to one share only to stress the equal character of membership.

In general, membership is restricted to farm households and their members of the respective catchment area of the co-operative. However, in some cases, also non-farming persons were required to join when they were recruited as staff member. This might have some repercussions in the future when it comes to decide about the use of annual profits, if any: whether they will be distributed as dividends or allocated as reserves. In case of death the share remains within the family. In case the member moves out of the area, membership has to be given up. In general, the share can be sold to another member of the co-operative willing to buy. However, in those co-operatives, which allowed one share per member only, the share had to be returned to the management.

So far, only a few cases have been reported that any new member had joined a transformed co-operative who had no connection with it in the past (see Case Study 4). These newly joining members had to subscribe a share fully in cash, including that part which the other members received at transformation when the value of current assets had been divided equally among the members. One reason for the small number of newly joining members seems to be that most persons interested joined at the time of transformation anyhow and no new farm households have been set up during the last few years. Another reason is the fact that many co-operatives have put up the price of one share quite high, particularly when the value of the fixed assets had been included. In addition, new members are always required to put up a down payment in cash of, at least, 30 percent of the share value. There seems to be not that many persons in the rural areas who can afford such a price. The financial hurdle seems to be quite high. In the future, management has to make sure that the transformed co-operatives will not degenerate into closed societies.

Distribution of profits. The co-operative enterprise is supposed to earn a profit in order to stay competitive although it is not aimed at maximising profits. In Vietnam, it is heavily discussed, particularly when it comes to taxes, whether the transformed co-operatives should be more profit-oriented or more service-oriented. In case a co-operative records a profit it is legally required to build up reserves. On the other side, many bylaws require the payment of dividends in case there has been an annual net surplus (net profit), even if the volume of reserves is still too small for any major investment. As it was discussed above, many co-operatives had not booked reserves at the time of transformation but left it to the future. In

those co-operatives where members were asked to contribute additional cash in order to increase the volume of share capital, they should be entitled to dividends. The majority of members of transformed co-operatives, however, were not asked to do so. The monetary value of the individual shares have been accumulated during the past. Nevertheless, also these members are entitled to dividends in case of annual profits. Besides the rules in the respective bylaws, it was stated that in paying dividends it could be proven to the members that the transformed co-operatives were operating successfully and totally different to the "old-style" co-operatives.

Based on the findings of the field surveys, it can be concluded that, in case the transformed co-operatives show a profit, about 60-70 percent of them have been allocated to the reserves. Most of the funds are put into the development or investment fund. Most chairmen realised that a lot of investments will be needed to remain attractive for the members in the future. Another part is applied for a training and skill development fund to improve the skills of elected and employed staff members. In case the co-operative is economically very successful parts of the profits are allocated to a social fund or a fund for emergencies or natural calamities.

About 30-40 percent of the overall profits are distributed among the members. Basically, there are two ways of doing so: On the one side, members are entitled to dividends on the shares they own. In addition, members might be entitled to a special refund according to the size of business turnover they had with their co-operative ("patronage refund"). In this way members are supposed to be encouraged to do most of their business activities, e.g. the purchase of inputs, with the co-operative and not with private competitors. So far, just a few co-operatives have included patronage refunds, most co-operatives distribute profits according to shares, only. In case, certain members are still indebted to the co-operative, they do not get cash, but their debts will be reduced accordingly.

Since in most cases members did not contribute additional cash, it is difficult to compare the volume and share of dividends in relation to the share capital. On average, in successful co-operatives dividends including patronage refunds amount to about 2,300 VND (see Case Study 3) up to even 600,000 VND (see Case Study 5) per member which equals about 0.7 - 50 percent interest rate p.a. Generally, the dividends are on the lower side and, hence, they amount to just a nominal sum. In those cases where members contributed cash in order to increase the share capital, e.g. by another 100,000 VND per member (see Case Study 4) or even subscribed the total share capital in cash at transformation, as in the case of the co-operative at the outskirts of Ho Chi Minh City, the dividends, including patronage refunds, came up to about 57,000 VND (representing an interest rate of about 16 percent p.a. on the total share value or, even, of about 57 percent p.a. on the cash contribution only) and 90,000 VND (representing an interest rate of about 36 percent p.a.), respectively. Hence, for the members of these co-operatives the dividends on share capital has become an attractive source of income as well.

Decisive role of the administration. When looking at the forces, which pushed for the transformation of the co-operatives, it can be stated that the party and the government, particularly MARD and the people's committees at provincial and district levels, had been the prime movers. It was realised that the old-style co-operative system were of no benefit to the farmers and the government, anymore. Its reputation was bad and it had become a drain of the state finances. Nevertheless, it had been the objective of the government to keep and preserve the assets build-up during the collective period. There had been no plans to break up the assets in closing down the system and starting anew. Similarly, the assets should not be transferred to private individuals which might have happened if a strict privatisation approach had been adopted, e.g. auctioning off the remaining assets to the highest bidder. In this respect, the transformation process can be understood as a broad-based privatisation of formerly collectively owned assets.

Although the Co-operative Law permits farmers to freely form their own co-operatives, many did not seem to have understood the concept yet based on the three basic principles of co-operatives. The Law still uses the same term for co-operatives like during the collective period - *hop tac xa*, meaning "collective co-operation at the village level". Farmers concentrated on improving the production on their family farms and tried to make best use of the services offered by their co-operatives. In general, they had not been the main force pushing for transformation and a new beginning. They understood co-operatives as part of the public administration and not as self-help organisations. This attitude can only be changed over time. Once the process had started the farmers joined due to various reasons although it was stressed that co-operatives had a poor reputation among them. They had the option to stay outside but not many acted like this. In general, farmers did not have to contribute additional cash, i.e. to mobilise their own resources for this new beginning. They just had to declare their willingness to join the transformed entity. They just accepted the transformation relatively passively; at a first glance not much seemed to be changed for them with the transformation.

At that point of time, it had been open for discussion whether the transformed co-operatives can be regarded as autonomous organisations or private co-operatives or whether they are state co-operatives which were established mainly to meet political and social interests of the administration rather than those of the family farmers (FFORDE, 1997: 2-5; KEENAN c). Some observers had been quite bleak about the future prospects of the transformed co-operatives because they were initiated by the government and such initiatives have been rarely effective elsewhere in the world (World Bank, 1998a: 44). On the other side, the adoption and implementation of the Co-operative Law has to be seen in line with the adoption of Resolution 10 (1981), the Directive 100 (1988) and of the Land Law (1993). All these laws reduced steadily the power of the co-operative management and strengthened the position of the individual farmers. With respect to their production patterns, farmers are independent from the directives of co-operative leaders by now. Co-operative managers have become more and more accountable to the membership. In this respect, the Co-operative Law had been another step towards a civil society in the rural areas.

Nevertheless, it has to be admitted that the relation between the people's committees of the communes and the agricultural co-operatives is very close. Without the support of the people's committees the transformation process could not have been implemented at all, as e.g. it has to confirm the membership list when applying for registration at DPI. Similarly, many board members of the co-operatives used to work with the local administration in the past (GRAY: 708). Similarly, quite a number of chairpersons of the people's committees of the communes used to work in the managing boards or had been even chairpersons of co-operatives in the past. Sometimes, members of the management board might have been elected on the recommendation by the local authorities (HARMS, 1999: 11). In this respect, it can be concluded there is a very close relationship at the personal level.

3.2.3 Main Activities of the Transformed Co-operatives

While it has been the political objective that transformed co-operatives provide as many services as possible, it is also understood that all costs have to be covered by the prices. Hence, most co-operatives concentrate on a few services only and will gradually expand once they have gained more experience. In general, it can be stated that the activities of the transformed co-operatives have not changed much compared to the time before but there is a stronger focus. While the focus of the services provided varies from co-operative to co-operative they are guided by the following principles:

- The prices of the services are supposed to cover all costs. In addition, a reasonable rate of profit should be ensured. It is understood that prices have to be revised, as it is required by the circumstances. At least, every second year they should be reviewed. Only for special, more socially oriented services profits margins might be waived, as approved by the respective general assemblies.
- Most services will be available for members and non-members alike. In general, contracts will be signed in advance between the clients and the co-operative. In order to attract potential members to join a number of co-operatives have adopted a system of price differentials, i.e. non-members are charged higher prices than members. However, many co-operatives, particularly in North Vietnam, are not pursuing this approach as it is argued that the assets, e.g. the irrigation facilities, actually are public goods and the co-operatives have been just assigned to manage these assets.
- The respective services offered are managed by specialised groups comprising several members of the co-operative. These members are specialised in certain fields. They are entitled to a certain commission. The management of the co-operatives signs contracts with the group leaders to ensure the provision of the respective activity as well as the compensation fee. Evidently, this cost item is included in the final service price.

Concerning the work plan or business activities, the transformed co-operatives are open to follow all activities they like depending on their financial and managerial capabilities. Usually they provide several services. Otherwise it will be very difficult to become an efficient entity in the long run. Hence, the activities are focusing directly on servicing household economies based on an estimated budget as well as the technical and managerial skills of co-operative staff. According to preliminary national figures, the transformed co-operatives concentrate on running of irrigation systems (95 percent), support in plant protection (62 percent), organisation of electricity services (52 percent), organisation of extension (48 percent); organisation of input supply (47 percent), and on services in land preparation (15 percent). About 10 percent have taken up some marketing activities (NGUYEN PHUONG VY: 3). This general picture is reflected in our own findings which are summarised in Table 3.6 (Cases 1 - 12).

Table 3.6: Activities of Transformed and Newly Established Agricultural Co-operatives

Activity	Transformed Co-operatives												Newly Established Ones						
	1	2	3	4	5	6	7	8	9	10	11	12	Inform. Groups				New-ones		
	13	14	15	16	17	18	19												
irrigation	x	x	x	x		x	x	x	x	x	x	x	x	x	x				
electricity	x	x	x	x	x		x	x	x	x	x								
input supply	x		x	x	x	x	x	x	x	x	x	x	x	x		x		x	
plant protection	x			x		x	x	x	x	x	x	x							
extension	x	x			x	x	x	x	x		x	x		x	x		x	x	
quality control					x											x	x	x	
machine services				x		x	x												
summary contracts				(x)										x	x	x			
marketing	x	(x)			x	x									x		x	(x)	x
soft drinks, beer					x														
forest							x		x										
land rent income									x			x							
letter of confirmation		x												x	x	x	x		x
credit-in-kind			x			x	x		x	x	x	x	x	x	x	x			
cash credit			x		x						x								
cash savings					x														
anti-poverty fund (NGO)															x				
collection of land tax															x				

Case Studies: Bac Giang: 1,2,17,18; Quang Binh: 3,4; HCMC: 5; An Giang: 13,14,15,16,19; Quang Tri: 6,7,8,9; Phu Tho: 10,11,12. These numbers do not correspond to the numbers of the case studies listed in the annex.

Source: Own Survey

In general, transformed agricultural co-operatives offer 5 - 6 different services to their members. They concentrate on the following ones:

- (1) The management of the irrigation systems is the most important activity of all co-operatives. Without a certain level of co-operation these systems cannot be upheld and they become more or less useless. The provided services include the cleaning of canals and exact distribution of irrigation water. The irrigation groups are responsible to provide water to every internal channel. Farmers have to pay irrigation fees, which can be paid either in cash or in kind depending on the regulations of the respective co-operative. In case the groups are not meeting their commitments the farmers have the right to withhold their payments.

- (2) For most co-operatives, the management of the electricity facilities has become the second most important economic activity. The electricity group is responsible for supervision, maintenance, and provision of power to each household according to contracts. Actually all households of the commune willing to pay are served by the lines. This activity is a reliable source of income as some money can be earned due to the positive margin between the buying and selling price of electricity. Since the early 1990s this activity has become more and more important in line with the ongoing electrification of rural areas. As it was discussed above, it was left to the local decision makers whether the co-operative or the commune were responsible in managing the system at the local level.
- (3) In addition, the reliable supply of necessary inputs used to be an important activity since many years. In general, the co-operatives are concentrating on the organisation of the timely supply of fertilisers, pesticides, and seeds to strengthen crop production at their members' farms, particularly paddy cultivation. More and more co-operatives, however, diversify the input supply to other production activities of their members, e.g. vegetables and fruit trees growing (orchards) or, even, animal husbandry. Many co-operatives are linked by contract to input producing factories (state-owned companies) which are supplying the inputs on a credit basis. The co-operatives themselves offer the inputs to those members in need as a credit-in-kind as well. After harvest the farmers pay their co-operatives and these repay the companies.
- (4) Some agricultural co-operatives, particularly those that are better off, provide additional services. Many of them are actively supporting extension activities ("technology transfer") to promote the quality and quantity in farm production among their members. An extension group is responsible to acquire up-to-date information about improvements in production technologies, e.g. adoption of new high-yielding varieties, seed multiplication, or animal husbandry. In general, they get their information through MARD. The groups have to pass on this information about new technologies to their fellow members. In general, training courses are organised. As participants farmers just have to pay any material costs. The extension group is entitled to a small compensation, which is in general covered by the co-operative.
- (5) With respect to plant protection a team comprising a few co-operative members is responsible for this service. They are keeping a close link with the respective staff at DARD, or if possible, directly with a centre for plant protection close-by. The team is monitoring the plants in the fields and does the forecasting with specific plant diseases spread over the area. The team members advise the farmers what type and quantity of chemicals have to be applied to fight the spread of the respective disease. In addition, they organise training sessions. In general, they all work on a part-time basis and are entitled to a small compensation.

- (6) Co-operatives organise land preparation activities if they own machines, e.g. a tractor. These machines are subcontracted to one member, in general the driver or the person responsible for its maintenance. Often, members can directly approach the person in charge to fix the dates for its use.

Other services offered relate to the organisation of field protection activities, i.e. organising watchmen during harvest times. One of the major drawbacks so far, is the fact that very few co-operatives provide any marketing services to their members. In general, members still have to sell their crops and other products on their own as individuals. However, as it is found out in the field survey some co-operatives have already started to get more experience in marketing. For example, the co-operative located at the suburb of Bac Giang City (see Case Study 1) has begun small-scale marketing activities with respect to vegetables and flowers some time ago. It has set-up a stall at the central market which is supplied daily. For the management, the regular supply of this market stall was seen as a first step in fostering self-marketing of their products. However, this start had only been possible due to the regular surplus income from the electricity services. In another co-operative, located at the outskirts of Ho Chi Minh City, activities not only concentrated on the promotion of milk production among members which includes veterinary support (disease prevention) and input supply (particularly cattle feed and hay). In addition, it organised a milk collecting centre and the sale to the milk processing company in the city.

But some managers were already eager to open up new fields of business activities. Some years ago the co-operative in Ho Chi Minh City started in bottling water and soft drinks. This business became quite profitable and the management opted to expand in beer production. The production and bottling of beer has become the most important source of income by now.

While, in general, agricultural co-operatives do not offer any financial services themselves, they have an important role to play in this respect. Some agricultural co-operatives are entitled, on behalf of the local people's committee, to provide letters of confirmation for their members if they want to apply for credit at the local branch of VBARD or a local PCF. In these letters it is certified that the respective farmers own certain property, which is accepted as collateral. For the time being, credit is available to individuals only. Agricultural co-operatives themselves are not eligible for credit, so far, as will be discussed below (Chapter 3.2.4). But, more important, a number of co-operatives provide - in addition to the option of providing inputs as credits-in-kind - financial services themselves. Those with a certain level of working capital provide also credit in cash for buying inputs or as consumption loans. At MARD it is estimated that about 30 percent of the transformed co-operatives are actually providing this type of service as there is an urgent need among the members. In addition, a few agricultural co-operatives even offer cash savings and cash credit services to their members. These co-operatives are operating like a PCF without registration. MARD is tolerating it, but it wants that this service will be legalised as early as possible. According to the regulations

of SBV such a service is strictly forbidden as agricultural co-operatives have no license to do so.

From the members' point of view the transformed co-operatives have brought various advantages. Most importantly, the co-operatives provide services, no matter how few up to now, on a reliable basis. Compared to the old-style co-operatives the service activities have become cheaper, while service quality has improved. One explanation is the clear definition of the rights and also clear division of responsibilities among co-operative servicemen, as well as the introduction of a more transparent accounting system and self-financing requirements. Regarding rights, members of the service teams receive much higher reward for their jobs, but many co-operatives also apply a clear penalty mechanism if the quality of the services is not adequate. In short, in addition to the settlement and assignment of former co-operative's assets, the new incentive mechanism is an important result of the transformation (CECARDE: 27).

Often, co-operatives have become effective competitors to private entrepreneurs. In general, they can compete effectively in one or two activities. Whether this competitiveness is based on certain monopoly powers protected directly or indirectly by the local administration and party committees (FORDE, 1997: 4) seems to be confirmed in a very few cases only. Only with respect to the provision of electricity services, this statement has to be confirmed as this task is not a specific agricultural one. However, referring to many activities, the competitiveness of the transformed co-operatives is still quite low. All management boards have to identify those activities in their respective regions in which they have a certain comparative advantage. This requires time and experience.

There is still a lively discussion whether the objectives of co-operatives should be more profit- or more service-oriented charging the lowest prices possible from their members. It is feared that a profit-oriented co-operative will ask too much from their members which they cannot afford in the long run. These opposing positions do not have to be necessarily contradictions as co-operatives can return any profits in form of dividends or refunds to their members. In addition, it is discussed whether agricultural co-operatives should be purely service-oriented, i.e. promote the production of their members only or whether they can do any production on their own as well. However, experience from elsewhere has shown that co-operatives are promoting their members very efficiently if they take over some production functions which are not economic at the household level, e.g. processing of bulky and highly perishable agricultural products. A third point of discussion is the question whether agricultural co-operatives should offer services which are classified as non-agricultural. But, given the fact that agricultural households cannot increase their farm income indefinitely due to the high man-land-ratio, people in the rural areas are forced to take up non-farm activities. Co-operatives might be helpful in supporting this occupational chance. The only alternative for many members would be a migration to urban areas.

3.2.4 Main Problems after Transformation

With the completion of the transformation process co-operative service structures have been established which will promote the economic development of the farms of their members, significantly. However, the transformed co-operatives have to prove their economic viability in direct competition with other types of business entities, e.g. private traders. Most of the transformed co-operatives have the potential for being strong competitors. Nevertheless, many transformed agricultural co-operatives had not become economically that successful as it had been hoped by the government. In the following chapter the most important critical aspects and experiences since transformation will be discussed.

Stakeholder concept. Traditionally, co-operatives have been understood as single-stakeholding systems focussing on the members who are at the same time their users. Unlike the single-stakeholder co-operative, the multi-stakeholder one provides for more than one category of stakeholders. These may, or may not, be members, yet are expected to be users of the co-operative. Multi-stakeholding may be characterised by more than one kind of user in the same co-operative. Stakeholders can be defined as "... those groups without whose support the organisation would cease to exist" (LEVI: 83). Hence, the notion of multi-stakeholding transcends both the idea of a 'corporate goal' standing above the interests of the component parts, and of an organisation serving the interests of only one group (LEVI: 84).

In the Co-operative Law it is emphasised that co-operatives can act freely from outside interference. However, the local party and government officials are still important stakeholders as will be discussed below. The local administration and the government encourage and even push the management of transformed co-operatives, like in the former days, to provide as many services as possible and, sometimes, to participate in anti-poverty programmes at their own costs. Other stakeholders are the members, managers and employees of the co-operatives. Another issue might be that members will over-estimate the so-called shareholder value and not the so-called stakeholder value. In principle, with respect to self-help organisations, the stakeholder value and not the shareholder value will be of major interest for the members/ shareholders. It is not just the dividend but the preferential services and often even the provision of services at all which are of particular interest for members. Stakeholder interests can be related to services, dividends, the provision of jobs, and/or social reputation.

Hence, the notions of stakeholder and member do not necessarily coincide. Although this approach does not diminish the importance of membership as a means of control, this points to the need for organisational flexibility in multi-stakeholding design and the possibility of dissociating stakeholding from membership. The multi-stakeholder concept rejects the idea that the co-operative enterprise should serve only the owner in the common private western connotation. The notion of multi-stakeholding implies a revision of the traditional

pattern of single-stakeholding and the common single-voting-non-tradable shareholding co-operatives system (LEVI: 91-92).

Outside interference by administration. As it had been already discussed above, the local administration and the government had been important stakeholders in the collective co-operative system and when it came to the promotion of the transformation process. In this sub-chapter it will be looked into the issue up to what extent the local administration is still interfering in co-operative management after transformation.

In official statements on the co-operatives, the government always stresses its importance in guiding its development. The co-operative economy is supposed to play an important role in the national economy. The government will continue promulgating policies to facilitate its development. Co-operatives should receive better access to investment support programmes (N.N.: 25/1/2000). On the other side, this highly supportive role of the government is seen as an indicator that rural development is economically not that successful as it can be assumed due to the favourable resource endowment (FFORDE, 1999: 2). The influence of the government seems to be a bit overrated in that statement. Although the socialist approach attaches great importance to co-operatives in economic development, the government simply does not have the necessary resources available to effectively implement that policy. The collapse of the Soviet co-operative model and the need for transformation have underlined this fact definitely.

Obviously, the government has a clear interest that the transformed agricultural co-operatives contribute efficiently to rural development in general and to agricultural development in specific. Often agricultural co-operatives still have to follow instructions by the local administration with respect to the services offered and the respective fees asked for from the members. Co-operatives are asked to offer services which are not economic. Some chairmen of local people's committees seem to consider agricultural co-operatives more as a useful tool to reduce poverty in their respective communes than as a self-help organisation to foster economic development of the respective members. The rules of self-administration are not always followed. There have been reports about paternalistic instructions by local administrations to co-operative managers which they could not always refuse. However, this problem has been acknowledged by MARD and co-operative managers are encouraged to be accountable only to their respective general assemblies. If there is outside interference, it will be restricted to support in training and skill development.

On the other side, it is understood that, if the transformed co-operatives will become too dependent on local administrations, they will be not successful in the long run and collapse. Local officials might act paternalistically to some extent, but they are eager to see that the co-operatives will be economically successful in order to serve the agricultural population. They know very well that a rising standard of living among the population is increasing their own reputation among their superiors. In general, most members of people's committees and party functionaries at the local level are farmers themselves and, hence, members of a

co-operative. It is to their own personal benefit that the co-operatives are managed successfully. While interference cannot be avoided, completely, there is the rule that active government officials are not allowed to stand for elections to the management boards. In addition, much depends on the personality of the co-operative chairpersons whether he/she will stand up against any interference from local officials. Many co-operatives are lucky to have such a person in charge.

The combination of economic and administrative functions, so characteristic in former times, is no more allowed according to the Co-operative Law, although informally it still exists. A strict division of the socio-political instructions and wishes of the local administration demanding services, which are not economic, and the more economic-oriented objectives of the co-operatives needs to be developed. This is particularly difficult to avoid in those areas where almost the whole population of the commune is also member of an agricultural co-operative. At the local level it will take some time to develop a precise division of responsibilities: The management of the agricultural co-operatives is concentrating on economic aspects while the local administration is in charge of the socio-political issues of the commune. This is no contradiction to the option that, in case a co-operative is making profit, the general assembly is free to allocate parts of it for social purposes within the commune which actually many of them do, e.g. giving financial support to the various mass organisation of the commune (see Case Study 5).

Internal set-up and supervision. The Co-operative Law facilitates the participation of the ordinary members in the decision-making process compared to the situation in the "old-style" co-operatives in the past. The options of exercising internal control once annually by the general assembly and permanently by the supervisory board have been strengthened. Only if members are encouraged to participate in the decision-making process, they will be more inclined to commit themselves more intensively for their co-operatives and see themselves as co-owners.

One of the main direct results of the transformation process has been the radical downsizing of management staff. Already during the early 1990s staff had been reduced, but not on a larger scale as co-operatives were still allowed to collect fees and even taxes from the farm households. Management boards used to comprise 20-30 persons who were all entitled for some kind of compensation. Hence, the personnel costs have been quite high. Since transformation management boards usually comprise about 7 persons. Out of them just 2-3 persons are elected by the general assembly, i.e. the chairman, his deputy and one more member. These elected persons form the executive board ("inner management board"), which is in charge of the day-to-day business. The election period usually lasts for three years. Re-election is possible. The other (up to four) members of the management board are appointed by the elected ones. These are e.g. the cashier, accountant and bookkeeper. In general, these persons have to be member of the co-operative. Within the smaller co-operatives the chairman also acts as the general manager. Only, if the co-operative is offering a lot of services a

general manager will be employed who is accountable to the (inner) management board.

In addition, the Co-operative Law requires the election of a supervisory board. It is up to the respective co-operative how many persons will be elected to this board. Three persons seem to be the maximum number. In most cases, however, just one person is elected as supervisor. It has to be seen whether one person will be enough to control the day-to-day management on behalf of the members. But there is the option that, in case a bigger problem has come up, the supervisor is free to appoint other persons to form a temporary supervisory board. This board will look into that respective problem in more detail. Once a decision about the problem has been taken the board will be dissolved, again.

In total there are about 5 - 10 persons who are in charge of the daily management and supervision within a transformed agricultural co-operative. Many of these elected co-operative leaders used to be member of the management boards before transformation. So it had been argued whether former cadre and management staff "saved their jobs" in the transformed entities, but are mentally not able to build up efficient service co-operatives. On the other side, it is almost impossible to find the persons with the necessary charisma, leadership qualities and social status who are needed when building up the new co-operative system. Nevertheless, the elected board members feel a high degree of commitment for their co-operatives and their membership.

In general, most co-operative managers have a relatively low level of education. However, as most of them used to work as co-operative managers or leaders of production teams in the past they have developed some management skills over time. They are familiar with those services which co-operatives used to provide before transformation already, i.e. irrigation and electricity management as well as the provision of input supply. It is understandable that they concentrate on those services first to gain experience in the new market-oriented economic environment. As it was discussed above, in many cases these services provide a reliable source of income to the co-operatives. However, managers know very well about their low level of legal skills and their limited knowledge about product markets. The necessary legal skills can only be acquired with the help of special training courses, but knowledge about the markets and marketing have to be built up through experience in daily life. Although the risks are high some managers have started already on a small scale. It can be assumed that most co-operatives will provide reliable marketing services to their members in the years to come.

In general, all elected and employed staff members work on a part-time basis. Their main occupation is farming. They are entitled to a compensation and/or salary. Only, bigger co-operatives employ some staff full-time. In general, the compensation is very modest. Co-operative managers seem to compare their position with those in the local administration. In general, they complain about the lower pay and the missing social insurance system. On average, their payment comes up to about 150,000 - 300,000 VND per month. In general, they are paid a flat rate every month regardless of their efficiency. Only a few co-operatives have started to build in an incentive system for their elected and employed staff

members, e.g. in setting a certain percentage share of the annual profits for bonus payments. In other co-operatives, the chairmen will only get paid their compensations by the end of the year, if the co-operative shows a profit. But it has to be admitted that, in general, the payment is too low to encourage talented persons to stand for election in the future. This might prevent transformed co-operatives from attracting good and devoted managers. The present generation of managers feels committed to their co-operatives even with a low compensation, but in the future it might not be that way anymore.

Besides the relatively weak internal control system through the supervisory boards, the transformed co-operatives are plagued by an under-developed external supervisory system (i.e. external audit). Such a system is needed to protect not only ordinary members, but also the management, including the supervisors, against intended and unintended mistakes. During the period of the collective type of co-operatives this task had been not that important. The "old-style" co-operatives had been supervised and controlled by the Ministry of Agriculture. For the time being MARD lacks the skills and manpower to perform external auditing efficiently. While this problem has been acknowledged it is argued that external audits are seen by co-operative management as a similar type of control instrument like during the time of the planned economy. In market-economies the task of external audits is often taken over by specific co-operative audit associations which are entrusted by the government to do the annual external audits on its behalf and which every co-operative has to join in order to get registered. To be effective, external audits should concentrate not only on a mere ex-post inspection of accounts but have to be future oriented in the form of a management performance audit that provides advice, for example, on how decision should be made. Co-operative auditing has to be linked to business consulting and training. Co-operatives with less qualified and experienced managers would certainly need such assistance. Such a type of external audit would not only protect the members from any mismanagement but also provide good information to banks and other creditors on the viability and good management of the co-operative. Thus, it would be easier for them to give loans to co-operatives (HARMS, 1999: 39).

Low level of working funds and limited access to credit. Almost all managers of transformed co-operatives complain that they are very short of operating funds but the needs for investments are high. The value of share capital looks impressive on paper as it represents the value of fixed and current assets, which generally have been overstated at transformation. On average, it comes up to about 300 – 800 m VND per transformed agricultural co-operative. About 90 percent of that amount are fixed assets in form of irrigation systems, buildings and, in exceptional cases, in form of machines. Hence, the volume of current assets is, in general, very modest which is relatively easily accessible in form of seeds and other inputs. Most of these operational funds available are tied up as short-term loans in form of credit-in-kind to the members. In addition, many co-operatives have outstanding debts of the members, which have to be recovered by the management over time. As most of the members have been regarded as too poor, almost all co-operatives

avoided asking for cash contributions from them when fixing the value of the individual shares at the time of transformation. Hence, most transformed co-operatives have to observe strict limits in financing their activities. In general, they have funds at their disposal amounting to about 30 - 80 m VND.

In case the volume of own capital is not sufficient, there is the option to apply for funds from external sources. As it has been discussed in Chapter 2 the Vietnamese Bank for Agriculture and Rural Development (VBARD) is by far the most important bank for promoting agricultural production. In general, VBARD is providing loans to farmers on an individual basis. For loans up to 10 m VND per farmer no collateral has to be provided. In general, farmers have to pledge the title deed of the land use rights for their respective piece of land ("red book") to the bank. All potential borrowers just need a letter of confirmation by the people's committee of their respective commune, or as shown above in some cases by the respective agricultural co-operative. In this letter it is certified that the respective borrower is a *bona fide* citizen and, most important, has simultaneously not applied for a credit by another bank. All over Vietnam, borrowers are only allowed to apply for and receive credit with one bank only, which can only be certified for the time being by the respective people's committees (or, in some cases, by agricultural co-operatives). Through their help VBARD, but also PCFs save a lot of transaction costs in assessing the personal reputation of the potential borrowers. Nevertheless, it had been complained that the application procedure is quite lengthy and complicated. Hence, the individual loans are still quite costly for both, banks and clients. In addition, there are a number of programme loans at preferential interest rates, e.g. via the Bank for the Poor (VBP) or special programme loans often backed by mass organisations. However, just a limited number of farm farmers have access to these types of loans.

Up to now, however, VBARD is reluctant to provide credit to transformed, but also to newly established agricultural co-operatives. In general, the main reasons can be summarised as follows:

- The agricultural co-operatives have to face the bad image of co-operatives from the past. Even those without any debts and good investment proposals will, in general, not be eligible for any credit from the banks for the time being.
- Since agricultural co-operatives want to apply for higher credits than 10 m VND they have to provide collateral. However, most of their assets are fixed and their value in general overstated. Most important, however, is the fact that the resale value of most assets is in general very low or almost zero. In case of non-repayment there would be, in general, no potential buyers for the irrigation and electricity systems or the buildings. Hence, these assets are almost without value for the banks. Even, if co-operatives own the land use rights of some land and have received the respective title deeds, their use is still regarded as highly risky (HENRY: 15).
- Both, the transformed and newly established agricultural co-operatives have registered fairly recently and are relatively young organisations. Therefore, they have to show first that they are economically viable working with their

small amounts of capital available. Similarly, they have to establish a track record with the banks. In many cases, agricultural co-operatives just have a deposit account which they usually do not use very often.

- In addition, their financial statements and budgets do not meet the general requirements of a bank. Standards of accounting and auditing among the transformed co-operatives are, in general, quite poor. In general, bankers have problems to assess the value of share capital and assets. In this respect, it can be stated that agricultural co-operatives are not bank-oriented. In general, co-operative management and bank staff have no experience in dealing with each other in financial matters.

While access to formal credit through VBARD, in general, had not been possible after transformation, there had been political discussions in what way VBARD could provide credit to them, anyhow. Finally, the Prime Minister issued Decision No. 67/1999/QĐ-TTg dated 3 March 1999 “Some bank credit policies in support of agricultural and rural development”. This decision defines mechanisms, terms and the maturity of credit towards providing better lending services to farmers. The decision also paves the way for co-operatives established under the Co-operative Law to get loans under either of the following conditions:

- (a) mortgaging the personal assets of members of the management boards, or
- (b) mortgaging the assets derived from the provided loans with the latter not being allowed to exceed the equity of the co-operatives.

Both options did not solve the problem and proved to be ineffective. In the first case it goes against the Co-operative Law as it effectively turns a co-operative into a company with unlimited liability for the members of the management board, but not for the ordinary ones. The members of co-operatives would be classified into different groups. In addition, there are hardly any incentives on the part of co-operative’s management to mortgage their assets without earning an adequate return. As shown above, the compensation for the members of the management boards are, in general, quite low. Hence, it has been no surprise that not many of them have been prepared to apply for credits. With respect to the second option, it is increasing the investment risks for the banks. The resale value of these co-operative investments are relatively small as an alternative use of these goods is, in general, not possible. Hence, the banks have also not been eager to provide credit under such a condition. In other words, co-operative managers and members could hardly expect that this decision would bring about any real positive changes with regard to access to credit (HARMS, 1999: 33).

In the long run, there is only one way for the transformed co-operatives to become economically viable entities: They have to make fully use of their own resources. Hence, what are the options of agricultural co-operatives to become bankable? There are a number of criteria which any co-operative can meet by its own already without having to rely on the support of the government or any special programme.

- The first criteria is almost self-evident. The co-operatives should start with their business activities, of whatever size, and show that by the end of the year they have earned some surplus. Banks are more eager to provide credit to those business entities which have proven in the past that they can make profit over time. The first years since transformation have shown that the transformed units can earn profits.
- The second criteria concerns the volume of own funds. The higher the volume of own funds the more likely the bank will be inclined to provide a credit. Own funds can be build up in two ways. On the one side, the co-operatives have to accumulate share capital in inviting as many members as possible and/or in setting the amount of one share as high as possible. On the other side, co-operatives should show profits at the end of the budget year and allocate as much as possible of these profits into the build-up of reserves. Dividends should not be paid at all during the first years, or at least, have to be kept as small as possible. For the members the provision of efficient services which supports their farm activities effectively is the most important aspect when joining a co-operative. Since their production costs can be reduced with the help of their co-operatives, they already realise an increase in farm income. For them, the subscription of shares is not an investment strategy. There is a big difference between agricultural co-operatives and the people's credit funds (PCF). While, in general, agricultural co-operatives do not show a high volume of reserves, those of the PCFs almost come up to the same level of the share capital already.
- The third criteria concerns the book-keeping. In general, it is very weak. Most bankers do not understand the system and cannot assess the actual financial status of the co-operative. Hence, they do not bother to go into details.
- Finally, there is the question of liability. In general, members are liable with their share capital only. Co-operatives have to assess the option to increase the level of liability of their members to one additional share or a part of it, in case of bad debts. This has to be fixed in the respective bylaws. Additional liability, i.e. in addition to the volume of share capital, will improve the bankability of the co-operatives.

While following all these rules which will definitely ease the access to credit, agricultural co-operatives have to observe a very important one which applies to all other business entities and private entrepreneurs. Asking for external credit should be only the last possibility as it is the most expensive way to increase capital, as interest has to be paid.

On the other side, also the banks should provide more reliable services to their prospective clients, e.g. the smooth handling of current accounts in executing quickly money transfers asked for by co-operative management. Therefore, many co-operatives do not bother to open any bank account. They just keep any cash at the home of one of the board members until the money is used for financing another activity. In these cases, the co-operative managers are not keen to work

with any bank loans. Some co-operatives which provided savings and credit facilities to their members did this activity on their own without any bank account themselves. While Vietnam, particularly in the rural areas, still can be characterised as a cash based society, banks should become more client-oriented. Anyway, agricultural co-operatives are strongly recommended to establish closer links with VBARD in the future.

For the time being staff members of VBARD are not very optimistic about the prospect of providing credit to agricultural co-operative on a larger scale. According to its experience monitoring of individual loans is still problematic enough, but it is almost impossible with group loans. However, on individual cases VBARD has provided loans to agricultural co-operatives, already. For example, VBARD in Phu Tho Province has started to do business with 6 out of the 134 agricultural co-operatives in the province. Their balance sheets and reports had been up to standards like those of other companies. All six got short term loans of 75 m VND each which they used to finance their input supply activities. With respect to collateral, either the members of the respective management boards were liable with their personal property or, if the co-operative had allocated some land, the "red book" of those respective pieces of land had to be given as security to VBARD. The experience, so far, has been very encouraging. Once, more agricultural co-operatives have shown a proven track record it can be anticipated that will have access to bank loans in the future.

Limited market power due to missing secondary structures. Up to now, agricultural co-operatives have only been registered at the primary level. Hence, even among the bigger ones the volume of business activities is rather limited. Agricultural co-operatives are characterised by their weak market power. However, a federative or vertical structure at district, provincial or, even, national level is missing, e.g. a co-operative league or a federation of agricultural co-operatives. Up to 1988 there used to be a certain type of vertical structure under the umbrella of MARD when there had been the department for co-operatives. When that department had been abolished, agricultural co-operatives were looked after by the more broad-based department for rural development. According to the Law co-operatives are supposed to deal at the grass root level. However, there is the option to organise at higher levels as well, to serve as a bridge between the government and the primary co-operatives. For the time being, there are discussions to set up federations of agricultural co-operatives, particularly at the provincial level. However, it is open whether it will become a completely separate and independent federation or whether it will be incorporated in the structure of the still top-down organised Vietnam Co-operative Alliance (see for more details below).

When it comes to developing a viable self-help structure at higher levels, two aspects have to be kept in mind. On the one side, the non-business activities are not very well developed. Both, internal supervision and external audit are very weak. The more co-operatives will become market-partners, the higher the need to provide efficient services in this respect. An effective internal supervision and

external audit are needed to protect not only ordinary members, but also the management, including the supervisors, against intended and unintended mistakes. An external audit should not be regarded as a simple external control, but should also provide advice to the management how to improve its services. Similarly, the rules for standardised book-keeping are not very strict and uniform. In many countries it has been proven that these problems can be solved much better by the co-operatives through their own associations instead of the public administration. In addition, co-operative associations can provide effective training courses and might act as common spoke-persons for all co-operatives.

On the other side, it is evident that primary co-operatives at the village or commune level will be too small to do business activities efficiently in the long run. When it comes to common purchase of inputs or marketing activities, co-operatives will have to combine their forces in order to bargain better prices and to act as a reliable business partner. The staff of MARD cannot fulfil this task efficiently, anymore. This can only be accomplished if agricultural co-operatives will set up co-operative unions or federations at higher level (i.e. secondary co-operatives), e.g. at the inter-commune, district, provincial, or even at the national levels. Only such types of co-operatives will be able to bargain better prices for agricultural products, e.g. paddy or coffee, on behalf of their members with the marketing or processing companies. The advantage of these companies is the fact that they just have to make one contract to get the required amount of raw material instead of concluding many contracts with individual farmers. In addition, co-operative unions have a better chance to accumulate the necessary capital to start processing of agricultural products even on their own. Finally, only at a higher level it actually makes sense for farmers to buy shares of still state-owned agri-business companies, which are supposed to be equitised (privatised) within the next few years in order to link themselves even closer to these companies. For individual farmers and also within the primary co-operatives the amount of shares is too small to have any say in the decision-making process of the company. In that case, buying of shares is just one investment option among others. But if the shares are combined in a co-operative union farmers might send their representatives into the management board and have a more direct influence in the decision-making process.

The major reasons given for a still missing agricultural co-operative network seems to be the fact that the number of transformed, but also newly formed agricultural co-operatives is still too small, so far. In addition it was stated that there is a lack of trained staff qualified to manage co-operative federations at higher levels. At the co-operative level managers were expressing the need for federations, but they were not sure yet how to do it. Similarly, officials at provincial levels saw the need for some type of organisation. In some areas first trials in setting up a structure have been started at the district and provincial level on a pilot basis, e.g. in Quang Nam, Binh Dinh and Quang Tri Provinces. These organisations are loosely structured groups for the time being and have not been formally registered.

When discussing the prospects of agricultural co-operative federations and unions, one has to acknowledge that there is one national co-operative federation already which is the official apex organisation for all co-operatives in Vietnam and the internationally recognised representative of Vietnamese co-operatives. In 1986, the Vietnam Central Council for Co-operative Unions and Small and Medium-Sized Enterprises (VICOOPSME) had been established out of a merger of the former Ministry of Co-operatives and the Ministry of Industry. Hence, it had been concentrating on the production co-operatives of artisans and small-scale industries. Due to the decline of these co-operatives in line with the agricultural ones, it had not been very strong since the early 1990s. Since then, it is aiming to integrate all other remaining types of co-operatives under its umbrella. Therefore, the name had been changed into Vietnam Co-operative Alliance (VCA). In each province, VCA is represented with an office and some staff. As a former government agency it is still heavily supported by the government. While in the first years, it had been characterised by more bureaucratic top-down approach, it is now trying to become more member-oriented.

For a number of years, VCA did not have any structure with respect to agricultural co-operatives. Actually, it is up to each agricultural co-operative itself whether it wants to join VCA or not. To some extent, this decision is influenced by the personality of the staff and programmes offered in the respective provinces. While the newly established agricultural co-operatives in An Giang Province did not care about VCA, about 80 percent of the transformed co-operatives in Quang Tri Province joined. The annual membership fee is more nominal, amounting to 20,000 - 50,000 VND depending on the province. Occasionally, VCA is issuing guidelines to co-operatives, which might overlap or even contradict with those issued by MARD. In that case, managers of agricultural co-operatives still look at MARD with respect to support and, therefore, these guidelines are not binding for them. Whether VCA will become an efficient federation for agricultural co-operatives will have to be left to the future. While it has to become more member-oriented in the future, there is no option to build up another federation besides or even in competition to VCA.

Perspectives in participating in the privatisation of agribusiness. The equitisation (privatisation) of state-owned enterprises including agribusiness has become a political objective in Vietnam in recent years. Many stakeholders are involved in this equitisation process, e.g. besides the farmers as producers of agricultural raw materials, the management, employees and workers of the state farms, the management of the respective state farm holdings and, finally, officials at the various administrative levels and representatives of various mass-organisations. Farmers as suppliers of raw materials and, if applicable, as former state farm workers might have the opportunity in acquiring shares of the equitised agro-industrial companies of the upstream and downstream sectors. Agricultural co-operatives might have an important role to play in combining the shares of a large number of individual small-scale farmers (WOLZ/KIRSCH).

Since 1992 a cautious process of equitisation is being implemented which allows for the transformation of selected state-owned enterprises (SOE) into joint-stock companies whose sale of shares will go to Vietnamese individuals and organisations. The companies have to be reorganised in such a manner that they are subject to the ordinary company law and the business laws applicable to private companies. This process also includes the surrender by government of its existing control over the enterprises, previously maintained through the right to appoint the management and board members. Similarly, these equitised companies will have to compete for financial services with private ones on equal terms (MEGYERY/SADER: 18). Up to now the number of companies equitised has fallen far short of government targets. Therefore, the government urged all departments, provinces and cities to speed up the equitisation process including those units of the agricultural sector.

In many countries agricultural companies of the upstream and downstream sectors (agribusiness) try to tie agricultural producers more strongly to their companies than just by delivering and/or purchasing contracts. They either hand out shares to the farmers for free on an agreed upon bonus basis or sell shares to them at attractive prices. However, from the company's point of view, such an arrangement often makes only sense in connection with delivering or purchasing contracts. Without contracts the companies can approach the general public as such, e.g. sell their shares at a stock exchange. As an alternative to distributing shares to the farmers, companies might offer preferential loans for buying the agricultural products. Such arrangements are often applied in contract farming.

In Vietnam, quite a number of agro-industrial companies which, in general, comprise agricultural processing units and large areas of land have been earmarked for the equitisation process. There is strong political pressure to include the former workers who have become farmers in this equitisation process. Besides this pressure, there are several advantages for the processing company in offering shares. In the following discussion emphasis is laid on agricultural processing units.

(a) In order to stay competitive in the long run processing companies are required to permanent investments to improve their efficiency. The offer of shares to the farmers might be an attractive alternative for borrowing money from the banks. The dividends on shares should be lower than the interest rates for borrowing money from the banks. In this respect, shares are a relatively cheap source of capital. However, from the point of view of the farmers they have to be higher than the interest rates on saving accounts to become attractive. The dividends on shares might be somewhat lower for some time since the shareholders also gain co-determination rights as the share represents an ownership title of the processing company.

While this is an attractive concept in mobilising fresh capital, it can be assumed that the farmers will not rely on that much savings in order to pay up for their shares, straight away. One option could be that the shares will be subscribed first and farmers will pay up the amount in retained (future) dividends later. It has to be agreed upon in advance on the amount to be

paid or on a percentage of the income made by the regularly delivered agricultural products which will be retained. Over a certain number of years, farmers will fully own their shares.

- (b) While theoretically the mobilisation of fresh capital can refer to the general public as well, most processing companies have a strong interest in being more intimately connected with the agricultural producers. It is the main objective of the processing centre to secure a regular supply of raw material. In linking farmers as shareholders they may develop a deeper interest in the economic well-being of the processing company than just as a partner in contract farming. Now farmers themselves have an economic interest in the well-being of the processing company which to some extent they can influence. Any advantages which the processing company might gain from the intensive commitments of the agricultural producers is also to the advantage of the agricultural partner. In this respect, farmers will be more committed to adhering to the farm contracts as could be observed e.g. among sugar beet farmers in Turkey or in Southern Germany (KIRSCH, 1976: 83-87; ZELLER et al.: 1-12).

From the farmers' point of view it also makes sense to become shareholder of the processing company. In this way, they become co-owners of it and they, or their representatives, have the right in participating in the decision-making process ("co-determination rights"). The more rigid the contractual agreements with respect to agricultural production are, the greater is the extent to which they have to relinquish their individual decision-making powers to the management of the processing unit. The relinquishing of individual decision-making powers in one's own farm can be compensated for with the right to a say in the planning of the processing company. Actually, they are co-operating with a processing company which is, at least partly, owned by the farmers themselves.

For farmers it makes only sense to acquire shares from agribusiness companies if they speak in a common voice in order to make their position heard. Otherwise the ownership of shares is just another tax or fee for them and they do not feel committed to their own processing company. But in order to participate in the decision-making process effectively, farmers have to organise themselves first. They have to pool their individual shares either loosely in a group or in their co-operative which will become the legal owner of the shares. In the second case, farmers will become only indirectly owners of the equitised company as the shares are legally owned by the co-operative. The co-operatives collect the money from their own members and buy the shares of selected agribusiness companies. Through this, they participate in decision-making on behalf of their members; they represent the interests of the farmers in the managing boards. Farmers as individuals are overburdened to make use of their shareholder rights effectively. Within the co-operative some members can develop the necessary skills and know-how to present their members' interests in the management boards.

In many countries this approach has been proven to be of great benefit to the farmers. Many service co-operatives (marketing co-operatives as well as co-operatives for the promotion of agricultural production) have become economically that successful that the co-operative, as an independent legal entity, has bought up shares in those companies which were of direct importance to the agricultural producers in the upstream and downstream sectors. In Vietnam, discussions about such an approach have just started. As co-operative unions are still missing it is open who actually could represent the farmers. Only recently, this approach had been executed for the first time. Several primary co-operatives have set up a secondary federation which owns shares of the Lam Son Sugar Company (Thanh Hoa Province)⁶.

3.3 Situation Without Agricultural Co-operatives

3.3.1 Dissolution of Old-Style Co-operatives

Even before the adoption of the Co-operative Law a large number of agricultural co-operatives had been dissolved. In addition, many stopped operating, but they were still listed. A co-operative can only be dissolved once it is officially approved by the people's committee of the district. In general, there are two ways how it is implemented.

On the one side, the management of the respective co-operative realised that there is no perspective for the time being and it would be better to close down the co-operative. Once there was the principle approval by the people's committee of the commune certain rules had to be followed. In a first step a dissolution (or dismantling) committee had to be established. This committee had to look into all aspects of importance, i.e. items and value of all remaining assets, the amount of debts and the amount of outstanding debts by members. All remaining assets had to be transferred to the commune. In addition, the commune had to take over all debts to banks. With respect to the outstanding debts of the members, these had been transferred to the commune, which was supposed to collect them in the future. However, the dissolution committee could have proposed that not all defaulters had to repay equally. Often, it was distinguished between three groups:

- members who could repay but did not do so;
- members who had difficulties in repaying, and
- members who had moved away.

Those members who had the resources were required to repay. Those who had not enough resources at their disposal or were regarded as too poor had to repay a reduced amount or their debts were cancelled in total. Finally, the debts of those who moved away were left as they were and it was waited for the return of these

⁶ Personal communication, Mr. Hoang Xuan Quyen, Dep. Director, CRP, Hanoi, 1 December 2000

persons. Normally, members were required to repay the principal while no interest costs had been charged. All proposals were presented at the last general assembly meeting, which formally decided on the dissolution of the co-operative. The minutes of this final meeting had to be presented to the DPI at the people's committee of the district, which was formally acknowledging the dissolution.

On the other side, the people's committees at district level could have decided to abolish and dissolve all old-style agricultural co-operatives in their respective area of jurisdiction. For example, the people's committee of Viet Yen District, Bac Giang Province took that decision in October 1991. It was argued that no co-operative had been operational anyhow at that time. Since then, no agricultural co-operative had been registered in this district. Before 1990, there used to be 9 co-operatives at the commune level and another 90 at the hamlet/village level in the district covering 1 town, 17 communes and 145 villages. With respect to assets and debts the same rules are followed as described above.

Hence, it can be stated that the communes have become the legal successor of the dissolved co-operatives. They had taken over all remaining assets, even those related to agricultural production. In general, they were supposed to repay all remaining debts. On the other side, they had the right to enforce the repayment of debts of the former members to their now dissolved co-operatives. Usually, communes had been active in gradually recollecting these funds. It had been up to the respective commune whether it had kept the funds for its own budget or whether these funds were redistributed among all former members of the dissolved co-operative in case there had been some overall financial surplus.

3.3.2 Organisational Set-up

Already in case a co-operative is no more operating the respective commune becomes responsible to manage the main activities. During the last years several approaches could be observed how the people's committee of the communes accomplished that task. In general, self-help groups were looking after the main activities under the guidance and supervision of the communes.

- (1) The commune might decide to organise the services itself in employing some persons on its own or through a bidding process so that individuals or groups are providing the necessary services. These individuals or groups can be either those persons and production teams who did the same job already before, or they could be recruited from scratch. In some cases, as e.g. in Quang Binh Province, contracts are signed with private companies who are providing the staff. The commune has to decide on the price ceilings or price ranges, which the individual households will have to pay. The individuals or groups will get paid a fixed compensation or a percentage share of the turnover. In some cases, these groups have been economically quite successful where (old-style) co-operatives failed. However, it is still difficult to make people understand that individuals or groups can make profits with assets, which belong to the commune or general public.

- (2) Another option, as adopted in Viet Yen District, Bac Giang Province (see Case Study 6), has been that the commune will put the village headmen in charge to look after the continued provision of the most important activities. Then the village headmen, in addition to their administrative tasks, are actually becoming the executive managers of all activities, which used to be done by the co-operatives. They are supported by village committees comprising in total 5 persons. Four persons are elected by the population, i.e. besides the village headman, his deputy, one accountant and one cashier. In addition, the local chairman of the party is member. In this district village committees have been set up in all villages once agricultural co-operatives had been dissolved. However, they are of a temporary nature, only, as they do not have their own legal status. All over the country, the people's committee at the commune level is recognised as the lowest legal entity at the local level. Since then all important services in the village are managed by local groups. The members of these groups are not elected by the people but selected by the village headman with the support of the village committee. With these groups a contract is signed specifying the duties and the compensation. All village groups are specialised on one activity only. Hence, there might be several different groups in one village. Depending on the activity groups comprise up to ten members. For all these services fees have to be paid by the households. In general the fees are paid in kind, i.e. in paddy. It is actually one of the tasks of the village headmen to ensure that the fees are paid properly. The payment with respect to the various services is decided at the village meetings, which are convened once a year. All household heads are represented. From the farmer's point of view, the meetings are organised in more or less the same manner like the general assemblies of the now defunct agricultural co-operative. This ensures a minimum level of control on the village headman.

In case of the dissolution of an agricultural co-operative the general picture looks as follows: specialised (informal) groups will take over the most vital activities. They might work under the commune administration and/or the village headmen either on a contract or on a self-help basis. The most important activities to be continued refer to the management of the irrigation systems and electricity networks. The commune will sign a contract with the pumping station or the electricity supply station, mostly at the district level. Other services are continued in exceptional cases, only. The day-to-day management at the local level is with the contracted groups. The bookkeeping can be done at the group level. A simplified version of a balance sheet has to be followed. In case of non-observance of contracts and commitments, the people's committee of the respective commune is putting up a lot of pressure on the group that all obligations are fulfilled. The households are required to pay for these services. They might also be asked to provide their labour and material to keep the system going. From the farmers' point of view, there might be not many changes compared to the situation when the co-operative had been in charge.

3.3.3 Experience and Limits

Through the transfer of the main tasks of the dissolved co-operatives to the communes the continued provision of the most vital services in agricultural production has been ensured. As most communes are providing these services with the help of contracted groups their number has jumped up tremendously during the last years. However, a large number already existed before, particularly in the southern part of the country, where the collectivisation process had been implemented to a small extent only. There, production teams and other forms of informal groups existed already since the early 1980s. Nevertheless, their number has been estimated to stand at 73,400 by mid 1998, of which about 67,500 were located in the South (MARD, 1998: 5). In general, these informal groups are irrigation groups and electricity supply groups. On average, one group comprises 5-10 members. As these groups perform important services in their communes and are under contract, they are recognised and might be registered by the local people's committee. Some of these groups, in addition to their main activity, might work as a joint negotiating group for credit from VBARD on behalf of their members. In that case, membership usually will come up to about 40-50 persons.

One of the main conclusions, which can be drawn out of this model, is the experience that proper services can be provided to the farm households without co-operatives. For the clients at the local level there seems to be no difference in the quality of services provided. However, two repercussions can be observed: (1) The number of services provided has been reduced to the most important ones. Farmers do not feel this disadvantage for the time being as their co-operative had already collapsed and not many services had been available, anyhow. Only if they need more services and realise that co-operatives will work effectively elsewhere they will be aware of their own disadvantage. (2) In many cases, the fees they have to pay are higher compared to the situation when a co-operative is managing these activities. To employ the specialised groups is more expensive. In addition, there are some administration costs with the village and commune. For example, in Quang Binh Province the irrigation fees with a co-operative, on average, come up to about 250 kg of paddy per ha and season while under village management farmers have to pay about 300 kg (or about 20 percent more). Again, farmers will only realise this difference when they compare their own situation with the one in other communes.

Hence, from the farmers' point of view, their feelings concerning the present situation is mixed. On the one side, it is stated that they do not see any need for agricultural co-operatives. The services are provided in a timely and efficient manner. Other services are well managed by private entrepreneurs. All what is needed are small self-help groups at the village level to organise a better co-operation in agricultural production. On the other side, those farmers who were concentrating on commodity production felt the need for better marketing systems. They voiced the opinion that the more important the sale of farm products will

become for their farm income, the higher the need for efficient agricultural co-operatives.

From the administrations' point of view it becomes more and more evident that this approach just has to be seen as a transitional arrangement as the communes cannot replace agricultural co-operatives effectively in the long run. It has to be regarded as a "survival strategy". The people's committees of the communes have to combine economic functions with administrative functions in one institution. However, the local administration is not trained in dealing with economic issues. After some years experience, as in Viet Yen District, Bac Giang Province, it became clear that the dual function of the village headmen, responsible for public administration and in charge of managing the necessary services at village level, had become a disadvantage. For most of the population it had been difficult to understand when they paid their taxes and fees for which item the money had actually been used although there had been the decision by the district people's committee to strictly separate these two different sources of funds. As the standards of book keeping are not very high, there was a constant suspicion that the fees were spent for other things or misappropriated. It had been realised that the administrative and economic functions of the commune administrations and village headmen had to be separated again in the long run and new co-operatives were needed.

But also the self-help groups, which are working under contract, have to face certain limits in their operations. These informal groups or teams are not legally acknowledged entities and they are without regulations. The relations among their members are quite loose and they might collapse easily. In addition, they are short of experienced managerial staff. Since they are not registered as legal business entity with the people's committee at district level, they are not allowed to do any business activities. In some cases, they are registered as civil code groups with the people's committee at commune level. But self-help with the legal status to do business will be needed more and more in the future in order to increase farm production and farm income, particularly as more capital for investments will be needed.

On the other side, many of these informal groups will form the nucleus of new agricultural co-operatives. They have made experience in performing one or several activities on a group basis. In these days, it is discussed at provincial levels whether these informal groups should be formalised in the long run. There is the option that these groups might be registered under the Civil Code as an association (or pre-co-operative) or as a co-operative in line with the Co-operative Law. In both cases they could take over the remaining productive assets from the communes. At the national level there is the policy that local authorities should encourage households to create or set up their own co-operatives. As it will be discussed below, many of the newly established agricultural co-operatives are rooted in former informal groups.

3.4 Establishment of New Agricultural Co-operatives

The Co-operative Law not only provided the legal framework for the transformation of old-style agricultural co-operatives, but also - more importantly - the basis for setting up new ones. As it was shown above, by the end of 1997 already 99 new agricultural co-operatives had been registered. As it had been shown above the process had speeded up during the following years. At the beginning of 2001 their number stood at 1,415, already.

The main reason for setting up new agricultural co-operatives is the fact that there are limits with the informal group approach. Informal groups, like e.g. water user groups can manage the irrigation system on a day-to-day basis. However, they cannot do the job that effectively as these groups can just perform the simple tasks. All those tasks which require machines and hence capital have to be done by private companies which have to be sub-contracted by the commune and are paid by the end-users. Therefore, prices for the provision of irrigation water have been relatively high. Once a co-operative has been registered and members have subscribed share capital the necessary equipment can be bought by it. Then it is cheaper to do the job within the co-operative than to hire private people as has been proven in An Giang province. In addition, a legally accepted entity is needed to do business activities vis-à-vis other business units to the benefit of the farmers.

Broadly, the newly established agricultural co-operatives can be divided into three different groups:

- As it had been discussed above, some agricultural co-operatives had been split up during the transformation process. All those co-operatives which emerged as new entities out of this process were statistically classified as newly established agricultural co-operatives. For example, the statistics about Quang Tri Province showed 11 newly established agricultural co-operatives by the end of 1999. But none of them had been formed as a new entity in the strict sense, however. All of them used to be part of the former collective farm. Hence, they experienced almost the same transformation process as discussed above (Chapter 3.2).
- In addition, there are those agricultural co-operatives, which have been built up on already existing informal groups or mutual assistance teams.
- Finally, there are those agricultural co-operatives whereby a group of people comes together and agrees to do certain activities in common. These people start from scratch.

Since the provincial and national statistics are combining these three groups, it is not possible to estimate their respective importance. In the following chapter, emphasis is laid on the latter two groups.

3.4.1 Registration of Operating Informal Groups

The establishment and registration of formal agricultural co-operatives out of existing and operating informal groups is quite similar to the transformation process. In the following the important steps in forming new agricultural co-operatives, their main activities and the main critical issues since registration will be discussed (see Case Studies 8 and 9).

The dominant forces, which push for the set-up of agricultural co-operatives, come from two sides. On the one side, there are local officials, who regard co-operatives as a useful tool to create more employment locally and to follow social aspects like reduction of poverty. On the other side, there are the people themselves who try to get and improve employment and income in their area. Many among them are business-oriented people who want to increase their income through the cultivation of cash crops. This they can only accomplish effectively once they are organised at a higher level. The formation and registration process follows the same pattern as discussed above in connection with the transformation.

- (1) In general, the leaders of one or several informal groups realise the need to set up a co-operative. They will act as promoters or founders. Usually, the promoters get support, guidance and advice from the district and provincial office of MARD. For example, in one commune in An Giang Province, there used to operate 6 informal self-help groups quite independent from each other since the late 1980s. Once, the idea of forming a co-operative had been spread each self-help group had their own meeting where they elected two representatives to prepare the necessary steps. These 12 founding members got further training and spread the idea further on. On the other side, if the members themselves realise the need for a co-operative, they just elect a small number of persons among themselves who will act as founding members.

In general, newly set-up agricultural co-operatives are supposed to continue and expand those activities, which have been done by the informal groups already. However, the formation of a co-operative might sometimes require a shift of its activities. For example, in another commune in An Giang Province (see Case Study 8), there used to be a credit-negotiating group specifying the terms of credit with VBARD for its members. The actual incentive of forming the co-operative had been the decision of the irrigation department to close down the District Irrigation Company under its jurisdiction since it used to be very costly and no economic prospect had been seen in its equitisation. Therefore, farmers were encouraged to put the irrigation services into their own hands.

- (2) Many informal self-help groups own some assets of their own which they will transfer to the newly established co-operative. Then, the situation is almost the same as with transformed co-operatives. The value of these assets has to be re-assessed. On the other side, many groups do not own any assets at all. They have to start from scratch and build up their own capital

base. Hence, the value of fixed and current assets is much smaller compared to the situation of transformed units. While figures at the national level are missing, the average value of assets owned by a newly established agricultural co-operative, e.g. in An Giang Province, just comes up to about 110 m VND. The issue of debts to banks or outstanding debts by members is not relevant for these informal groups.

- (3) Once the value of assets is determined, the value of share capital and the value of individual shares had to be established. Again, there is no clear-cut pattern about the regulations, but it is up to each co-operative itself to decide on that. Those who have some assets at their disposal have the option to put up reserves at the time of formation, already, or to leave it to the future to build them up. Many converted the total value of assets into share capital, i.e. no funds have been set aside as reserves. Others decided rather deliberately, or more or less like a rule of the thumb, to allocate a certain percentage of the value of assets as reserves, e.g. in one co-operative in An Giang Province it had rather deliberately decided to put 40 percent of the assets as reserves and the remaining 60 percent would represent the share capital (see Case Study 8).

In general, the new members have not been asked to contribute any cash as share capital. The value of the individual shares is commonly calculated on the value of existing assets, either on the number of members equally, or on the size of land over which a person has the land use rights. In this case, the value of each share has been calculated on a hectare basis. The value of shares for each member depends on the size of land he or she is cultivating. Although the various informal groups amalgamating into one agricultural co-operative might contribute assets of different values there seemed to have been no problems in allocating individual shares according to a model equal to all members.

For the members the set-up of a co-operative is a positive development as they do not have to contribute any cash in general, but can make use of its services. Members have the option to leave the co-operative. In that case, he/she is entitled to take out the respective value of their share in cash. While this is not a problem for the time being, these co-operatives might be in a delicate position if many members might do so in the future, as the amounts of current assets and working funds are very limited. Then, the co-operative might quickly run out of cash.

Besides those co-operatives, which could take over assets from the informal self-help groups, there have been many others, which have no assets at their disposal when they were set up (see Case Study 9). Financially, these co-operatives have to start from scratch. Hence, the joining members have been required to subscribe share capital in cash right from the beginning. In general, an individual share has been set at 200,000 - 300,000 VND. Depending on the co-operative, this sum has to be paid up in cash in one sum or on an instalment basis. However, as these co-operatives are very short of funds most ask their members to pay in one sum. Members

have the option to sign more than one share if they have the necessary funds.

Summarising it can be stated that the value of an individual share is not fixed. In general, it fluctuates from co-operative to co-operative between 100,000 and 300,000 VND. Among those co-operatives, which got transferred assets from the former informal self-help groups, the value of an individual share might be higher, e.g. about 1.1 m VND (see Case Study 8).

- (4) In a next step, the bylaws have to be drafted. Similarly, a work plan indicating what activities the co-operative intends to pursue in the future has to be developed. Officials from MARD are giving support.
- (5) Once the preparatory work has been accomplished, the founding general assembly will be convened. In case the number of persons willing to join the new co-operative is too big, an election of the members' representatives has to be organised. At this general assembly the bylaws and the work plan have to be adopted. In addition, the members of the self-governing bodies have to be elected. In general, it is aimed to keep their number as small as possible. Often the members elect three persons into the management committee including the chairman who might also take over the function of the general manager. Another one to three persons are elected into the supervisory committee. The management committee is employing some staff, in general a chief-accountant, cashier and bookkeeper. In general, these people are also members. In total, between 6 to 10 persons are actually running a co-operative. All these jobs are done on a part-time basis, as all members are farmers in the first place. The elected and employed persons are entitled to a compensation or salary amounting to about 200,000 - 300,000 VND per month.
- (6) After this meeting, the management has to present the minutes to DPI of the people's committee of the district in order to become officially registered. In general, the time needed to set up and register a new agricultural co-operative takes about four to six months.

In general, the newly set-up co-operatives are not that successful in organising all potential members at the beginning. While many farmers understand the need for a formal organisation, a lot of efforts have to be put up to convince them. Many farmers are reluctant to join due to bad experiences in the past. Therefore, almost all newly established agricultural co-operatives see the option to broaden their membership. The number of members, on average, is by far smaller compared to the transformed ones. In general, membership comes up to 100 and 300. For example, in An Giang Province, average memberships just stands at about 120 persons. But it could be observed that more and more fellow-farmers are joining later on.

3.4.2 Main Activities of Newly Established Agricultural Co-operatives Based on Informal Groups

All activities, which will be offered to members and non-members alike, will be discussed and finally decided at the general assembly. Actually, most of these services had been offered before when working as an informal group, but they had been more costly. Similarly, the co-operatives are offering them in a more reliable manner. So, it is the primary objective of the management to improve those services already done and, then, to enlarge them on a step-by-step basis. The most important services, which support the farm activities of the members directly, are the following ones, as shown in Table 3.6 above (Cases 13 - 16):

- (1) The major activity of almost all newly established co-operatives, which are based on former informal groups, is the proper organisation of irrigation systems in their respective areas. In general, this activity can be much better co-ordinated now than before. For example, in one co-operative which had been set-up out of several self-help groups, the irrigation pumps can be used in all areas according to the highest need. Before, each pump had been used in the respective and rather limited area of the self-help group, only. In another case, the district administration used to provide the basic irrigation services, but very often the water distribution did not fit the cropping requirements. The co-operative took over the system and some of their land-poor members, after a proper training, are running it much more diligently. In general, the co-operatives can manage the irrigation systems more effectively and, hence, the irrigation costs can be reduced. From the members' point of view the immediate effect is a reduction of irrigation fees while the service has been improved. But also non-members benefit although they are charged higher fees. For example, in one newly established co-operative in An Giang Province, the situation looked as follows: Before the set-up the irrigation fee came up to 470 kg of paddy per ha and season. Due to more diligent care the irrigation fees could be reduced to 430 kg of paddy per ha and season for members (or by 8.5 percent), and to 450 kg for non-members (by 4.3 percent). In this respect, both groups could save production costs with the help of the co-operative. Other co-operatives in the same province have been even more successful in cutting the irrigation fees for their members. Most managers interviewed saw more scope for further cost reductions in the future.
- (2) The second important activity deals with the organisation of the supply of agricultural inputs in a more cost-effective manner. In general, the most important production factors (inputs) will be sold through the co-operative. As most agricultural co-operatives themselves are short of working funds they have established links with the (state-owned) production companies and, sometimes, the provincial farmers' unions. Hence, the co-operatives get these inputs as a credit-in-kind, which they pass on to their members. These have the option to repay after harvest. The average interest rate members

were charged in early 1999 came up to 1.2 percent per month, which had been lower than the on-going interest rate on credit by VBARD and by far much better than the rate asked by the private sector with 5.0 percent per month. The co-operatives just earn a small margin for doing this service as a "middle-man". For many, it is not the objective to make much profit with this activity. From the member's point of view, this option of getting credit in kind at a low interest rate level is a very attractive incentive to join. In this respect, not much cash from the side of the co-operatives is needed to strengthen the economic position of the farmers. In case the co-operatives are required to do a down payment for the delivery of the required inputs, almost all the available working funds will be spent on this activity.

- (3) Many co-operatives have concluded summary contracts on behalf of their members with private entrepreneurs concerning the mechanisation of field work in crop production. While formerly each farmer had to bargain on a price individually, the co-operatives have negotiated a general contract for all members. With the help of these contracts the respective production costs at farm level can be reduced, significantly. They mainly refer to the following production steps: land preparation (ploughing and harrowing), threshing and transport of paddy from the road to the barn. In general, the prices, which farmers had to pay for these services, could be reduced by 10 - 20 percent. In this respect, the production costs of each member declined due to the help of their own organisation. On the other side, this new pattern is also cutting costs for the private entrepreneurs as the respective services can be done in a more effective manner. These private entrepreneurs, or machine owners, are members as well as non-members of the respective co-operatives. In some cases, the machines have been purchased by these entrepreneurs from the former collective co-operative.
- (4) Although their budgets are tight, many co-operatives are organising extension activities. This is mostly done in close co-operation with the district and provincial extension service under MARD. Extension workers are invited to work with farmers. For the members this service is usually free of charge. Sometimes the co-operatives are getting some refunds if the extension activities are part of a specific national programme, e.g. the organisation of integrated-pest-management courses for farmers. In addition, co-operatives might co-operate with state-owned food companies, like e.g. one co-operative in An Giang Province, which collaborates closely with the Angifood Company in the distribution of new rice varieties. In general, most of the costs involved are borne by the company.
- (5) While not many co-operatives are pursuing marketing activities on their own, some have started with joint price negotiations on behalf of their members. For example, in An Giang Province, farmers used to negotiate the selling price individually with the agents of Angifood Company during the last years. This company has a monopolistic position in the province. The farmers themselves were responsible to deliver the paddy to the company. Finally, the management has negotiated a common price for the paddy on

behalf of its members. It could be raised by about 2-3 percent compared to individual contracts.

Besides these production oriented activities co-operatives are also active in other spheres. Some of them are of a more supportive social character for the members. In An Giang Province, the most important one concerns the support of their members in form of letters of confirmation when they apply for credit at a bank. Since registration, the chairmen of the agricultural co-operatives are entitled to issue such a certificate besides the chairmen of the people's committees at commune level which is acknowledged by the banks. The farmers prefer this way since quite often they are reluctant to go to the office of the local people's committee. Although they get the certificate relatively quickly at this office, they usually are asked all types of questions which they want to avoid. Sometimes co-operatives might support the banks in collecting the repayments. For this service they get a small commission.

In addition, few co-operatives even adopt administrative functions like in the past. One co-operative in An Giang Province has been asked by the people's committee of the commune to collect the land tax from its members. Other co-operatives offer some social activities, like the promotion of family planning activities among their members. Others participate at the poverty alleviation programme in identifying and supporting poor member households eligible for subsidised credits. Some administrative pressure seems to be involved as for the co-operatives these are actually loss-making activities. For example, with respect to the programme of subsidised credit for poor households they are not only handling it without a commission, e.g. buying piglets for fattening. In addition, the co-operative had been required to provide other inputs, i.e. animal feed, on credit-in-kind without charging any interest costs. Hence, the co-operatives are subsidising this programme in two ways and it cannot be regarded as an economic activity but as a welfare service.

In general, managers of the newly established agricultural co-operatives are very confident about the future development. They are sure that they can cut costs further and they will gradually expand their activities. In addition, they feel more support from MARD is available once they have been registered compared to the period when they were organised as informal groups.

3.4.3 Critical Issues of Newly Established Agricultural Co-operatives Based on Informal Groups

The newly established agricultural co-operatives based on informal groups share many of the problems, which are also worrying to the transformed ones. In this chapter just the three most pressing issues will be discussed: the low value of share capital, the membership structure and the economic performance. As it was stated above, as these co-operatives are relatively young just a preliminary assessment can be given.

Share capital and limited access to credit. Many co-operatives are plagued by the fact that the value of their assets is quite small. The newly joining members contributed either no cash at all, in case when some assets could be transferred from the former informal groups, or just a small sum amounting to 200,000 - 300,000 VND. Since the number of members comes to about 100 persons the total value of capital is not very big, particularly among those, which did not get transferred some assets. Hence, the equity is quite small and the management has to concentrate on the most vital services for their members, first. Gradually, the capital base might be broadened and the number and quality of services expanded and improved.

For the time being, also this type of agricultural co-operatives is not eligible for any bank loans. The general reputation of co-operatives is spoilt with the banks. So far, banking staff is wondering whether this new type of co-operative will work well under the market-oriented system. Therefore, banks have to be convinced which is only possible if these co-operatives gradually expand their capital base and develop a track record with the banks. While they are not eligible for credit for the time being, almost all co-operatives of this type have their own bank account, in general with VBARD.

Membership Structure. In general, the newly established agricultural co-operatives start with a relative small membership. Many farmers have been reluctant to join due to the bad experience with production co-operatives in the past. However, most of the co-operatives have been economically successful and more persons joined during the following time. On average, the number of members increased by about 20 - 30 percent during the first year of operation. In general, all co-operative managers know the number of their potential members, as, in general, a co-operative is restricted to one water catchment area of the irrigation system. While the co-operatives are offering their services to both members and non-members, non-members have to pay a higher price (price differential). In this way, these farmers are encouraged to join.

On average, a newly established agricultural co-operative comprises about 80 - 150 members. With respect to the membership structure, the first assessments seem to reveal that particularly the middle strata of the farming population are joining. The richer farmers might use the services offered but in general they can manage on their own. The poorer strata including the landless farmers might not have the resources to join. In case the newly joining members were asked to subscribe shares in cash, they had not enough extra-cash available. For many landless farmers it did not make sense to join, as the provision of irrigation water is the main activity. On the other side, in case the co-operative took over assets from the informal groups actually all farmers of the respective area could join and did so.

But as shown above it is in the interest of the co-operatives themselves to enlarge the number of their members. In case the co-operative has been economically successful during the past, its total value of assets and the average value of share capital per member have increased. Some co-operatives require

from the new members to pay up this increased price for a share. In that case, it will become difficult for potential members to join as the price keeps on increasing. Other co-operatives have decided to keep the value of one share at a certain fixed level, so that it is not too expensive for potentially new members to join. Long-term members will be compensated with bonus shares in the future.

Membership does not seem to be restricted to the agricultural population only. In one co-operative in An Giang Province (see Case Study 9), 21 out of a total membership of 101 are rural non-farm entrepreneurs. These 21 non-agricultural members own 78 shares (or about 4 each, on average) while the 80 farmers own 168 shares (or about 2 each, on average). These 21 persons joined right at the beginning. Professionally, they are small-scale entrepreneurs and traders as well as carpenters. As these non-agricultural members are more interested in receiving dividends in case of profits, there might be conflicts with agricultural members. These will be more interested in building up reserves for future investments. For the time being, the agricultural ones convinced the others to allocate about 70 percent of the annual surplus to the reserves.

Economic Performance. Despite their relative small capital base and the competition of the private sector many of the newly established co-operatives managed to earn a surplus during their first years of operation. The annual turnover, e.g. for 1998 in An Giang Province, stood at 30 - 300 m VND per co-operative. Roughly, it can be stated that costs and expenditures made up about two-thirds of that some. The remaining third were reported as gross profits. During the first three years of operation no taxes have to be paid. The distribution of these profits varies from co-operative to co-operative. In one co-operative, about 30 percent of the gross profits have been allocated to the various reserve funds, i.e. investment or development funds, risks funds and social or welfare funds. One other co-operative allocated about 70 percent of its gross profits to these funds. The rest is distributed as dividends among the members amounting to 100,000 - 300,000 VND per share. In both cases, the level of dividends is quite attractive compared to other forms of investments or savings. Very often, the value of dividends represents an interest rate of 3.5 - 5.0 percent per month.

Some co-operatives ensured even higher dividends and follow a deliberate policy to pay high dividends. The payment of patronage refunds for using the services offered is not so popular. In this respect, members benefit twice from their co-operative. On the one side, their production costs can be reduced with the help of their organisation. On the other side, they receive cash income in form of dividends once a year. However, if the co-operative becomes economically too successful there is the danger that potential new members will be left out. It is often argued that newly joining members should pay the increased average value of all assets per member as a share, e.g. instead of 300,000 VND at the beginning 388,000 VND after one year. It has to be seen whether potential members have enough funds to do so.

3.4.4 Newly Established Agricultural Co-operatives Starting from Scratch

Finally, there is a small group of agricultural co-operatives, which have been set-up without any links to any formal or informal organisation in the past (see Case Studies 10 and 11). This model can be characterised as follows: A group of persons joins forces to do a service activity together as it becomes too costly to do that on an individual basis. Economic reasons for its establishment are predominant. Good links to the administration are important but the promoters are the members themselves. Members are prepared to put up cash and subscribe shares. A small number of members and a strong focus of the activities are characteristic. This type of co-operative is quite similar to those known in market-economic systems. It can be expected that this type of agricultural co-operative will become more or more dominant in the years to come.

While many characteristics and problems are similar to those already discussed above, just the most striking differences will be elaborated in more detail. One of the main characteristics is the small number of members. Often they just comprise 10 - 20 persons. A careful membership selection has to proceed any steps to establish and register the co-operative. On the one side, the perspective members seem to know each other for a long time. So, they know the personal and familial background from each other very well and trust each other. On the other side, they must meet technical criteria, e.g. members of a fish fattening co-operative in An Giang Province must own at least one fish fattening cage of a minimum volume of 120 m³ or members of a rice-seed multiplication co-operative in Bac Giang Province must have at least 0.4 ha available for seed multiplication. It is evident that the members must have a good technical knowledge in their respective fields. In this respect, it can be concluded that members of these co-operative usually are better off than their neighbours and they are very market-oriented.

These newly formed agricultural co-operatives are highly specialised. They concentrate on some service activities, which support the production activities at the farm level, as it is shown in Table 3.6 above (Cases 17 - 19). They are active in the following three fields only:

- (a) the regular supply of high quality inputs: For example, a fish fattening co-operative organises the supply of fish seedlings or fries (sprawn) and of fish feed. The rice-seed multiplication co-operative organises the supply of quality seeds and the provision of fertiliser. In general, the co-operative has signed contracts with supplying companies. Most of the inputs have to be paid in cash, immediately.
- (b) supervision of production: Members supervise and control each other in order to ensure high quality production. The co-operatives are active in getting access to and in disseminating the latest production technologies. They concentrate on quality control and extension in order to improve the quality in the future even further. As these co-operatives are relatively young they have

not much equipment or special-purpose machines for the time being. But it is planned to invest in such items in the future.

- (c) marketing of products: The co-operative is negotiating quality criteria and prices with buyers, either private traders or state-owned companies. The chairman might sign selling contracts with interested agents on behalf of the members. Some members, usually of the managing boards, inform themselves regularly about the market of their respective products. One fish and turtle fattening co-operative in Bac Giang Province already plans to establish its own trademark.

As these co-operatives start from scratch they have to build up their capital base from the members' shares at the beginning. The combined value of the share capital is their only asset. In general, the value of an individual share is set at 100,000 - 300,000 VND. Members are free to subscribe more than one share. This is done quite regularly. Once operational, the co-operatives will earn income through commission fees in buying inputs or when selling the products, e.g. 100 VND for each sold kg of multiplied paddy seeds. This paddy seed multiplication co-operative has been operational since about three years although officially registered in late 1997. Its share capital plus reserves stood already at 160 m VND by the end of 1998. But, in general, the value of assets is quite small and most of the share capital is used as operating funds to buy inputs. Some co-operatives even did not bother to open a bank account, so far, as the available share capital is spend in buying inputs. Any surplus cash is kept by the cashier at home.

Most of these co-operatives were just operating for a short period only, but all chairmen were confident that profits would be made. How the profits will be distributed has not been decided yet, in most cases. But all stressed the need to build up reserves for future investments. For the members it is not important to get dividends. For them it is more important that these co-operatives become stronger and economically more powerful.

Due to the small number of members, also the number of persons in the self-governing bodies is kept at a minimum. In general, the management board just comprises three persons, i.e. the chairman, the accountant and the cashier. In some cases, just the chairman will be elected and he is responsible for the day-to-day management. In addition, one person is elected as supervisor. All tasks are done on a part-time basis, as all of them have to manage their own farms. In general, the elected board members get a small monthly compensation.

All co-operatives are open to new members, but due to the careful membership selection the number of potential candidates is quite small. It has to be ensured that the co-operative is sticking to its focus. Besides the general requirement that the bylaws will be accepted and observed, the potential member should follow that production activity on his/her farm, which is promoted by the co-operative. In addition, he/she should have a similar production capacity and financial standing as the present members.

The chairmen acknowledged that the legal form of a co-operative as a business entity was deliberately chosen by them since the tax rate is relatively low.

During the first three years no taxes at all have to be paid as their emphasis is on farm production in specific fields. When they will be taxed after the grace period the tax rate will just amount to about one percent of the turnover with respect to production. With respect to marketing and other business activities it stands at about 10-15 percent of the turnover. In any case, taxes will be still lower compared to other legal business entities.

3.5 Conclusions: Basic Features of Transformed and Newly Established Agricultural Co-operatives

Based on the Co-operative Law, effective 1 January 1997 two main types of agricultural co-operatives can be observed for the time being, (a) transformed ones as the successor organisations of the former agricultural production co-operatives and (b) newly established ones. The latter can be divided further into three sub-groups, i.e. besides those which have been split up during the transformation process, there are those that are based on already operating informal self-help groups (pre-co-operatives) and those, which have started from scratch. The last sub-group mostly corresponds to the model of co-operatives, which have been established in market-economic systems all over the world. At this stage, it has to be emphasised again that all agricultural co-operatives will have to compete with other forms of business entities, e.g. private entrepreneurs to be successful.

When finally assessing the question why some co-operatives could be transformed successfully while others not, one precondition had to be fulfilled: The debts of the co-operatives had to be considerably lower than the value of the assets. The main reason, however, seems to be the fact that those co-operatives which had been transformed were providing essential services to the farmers which they could not get otherwise that effectively, i.e. particularly irrigation services. These co-operatives are located in the lowlands. Most co-operatives in the mountainous areas collapsed very early. In those areas many farmers cultivating under rainfed conditions quickly returned to subsistence agriculture. Irrigation was not possible and there was no need for purchased inputs or any marketing activities. In addition, the driving force of charismatic leaders, both from the co-operatives as well as from the local administrations were decisive in ensuring a smooth transformation process. But not all old-style co-operatives have to be transformed into new-style co-operatives. Many of them were not operational anyhow, but in some cases farmers felt co-operatives were not needed at all. The important activities (e.g. irrigation) have been organised quite satisfactorily by the communes, small self-help groups (pre-co-operatives) or the private sector. However, in many cases it had been realised after some time that proper service co-operatives could provide these services more efficiently and could help farmers to save production costs. Hence, many pre-co-operatives are planning to get registered over time.

At the end of this chapter the main characteristics of the two most different subgroups of agricultural co-operatives are compared, i.e. the transformed co-

operatives and those newly established ones which have started from scratch. The main basic features can be summarised as shown in Table 3.7:

Table 3.7: *Main Characteristics of Agricultural Co-operatives*

	Transformed Co-operatives	Newly Established Co-operatives Starting from Scratch
Subscription of shares	no (in general)	yes
Value of total assets	300 - 800 m VND	15 - 100 m VND
- available as current assets	- about 20 %	- almost 100 %
- available as 'cash-in-hand'	- less than 10 %	- almost 100 %
Membership	open to all agricultural households	restricted to those who follow the highly focussed objective
Number of members	300 - 500 (2,000)	10 - 20
Activities	up to 5 - 6 emphasis on: <ul style="list-style-type: none"> • irrigation • electricity supply • input supply • plant protection • extension (new crops, varieties, production techniques, etc.) 	1 - 3 emphasis on: <ul style="list-style-type: none"> • input supply • extension (quality management) • joint marketing

Source: Own Survey

With respect to membership the transformed co-operatives had been open to all agricultural households, either to all members in working age or just one per household (i.e. household head), within their area of operation. Actually, almost all entitled households joined them. On the one side, they had been in urgent need of the offered services, particularly of the provision of irrigation and drainage; on the other side, they were not required to mobilise own resources, additionally, in form of cash. They just had to sign their willingness to join the transformed entity. With respect to the newly established co-operatives, membership is restricted to those who are following the, in general, highly focussed objectives. Hence, the number of members is highly different. While transformed co-operatives comprise about 300 – 500, and sometimes even up to 2,000 members, the membership of newly established ones stands, in general, between 10 and 20 persons.

As mentioned already, the transformed co-operatives in general did not ask their members to subscribe additional shares or to contribute additional cash in order to increase the volume of share capital. In most cases, the value of assets divided by the number of members had been declared as the value of individual shares. On the other side, the newly established co-operatives had to build up their funds in form of share capital from scratch, i.e. the subscription of individual

shares by the members. At the start the members had to prove their commitment in monetary terms.

Hence, the transformed co-operatives took over the productive assets of the former collective entities. On paper, they show a high value of assets of which the major part, however, or about 80 percent, is fixed in form of buildings, irrigation and electricity systems, etc. The other part are forming the current assets, of which again about one half is made by debts of members (receivables). Hence, the actual volume of funds available for financing on-going services (i.e. liquidity, working capital) is rather modest, i.e. about 10 percent of all assets or about 30 – 80 m VND per co-operative. Concerning the newly established co-operatives, almost the total volume of share capital is available for financing on-going services. Right from the start about 20 – 100 m VND are available for financing business activities. In this respect, the difference is rather small.

With respect to the range of activities or services offered the transformed co-operatives are offering a higher number, in general about 5 – 6 different ones promoting various production activities in crop production and animal husbandry. Nevertheless, their main focus is on the promotion of paddy production. So, they can be characterised as multi-purpose co-operatives. The newly established ones are concentrating on a few services promoting often one production activity only, e.g. fish production, rice seed multiplication or coffee production. In general, they are more single-purpose oriented.

More specifically, the management of the transformed co-operatives concentrating on the provision of those services which promote agricultural production among their members, like the management of irrigation systems, organisation of plant protection, technology transfer and extension service, as well as machinery services and land preparation. This might include the negotiations of summary contracts on behalf of the members with private entrepreneurs (contractors). The organisation of input supply services is very important which often includes financial services in form of the provision of credit-in-kind. In addition, many of them manage the electricity supply services. Marketing services are, in general, lacking. Those newly established co-operatives are more focussed with respect to the services offered. In general, they exclusively concentrate on input supply services, quality control and marketing of the respective production activity.

In this respect, a word of clarification has to be stressed: It is still often stated that the transformed co-operatives might be registered under the Co-operative Law but farmers are still required or even forced to follow the orders of the management when it comes e.g. to irrigation. So, nothing has changed compared to the “old days”. This statement is definitely wrong. In all areas of the world where there are common irrigation systems individual farmers have to co-ordinate their cropping pattern and the timing of production activities in order to make best use out of it. If one farmers drops out, the whole system might collapse and all will suffer. Hence, farmers voluntarily agree to adjust their activities in order to ensure their common survival.

When it comes to the promotion of marketing – an activity which is hoped all agricultural co-operatives will take up in the future – farmers will face the same requirements. Since there is a certain oversupply for most agricultural products and the prices have gone down, individual farmers cannot influence agricultural prices at all. They will only get a decent price if they manage to offer a certain product, be it paddy, coffee or pepper, of a certain minimum quality and quantity at a certain time. In general, they can do this most effectively through their co-operatives. Hence, they will have to voluntarily co-ordinate their farm activities, like the selection of seed varieties, fertilising, spraying of pesticides and the timing of harvesting for the sake of quality management. The individual farmers cannot do these activities anymore as they want, but have to adjust them. Nobody would declare this co-ordination due to market requirements as being compulsory for farmers and enforced on them by the co-operative management but these are just basic preconditions for farmers to earn a decent income by more aggressive marketing strategies.

Both, the transformed co-operatives and the newly established ones have in common that they are very young organisations. Their respective managers have not built up much experience in a market-economic system, so far. Gradually, they have to develop self-confidence and experience in their activities and establish a positive track record. Needless to say that all, but particularly the transformed co-operatives have to face the negative image of co-operatives from the past which can be only overcome in the long run. But there is no denying that both types of agricultural co-operatives do have a strong potential in expanding their services in the future, particularly with respect to input supply and marketing. In order to do so, two preconditions have to be fulfilled:

- They need to have reliable access to financial services, particularly to credit.
- They need to develop a viable self-help structure at higher levels to strengthen business as well as non-business activities (i.e. set up co-operative associations, unions, and federations) to become sustainable in the long run.

Hence, agricultural co-operatives have to concentrate on a few activities first and expand gradually. Only those activities have to be pursued which ensure some profits and are competitive to those offered by the private sector. Otherwise, these services should be given up. Most co-operative managers are very pragmatic persons, they accumulate experience in day-to-day management. In this way, they develop a certain degree of self-confidence over time, which is essential for success. Hence, in the long run, the differentiation between transformed and newly established co-operatives will be of no relevance anymore. Then, agricultural co-operatives will be only divided into successful and not successful ones.

4 The Transformation of Rural Finance Systems - The Role of the People's Credit Fund System

When discussing agricultural co-operatives it is helpful to look more closely at the experience of the other major co-operative system which is affecting the life of many people in the rural areas. Since June 1993 the State Bank is promoting the gradual set up of People's Credit Funds (PCF) all over Vietnam which are based on co-operative principles. After an enthusiastic start the rate of expansion stagnated. Both, PCFs as well as agricultural co-operatives were confronted with a number of problems during the last years. Similarly, PCFs as well as the transformed and newly established agricultural co-operatives are very young organisations which have to develop over time. After having discussed above the experience of the agricultural co-operatives, it will be looked in more detail at the PCF system in this chapter. It is structured as follows: In the first part, the role of VBARD, the dominant bank in the rural areas will be reviewed. In the latter parts, emphasis will be laid on the formation of PCFs at the local level, the role of the Regional Credit Funds and the problems encountered, so far, in expanding the PCF system.

4.1 Limits of the Major Rural Bank: Vietnamese Bank for Agriculture and Rural Development

Up to these days, VBARD is the largest provider of financial services in rural areas, with over 2,500 outlets. At the end of 1997 VBA had loans outstanding to 3.66 m rural households (out of about 12 m) averaging around US\$ 430. It is still difficult to give the precise figure of VBARD's clients as the bank also handles all clients of the Vietnam Bank of the Poor (VBP) as well. VBARD concentrates on three types of clients:

- private farmers;
- small-scale non farm enterprises in the rural areas; and
- state-owned companies in the upstream and downstream sectors serving private farmers.

With respect to individual farmers and non-farm entrepreneurs, almost all loans had to be collateralised up to a few years ago. Now, according to the national

regulations, there is no need for submitting any collateral for loans of a volume of up to 10 m VND. Actually, it is up to the respective branch how they estimate whether the loan will be repaid or not. If the staff is confident and if there is already a long-term collaboration, collateral might be not required for even higher amounts. On average, loans to private farmers come up to 5 - 10 m VND. However, VBARD's banking operations are still underdeveloped due to various reasons which are interlinked to some extent. Similarly, some of these factors of influence are also affecting the PCF-system as it will be discussed below. The main characteristics can be summarised as follows:

(i) The operations of VBARD, like of all other financial intermediaries, are limited by the SBV-fixed interest ceilings on credit which, to some extent, determine the rates on deposits. Up to very recently also the ceilings for deposits have been fixed. To some extent the ceilings of interest rates are fixed by the State Bank due to economic and political reasons: On the one side, it wants to stimulate overall economic growth; on the other side, it wants to reduce poverty through subsidised credit. Depending on the economic sector interest ceilings may be adopted differently but the basic levels are determined by the State Bank (CREUSOT et al.: 54-55). It is argued that banks are not able to set interest rates that will cover the costs of funds, operating costs, and risks. Due to this regulation of lending rate ceilings and given the generally high operating costs of commercial banks, they cannot expect additional profits from attracting new deposits by offering higher deposit rates. Hence, VBARD itself does not have strong incentives to promote savings and to expand its capital base (KLUMP/SPITZENPFEL: 9). Therefore, VBARD is concentrating its activities on areas where they can be profitable under these controlled circumstances. In this respect, it can be argued that the policy of setting interest rate ceilings which is supposed to stimulate economic and agricultural growth is actually limiting the access to credit and increasing credit costs for farmers and rural entrepreneurs. Since the supply of credit of VBARD is rather limited farmers have either to cancel their investment plans or to rely on informal sources. In many cases the access to credit is more important than the level of interest rates and farmers are prepared to pay interest rates to informal moneylenders three to five times higher than the official ones (CREUSOT et al.: 57).

(ii) VBARD, like other banks, still has problems of recovering debts in case of default. While there is no need in most cases for the submission of collateral in a strict sense, as the amounts of loans are relatively modest, most borrowers have to pledge some of their property. In general, the necessary legal procedure is too costly to transfer specific items as collateral. In principle, title deeds of residential property, movable assets and other goods are pledged as security with the banks. Similarly, guarantees by third parties are accepted. Even the title deeds of agricultural land use rights ("red book") might be accepted. In case of default, VBARD is trying to recover the loan with the help of the local people's committee, i.e. formal and informal pressure is put on the delinquent. But, up to now, an open and formal land market is missing. In praxis, VBARD used to have problems in seizing and renting or, even, selling agricultural land. Therefore, VBARD used to

prefer residential property, motorbikes and other durable consumer goods, i.e. items which could be sold easily. Due to this limited availability of collateral private investments have been kept lower than it should be (WOLFF: 45). Only recently, the revision of the Land Law in 1998 and its additional amendments in 2001 have officially acknowledged the sale and resale of land use rights (N.N.: 2/6/2001). It is assumed that agricultural land will be more readily accepted as security and as collateral as it can be sold in case of default relatively easily by now.

(iii) For a number of years one major drawback of VBARD's loan portfolio has been the low share of medium-term loans. The fundamental factor is the still continuing reluctance of people to deposit their savings in VBARD (or any other banks) for periods longer than 6-12 months because of the historical experience with high inflation rates and difficulties experienced in withdrawing savings from credit co-operatives as and when required. Most people still deeply mistrust domestic financial intermediaries. Others wish to protect private income streams and financial asset holdings from state control and taxation. Thus, VBARD has been reluctant to expand medium-term loans with funds mobilised largely from short-term deposits. Another contributing factor seems to be the lack of adequate experience in VBARD to appraise medium-term credit applications (ADB, 1996: 5). Hence, the situation used to look as follows: While the demand for medium to long-term credit has been high, the supply has been low. Farmers, like other entrepreneurs, in general relied on their own sources of income for investments, extension of more expensive short-term credit and on informal sources (WOLFF: 68).

During the last few years this problem could be eased to some extent. In 2000, short term loans make up less than 50 percent of all loans, anymore. Medium to long-term loans over 3-5 year periods have become predominant. This type of credit could, however, only be offered as VBARD got access to internationally financed long-term loans at preferential interest rates. There are still no savings options for periods longer than 12 months.

(iv) In addition, banks, like VBARD, prefer to provide credit to state-owned enterprises (SOEs). On the one side, the credit amounts are much larger and, therefore, handling costs relatively small; on the other side, risks are more or less non-existent as in case of default the government is supposed to come to their rescue. Often the government is guiding banks to provide credit to SOEs. However, in many cases SOEs are not able to service their loans, and the accumulation of bad loans is ultimately a liability to the government budget and/or might endanger the survival of the banks themselves. Due to this fact there are even less funds available as credit for farmers and rural entrepreneurs (WORLD BANK, 1998b: 56). During the last years, VBARD successfully tried to reduce the importance of SOEs in their loan portfolio, but they still form one of the three major groups of clients. Once the equitisation process of the SOEs in the agricultural sector will be finalised many of these newly privatised companies will become economically sound clients in the future.

(v) From the clients' point of view, the procedures in getting a loan from VBARD are still quite complicated. The transaction costs are quite high. It is costly to get the necessary paper work done when submitting the credit application. It takes time and money to go several times to the local VBARD-branch office. The fee for getting the credit application form comes up to about 6,000 - 10,000 VND. In addition, as discussed in Chapter 4 above, the applicants must produce a letter of confirmation that they own assets of a certain value and that they have not applied for a credit with another bank or PCF. This letter is provided by the people's committees of the respective commune or, in some cases, by the chairmen of the agricultural co-operatives. In general, the fee for this certificate comes up to another 5,000 VND. The processing of the credit application takes quite some time, i.e., in general, it takes at least 10 days up to one month. Compared to this, PCFs are very quick. It normally takes just two to three days.

In addition, from the clients' point of view, it is sometimes confusing that VBARD is managing different loan programmes at the same time. Besides its regular loan programme, VBARD is handling the loans of VBP at the field level whose interest rates are lower due to subsidies. Similarly, there are a number of programme loans, e.g. employment creations programmes, poverty eradication programmes or mountain area development programmes which charge low interest rates as well. The interest rates on these loans are even lower than those of VBP. Hence, the farmers often assume that these subsidised rates are the "normal" rates and feel cheated when being charged VBARD's actual interest rates. Hence, the reputation of the Bank is low.

Finally, the clients see another two disadvantages. On the one side, in many cases credit can only be asked for specific agricultural investment programmes but not for those activities which are of priority to the borrower. On the other side, VBARD, in general, demands the repayment of both, principle and interests, at one time shortly after harvest. So farmers have to sell when crop prices are generally low. In this respect, they lose a part of their potential income. They are better served if they could repay in several instalments (COLLIOT/HO: 62-64).

Summarising, it can be stated that VBARD is the most important rural bank in Vietnam. But not all regions of the country are served equally. A regional analysis of a survey among rice farmers showed that those in Southern Vietnam had more access to credit than farmers in the rest of the country. But also in those areas where VBARD is represented not all farmers have access to its services. In the survey just 38 percent of the rice farmers analysed have access to credit, the far majority among those borrowed from the VBARD (IFPRI: 310). Therefore, already in the early 1990s it was realised that even a well operating VBARD could not cover the demand satisfactorily. It had been decided that a parallel rural finance system should be build up over time serving predominantly farmers and other rural non-farm entrepreneurs.

4.2 Development of the People's Credit Fund System⁷

After the collapse of the rural credit co-operatives in the early 1990s it was quickly realised that even a well operating VBARD could not fill the void left. Therefore, SBV had been entrusted to reorganise a rural credit co-operative system in a cautious and prudent manner. One of the most important objectives had been the need to restore public confidence in the formal rural finance system. Therefore, the term "co-operative" had been deliberately excluded from the name of this newly-established finance institution. Since July 1993 credit unions or a network of People's Credit Funds (PCF) has been gradually established. These credit unions are commune level savings and credit co-operatives, inspired by the Desjardins model. The mobilisation of local idle funds and the provision of credit services are their main functions. Most of the few still viable (traditional) rural credit co-operatives were transformed into local people's credit funds, but most PCFs have to be set-up from scratch. Three main features characterise the PCF-approach (ABIAD, b: 17): There is

- (a) an improved local access for borrowers and savers through controlled transaction costs;
- (b) a risk-sharing across local lending units, and
- (c) an emphasis on savings mobilisation and loan repayment.

It has been the objective that, in the long run, the whole system will become economically viable and can act competitively with commercial banks.

Contrary to the development of agricultural co-operatives, it has been realised right from the beginning that the PCF system will become fully operational only, if it will be established as a multi-tiers system. Hence, since its inception the PCF-system comprises three managing levels, i.e. the local credit funds (PCF), the regional credit funds (RCF) and, on top, the central credit fund (CCF). The CCF, the apex organisation, has been established in August 1995. The RCFs have been established gradually over time (see Chapter 4.4 for more details). While all units are legally independent and do their accounting separately, they are interlinked with each other. According to the original outline, the three levels were supposed

⁷ If no source is quoted the information given has been provided through personal communication. Besides the permanent discussions with staff members of IAE, Hanoi various in-depth discussions have been held with staff members of the Vietnamese-German Project "Promotion of Credit Co-operatives" between October 1998 and April 2001. In addition, the following persons have been met for interviews: Mr. Do Manh Hung, General Director, Central Credit Fund, Hanoi, 9 November 1998; Mr. Tran Quang Khanh, Dep. Director, State Bank of Vietnam, People's Credit Institutions Dept., Hanoi, 4 November 1998 and 23 March 2000; Mr. André Hotte, Project Manager, Vietnam - Canada Rural Finance Project, Hanoi, 9 November 1998; Mr. Alan Johnson, Rural Finance Adviser, Vietnam - Sweden Mountain Rural Development Programme, Hanoi, 5 November 1998. Finally, this chapter relies on in-depth interviews with staff members of SBV, RCFs and VBARD in the survey provinces.

to be integrated in line with their respective functions to ensure a smooth operation of the whole system, i.e. to harmonise the flow of capital over the regions and over time. The functions of CCF are to ensure relations with government and internal-external financial credit organisations, to regulate resources within the system, to make accounting, lending and borrowing services to the whole system. RCFs have the function to co-ordinate local activities. The PCFs manage direct relations with their members in providing credit and mobilising savings (VU: 3).

The set-up of the PCF-system can be described as formal finance system development from both sides, from above and from below. The initiative to establish the PCF-system has been taken up by SBV. It provides a very intensive support in controlling, supervision and training of staff, particularly during the implementing stage. This approach is a good show case for finance system development from above. On the other side, the PCF-system is designed as a member-owned organisation, which aims at mobilising savings from its members. It has to be managed according to the economic principle of cost-covering. It is not designed to receive subsidies by the state; no "easy money" will be available. Since the members own this finance institution, they have the right to participate in decision-making. In this respect, the set-up of the PCF-system is an approach for genuine development from below. Because of its organisational set-up the credit funds fall under the stipulation of the Co-operative Law, effective 1 January 1997. Furthermore, as financial institutions they have to follow the regulations as required by the Banking Law (BOSCHERT et al.: 20-21, 46).

With the set-up of the PCF-network it is not only intended to create a viable rural finance system, i.e. it is not supposed to meet economic criteria only, but also to follow more broad-based social objectives. It is supposed to repress "high-interest illusion and unhealthy credit competition in rural areas (and to) promote co-operative spirit among the rural people" (VU: 3). To foster a co-operative spirit seems to be an important feature in running the PCF-system, particularly at the local level. The PCF-system is supposed not only to be managed profitably and to be competitive but also to promote self-help and mutual assistance among its members. This is a distinguished feature in comparison to other commercial banks (VU: 4).

The concept in running the PCF-system is based on two basic principles: to mobilise savings as much as possible and to cover the costs incurred out of the margins in interest rates. The system has to be self-reliant and not dependent on external funds. Within a relatively short period of time, the PCF-system attracted a significant amount of money in savings (see Table 4.1 below). In general, PCFs are performing their services to the membership. Many members do have their own saving accounts, but also non-members are invited to save within the PCF-network. On the other side, only members are eligible for credit. Only membership savings and other information about the members provide a certain track record when it comes to lending. Personal reputation is an important criteria. Actually, members protect each other through their own discipline and social pressure. There is one exception to this rule when it comes to the urban branch offices. Here,

also non-members can borrow money, but they must have a savings record. The branch offices are more acting like commercial banks.

At the time of its formation a very rapid expansion of the PCF-network had been anticipated for the coming years. By the end of 1997 it had been planned to have set up about 2,000 PCFs already. The designed target for the year 2000 was to have a total number of 3,000 PCFs (VU: 6). At that time about 30 percent of all communes were supposed to be covered by a PCF. In the long run it had been envisaged to have a PCF in every second commune. Similarly, the network of RCFs was supposed to be enlarged. While at the beginning it was planned to set-up an RCF in each province, it had been later envisaged to come up with 20-25 RCFs in the end (BOSCHERT et al.: 25-26), i.e. each RCF was supposed to be responsible for two or even more provinces. However, this objective had become difficult to be implemented as each province had been pushing hard to have its own RCF at the provincial level. Therefore, the official policy had been revised by SBV. Since 1997 an RCF-office had been set up in all those provinces where at least 20 PCFs had been operational.

Once established on a pilot basis, the PCF-network spread fairly quickly all over the country. During the first years, this approach proved to be extremely popular, as it is reflected in Table 4.1.

Table 4.1: Development of PCF-Network Since 1994

Date	Number of PCFs	Number of RCFs	Members	Deposits (m US\$)	Loans (m US\$)
31 Aug. 1994	78	n.a.	33,583	3.8	5
31 Dec. 1994	153	n.a.	n.a.	n.a.	n.a.
31 July 1995	200	2	n.a.	n.a.	n.a.
31 Dec. 1995	534	3	>150,000	23	35
30 Sept. 1996	847	9	378,978	67	103
28 Feb. 1997	881	9	413,815	n.a.	n.a.
30 Sept. 1997	923	n.a.	497,000	75	103
30 Sept. 1998	988	19	600,000	n.a.	117
31 Dec. 2000	959	21	797,069	122.4	168.1

Source: JOHNSON: 3; NGUYEN QUANG THEP: 11; SEIBEL, 1996: 38; WORLD BANK, 1998a: 23; personal communication

In September 1996, the PCF-system already comprised the CCF, 9 RCFs and 847 PCFs including 378,978 members. On average, one PCF had a membership of 447 persons. The whole system had been covering almost all provinces. PCFs had been

established in 53 provinces already, i.e. just 8 provinces had been without a PCF. In general, the PCF-system is supposed to serve the rural population but 4 branch offices have been set up in urban areas, i.e. three in Hanoi and one in Ho Chi Minh City. In addition, another 9 PCFs are located in the suburbs of both cities. These branch offices and urban PCFs are serving mainly the non-farm clientele.

During the following two years the system expanded not that rapidly anymore, but still by the end of September 1998 the number of PCFs stood at 988 comprising about 600,000 members and the number of RCFs at 19. While the number of PCFs did not grow that much anymore, the average number of members per PCF increased to about 600. This ongoing expansion of the PCF-network had been seen as a reflection of the urgent need by the rural population for viable finance systems. Similarly, the growth rate of members above proportion reflected the rising attractiveness of the PCFs at the local level. This fact had been understood to indicate the rising confidence of the rural population in the formal finance system (BOSCHERT et al.: 29).

In the following two years a period of expansion, stagnation and even decline could be observed. Since 1998 first problems due to this rapid expansion rate had become evident. Hence, it had been agreed to stop any further expansion for the time being and to concentrate on the consolidation of the existing PCFs. Actually, four PCFs had to be closed down by the end of 1998 due to their limited economic viability. During the last two years more PCFs had to be dissolved due to bankruptcy. Most of these PCFs had not followed the prudential norms in providing credit in the past. The share of overdue debts increased from about 1.2 percent during the first years to about 4-5 percent which is still low compared to the commercial banks, but had been too high in order to establish a viable financial system.

By the end of 2000 their number declined to 959 PCFs only. The number of RCFs increased slightly to 21 while the number of members continued to swell and stood at almost 800,000. Hence, the average number of members per PCF came up to 831, already. This reflects the still growing popularity of the system among the rural population. Nevertheless, the popularity of PCFs differs from commune to commune. In some communes just about 5 percent of the households have joined, whereas in others more than half of all households has become members. Due to the bad experience with credit co-operatives some ten years ago, the SBV is eager to put the whole system on an economically sound footing, first. By the end of December 2000, the rate of overdue debts had been reduced to 3.4 percent, already. It had been decided at a National Conference about the future of the PCF-system in early 2000 to continue the consolidation phase up to the end of 2001. Only, from then on, a cautious course of expansion and of licensing new PCFs is envisaged.

4.3 Formation of People's Credit Funds at the Local Level

The establishment of the PCF system has been characterised as a development process from both sides, viz. from above and from below. The decision as to which provinces will be included in the PCF programme is always taken at the head office of SBV. It has been started in the more prosperous ones and gradually expanded to the more marginal ones. Provincial SBV branches identify communes where the volume of potential business may suffice to support a PCF. This involves an informal survey of the commune and sometimes adjacent communes to assess farm and non-farm growth potential and the likely number of borrowers and savers in the locality. If the assessment indicates that conditions are favourable, a plan to establish a PCF is submitted to the people's committee of the respective commune. The process of formation begins once the people's committee grants its formal approval (ADB, 1996: 41). In this respect, it can be stated that, in reality, the establishment of a PCF is initiated by SBV or its provincial branches and not by interested persons at the local level.

4.3.1 Formal Procedure in Setting-up People's Credit Funds

Once the decision has been taken to set up a PCF at the local level, a number of steps have to be passed until it becomes operational:

- 1 With the help of the local people's committees it is looked for, at least, 12 potential founding members (promoters), the minimum number required by SBV for starting the foundation process. These persons are supposed to have the capacity in managing a PCF. These persons form a preparatory committee. In reality, the requirement for the minimum number of persons is not always met. In one commune in Quang Binh Province (see Case Study 12) which is made up of 6 villages a preparatory committee has been set up comprising the 6 village headmen and 5 future founding members (i.e. the chairman and his two deputies of the commune people's committee, the commune chairman of the Fatherland Front and the former chairman of the defunct supply and marketing co-operative). The preparatory committee is meeting informally and will draft bylaws and a work plan with support of SBV staff.
- 2 At the first, still informal, foundation assembly of the soon-to-be-formed PCF at least 7 persons have to be present and have to act as founding members. At that assembly the first draft of the bylaws of the PCF and of the work plan for the next two years have to be adopted. In addition, a provisional management board has to be elected. In general, it comprises 4-5 members, i.e. the chairman who might also act as the general manager, a credit officer, an accountant, and a cashier. In larger PCFs the positions of

the chairman and the general manager (executive director) are separated. In that case, the chairman, a manager and 2 - 3 committee members might be elected while the cashier and accountant will be employed lateron. In addition, a provisional supervisor or supervisory board has to be elected.

- 3 To meet the minimum capital requirements shares have to be subscribed by the founding members. Until 1996, there was no national minimum standard for the required share capital of PCFs. It was set for each province by the respective provincial SBV branch. From January 1996, SBV has introduced a minimum capital requirement of 50 m VND (or about US\$ 4,400 at that time) (ADB, 1996: 41), which has been increased to 100 m VND by the end of 1997 (or about US\$ 7,500 at that time). Recently, it had been discussed to increase this minimum amount even further.

There are two types of shares which can be subscribed by the members. On the one side, there are permanent shares amounting to 100,000 VND, 200,000 VND, 500,000 VND or even up to 1 m VND per share. Its value has to be specified in the respective bylaws. On the other side, there are qualification shares. Their value has been set by SBV for the whole country. In 1993 they came up to 30,000 VND per share and have been increased to 40,000 VND in 1996 and 50,000 VND in 1997, respectively. The founding members are required to subscribe one or several permanent shares. In addition, they often subscribe at least one qualification share. It just has to be ensured that the minimum amount of share capital will be met. Hence, the permanent shares are necessary to establish a viable capital base in order to become operational. The qualification shares are often regarded as an entrance fee for ordinary members to get access to the system.

In case there are 15 founding members, each of them has to buy shares, amounting on average to 6.7 m VND (or about US\$ 500 in 1997) to come up with 100 m VND as share capital. In case the number of founding members is smaller each individual has to sign up a higher amount. In general, not all founding members subscribe the same amount of share capital but a different number of permanent shares. But, as it is reflected in the rapid spread of PCFs, the identification of founding members and raising of the minimum amount of share capital has not been a major problem. In general, the founding members do not have to contribute their shares immediately, but can pay up in instalments over time. It is evident that, in general, the founding members have to be persons who are better-off than the general public since they must have a certain minimum amount of capital at their disposal. Nevertheless, the founders are often encouraging other persons of the commune to subscribe shares and join the PCF at the inaugural assembly, i.e. the number of founding members will be enlarged.

- 4 Once the bylaws and the work plan have been finalised, the minimum amount of share capital has been subscribed and the membership list been set up, the inaugural or first general assembly will be convened. Actually at that assembly the management and supervisory board members are elected

as well as the bylaws and the work plan finally adopted. In general, the first general assembly confirms the decisions of the foundation assembly. While, in theory, all members can stand up as candidates for any position in the self-governing bodies, many bylaws require that all candidates must have signed up a certain minimum amount of share capital, i.e. far higher than the average member. In this respect, it is ensured that the group of the founding members or those who have subscribed a high amount of share capital are eligible for the positions of the self-governing bodies, only.

- 5 With the minutes of the first general meeting and the other necessary documents, i.e. copy of work plan, bylaws and membership lists, the chairperson is applying for registration. To become fully operational, the PCFs have to be registered twice, i.e. by (a) the people's committee of the district and (b) the SBV. Like all co-operatives PCFs have to be registered by the people's committee of the respective district. In order to get the operating license as a financial intermediary PCFs have to be registered by SBV. All board members must be approved by it. There are no restrictions about eligibility except the rule that the chairperson and the accountant are not allowed to be from the same family. However, those persons who had been in charge of the former credit co-operatives were not accepted as founding members. While there are no system-wide educational standards for staff recruitment, secondary education appears to be the minimum requirement. The term of office of all representatives comes up to three years, without restriction for re-elections. The training for PCF-staff is provided by SBV which meets the costs involved (ADB, 1996: 43). In general, all posts of the board of directors and supervisors are honorary. In the big PCFs, some of them might be working on a full-time basis besides some employed staff. Members of the self-governing bodies are entitled to a compensation.
- 6 Once the PCF has been registered and is authorised for providing financial services, it aims at recruiting more members. In general, they are open for all type of persons including the poor. Those who want to become ordinary member have to buy a qualification share amounting to 50,000 VND (or about US\$ 5 in 1996) only. Depending on the respective bylaws, members are free to sign up more qualification shares, or even permanent shares. In some cases, newly joining members only have the option to subscribe just one qualification share. In others, newly joining members are required to subscribe more shares than just one qualification share. The PCF, as an autonomous institution, has the right to scrutinise applying persons with respect to self-help potential, asset base and reputation (SEIBEL, 1997: 13-14). In general, all applicants are accepted as members. Once operational, all PCFs have the right to store their cash in their own safes over night. There are no stipulations to deposit surplus funds with commercial banks as it is the case for various credit unions in other countries.

Once the Co-operative Law had become effective in January 1997 all PCFs which had been set up before that date had to be transformed in line with the regulations of the new law. But, different to the agricultural production co-operatives, this transformation had been a formal act only, as all PCFs had been set-up at a time when the requirements of the various drafts of the new law had been more or less known. Only those few (traditional) credit co-operatives which were still financially viable had to go through the formal transformation process to become a PCF.

In general, one PCF covers the administrative area of one commune. All adult individuals can become member. Usually, there is one member per household who is joining the PCF, i.e. in general the household head. A person living in another neighbouring commune cannot join the PCF in this commune and, hence, not apply for credit. In this way, it is avoided that a competition among the PCFs might occur. The advantage has been that the members do know each other relatively well, i.e. they have an intimate knowledge about each other. However, not all households are opting to become member, at least not immediately. In general, those who are too poor do not join as they have no extra money to buy a qualification share. Others simply are not interested in getting loans. On the other side, those who are better-off prefer to approach VBARD directly, as they get cheaper loans from it. With respect to gender distribution the share of female members oscillates between one and three quarters. Although women are elected to the board of directors, in general they are by far under-represented. Usually, women are elected or employed as accountants or cashiers.

During the first years of establishing the PCF system, a PCF could cover more than just one commune. This option had been scrapped and those PCFs were required to split up according to the commune boundaries (see e.g. Case Study 13). The license of one PCF has been restricted to one commune only. Recently, following the National Conference, it had been realised that the minimum size to manage a PCF economically and for a healthy development in the future cannot be met in many cases. Therefore, this restriction will be adopted more flexibly in the future.

4.3.2 Membership Structure and Decision-Makers

In this sub-chapter it will be looked in more detail at the relative importance of ordinary members in comparison to those having subscribed permanent shares and the effects on the decision-making process. It is evident that the subscription of two different types of shares, i.e. permanent and qualification shares has profound repercussions on the composition of membership. Actually, the PCF system is characterised by a dual membership structure. The findings of the field survey are summarised in Table 4.2:

Table 4.2: *Relation of Permanent and Qualification Share Holders at Foundation and the Time of Survey Among Surveyed PCFs*

Running Number of PCF Surveyed	Number of Founding Members			Number of Members at Time of Survey		
	With Permanent Shares	With Qualification Shares only	Total	With Permanent Shares (percentage)	With Qualification Shares only	Total
1	23	-	23	23 (5.6%)	386	409
2	20	-	20	20 (4.4%)	430	450
3	7	64*	71	7 (1.7%)	394 (64*)	401
4	22	-	22	22 (0.9%)	2,481	2,503
5	15	-	15	15 (0.7%)	1,990	2,005
6	16	-	16	16 (0.9%)	1,764	1,780
7	38	-	38	156 (17.2%)	750	906
8	94	-	94	600 (61.9%)	369	969
9	70	-	70	70 (8.8%)	723	793
10	30	85	115	86 (8.8%)	894	980
11	55	1	56	805 (90.0%)	89	894
12	35	7	42	64 (10.4%)	554	618
13	29	117	146	67 (8.8%)	753	820

* These 64 founding members had subscribed several qualification shares each at foundation. Bac Giang Province: 1,2; Quang Binh Province: 3; An Giang Province: 4,5,6; Quang Tri Province: 7,8,9,10,11; Phu Tho Province: 12,13
Source: Own Survey

The first conclusion which can be drawn out of the table refers to the number of founding members. While just 10 - 15 persons are responsible for doing the preparatory work, they have been eager to invite more persons to join before the first general assembly. In general, about 20 - 100 persons sign up as members right from the beginning. In most cases, however, the original founders (or core founders) have invited only those persons to join at the foundation assemblies who have been willing to subscribe permanent shares. Ordinary members have been invited at a later stage. Just in a few cases the original founders encouraged ordinary members to join right from the beginning in subscribing just one qualification share. In exceptional cases, ordinary members formed already the majority at the foundation assembly.

As it is reflected in the Table 4.2 membership increased rapidly after the registration. All PCFs managed to attract a large number of new members. In general, membership increased within 3-4 years 10 - 20 times. In exceptional cases, e.g. those in An Giang Province (see Case Study 13), which started with a small number of permanent share holders membership increased 100 times or even more. One reason seems to be the fact that the communes in that province are relatively large. But these PCFs seemed to have operated very successfully since

their registration and, hence, had become attractive for the population. This shows the high attractiveness of the system for the rural population.

However, once the PCF has become operational and had started to accept newly joining members two distinguished patterns can be deduced. On the one side, there are those PCFs which restrict all newly joining members to the subscription of one qualification share only. They are not allowed to subscribe permanent shares. The founding members keep these shares to themselves and, hence, a relatively small number of definitely economically more prosperous persons have subscribed almost the total share capital. About half of the PCFs surveyed followed this strategy. In this respect, it can be stated that these PCFs are highly dependent on a very small number of persons (see e.g. Case Study 13). In one exceptional case, even three types of members could be distinguished (see Table 4.2: Running Number 3 or Case Study 12). In that PCF seven founding members subscribed permanent shares amounting to 15 m VND each. Another 64 founding members subscribing several qualification shares of about 300,000 VND each. All newly joining members could only subscribe qualification shares, but they were required to subscribe at least two qualification shares each. Therefore, there had been no member in this PCF who had subscribed just one qualification share.

On the other side, there are those PCFs where newly joining members had the option to subscribe not only qualification shares but also permanent shares as well. Hence, the number of permanent share holders increased over time. More persons had been invited to subscribe a higher amount of share capital to show their commitment, but also to increase the overall amount of share capital rapidly. In general, the number of permanent share holders doubled or tripled (see e.g. Case Studies 15 or 16). But, in most cases, the number of share holders with qualification shares form by far the majority of members. In exceptional cases, the number of permanent share holders increased about ten times or, even more. In these cases, this group might outnumber those members with qualification shares.

In this respect, the broad structure emerges as follows although allowing for a number of variations at the local level: While co-operatives in general are following the principle of equal rights and obligations for all members, the PCF-system is build on two distinguished types of members who have subscribed different types of shares: On the one side, there is a relatively small number of permanent share holders who often have been the founders. They have invested quite some money in permanent shares in setting up and in increasing the total share capital of a PCF. On the other side, there is the large number of “ordinary” members who have acquired their qualification or common shares for a more nominal sum. In this way they are entitled to participate at the system, i.e. in having access to much needed financial services.

One word of clarification has to be stressed at this stage. Regardless whether newly joining members were encouraged to subscribe permanent shares or not, it has to be emphasised that, in general, not all permanent share holders subscribed permanent shares of the same amount. As it is shown in the case studies, the volume of shares subscribed might differ significantly. In general, members are

free to subscribe share capital as much as they want. There is only one limit: According to the Co-operative Law (§ 24) one individual member is only allowed to subscribe shares amounting up to 30 percent of the total share capital of that respective PCF. At the local level, this stipulation has been followed quite pragmatically. Founders could subscribe shares amounting to more than 30 percent of the total share capital, e.g. see Case Study 15 where one founder subscribed shares of 20 m VND while the total share capital at foundation came up to 48.5 m VND, only. Once new members joined, the share capital of this founder quickly declined below the 30 percent level.

While the number of members increased rapidly during the last years, they have the right to cancel their membership. For those who have subscribed a qualification share only the procedure is relatively easy and quick. These members just have to present a letter of cancellation right before the next general assembly. At that meeting the cancellation will be approved and within the next three to five days the shares will be repaid. With respect to permanent share holders the procedure is almost the same, but the repayment period of the share capital takes longer. In that case the capital will be repaid in instalments over two years. Otherwise, the volume of share capital would be depleted rapidly, particularly in those cases where the number of permanent share holders is relatively small. Such a PCF might face severe cash flow problems and ultimately might have to stop its operations. During the field survey very few cases have been reported that ordinary members cancelled their membership, but none with respect to a permanent share holder.

There is only limited information available about the membership structure of PCFs. It can only be indirectly deduced from the structure of the borrowers. The majority of the members are farm households and, hence, most of the loans refer to agricultural production. Early 1997 it had been estimated that about two-thirds of them were farmers, about 20 percent rural traders while about 11 percent could be classified as rural artisans or small-scale entrepreneurs (BOSCHERT et al.: 30). Evidently, the importance of the various sectors depends to a large extent on the location. In more urbanised areas, i.e. rural towns, the share of loans devoted to small scale industries and trading might go up to 80 - 90 percent while in more agriculturally dominated areas almost all loans go to that sector. Still, there is a broad range of agricultural activities which will be financed out of the loans, e.g. financing the input supply of paddy production, promotion of perennial crops or of animal husbandry. As will be discussed below, all loans, in general, are handed out for short-term periods only. In the future, it is planned that PCFs will play an even more active role in promoting non-farm activities in the rural areas.

Due to this raising professional heterogeneity of its membership two main risks are reduced which often affect financial intermediaries with a highly homogeneous membership structure. On the one side, the effects of seasonality and synchronic timing are not that predominant since savings and credit needs do not coincide at the same periods for all members. Therefore, the financial solvency over the year is more likely ensured. On the other side, credits taken for financing economic activities are spread over quite different purposes. The potential risks of

default in undertaking these activities can be better balanced. In this respect, the PCFs can balance the financial problems of their members to some extent (ARMBRUSTER: 231 - 232; BINSWANGER: 119).

When it comes to membership PCFs have the option to admit not only private individuals as members but also legal entities. This is contrary to agricultural co-operatives which can admit private individuals, only. A few PCFs have made use of that option (see Case Study 15). In general, these legal entities are agricultural co-operatives, the people's committee, or other mass organisations of that respective commune. Even private companies might join. If legal entities are admitted as members, they have to subscribe, at least, one permanent share. Whether these entities qualify for credit depends on the respective by-laws. SBV wants to limit this option as one of the major factors for the dissolution of PCFs had been careless and excessive loans to legal entities, in most cases to people's committees.

Reasons for becoming founding members and/or permanent share holders.

As it has been shown, the number of persons who are promoting and providing the bulk of the share capital is relatively small. Since the PCF system is based on the co-operative principles of voluntary membership and equal rights at the decision-making process ("one member - one vote") it will be looked at the reasons why economically more prosperous members of a commune provide their money to build up such a self-help system. The reasons seem to be multi-faceted. The most important ones can be summarised as follows:

- In some cases, there seems to be some informal pressure from the local people's committee on the economically more prosperous people to provide the necessary capital in order to improve the economic situation of the respective commune. As the number of persons with a certain level of education and social status is limited in the rural areas, the relationship between prospective founding members and people's committee members is quite close. In many cases, members of the people's committees themselves became founding members.
- Others really saw a need in setting up a PCF since there has been no other option in getting access to financial services. Within this group, one has to distinguish between those who mainly saw the need for themselves (i.e. genuine self-help action) and those who saw the need of others while they themselves did not have any problem in getting access to financial services. The last group might have acted out of altruistic motives to promote self-help.
- In addition, the promotion of a PCF and the election to an official position, e.g. in the board of directors involves an increase of reputation and social status among the fellow citizens. As will be discussed in more detail below only those having subscribed permanent shares are eligible to the self-governing bodies.

While these moral and social factors definitely play a role in motivating richer segments of the rural society in setting up a PCF, two other factors seem to be more decisive. On the one side, the money subscribed in permanent shares is relatively well invested. On the other side, the position of the founding members in decision-making is much stronger than that of ordinary ones.

- Financially, the set up of a PCF had been quite attractive. During the mid-1990s the margin between the interest rate of credit and savings was relatively high compared to the inflation rate. The risk of lending money directly to farmers was regarded as quite low. In addition, during the first years no taxes had to be paid. In general, PCFs were making profit. Attractive dividends were paid. However, there are restrictions when it comes to decide on the level of dividends on shares. According to SBV, the dividends do not have to be higher than the most attractive interest rates on savings. With this regulation it is supposed to avoid any abusive situation that those members who have a strong influence in decision-making might act opportunistically and might look more after immediate high levels of dividends than the (long-term) economic well-being of their PCF. However, SBV did not enforce this regulation very strictly and the PCFs, in general, are free to decide for themselves how to handle this issue.
- In addition, many permanent share holders are taking up important positions in their respective PCF. Often there is the situation that all elected and employed posts are taken by them. All these persons are entitled to a compensation or income /salary for their services. In total, dividends plus compensation or salary together might add up to a respectable sum of money compared to other possible ways of investments in the rural areas.

The most important reason seems to be the fact that the decision-making powers are not equally distributed. In principle, co-operatives use to follow the classical rule of equal membership rights and obligations regardless of the amount of shares subscribed, i.e. "one member - one vote". Hence, every member is supposed to stand as candidate for a post within the co-operative. In reality, however, only those having subscribed permanent shares or even a certain minimum amount of permanent shares are entitled to candidate as a representative to the general assembly and for the self-governing posts. Often, also the employed staff has to subscribe a certain amount of share capital. These rules are usually written in the bylaws. In this respect, it is ensured that those persons who committed a higher amount of their own sources have a higher say in the decision-making process. In other words, the PCF system follows to some extent the rules of joint-stock companies as those who are providing the capital have a larger say in decision-making.

Decision-making process. The degree of influence of permanent share holders in the decision-making process will be briefly presented for a PCF with a small number of permanent share holders in Table 4.3 and for a PCF with a large

number of permanent share holders in Table 4.4. A common pattern can be deduced.

Table 4.3: Distribution of Shares and Decision-Making Power in a People's Credit Fund, An Giang Province

	Permanent Shares*	Qualification Shares**	Total
Number of members at foundation (June 1994)	16	--	16
No. of members now	16	1,764	1,780
Value of share capital	100 m VND	73 m VND	173 m VND
Representatives in general assembly	16	24	40
Positions in self-governing bodies	6 elected 4 appointed	--	10

* at least one share of 1 m VND, each

** of 30,000 - 50,000 VND, each

Source: Own Survey, Case Study 13, An Giang Province, March 1999

Since the membership of all PCFs comes up to several hundreds or even more, all of them have adopted a representative system. In that case only elected representatives are forming the general assembly. But the share of representatives to members differs from PCF to PCF. In the case shown in Table 4.3 there are just 40 persons representing 1,780 members (or just 2.2 percent of all members, i.e. on average, one delegate is representing 45 members). In this case the relatively small number of permanent share holders, i.e. 16 persons, are represented due to their position as founders and permanent share holders. They have subscribed at least one permanent share amounting to 1 m VND, each. They have ensured their seats for their lifetime. If they die, a family member can take over their position. Hence, only the remaining 1,764 members are electing their 24 representatives. The 16 permanent share holders have subscribed share capital amounting to 100 m VND, or about 60 percent of the total share capital, while the ordinary members subscribed about 73 m VND, or about 40 percent. But the decision-making power of the permanent share holders is even stronger than in a joint-stock company. They take all the major decisions which will be formally approved by the general assembly. Although ordinary members with qualification shares still form the majority of the general assembly, they would never vote on block against the founding members.

The self-governing bodies of co-operatives comprise beside the general assembly the managing and the supervisory boards. When it comes to those members who qualify as candidate for an elected position in the self-governing

bodies, only those are eligible who have subscribed permanent shares. Hence, the number of potential candidates is limited to the 16 permanent share holders only. All the six members elected to the management and supervisory board are from this group. Similarly, only those persons will be employed as staff of the PCF who have subscribed permanent shares. Therefore, all 10 elected and employed staff members are from the group of the 16 permanent share holders. In this way it is ensured that those who have subscribed a higher volume of share capital and committed more of their own resources have a large say in decision-making. It had been expected that they will show a high degree of commitment to their PCF and what is happening with, actually, their own money. This rule, although definitely not based on the co-operative spirit, can be seen as one of the major advantages of the whole system. On the other side, this type of PCF might become a closed shop as no new permanent share holders will be admitted anymore. The internal supervision and control might be weak among this small group of share holders.

Table 4.4: *Distribution of Shares and Decision-Making Power in a People's Credit Fund, Quang Tri Province*

	Permanent Shares*	Qualification Shares**	Total
Number of members at foundation (February 1996)	55	1	56
No. of members now, of which: > 2 m VND	805 15	89	894
Value of share capital	149 m VND	4 m VND	153 m VND
Representatives in general assembly	125	--	125
Positions in self-governing bodies***	4 elected 2 appointed	--	6

* at least one share of 100,000 VND, each

** of 30,000 - 50,000 VND each

*** Can be only recruited from those 15 members who have subscribed shares of more than 2 m VND

Source: Own Survey, Quang Tri Province, March 2000

PCFs which have encouraged a large number of persons to subscribe permanent shares not only right at foundation but also during the later years, have adopted a very similar approach, as it is shown in Table 4.4. The value of one permanent share has been deliberately kept at a relatively low level of 100,000 VND. In this way more persons had been able to show their commitment to the PCF. Many members just did so. Hence, about 90 percent of all members have subscribed permanent shares. The number of representatives to the general assembly comes

up to 125 persons, i.e. about 14 percent of all members are delegates, or, on average, one delegate is representing 7 members. In this way, decision making is more open as more members participate at the decision-making process. On the other side, the relatively small number of members who have just subscribed one qualification share are not represented at all.

When it comes to the eligibility to the managing and supervisory boards, this PCF adopts a similar strict guideline like the one discussed above. Not all permanent share holders qualify as candidates but just those who have subscribed a certain minimum amount, e.g. 2 m VND as shown in Table 4.4. Other PCFs which also encouraged a large number of members to subscribe permanent shares have adopted a similar system (see Case Study 15). As it is shown in Table 4.4 just 15 members qualify. Only one among them can be elected to one of the boards and appointed as staff member. In this way, it is ensured, again, that those persons who have committed a higher amount of their own resources are the major decision-makers.

In conclusion, it can be stated that, in general, PCFs are made up by a relatively small number of permanent share holders who are taking the main decisions and a large number of ordinary members having subscribed one qualification share only. Most of the ordinary members do not seem to understand their PCF as a co-operative owned by them, but just as a bank which provides access to relatively cheap credit and for which they had to contribute an entrance fee. They have developed a low sense of ownership so far. With respect to SBV, the banking and financial aspects have been emphasised, i.e. the emphasis has been set on the co-operative enterprise. The role of the permanent share holders has been stressed but that of the ordinary members did not receive much attention. Nevertheless, PCFs are designed as self-help organisations. It is important to develop an associated life within the PCF-system, i.e. to strengthen the feeling of each member that they belong to a common entity ('corporate spirit' or 'corporate identity') in order to strengthen trust and confidence within the system. This is one prerequisite to be economically successful. This requires a deeper involvement of the ordinary members in the decision making process as well. At the moment, they join as there is no alternative in getting access to financial services. But, once competition among rural finance institutions will come up, they might easily switch to other institutions and the future of the PCF-system might look bleak.

4.3.3 Economic Performance

Despite the fact that some PCFs had to be dissolved the whole system has been regarded as very successful. The advantages of the PCF-system can be summarised by two features:

- (a) the close proximity to its members and clients, and
- (b) the simplicity to get access to its services.

Therefore, the initial growth during the first few years has been quite remarkable (see Table 4.1). By the end of 1996, savings by the members amounted to 752 b VND (or US\$ 67 m at that time). At that time, savings per member came up to about US\$ 170 on average which has been remarkable keeping in mind that the average income per capita in rural Vietnam stood at about US\$ 100. Within the first few years savings have been increasing rapidly, e.g. within the second half of 1996 by about 42 percent (BOSCHERT et al.: 31). During the last few years savings do not seem to have grown that rapidly anymore. Nevertheless, the total savings stood at about US\$ 122.4 m by the end of 2000. On average, savings per member declined somewhat to about US\$ 150. The number of new members grew relatively much quicker than the total amount saved. The reason seems to be that not so prosperous persons joined the system, but also other formal and informal savings options might have become more attractive.

Saving interest rates paid out to the members at the end of 1998 stood at around 1 percent per month, i.e. from 0.9 percent per month for three months deposits to 1.2 percent per month for 12 month deposits. These rates declined, as those of the other banks and the general inflation rate, to 0.45 percent per months for three months deposits and 0.55 percent for 12 months deposits by the end of 2000. One of the major drawbacks, so far, is as with VBARD the total lack of saving products for medium and long-term purposes. Therefore, about 90 percent of all savings are put in three and six months deposits.

The volume of credit provided to the members increased quite rapidly as well. For example, by the end of 1996, it stood at 1,121 b VND (or about US\$ 103 m at that time). Due to the fact that almost all loans are of a short-term nature, the real volume of credit available over the year seems to be higher. There is no regulation on minimum or maximum loan sizes, other than the overall limitation that no single loan can exceed 10 percent of the equity capital of the respective PCF (ADB, 1996: 43). In 1999, this restriction had been relaxed to a maximum 15 percent (N.N.: 28/08/1999). In 1996, 323,758 members applied and received credit which shows that not all members applied for a loan. About 85 percent of members did so during that year. Hence, the average volume of credit came up to US\$ 315 (BOSCHERT et al.: 32). The total volume of credit increased to US\$ 168.1 m by the end of 2000. While the total number of members increased above proportion the average amount of credit stood at about US\$ 250. The average interest rate asked for loans for a period of six months stood at 1.2 - 1.5 percent per month by the end of 1998. During the following two years the interest rates on credit declined to 1.0 - 1.2 percent per month.

One major impediment for the development of viable financial systems is the stipulation of SBV to set upper limits for interest rates of credit which a financial intermediary is allowed to ask from its clients (as discussed in Chapter 4.1). While the ceilings for savings rates have been abolished, the ceilings for credit are still in force which definitely limit the level of interests payable on savings. They have been reduced by SBV during the last few years. During 1998, they stood at 1.5 percent per month. By the end of 1999 they have been reduced to 1.35 percent and by the end of 2000 to 1.2 percent. Actually, the calculation of the interest rate

ceiling is made up by two components. On the one side, SBV has defined a "fundamental interest rate" which stood at 0.7 percent per month by December 2000. On the other side, the respective bank is free to add or subtract an "individual rate" of up to 0.5 percent per month depending on its own cost calculation. Hence, the final interest rate on credit to be asked from the client will oscillate between 0.2 and 1.2 percent per month. It is evident that the commercial banks have set their rates at the upper end.

Due to the low interest rate ceilings on credit, it is often not very attractive to mobilise savings for the time being. Those rates which could be paid on savings accounts are very low and, hence, not very attractive for the clients. If the PCF pays relatively attractive interest rates, the interest spread is too small to strengthen it, economically. It might even accumulate losses although it might have more funds at its disposal for credits. Therefore, some PCFs did not encourage savings among their members which limited the volume of credits available. However, in many cases access to credit is more important for the rural population than the level of interest rates. Various studies in Vietnam have shown that farmers are prepared to pay interest rates to informal moneylenders many times higher than the official ones. For the time being, the growth potentials of the PCF-system seem to be somewhat restricted by these interest ceilings. Hence, savings cannot be stimulated as much as there is potential. There is no leeway e.g. to offer attractive interest rates for medium-term savings.

Due to the interest rate ceilings on credits set by SBV the margins cannot be decided by the PCF-network or in competition with the other banks. During the 1998 the margins between savings and lending rates had become quite small. At the PCF-level margins came up to 0.3 - 0.5 percent per month. At that time, these margins had been high enough for most PCFs to cover their costs and to earn a small surplus. The CCF just calculated with an interest margin of 0.15 - 0.20 percent per month to cover its costs. Also this interest margin has been high enough to cover all administrative and transaction costs of the PCF-system. In 1996, there had been an overall profit of about US\$ 3.4 million which is a precondition in achieving its goal of long-term viability (BOSCHERT et al.: 32-33). During the following years the overall profits looked pretty much the same. In 1997 they came up to 36.4 m VND (or about US\$ 2.6 m), in 1998 to 38.3 m VND (or about US\$ 2.7 m), in 1999 to 49.8 m VND (or about US\$ 3.6) and, finally, in 2000 to 43.1 m VND (or about US\$ 3.1 m). In this respect, it can be stated that the PCF-system managed to earn small profits over the years but the overall profits could not be increased over time.

Besides mobilising own savings the PCF system is refinancing a part of its funds through SBV or the RCFs and CCF, respectively. The interest rate on these funds stood at 1.2 percent per month in early 1997. Due to the fact that the saving rates had been lower at that time there had been an incentive for the PCFs to mobilise savings from their members to broaden their capital base (SEIBEL, 1997: 24). At the end of 1998, this positive picture changed a bit. Now PCFs could get funds from RCFs and CCF at 0.95 percent per month which was more or less at the same level as interest rates they paid for the deposits of their members. There

was reason for concern that the PCFs might be encouraged to borrow additional funds within the system and to give up on the mobilisation of savings. But the procedure of getting access to these through RCFs and CCF is quite cumbersome. Hence, most managers of PCFs prefer to mobilise funds in form of savings as long as the costs can be covered by the interest spread. By the end of 2000, the interest rate on internal loans through RCFs and CCF stood at 0.65 - 0.7 percent per month, i.e. a bit higher than the interest rates on savings.

The statement given above about the annual profits needs to be interpreted cautiously for several reasons. First, within the PCF-system no provision for loan losses is made. Although the losses so far have been relatively small, it is essential to make such provisions against potential losses, particularly as PCF operations will expand and loan maturities are lengthened. Second, PCFs pay no income taxes during the first two years, and a 50 percent concession for the following two years. Third, PCFs receive various direct and indirect subsidies. The local people's committees usually provide free office space for PCFs, at least in the early years. SBV provides accounting forms and stationary free of cost for the first year of operation. PCFs do not bear any costs relating to staff training, supervision activities, and advisory services provided by SBV (ADB, 1996: 43).

When looking at the local level, actually all PCFs surveyed showed profits and an increase of reserves at the end of the year. These statements have to be interpreted with caution as each individual PCF has a certain degree of influence when it comes to showing profits. Their volumes are definitely determined by the interest spread, i.e. level of interest rate paid for savings and the one asked for credits as well as by the policy of each PCF whether to emphasise the build up of reserves or the payment of dividends. Both aspects will be discussed below in Chapter 4.5. In addition, it can be assumed that the better-off PCFs had been selected by the provincial authorities which had been analysed during the field survey. In the following paragraphs the rules and regulations in getting credit will be discussed in more detail as the level of overdue debts is one of the major factors deciding on profits or losses.

According to theory based on a vast experience over the last decades, the lending technology employed is very decisive on the success of each individual financial institution. In this respect, a local PCF can only contribute to the development of the whole PCF-system and serve its clients on a lasting basis if it employs a lending technology which is able to overcome the information and incentive problems inherent in any financing relationship. Successful institutions employ the following technology (SCHMIDT/WINKLER: 97-98):

- The loan analysis is focusing primarily on the prospective client's ability to pay, i.e. cash flow; less emphasis is placed on collateral.
- The graduation principle is applied to repeat borrowers. By initially granting relatively small, short-term credits, but then gradually increasing the volume and the maturity of the loans, the institution builds up a relationship of trust with its borrowers, acquires more information about its clients and their business, and establishes a strong incentive on the part of the borrowers to

ensure their continued, long-term access to credit by meeting all of their obligations.

- The personal liability of those who decide on loans is stressed. Loan officers are fully responsible for “their” borrowers over the entire life of the loan and are paid performance-based salaries.

The PCFs are following most of these rules but to a different extent. The most fundamental rule refers to the aspect that loans can be provided to members, only. But members are not required to save first. The graduation principle is followed to some extent only as the length of membership is not deciding on the size of loans. But those who are not repaying their loans cannot get another one. The second rule refers to the maximum loan size of an individual loan which is set at 15 percent of the capital, i.e. share capital plus reserves. This limit has been confirmed by the PCF-chairmen and general managers. With respect to the provision of loans to members which are legal entities, the regulations had been vague in the past. Due to some bad experience during the last years, the National Conference on the PCF-system stressed the fact that legal entities might join a PCF, but they cannot apply for credit anymore. Excessive loans to legal entities, some of them were not even members had led to the collapse of some PCFs. With respect to the individual members which ask for the bulk of credit two aspects are of main relevance: (a) the question of liability and closely connected with it (b) the provision of collateral.

The question of liability is closely linked to the formal steps of how to apply and get granted a credit. In general the application procedure looks as follows:

- In a first step, the applicant has to fill in the application form. This form he/she gets for a fee of 1,500 - 3,000 VND depending on the respective PCF.
- In addition to the filled-in application form, the applicant has to provide a letter of confirmation. In this letter, the people's committee of the local commune, and in exceptional cases, the chairmen of the local agricultural co-operative, certify that he/she has not asked for another loan at the same time and that he/she owns the proper title deed if the provision of collateral is required. In some cases, the applicants have to go first to the village headman to get their certification before being able to get the formal letter of conformation by the people committee of the commune (see Case Study 13).
- Concerning the provision of collateral individual PCFs have their own regulations. Some ask their members to provide collateral for all loans regardless of the volume (see Case Studies 13 and 16). In general, collateral has to be provided if the volume surpasses a certain ceiling. This ceiling might be as low as 0.6 m VND (see Case Study 15), but in general it stands at 5 m VND (see Case Study 14). The need for providing collateral does not seem to influence the loan size. In general, the average loan stands between 1.5 m and 5.0 m VND. While during the first years, durable consumer

goods had been preferred as collateral, the title deeds on agricultural land is now accepted as well. In general, the "red book" is pledged as security.

- The credit officer is checking the application and the personal background of the applicant. Besides a rough analysis of the intended investment, it is checked whether the applicant can provide the needed security for the loan, if needed. In case of need, the credit officer will support the applicants in meeting the formal criteria. Based on his/her findings, the credit officer is making his/her recommendation.
- Depending on the size of the loan, the decision can be taken by the chairman or the general manager directly. In general, that ceiling stands at 5 - 10 m VND. Loans exceeding the stipulated limit have to be decided by a credit committee, in general consisting of three persons, i.e. the chairman, the managing director, and the credit officer (see Case Study 16). The credit committee might also comprise the director (who is also the chairman), the credit officer (who is also the deputy chairman) and the head of the supervisory committee. (see Case Study 14). The decisions have to be taken by majority.

In general, the application process for a loan is being processed relatively quick. Usually, it takes about three days until a decision is taken. Nevertheless, the procedure seems to be cumbersome, particularly for those, who have to get the approval and certificate by the village headmen, first, before getting the formal letter of confirmation by the chairman of the respective peoples' committee. Ordinary members are reluctant to approach both, village headman and commune chairman, as they will usually be asked whether they have fulfilled other tasks and duties.

In case of non-repayment, several steps are followed in order to keep the losses as small as possible. Overdue debts are, in general, those outstanding loans which have not been repaid since 20 days. In general, the loanee is approaching the credit officer to state his/her inability to repay. Otherwise, he/she have to pay a penalty fee for overdue loans, in general the interest rate is increased by another 50 percent. The credit officer is checking the reasons for non-payment. In general, the reasons for non-payment are accepted and the loans are prolonged for another period. But some loanees seem to default in their repayments rather deliberately. These members prefer to pay penalty fees instead of repaying their loans first and apply then for another one. They argue that the application procedure is too complicated for them. In this way, they themselves extend informally their loan periods to medium-terms. There had been some cases, however, where loanees could not repay their loans anymore and their collateral had to be seized and auctioned off. In one case, in Quang Tri Province, the collateral of two defaulters had to be seized, i.e. in one case, a fishing boat, in the other, the residential land. With respect to the latter, a neighbour bought the land and planted pepper on it. In both cases, the defaulting persons remained members of the PCF, but have not applied for new credit anymore.

In case of default and/or the value of the collateral is not meeting the loss, the loss making PCF is liable with its reserves and share capital. In theory, however, all PCFs have the rule that credit officers, general managers and members of the credit committees will be liable first. That means those who have signed defaulting loan contracts are liable with their personal property. Up to the seize which had been signed by the general manager himself/herself, he/she are fully responsible alone. In case of the credit committee with respect to higher volumes, the loss might be distributed equally among all members or unequally. For example, in a PCF in Bac Giang Province, the three members of the credit committee had been liable to a different degree: 70 percent of the loss has to be refunded by the manager, 20 percent by the credit officer and 10 percent by the chairman. In reality, however, no case has been reported during the field survey that any decision maker had to contribute money out of his/her personal assets and belongings, so far. It had been argued that the people responsible for an outstanding loan could not foresee the default. In case any defaulting loans had to be written off, they had to be covered by the risk funds, i.e. the reserves.

Based on the experience of the PCF-system made so far, it is discussed whether the obligation of personal liability of the individual members has to be broadened. So far, members are only liable with their shares, while the decision-makers will be - at least in theory - be liable with their personal property as well. It may be recommendable that members will become liable with a certain number of additional shares in case of default or heavy losses, i.e. there should be the "liability to make additional payments" in case of need.

4.3.4 People's Credit Funds In-Between VBARD and the Informal Sector

When looking at the role the chairpersons of PCFs themselves saw for their organisations, they all agreed that PCFs were playing a very important role between VBARD, as the major state-owned commercial bank in the rural areas on the one side, and the informal sector, i.e. private money lenders, on the other. With respect to VBARD, PCFs might compete directly for savings and credit. But as it has shown above, while having a rather dense branch network at its disposal, VBARD is not covering quite a number of communes where PCFs are operational. Seen from a national level, the volume of business activities of PCFs in total just make up about 5 percent of VBARD's. In this respect, the significance of PCFs has to be seen in the local context.

With respect to savings, it had been observed since a number of years that VBARD is offering lower interest rates for the same savings products. It used to pay 0.2 - 0.3 percent per month less. By the end of 2000, there still had been a slight difference amounting to 0.05 - 0.15 percent. At that time, e.g. VBARD in Phu Tho Province paid an interest rate of 0.3 percent per month on three-months deposits and 0.5 percent on 12-months deposits, while the PCFs paid 0.45 percent and 0.55 percent per month, respectively. Hence, putting the surplus funds at a

PCF has been more attractive. However, VBARD in Phu Tho Province managed to attract about 556 b VND in savings. In addition, it had access to 142 b VND of programme loans provided by international donors. Finally, about 121 b VND had been made available through VBP for the alleviation of poverty. In total, the funds available came up to about 819 b VND. On other side, all 28 PCFs and the RCF together managed to mobilise savings of about 36 b VND or about 6.5 percent of VBARD's amount, only.

One of major success stories of the PCF-system, however, is the fact that actually all savings could be mobilised in the rural areas. Most savings with VBARD within Phu Tho Province are done in the urban areas. Farmers are in general regarded as too poor to save. The managers of VBARD see some scope for expanding savings within the population. Depositing and withdrawing money is still a cumbersome and time-consuming procedure. As Vietnam is a cash-oriented society, people need their money quickly and do not want to spend much time at the bank's offices. Hence, many prefer to keep their cash. With the big companies money transfers have been introduced. With respect to PCFs, there are no problems in withdrawing money from savings accounts when needed. Both, managers at VBARD and of PCFs acknowledge that the demand for credit is high and that there is a shortage of funds available. Both will concentrate more on the mobilisation of additional funds, but will follow different options. While VBARD will focus on the participation in various schemes of programme loans, most PCFs will encourage the mobilisation of additional savings by their members.

When it comes to credit, VBARD is, again, the most important source. For example, in Phu Tho Province, it provided in 2000 credit amounting to about 574 b VND, of which about 11.8 b VND or about 2 percent have been outstanding. During the 1990s the annual growth rate stood at 4 - 5 percent. Compared to other provinces this rate is not very spectacular, but there have been no losses. In comparison, all 28 PCFs and the RCF together provided credit of about 47 b VND during the same period, or about 8.2 percent. For a number of years interest rates on credit with VBARD had been lower than those of the PCFs. In general, the difference came up to 0.1 - 0.2 percent per month. Hence, those rural persons who got access to credit via VBARD had not been interested in joining a PCF which seemed to limit the scope of expansion of the PCF-system in the long run. However, as discussed above, most members joined the PCF-system in order to get access to credit at all. Therefore, it could be observed that the richer segments of the rural society approached VBARD directly, most of middle strata are applying for credit with PCFs while the poorer segments approached VBP or had access to one of the various programme loans. With respect to interest rates on credit, those of VBARD and PCFs converged to some extent during the last years. By the end of 2000, VBARD charged an interest rate of 1.0 percent for short-term loans while PCFs charged a rate between 1.0 - 1.2 percent.

Both organisations have to compete, to a limited extent, with programme loans. These loans are focusing on poverty reduction and employment creation and are attached with low or even no interest rates at all. Although the volume of these loans will not cover the demand, it is realised that they might undermine the

healthy development, particularly, of the PCF-system. In this respect, there is some ambiguity about the handling of the ADB-fund to reduce poverty among PCF-members themselves. This fund is attached with a lower interest rate compared to the "normal" interest rates for credit within the system: In November 2000, the local PCFs in Phu Tho Province could borrow from this special fund at a rate of 0.6 percent per month and provided loans to poor members at a rate of up to 0.8 percent. In comparison, the refinancing rate for funds from the RCF stood at 0.7 percent.

In conclusion, it can be stated that there is no or, in some cases, some slight competition with other banks, particularly VBARD and VBP. But the managers did not see it as a disadvantage, as the PCFs are the most important source of credit in their respective communes. Actually, it seemed to be good for the members to have alternatives. All formal credit institutions observed the rule that any client can only get one loan from one institution at the same time. Therefore, the letters of confirmation of the people's committee are so important. Through this service, all banks and the PCFs save a lot of costs in checking the loan applicants.

Hence, in most communes, PCFs are mainly competing neither with VBARD nor the various micro-finance schemes, but with the informal sector. In short, it can be stated that the rapid spread of the PCF-network during the first years reflected the urgent need for rural financial intermediaries. Most chairpersons of PCFs had been proud to report that the importance of private money lenders could be reduced significantly and that PCFs members did not have to rely on them, anymore. In general, there had been quite a number of them in the communes before the establishment of the PCF. While private money lenders could not be abolished completely, those few who go on just provide some cash on a daily basis. But even these clients who are not members of a PCF have benefited from the establishment of the PCF. The interest rate charged have gone down significantly. While they used to stand at about 10 percent per month and higher during the mid-1990s, they have gone down to 2 - 3 percent. Most of the private money lenders have given up this profession. Actually some of the former private money lenders joined a PCF and subscribed permanent shares but have not taken over any management function (see Case Study 16).

4.4 Role of the Apex Organisations: Regional Credit Funds and the Central Credit Fund

As discussed above, the PCF-system has been designed right from the beginning as a multi-tiers system. All local PCFs were supposed to be part of a network within regional credit funds (RCF) acting at the secondary level and the Central Credit Fund (CCF) forming the national apex organisation. According to the experience made elsewhere, the establishment of such a network may increase institutional stability for individual PCFs. Regional or national umbrella organisations can reduce risk by contributing to portfolio diversification and assistance in managerial, auditing and training tasks. Second-tier organisations can

also provide PCFs with a liquidity pool, which is especially important to institutions that are net savers during certain periods of the year and net lenders during others. Second-tier organisations can also create economies of scale in providing monitoring and training support. By exercising control through audits and reporting standards, second-tier organisations may help to stabilise their member institutions (FIEBIG et al.: 16). In addition, these organisations may not only act as a legally recognised financial intermediary, but also convey information up- and downwards and provide a forum where problems and solutions are discussed and where true representatives are selected (KROPP et al.: 119).

At the beginning the internal structure of the PCF-system basically looked as follows: Individual members join and form a PCF at commune level, a number of PCFs provide capital for, form and become members of an RCF, while all PCFs and RCFs have their shares in the CCF. However, during this still on-going period of establishing and strengthening the system, SVB and other state-owned banks are still involved as shareholders at the national level for the time being. As it was already discussed above, the PCF-approach combines elements of formation from above with the participation of the members in the decision-making process.

As shown in Table 4.1, there had been 21 RCFs operating in 21 out of 53 provinces where PCFs had been established so far. The main function of the RCFs concerns the supply and balancing of liquidity among the PCFs while the supply and balancing of liquidity among RCFs is supposed to be ensured by CCF. Ideally, the next RCF had to be located within a reasonable distance to the PCFs. At the beginning, it had been planned to limit the number of RCFs to 20 - 25, so that each of them had been supposed to be responsible for 2 - 3 provinces. But each province had been fighting for its own RCF. Hence, it had been decided to establish RCFs in all provinces starting in those where at least 20 PCFs were operating already. In those provinces without an RCF, the provincial branch office of SBV had taken over parts of its functions and formed the link to CCF. In the long run, each PCF was supposed to be member of an RCF.

The RCFs had been registered as co-operatives at provincial level. In general, the share capital of the RCFs had been subscribed by the PCFs within its area of jurisdiction. In addition, shares might have been owned by SBV which were supposed to be sold to (newly-established) PCFs in the long run. Each PCF had to subscribe a share amounting, in general, to 5 m VND (or about US\$ 450 in 1996). In addition, each PCF had to subscribe the same amount for getting its share at the CCF. Those PCFs which had not been member of an RCF had to contribute 10 m VND directly to the CCF (BOSCHERT et al.: 26).

The CCF had been registered in the legal form of a co-operative. The equity capital had been set at 200 b VND (or about US\$ 17.7 m in 1996), of which 40 percent were held by SBV. The share of the state-owned and private commercial banks had been limited up to 30 percent. Up to the end of 1996, 108 b VND had been paid in. SBV subscribed shares amounting to 80 b VND, i.e. it had already paid up its total capital. The four state-owned commercial banks paid up 20 b VND and one private joint-stock bank another 2 b VND. By the end of 1996, all

operating RCFs and PCFs just managed to pay up 6 b VND. It had been envisaged that RCFs and PCFs were taking over all shares held by SBV and the other banks in the long run (BOSCHERT et al.: 28).

In early 2000, the legal and organisational structure of the CCF had been revised. It had been re-registered as a joint-stock company which is operating according to co-operative principles. The local PCFs are no more members or direct share holders, but only indirectly through their RCFs. That means that the local PCFs subscribe share capital of their RCF amounting, in general, to 10 m VND. In some provinces the volume of share capital might come up to 20 m VND per PCF. The RCF subscribes shares of the CCF amounting to 5 m VND for each PCF-member. Only those PCFs without RCF in their province continue to keep their share capital of 10 m VND each directly with the CCF. In this respect, the legal structure had been revised but the financial obligations did not change at all. By the end of 2000, the equity did not increase much, i.e. it just increased from 108 b VND in 1996 to about 110 b VND. While SBV had already paid up its share completely, the commercial and private banks contributed another billion VND, i.e. their contribution increased from 22 b VND to 23 b VND, and the RCFs and PCFs just increased their share capital from 6 b VND to 7 b VND. Hence, the equity of CCF is still relatively weak.

Contrary to the agricultural co-operatives, the PCF-system has been better integrated in the national co-operative association, i.e. the Vietnam Co-operative Alliance (VCA). Not each individual PCF had joined the VCA, but the whole system has become a member of the national organisation. Since early 2000, the CCF is represented as a member in the national council of VCA.

In the following paragraphs the structure and operations of RCFs will be discussed in more detail⁸. The main tasks can be summarised as follows:

- to balance the flow of funds among all local PCFs within the province, i.e. to provide a balancing function between those who have surplus of funds and those in demand;
- to mobilise own funds from the local population and lent it on, and
- to mobilise additional funds from the CCF, in case of need.

A high degree of flexibility in adopting the Co-operative Law is shown when looking at the different categories of membership. With respect to the RCF in Phu Tho Province, there are actually three different types of members:

- (1) all 28 local PCFs which have subscribed shares amounting to 20 m VND each.
- (2) a certain number of private persons who joined as individual members, e.g. by the December 2000 their number stood at 52. These persons just have to

⁸ The following information is mainly based on in-depth interviews with staff members of SBV and RCF in Viet Tri City, Phu Tho Province, 4 and 6 December 2000. In addition, findings from interviews with RCF staff members in Buon Ma Thuot City, Daklak Province (30 November 1998) and Chau Phu City, An Giang Province (26 March 1999) are incorporated.

- subscribe a qualification share amounting to 50,000 VND each. They just join on a temporary basis in order to qualify for receiving loans.
- (3) present and former staff members and even one company who have subscribed shares amounting to 10 m VND each. The SBV is not a member of the RCF, but just fulfils supervisory functions.

But not all members have the right to participate at the annual general assembly and to participate at the decision-making process. Each of 28 local PCFs is represented by two delegates. All those private individuals who are just members on a temporary basis in order to get access to loans have no right to be represented or to elect their delegates. On the other side, all members of the management and supervisory board and the recruited staff have the right to participate and to vote. These are in total 19 persons. In addition, one representative of the company which had subscribed shares has the right to vote although the management does regard this company as a full member. In total, the general assembly comprises 76 delegates. In Phu Tho Province, SBV is not represented directly through one delegate, like e.g. in Daklak Province. But as will be seen in the next paragraph, SBV is fully represented in any case through the management and staff members.

In Phu Tho Province, the management board comprises seven persons. They all work on a full-time basis. The vice chairman who is also the general manager has been elected in 1997. He used to work for the provincial branch office of SBV and is supposed to return to it some day. The supervisory board comprises three persons. All three are members of the management boards of local PCFs and are performing their task on a part time basis. In addition, 9 staff members have been recruited for the daily work, most of them used to work in the provincial branch office of SBV. Most of them have the option to return to this office after some years.

The total amount of share capital of the RCF in Phu Tho Province comes up to 683 m VND by November 2000. This flexibility with respect to membership criteria is reflected when looking at the sources and composition of the share capital. Shares have been subscribed by various groups and organisations. These are the following ones:

- (a) All 28 local PCFs have subscribed shares of 20 m VND, each or 560 m VND in total. Originally, it had been the rule that half of that amount had been the share capital to the RCF and the other half was earmarked for the respective share at the CCF. But, in the meantime, CCF decided to refund its share in order to increase the total volume of share capital of the respective RCF.
- (b) The private individuals with temporary membership subscribe a qualification share amounting to 50,000 VND each. This figure has been neglected in summarising the total value of shares as it fluctuates highly over the year.
- (c) All elected members of the management board (i.e. 7 persons) and all 9 recruited staff members are required to subscribe share of 10 m VND each. In this way, quite similar to the local PCFs, it is ensured that all of them

show a more in-depth personal commitment to the RCF, as they will lose their own money in case of inaccurate and non-diligent work. However, all those persons who have been appointed and elected from SBV-staff and from local PCFs are not required to do so. In these cases, it is assumed that through their affiliation with SBV and PCFs, which they represent to some extent, the necessary commitment is given. In total, 8 staff persons had to subscribe shares of 10 m VND each, or in total 80 m VND.

- (d) Staff members who have left the RCF are not required to withdraw their shares. Therefore, another 33 m VND subscribed by former staff members is still part of the share capital. These persons kept their shares and see them as a safe type of investment.
- (e) Finally, one company has subscribed shares amounting to 10 m VND. This company, however, is not regarded as a full member of the RCF although it is represented in the General Assembly. Again, this fact reflects the flexibility and pragmatism in adopting the Co-operative Law and the Regulations on People's Credit Funds.

Up to the end of November 2000, the reserves came up to 494 m VND, of which 203 m VND are legal reserves, 273 m VND with the risk fund and the final 18 m VND with the welfare fund. The RCF managed to mobilise savings from 220 individuals within the near district and town amounting to about 4.87 b VND. Hence, the average amount per savings account comes up to about 22 m VND which shows that the more prosperous persons are making use of this service. In general, these funds are saved in fixed-term deposits of 6 months. During the first 11 months of the year about 6.2 b VND have been received by the CCF at a rate of 0.6 percent per month. These funds have been lent on to the local PCFs at 0.7 percent per month. Unfortunately, no information about gross profits and dividends could be given.

The total volume of loans provided up to 30 November 2000 came up to about 11.4 b VND. The major part, or about 11 b VND, is reserved for the 28 local PCFs, i.e. for refinancing purposes. The remaining 400 m VND were spent on private loans. The average loan comes up to 5-7 m VND and covers a period of 6 months. Once, the loan is repaid the respective member cancels his/her membership. Hence, there is a high fluctuation among these persons. If the volume of loans is higher than 10 m VND, collateral is required. Lower amounts are assessed on their economic feasibility only. But RCF is relatively flexible in handling this ceiling. In general, the management is proud that there are no problems with overdue debts. These just come up to a bit less than 60 m VND, or about 0.5 percent.

Since one year this RCF in Phu Tho Province had moved to its own office building. Downstairs there is a service room for private individuals which is similarly equipped like any other commercial bank. The general manager admitted that SBV gave financial support in providing office equipment and furniture. The total value of own assets is set at 751 m VND. Besides the building including the land, the assets comprise a car, office equipment, furniture, a safe.

When assessing the PCF-system two major weak points have come up in all the discussions in Hanoi as well as in the provinces. On the one side, it had been complained that the system could not ensure a smooth balance of capital within the system. On the other side, it had been realised that external supervision and audits were not working satisfactorily. With respect to the first problem, there are two aspects of balancing the liquidity and surplus funds (a) among the PCFs within a province, and (b) between the RCFs and CCF.

The local PCFs are allowed to keep the cash needed for managing their daily activities in their own safes. All temporary surplus funds are supposed to be deposited with the RCF of their province. In general, this commitment has been decided by the general assemblies of the RCFs. On the other side, RCFs are not committed to transfer their own surplus funds to CCF. This is only optional for them. But, whether it is optional or compulsory, many PCFs and RCFs are depositing their surplus funds with other state-owned commercial banks. There are two major reasons for doing so: (1) the interest rates are higher with the banks than within the system and the banks are providing good services. (2) Often it is physically not possible to transfer the money over long distances. Since there is still no smooth money transfer system available within the banking system in general and the PCF-system in specific, it is often too complicated, costly and risky to transfer the funds in cash to the provincial or national capital if a branch office of another bank is close-by. These underdeveloped internal links and clearing systems often led to slow reactions in case of sudden and unforeseen changes. In the past there had been a lot of problems to balance the monetary financial streams between the communes as well as the provinces within the system. Similarly, PCFs or RCFs could approach other banks to borrow additional funds in case they lack capital. Again, this contradicts the PCF-approach but might be unavoidable for the time being.

The other weak point refers to the unsatisfactory external supervision and audits which has been identified as a critical issue why about 30 local PCFs got too highly indebted and had to be dissolved. In general, each PCF at the commune and each RCF at the provincial level are supervised by SBV. The provincial Inspection Departments are supposed to audit them once a year. In reality, however, the capacity of SBV to ensure a proper external audit within the PCF-system is very low. By the year 2000, there have been just 17 trained auditors all over the country. In addition, there are no regulations and no curricula available how to train the necessary personnel. Hence, there is no basis for executing a proper external audit for the time being.

After having assessed the experience of the PCF-system up to early 2000, it had been decided at the National Conference to replace the three-tiers system with a two-tiers one. For a transitional period the RCFs should continue with their work in those provinces where they had been established already. In the other ones the CCF is supposed to set up branch offices within about two years. In this respect, the PCF-system will go side-by-side with a two- and three-level approach for a certain period. During the year 2001, it is anticipated that all remaining RCFs will be dissolved and become branch offices of CCF. The major arguments had been

that the decision-making process can be handled more smoothly and quicker. The refinancing rates for internal funds could be lowered, i.e. the local PCFs will save interest costs when making use of these funds. On the other side, the participation of the representatives of the local PCFs will be curtailed. In this respect, the whole system might lose its corporate identity as a co-operative, but will adopt more elements of a commercial rural bank. At the end of the consolidation period, a further future expansion of the local PCFs is envisaged as they provide essential services to the rural population in form of savings and credit which cannot be served otherwise.

4.5 Problems Encountered in Expanding the People's Credit Fund System at the Local Level

Since the set-up of the PCF-system a number of problems had to be faced which reflects the fact why a consolidation period of the whole system is stressed for the time being. So far, there is no or very limited competition with VBARD or any other bank. The volume of savings and lending as well as its number of members (and clients) is still quite small compared to the respective figures of VBARD. It is estimated that the PCF-network covers about 5 percent of the rural clientele. Nevertheless, SBV had identified the following advantages: (a) The system has been useful and feasible in the rural areas. (b) Local resources could be mobilised. (c) The support by SBV had been vital in setting up the system. (d) International support could be mobilised as well. The main indicator of success had been that farmers could be helped in getting access to credit which had not been available before. Hence, SBV will encourage the rural population to establish new PCF in the future.

In this chapter it will be looked at major critical issues which have come up once the PCFs had started operating. In particular the internal set-up and influence of the local administration, the predominance of short-term financial products, the small number of saving members and the distribution of profits will be assessed. Finally, the basic features of the PCF-system will be briefly analysed in a historical perspective with the German savings and credit co-operative movement in the early 20th century.

4.5.1 Internal Set-up and Influence of Local Administration

As it had been discussed above, all PCFs due to their large membership cannot follow a direct representation system anymore, but the members have to elect their representatives to the general assembly. But the share of members to be represented in the general assembly differs, significantly. While some have opted for a broad relation of 1 representative to 50 members and, hence, the number of representatives is kept quite small, the majority of PCFs follows a relation of 1 : 7

or 1 : 10 which allows more members to participate in the decision-making process.

In general, members of the management and supervisory boards as well as the employed staff are recruited from those members who have subscribed permanent shares only or, in case a large number of members have subscribed permanent shares, have subscribed a certain minimum amount of share capital. Hence, it is ensured that those who have committed most of the equity capital available have also a larger say in decision-making. With respect to internal control and supervision, it becomes evident that the relationship between those persons in the management boards and those in the supervisory boards is very close. In general, these persons know each other since a long time and they trust each other. Otherwise they would not have contributed quite a large amount of their own money to the common organisation. Although both the management and supervisory boards have their formal meetings once per week or, just, once per month, these core decision-makers actually are in daily contact. In reality, supervisors are taking actively part in daily decision-making. Therefore, it might be difficult for many of them to keep an internal distance to these decision and to reflect all of them from the perspective of the members, i.e. to fulfil their task of internal supervision and control from a neutral perspective.

Many of these staff members have retired as civil servants. Surprisingly, quite a number of active civil servants have been elected to the self-governing bodies as well (see Case Studies 12 and 16). In some cases the chairman and his deputy had been elected as chairman and deputy of the PCF. It is evident that these persons cannot handle the day-to-day management, but leave it to a general director who had been elected as a member of the management board. In this respect, it can be stated that the personal links between the core decision-makers of PCFs and the local administration are very close, whether the persons fulfil both positions side-by-side or whether they are separated. This overlapping of official functions among a small group of persons within a commune is understandable since the number of persons with a certain level of education and social status is limited in the rural areas. While in most cases this is a positive feature as PCFs have benefited from the support of the local people's committees, it might become a disadvantage if local administrations want to influence the provision of credits to the advantage of the commune but to the economic detriment of the PCF. This outside interference had been one of the factors of the collapse of the former credit co-operatives. In addition, the support of the local people's committees is vital, whether some of the local key decision-makers are elected into the management boards of PCFs or not, in smoothing the registration process, in allocating land and sometime office space, and also in putting additional pressure on loan defaulters.

However, it is striking that not many full-time farmers are represented in the self-governing bodies. While civil servants do some farming themselves, this is just one of several income generating activities of the household. Most of them are economically somewhat better-off.

All posts of the board of directors and supervisors are honorary. Usually they work on a part-time basis. Only among the larger PCFs management and staff

might be employed full time. All elected and employed staff is entitled to a compensation for their activities. In general, the fee or salary is paid in cash every month. Its volume depends on the financial position of the respective PCF and on the degree of responsibility entrusted to the respective person. In general, the compensation is agreed on a fixed rate, only in exceptional cases managers are paid to certain economic performance criteria. Just in some cases all elected and employed staff members are entitled to the same flat rate, only. The general assembly has formally to approve the volume of compensation or salary. In general, it ranges from a flat rate of 100,000 VND per month for all members to about 200,000 - 400,000 VND for general managers and about 150,000 - 350,000 VND for other important staff members, e.g. accountants and cashiers, and sometimes supervisors. Other management and also supervisory board members if they are not so heavily involved in the day-to-day management are compensated with about 50,000 - 100,000 VND per month (see Case Studies 12, 15 and 16). In bigger PCFs, which depend fully on full-time board members and staff, salaries for the chairmen cum general managers go up to about 600,000 and 700,000 VND per month. The important staff is paid about 500,000 - 600,000 VND per month. Those elected management board members who are not involved in the day-to-day management receive a monthly compensation amounting to about 100,000 - 200,000 VND (see Case Study 13 and 14).

While compensations are definitely higher than those of their counterparts of the agricultural co-operatives it had been complained that they might be too small to attract better trained and more professional staff in the future. From SBV's perspective most PCFs are handicapped by two major problems which affect their economic viability:

- (1) In general, all elected and employed staff members are not professionals in banking and work on a part-time basis. Their know-how and skills are low as they have attended some short-term training courses, but have acquired them through a learning-by-doing-process. The training courses offered by SBV for the time being do not qualify the staff well enough to do the job properly. One aspect has been stressed is the fact that credit assessment should not only be based on the potential collateral, but predominantly on the economic indicators of the intended investment. In the past some PCFs lost heavily due to the overstated and not carefully assessed value of the collateral whose resale value proved to be much lower than anticipated.
- (2) In addition, the internal audit system has to be improved in order to improve transparency and to scrutinise the decisions of the management fully. Experience has shown that supervisors and members are not well trained and ill-prepared to check the decisions of the managers.

With respect to overcoming both problems, staff development will be of utmost urgency in the future. Special training courses have to be designed and implemented.

4.5.2 Emphasis on Short-term Savings and Credits

Up to now, only short-term saving facilities (i.e. for a period up to twelve months) are offered by the banks including the PCF-network. Due to the bad experience with high inflation rates and the collapse of the credit co-operatives in the recent past, people are said to be reluctant to leave their money with financial intermediaries for long periods. Hence, PCFs have offered short-term loans, so far. Most loans have a maturity of less than four to six months. This concentration on short maturity periods reflects the concern to avoid a mismatch between maturity periods of loans and deposits and their efforts to reduce credit and interest rate risks. Many PCFs also lack staff with skills in appraisal of medium-term loans. But farmers and rural entrepreneurs have to increase their efficiency and productivity further to stay competitive. In order to do so, they are in need of medium and long-term credits. These credits should be financed as much as possible by long-term savings from their own members in order to limit a dependence and higher interest rate costs due to the need of refinancing through SBV and other commercial banks. While it is important to increase the supply of medium-term credit in the rural areas, risk considerations tend to suggest that PCFs should lengthen the maturity of loans gradually (ADB, 1996: 5-6). In 1998 international donors provided a collateral insurance funds coming up to US\$ 14 million which will open the opportunities to provide medium to long-term loans.

The savings options offered by the PCFs are relatively simple. Surplus funds can be deposited either in form of daily deposits or on a fixed-term basis. The fixed-terms periods run from three months, six months, nine months up to 12-months. It is evident that the interest rates on savings is increasing the longer the fixed-term period. Surprisingly, the interest rates paid on daily deposits are relatively high. Many micro-finance schemes do not pay any interest on these accounts as the handling costs are relatively high (HANNIG: 8). When the managers were asked about this fact they replied that they were deliberately following such a policy in encouraging as many members as possible to save and the best argument had been to offer attractive interest rates. In late 1998, the interest rates on savings stood for daily deposits at 0.7 percent, for three-months deposits at 0.9 percent, for six-months deposits at 1.0 percent, for nine-months deposits at 1.05 percent and for 12-months deposits at 1.2 percent per month. In line with the decline of the inflation rate the interest rates came down by the end of 2000 to 0.25 percent for daily deposits, to 0.45 for three-months, to 0.5 percent for six-months and to 0.55 percent per month for nine and 12-months deposits, respectively.

A few PCFs went around this limitation of short-term savings only. As discussed above in Chapter 4.3.2, some of them encouraged their members to subscribe as many permanent shares as possible. In this respect, they offered an option for long-term savings as these shares can only be refunded after a fixed cancellation period, in general one to two years.

The PCFs, in general, have been relatively successful in building up their equity capital which has become an important source for financing credits to the membership. About 12 - 18 percent of all credits can be financed out of their own equity capital as it is shown in Table 4.5.

Table 4.5: *Volume of Equity Capital and of Credit Among Surveyed PCFs at Time of Survey*

Running Number of PCF Surveyed	Volume of Equity Capital (m VND)	Volume of Credit (m VND)	Percentage of Equity Capital to Credit (%)	Average Loan Size (m VND)	Number of Loans Last Year
1	129	975	13.2	1.9	521
2	91	512	17.8	1.7	3,312
3	89	420	21.2	1.5	280
4	1,189	6,115	19.4	5.0	1,233
5	994	4,700	21.1	6.0	785
6	303	1,635	18.5	5.0	327
7	499	4,100	12.2	5.0	840
8	492	3,133	15.7	5.5	725
9	193	1,839	10.5	2.6	699
10	227	1,972 (188)*	11.5	2.0 (7.8)*	876 (24)*
11	285	1,700 (170)*	16.8	3.0 (12.1)*	500 (14)*
12	199	1,526	13.1	4.5	342
13	215	2,062	10.4	4.3	478

* Figures in brackets refer to medium-term loans.

Bac Giang Province: 1,2; Quang Binh Province: 3; An Giang Province: 4,5,6; Quang Tri Province: 7,8,9,10,11; Phu Tho Province: 12,13

Source: Own Survey

On average, loans come up to about 1.5 - 5.0 m VND. In general, all credits are provided for short term periods only. When looking at the number of loans provided, it is striking that not all members received one. One explanation is the fact that not enough capital has been available for providing loans. The more important reason seems to be the fact that many members did not ask for a credit at

all. On average, just one third to two thirds of the members just make use of this option, i.e. many members having subscribed one qualification share just keep their option to participate at the PCF-system but do not make use of it every year.

While most PCFs are providing short-term loans only, some have started on their own to offer medium-term loans to some of their members (see Case Study 15), i.e. these loans will be available for up to 24 months. For the time being, the management still regards this option as a trial to get experience. In order to minimise risks a certain percentage of the equity capital has been set as the upper limit of funds available for medium-term loans. In general, this limit is set at about two-thirds up to three-fourths of the equity capital. In comparison to the total volume of approved loans medium-term loans make up about 10 percent, i.e. the other 90 percent have been committed to short-term loans. The number of members who have received such a loan is very small, in general just about 10 - 20. Hence, the average amount of loan size is by far bigger than for short-term loans, in general about 4 - 5 times, e.g. in Case Study 15 medium-term loans came up to about 8 m VND while short-term ones stood at 2 m VND only. Most of these loans have been needed for investments in agricultural machines, the expansion of perennial crops (e.g. in buying young fruit trees) and the purchase of cattle while short-term loans are mainly spent on the purchase of inputs, e.g. fertiliser, pesticides and seeds as well as animal feed. With respect to the interest rates to be charged there is no common rule. Some ask for a higher rate compared to short-term loans in order to cover the higher risk involved, e.g. in Case Study 15 the monthly rate stood at 1.05 percent compared to 1.0 percent for short-term loans. Other PCFs did not charge any price differential but just stuck to the same rates.

4.5.3 Small Number of Savers

In general assessments of savings and credit co-operatives it is always stated that one advantage, among others, is their huge potential in mobilising own funds in form of savings. In this way the rural population becomes more self-reliant and less dependent on outside forces. From the members' point of view savings can be both, (a) the subscription of shares, which can be regarded as medium- to long-term savings and (b) the deposit of surplus funds at the PCF. In Vietnam, so far, savings accounts can only be opened for short-term periods, i.e. fixed-term deposits up to a maximum period of 12 months. In general, money is saved in 3 - 6 months deposits.

Nevertheless, PCFs have been quite successful in mobilising own funds. When looking roughly at their liabilities, there is, on the one side, the equity capital in form of share capital (i.e. permanent and qualification shares) and reserves, if there had been profits in the past. This can be termed as their medium- to long-term capital base. On the other side, PCFs accept savings from members and non-members. On average, PCFs managed to mobilise savings which amount to about 3 - 8 times the amount of equity capital as it is shown in Table 4.6:

Table 4.6: *Volume of Equity Capital and of Mobilised Savings Among Surveyed PCFs at Time of Survey*

Running Number of PCF surveyed	Volume of Equity Capital (m VND)			Percentage of Reserves to Share Capital (%)	Volume of Savings (m VND)	Relation: Savings to Equity Capital (%)
	Share Capital	Reserves	Total			
1	104	25	129	24.0	1,000	775
2	71	20	91	28.2	513	564
3	n.a.	n.a.	89	n.a.	250	281
4	580	609	1,189	105.0	7,491	630
5	694	300	994	43.2	3,500	352
6	173	130	303	75.1	900	297
7	317	172	499	54.3	2,600	521
8	334	158	492	47.3	2,400	488
9	106	87	193	82.1	1,200	622
10	178	49	227	27.5	1,827	805
11	153	132	285	86.3	1,600	561
12	97	102	199	105.2	809	407
13	101	114	215	112.9	1,616	752

n.a. = not available

Bac Giang Province: 1,2; Quang Binh Province: 3; An Giang Province: 4,5,6; Quang Tri Province: 7,8,9,10,11; Phu Tho Province: 12,13

Source: Own Survey

When looking at the number of persons who are actually saving with a PCF, it is surprising that it is very small. In general, 10 - 50 percent of all members do have a savings account. While non-members are not eligible for credit, they can deposit their money at a PCF. In most cases, a small number of non-members is even putting up more deposits than the members themselves. In this respect, the precarious situation of many PCFs becomes evident; viz. a small number of persons is putting money away in savings, out of which quite a number are non-members who are saving larger amounts. As actually all savings are on short-term accounts, these funds can be quickly withdrawn and these PCFs quickly might become insolvent.

The following example (see Case Study 13) illustrates this relatively precarious situation, as it is shown in Table 4.7.

Table 4.7: Number of Savers and Amount Saved in a Selected People's Credit Fund, An Giang Province

	Number of Savers	Amount Saved (m VND)	Average Amount Saved (m VND)
Members	22 (of 1,780)	188	8.6
Non-Members	18	712	39.6
Total	40	900	22.5

Source: Own Survey, Case Study 13, An Giang Province, March 1999

The total number of saving persons just comes up to 40. The total volume of savings stood at about 900 m VND. But just 22 savers, or a little more than 50 percent of them are members. Hence, just 22 out of a total membership of 1,780 (or 1.2 percent) have a savings account. In addition, some 18 non-members have a savings account. The dependence on a small number of people who are mostly outsiders becomes even more apparent if it is looked at the respective savings. The 22 members have saved 188 m VND (on average, 8.6 m per member) while the 18 non-members have saved 712 m VND (on average, 39.6 m VND per person). Since all the savings are deposited on a short-term basis, this PCF might quickly lose its liquidity, if the savings persons want to withdraw their funds due to any justified reason or just rumours.

But many PCFs actively encouraged the savings among their members in order to become less reliant on outsiders, as it is shown in Table 4.8:

Table 4.8: Number of Savers and Amount Saved in a Selected People's Credit Fund, Quang Tri Province

	Number of Savers	Amount Saved (m VND)	Average Amount Saved (m VND)
Members	426 (of 894)	1,300	3.1
Non-Members	20	300	15.0
Total	446	1,600	3.6

Source: Own Survey, Quang Tri Province, March 2000

The total number of saving persons just comes up to 446. The total volume of savings stood at about 1,600 m VND. Almost all savers have been members (or about 95 percent), just 20 savers did not join the PCF. Hence, about half of all members (i.e. 426 of 894 members or 47.7 percent) have a savings account. The management of this PCF actively encouraged savings among members and those saving non-members to join the PCF. Most of the total savings, or about 80

percent, are made up by the members. Just 300 m VND, or about 20 percent, have been accumulated by non-members. In this respect, the PCF is not very reliant on outsiders when it comes to keeping its liquidity. In addition, the total number of savers is much bigger. One fact is fairly similar in all PCFs when it comes to savings. Non-members, in general, have higher volumes of savings on their accounts. On average, it is five times higher than the amount saved by the members, e.g. 3.1 m VND per member versus 15.0 m VND per non-member as in this case.

Although many PCFs encourage savings their financial capacity is limited. The funds accumulated in form of equity capital as well as in form of savings is, in general, too small compared to the need of credit among the membership, particularly keeping in mind the seasonality of supply and demand for funds. All PCFs have to make use of bridge loans and refinancing options through RCFs and CCF, respectively. It is the general policy of the PCF-system to ask for higher interest rates within the system compared to the rates paid for savings. However, as it had become evident in some cases during the field survey the interest rates for the PCFs which had to be paid on bridge loans to the RCF or CCF had been the same or even lower than those they themselves were paying for 12-months deposits (see Case Study 12). In such a situation, it is economically more attractive for the management to ask for additional capital from the provincial RCF than to encourage the mobilisation of savings. On the other side, even if the refinancing rates were quite attractive the managers complained about the relatively complicated procedure to get access to it. Hence, most of them preferred to mobilise savings (see Case Study 15).

The mobilisation of savings will be of primary importance for the future development of the PCF-system at the local level. Two basic problems have to be tackled, viz. the provision of short-term savings options only and the relatively small number of savers. With respect to the first problem some PCFs tried to encourage the subscription of higher volumes of share capital as a type of medium and long-term savings option. In the future, PCFs might have to develop new savings products besides the normal savings passbook to make savings more attractive, e.g. premium-aided savings. With respect to the second problem, the promotion of savings might be seen as an approach to foster the sense of ownership among the members. As experience elsewhere has shown savings can be done in small amounts, already. Similarly, a certain amount of savings and a savings track record might be required before applying for credit. The PCF-system could learn from this experience in order to strengthen its economic viability.

4.5.4 Distribution of Profits

Within certain limits the management of each PCF has some influence in determining the volume of profits, or annual surpluses. In asking for low interest rates on loans and offering high interest rates on savings the annual gross profits can be minimised while the benefits of members and, with respect to savings of

some non-members, will be maximised. Since the interest rates on loans are still somehow determined by SBV, PCFs just can adjust their rates on savings. As most of them wanted to mobilise savings, they are paying relatively high interest rates, as high as possible without jeopardising their overall financial position (see Case Studies 14, 15 and 16). On the other side, the management of some other PCFs did not want to encourage savings as the spread on interest rates had been too small in order to make any profit. These managers preferred to get access to the refinancing funds of the PCF-system (see Case Study 13).

While a certain number of PCFs did not show any profits and some of them even had to be dissolved, most of them managed to earn gross profits since their registration. Before discussing the issue of net profits and their distribution it has to be looked at the tax system as taxes have to be deducted from the gross profits first. As stated above (see Chapter 4.3.3), PCFs were not required to pay income taxes during the first two years and were entitled to a 50 percent concession for the following two years. In this respect, all PCFs and RCFs are regarded as banks and not as co-operatives. Similarly, each PCF and RCF is taxed as a separate entity. The managers complained bitterly as the tax rate stood at 45 percent of gross profits and even the reduced rate of 22.5 percent was seen as too high. Since the PCF-system was supposed to help the rural people, it had been argued that the tax rate should come up to 10 - 15 percent only. Therefore, in some foreign-funded micro-finance projects it had been discussed whether it was making sense at all to become a PCF in the long run since they would be taxed quite highly. Hence, it did not seem to be economic to formalise informal savings and credit groups even if they were meeting the minimum capital requirements set by SBV as they were mainly engaged in a local economic cycle. Following a long discussion process, the government finally reduced the tax rate to 32 percent starting from January 1999.

In addition, the government stipulated that up to the end of 2000, only half of the taxes had to be paid as taxes while the other half, or 16 percent of the gross profits had to be allocated to a special tax reserve. During the first years, these reserves cannot be touched but in the long run they can be used for covering special risks or can be transferred to the investment or development fund. As it will be discussed below, this regulation can be seen as one major factor for the healthy development of reserves.

Once the net profits have been deduced, PCFs have to deal with the perennial problem plaguing all co-operatives, i.e. either to keep as much of the funds in form of reserves or to distribute them in form of dividends among the share holders. As the provision of financial services is connected with more risks compared to the provision of services by agricultural co-operatives, the build-up of reserves has been one of the major requirements by SBV. As it is shown in Table 4.6 above, all PCFs surveyed had been very successful in building up reserves. In general, they make up about 50 - 75 percent of the subscribed share capital. In some cases, the reserves had already outpaced the volume of share capital. Definitely, the revised tax policy contributed to this quick build-up of reserves.

In general, about 50 percent of the annual net profits had been allocated into various reserve funds, although it ranges from 40 to 60 percent and in one case to 100 percent among those PCFs studied during the field survey. In general, about 5 percent of the annual net profits were allocated to the risk fund, about 35 percent into the development or investment fund and, the last 10 percent into the welfare fund. In this respect, it can be stated that the decision-makers act very prudently in enforcing the economic viability of their PCFs. Although they themselves have subscribed the highest amount of share capital, they are not acting opportunistically as short-term rent seekers in getting the highest dividends possible. They know very well that a high volume of reserves is needed to cover any risks involved.

The remaining part of the annual profits is distributed as dividends among the members. In general, all share holders are entitled to the same level of dividends. This equal treatment is actually contrary to the § 9 of the Regulation on the Organisation and Operation of People's Credit Funds dated 27 July 1993 which states that qualification shares should not bear interest. Most managers argued that all share holders regardless of their financial contribution have supported the establishment of the PCF. All members mobilised their own money and, hence, should be entitled to annual dividends, in case the PCF managed to earn a surplus. Only the managers in An Giang Province observed Article 9 strictly. They argued that the qualification share is actually just an entrance fee for getting access to credits.

The regulation of SBV foresees that the level of dividends should be in line with the interest rates on savings. In general, the management followed this rule but often it accepted higher rates (see Case Studies 15 and 16). Interest rates on dividends stood at 1.0 - 1.2 percent per month or even higher while interest rates on 12-months deposits stood at 0.6 - 0.8 percent per month. When the year had not been very successful and the volume of net profits relatively small, the level of dividends had been lower than the interest rates on savings (see Case Study 12 and 13). Then, interest rates on dividends came up to 0.6 - 0.8 percent per month while interest rates on 12-months deposits stood at 1.0 - 1.2 percent per month at that respective time. In some cases, the management might even decide to cancel the payment of dividends at all and to allocate the small annual net profit to the reserves.

4.5.5 Basic Features of People's Credit Funds in Comparison to Historical Experiences in Germany

Out of the discussion it becomes evident that the People's Credit Funds at the local level cannot be described as co-operatives in the strict sense. The system adopts co-operative principles, but the initiative to establish and expand the PCF-system is always taken up by SBV. It provides intensive support in controlling, supervision and training of staff, particularly during the implementing stage although there are still many short-comings. In this final chapter the major features of the PCF-system will be assessed. In order to highlight them more clearly they are put in perspective with the credit co-operative movement in Germany in early 20th century which had been based on the same purpose, i.e. to provide loans to those who have been excluded from the formal financial system. While the Schulze-Delitzsch-approach had been focusing on artisans and other small-scale industrial entrepreneurs in the urban areas, the Raiffeisen-approach focused on small-scale farmers in the rural areas. The basic features are summarised in Table 4.9.

Table 4.9: Comparison of Major Features of German Credit Co-operatives early 20th Century and the Present People's Credit Fund System in Vietnam

Feature	Schulze-Delitzsch-Approach	Raiffeisen-Approach	People's Credit Funds
Total number	~ 1,000 (1908)	~ 12,000 (1908)	959 (2000)
Membership	urban; greater occupational diversity, heterogeneous	rural; emphasis on agriculture homogeneous	rural; emphasis on agriculture, importance of non-farm sectors increase more homogeneous
Locations	large	small, villages	restricted to communes
Average No. of members	493 (1908)	94 (1908)	831 (2000)
Value of shares	high	nominal	both: high and nominal
Payment of dividends	yes	no	yes
Liability	limited	unlimited	limited
Loan periods	short-term	short- to long-term	short- (medium-) term
Interest rates on loans	relatively high	as low as possible	as low as possible

Share of own capital on loans	28 percent (1908)	4 percent (1908)	12 - 18 percent (2000)
Savings	yes (optional)	yes (optional)	yes (optional)
Major incentive devices	<ul style="list-style-type: none"> • exclusion of the poor • short-term loans only • high share of own capital, i.e. internal borrowing with high interest rates 	<ul style="list-style-type: none"> • unlimited liability • day-to-day contacts (peer monitoring) • loans for a limited range of activities (agriculture) 	<ul style="list-style-type: none"> • emphasis on short-term loans • day-to-day contacts (peer monitoring) • strong support by SBV and local administration

Source: Banerjee, Abhijit V., Timothy Besley, Timothy W. Guinnane: The Neighbor's Keeper: The Design of a Credit Cooperative With Theory and Test. In: Quarterly Journal of Economics, Vol. 109 (1994), pp. 502 - 509 and Own Survey

In the early 20th century the Schulze-Delitzsch-organisation comprised about 1,000 urban and the Raiffeisen-organisation about 12,000 rural co-operatives, while the number of PCFs stood at 959 by the end of 2000. With respect to membership structure, the PCF-system will become more heterogeneous over time. It used to emphasise on the provision of credit to mostly lowland farmers, but non-farm entrepreneurs are becoming more important as members and in applying for credit. In Germany, the urban credit co-operatives tended to be much larger than their rural counterparts. In 1908 the average urban German credit co-operative had 469 members; the average rural co-operative, 94 members. Compared to these historical data the average PCF comprising 831 members is relatively big.

The bigger the number of members, the more heterogeneous the membership structure and the larger the area covered by one co-operative, the higher the monitoring costs. In a more urban environment people are more dispersed and are less likely to come into day-to-day contacts. In addition, the projects for which members borrow are not so publicly visible as agricultural investments. The Schulze-Delitzsch-approach tried to minimise these monitoring costs and cheating in stressing the importance of liability incentives. Members had to subscribe shares of a relatively high value on which they were entitled to dividends. In case of default they were liable with their share capital only. Hence, the poor had been deliberately discouraged from joining. In this respect, these co-operatives had built-up high volumes of equity capital so that about 28 percent of all loans could be financed by their own funds. In addition, they encouraged the mobilisation of savings by the members in paying attractive interest rates. On the other side, interest rates on credits used to be relatively high as well. Moreover, they emphasised short-term loans, making it more difficult to acquire a large loan intended for a long-term project and then either misusing it or absconding with the money.

The Raiffeisen organisation had to follow a different approach in order to minimise monitoring costs and cheating. They insisted on restricting membership to a small region to maximise the availability of information on members. Members were in daily contacts and could apply peer-pressure in case of need.

Also the poor could join as the subscription of share capital was nominal. These shares were regarded as an entrance fee and no dividends had been paid. The volume of single loans had been kept relatively small. These co-operatives often made medium- and long-term loans to poor individuals, people who might well (in the absence of the co-operative's monitoring) have been tempted to disappear with a loan, or to choose an extremely risky project. As they followed the deliberate policy to keep the interest rates on loans as low as possible, they were not very successful in mobilising savings. Hence, the major share of all loans had to be borrowed from outsiders. This approach had only been successful due to the fact that members had been liable not only with their subscribed shares but with all their property in case of default, i.e. members' liability had been unlimited. In addition, loans had been only available for a very limited range of agricultural activities which could be easily monitored by the management and fellow-members (BANERJEE et al.: 502 - 508).

The PCF-system adopted the main features of both approaches but there is one major difference. Although the average number of members is relatively high, PCFs are restricted to a limited area, i.e. in general they cover one commune. In this respect, peer-monitoring and peer-pressure still forms an important element of the system. Since the reduction of poverty is one of its main objectives the poor have the option to join for a more nominal share, i.e. the qualification share. However, in order to become economically viable a certain minimum level of share capital is needed which can only be fulfilled if the better-off are subscribing more shares. Hence, the system combines both types of shares, i.e. qualification shares of a nominal value and permanent shares of a high value. In order to motivate better-off rural people, relatively attractive dividends have been paid and those who are providing the capital have almost all decision-making power. Both types of members are liable with their share capital, only. Nevertheless, the PCFs manage to finance about 12 - 18 percent of all loans out of the own capital equity. In addition, the system is attracting the mobilisation of savings in paying relatively attractive interest rates. While credit is available for all types of farm and, becoming more important in the future, of non-farm activities, it is restricted to short-term loans only. Just recently first trials with medium-term loans running for 24 months have been started.

The relatively smooth running of the PCF-system would not be possible without the strong support of the local administrations. They help in the registration process, identify economically more prosperous persons as founders, provide office space and land for setting up an office building in the future, help the management in putting a lot of pressure on loan defaulters, and provide the letters of confirmations for loan applicants. Except for the last service these are exclusively for the PCFs. In addition, many chairmen and vice-chairmen of the local people's committees serve in the management boards of PCFs. However, this strong support is not always beneficial to PCFs as some of them had been overburdened by financial requests of the local people's committees.

In addition, all PCFs rely on the strong support of the SBV. The State Bank provides the necessary training and sets the prudential norms in running the PCFs

at the local level. Although this support has been far from satisfactory which is reflected in the extended trial periods, there is no denying that it is a precondition in running the PCF-system. Compared with the historical experience in Germany, both the strong support by the local administrations and the Central Bank had not been available at that time. At the beginning, these co-operatives had to develop their experience over time in a learning-by-doing process.

4.6 Outlook

Since its inception a number of advantages have been connected with the PCF-system. In most cases, the local PCFs are well known among the population and they enjoy a good reputation. The members know each other well. The PCFs are owned by the members and the decision-making leadership is drawn from the members themselves. In general, this local ownership reduces credit risks and provides peer-pressure incentives to repay loans. PCFs can offer services at low transaction costs because of their proximity to and familiarity with clients. Their small size permits adoption of simple procedures and credit applications are processed at a speedy manner. They encourage the mobilisation of savings. Moreover, the local ownership will exert pressure on PCF-managers to be responsive to local requirements. Because they can have inexpensive access to information on loan applicants and monitoring mechanisms reasonable repayment rates can be ensured. In this respect, it can be stated that access to financial services has improved for the rural population.

This improved access to financial services in the rural areas has been identified as one major requirement to reduce rural poverty. But, in reality, PCFs can contribute to the reduction of rural poverty to a limited extent only. The price for acquiring one qualification share is relatively low, but it seems to be too extensive for most of the poor. In addition, most of them would not meet the lending criteria when applying for credit, i.e. they cannot provide collateral which is required by many PCFs. Most of the members are those rural inhabitants who can afford to subscribe, at least, one qualification share, i.e. those who are somewhat better-off economically. Its major accomplishment has been the provision of a viable rural finance system to farm and small-scale entrepreneurial households to stimulate economic development which contributes to poverty eradication, indirectly. In addition, the establishment of the PCF-system helped significantly to restrict the importance of private money lenders in the villages. They had to reduce their interest rates or went out of business completely. On the other side, the rich in the villages are not so much interested in joining the PCF-network since they need larger amounts of credit for longer periods which might be offered by VBARD only for the time being.

Therefore, with respect to financial services three groups among the rural population can be identified. The economically most prosperous ones rely on VBARD in meeting their needs. The better-off in the communes who had only limited or no access to VBARD so far benefit mostly from this approach. They get

access to viable financial services relatively quickly. The rural poor benefit only indirectly from this approach, i.e. due to economic development in the villages and lower rates asked by private money lenders. But, in general, they rely on subsidised credit programmes, either through VBP or through special programme loans.

So far, the PCF-network has been established predominantly in those areas which are economically better-off and infrastructurally better developed. After an enthusiastic start the expansion of the system stagnated. Since 1997 a consolidation period had been proclaimed. During the last three years about 30 PCFs had to be dissolved due to irresponsible loans. The consolidation phase has been extended up to the end of 2001, i.e. starting from 2002 new PCFs might be registered and get a license from SBV. It is the objective that the PCF-system will work in a sustainable manner in a market-economic environment. It is supposed to play a more active role in promoting small-scale (non-farm) enterprises in the rural areas. In order to fulfil this task the PCF-system has to become viable first. In the next years the network will be spread more equally all over the country and cover the marginal regions as well.

4 Conclusions

When assessing the present situation of the agricultural co-operatives of both types, i.e. the transformed as well as the newly established ones, and of the PCFs it has to be concluded that they have incorporated many co-operative principles but they do not correspond fully to the co-operative model which has been developed in market economies over time. The people's committees at the various levels and MARD have been pushing for the transformation process while SBV has been the driving force in identifying appropriate communes for setting up PCFs. Members joined in the transformation process as they had nothing to lose while, with respect to the PCFs, interested people could only start the foundation process and join later on once the decision to establish a PCF had been taken. Similarly, the influence of the local administration on decision making of these co-operatives is relatively high. It is evident that both types of co-operatives meet the principles of self-administration and self-responsibility to some extent only.

On the other side, it has to be kept in mind this new co-operative system develops out of a Soviet-style co-operative model which had been totally integrated in the central state-planning system in the past. After the re-emergence of private farming the transformation of agricultural co-operatives and the set-up of PCFs can be seen as another step in decentralising and devolving economic decision making to the lowest levels, i.e. the families and private individuals. In this respect, these newly formed organisations have a good chance to become member-oriented entities in the years to come. In addition, new agricultural co-operatives have been established during the last years, many from scratch. This form of organisation and its structure is almost equivalent to those forms observed in market economies. They are member-oriented and help them to earn higher incomes compared to a situation without the co-operative.

Nevertheless, the development of agricultural co-operatives and the PCF-system did not proceed that smoothly as originally anticipated. The transformation process of agricultural co-operatives is still not finalised yet although at the beginning it was planned to have it completed within one year. The expansion of the PCF-system, after an enthusiastic start, stagnated since 1997 and it had been decided to extend the consolidation phase up to the end of 2001 before expanding again. Only the number of newly established agricultural co-operatives increased rapidly although as shown above it is difficult to assess which have been really newly set-up and which just have been split up from existing ones. Hence, both, agricultural co-operatives as well as PCFs were confronted with a number of problems during the last years. Similarly, both types of rural co-operatives are very young organisations which have to develop over time. In this respect, it is reasonable to compare their experience in more detail and to assess what

preliminary lessons can be drawn for future development. Based on the findings of the field survey the following aspects seem to be of major importance.

Contacts/Co-operation between PCFs and agricultural co-operatives at the local level. As most PCF-members are engaged in agriculture and agricultural loans form the bulk of all loans, it had been looked into the fact whether there are any contacts with the respective parallel organisation, i.e. a PCF with an agricultural co-operative or vice versa in their respective commune. The findings reveal that, in general, there are no contacts at all as it is shown in Table 5.1. In most cases, there are no PCFs in the communes where agricultural co-operatives are located. Even if PCFs have been established in that respective commune, both types of organisations exist side-by-side. Close contacts can only be observed in exceptional cases.

Table 5.1: *Contacts Between Studied PCFs and Agricultural Co-operatives*

	Agricultural Co-operatives	People's Credit Funds
No parallel organisation	16	6
Parallel organisation, but no contacts	2	4
Parallel organisation, close contacts	1	1
Parallel organisation is member	- -*	2
Total number of cases	19	13

* Not possible

Source: Own Survey

On the other side, in those communes where PCFs have been established they seem to have some more contacts with agricultural co-operatives. One reason seems to be the fact that there is a much smaller number of PCFs all over the country and that they can be mainly found in the more prosperous areas where also agricultural co-operatives have more economic potential for development. If there are contacts these concentrate on the reciprocal checking of members about credit applications, i.e. in most cases credit-in-kind from the agricultural co-operative and cash credit from the PCF. The co-operation can be very close, however, in those cases where the agricultural co-operative as a legal entity joined the PCF of the respective commune. It is hoped that more agricultural co-operatives will do so in the future as most of them are in urgent need for reliable financial services. On the other side, agricultural co-operatives are not allowed to accept legal entities as members, so far. Hence, PCFs cannot join an agricultural co-operative in their respective commune for the time being.

The first conclusion refers to the need to improve and expand the size and scope of contacts significantly. Due to the co-operative set up both types have a

number of problems in common which could be tackled together as it will be discussed below.

Eligibility to the self-governing bodies. The self-governing bodies of co-operatives comprise beside the general assembly the managing and the supervisory boards. The criteria, however, to qualify as a candidate to one of these two boards are not the same. One criteria is valid for both types of co-operatives, i.e. the candidates must possess a certain level of social status and reputation. With respect to the subscription of shares the requirements of the PCF-system are more strict. While ordinary members are required to subscribe, at least, one qualification share which comes up to 50,000 VND for the time being, candidates have to subscribe higher-valued permanent shares, i.e. to mobilise more of their own money to show a higher degree of commitment. Hence, there is a built-in dual membership, i.e. those subscribing permanent shares and those subscribing qualification shares.

Permanent shares come up from 100,000 to 1 m VND, each. Often, members are encouraged to subscribe more than one permanent share. On the other side, there are a number of PCFs where just the few founding members are allowed to subscribe permanent shares while all newly joining ones just have the option to subscribe one qualification share. Only those with permanent shares or even a certain minimum amount of permanent shares are entitled to stand as candidates for the general assembly and for the self-governing posts. Often, also the employed staff has to subscribe a certain amount of share capital. In this respect, it is ensured that those persons who committed a higher amount of their own sources have a higher say in the decision-making process.

Concerning agricultural co-operatives, there is the option that elected board members have to subscribe a higher amount of share capital as well. Occasionally, it has been adopted. For example, two cases have been reported in Phu Tho Province (out of 133 in total). Hence, like the fact that most members of transformed co-operatives do not have to contribute additional cash as share capital at transformation, board members in general do not have to subscribe a higher amount of share capital.

Membership of legal entities. As reflected in Table 1, legal entities, e.g. agricultural co-operatives, the people's committee of the commune, other mass organisations at the local level or private companies, have the option to join PCFs. In general, these legal entities subscribe permanent shares. Whether these entities qualify for credit depends on the respective bylaws. On the other side, private persons only can join agricultural co-operatives.

The experience of the PCFs with legal members has been mixed. In general, these entities just join PCFs in order to show their support of the approach. But some have asked for loans which clearly overstepped the prudential norms, i.e. not higher than 15 percent of own equity capital (i.e. share capital + reserves). Some PCFs had to be declared bankrupt and closed down due to excessive loans to legal members. Hence, agricultural co-operatives should be careful once they will have

the option to accept legal entities as members since these entities might want to have a large say in decision making.

Role of share capital and reserves. At registration, all PCFs are required to show a minimum amount of share capital. In 1998 this minimum amount of share capital has been increased from 50 m to 100 m VND. There are discussions to increase this minimum amount even further. A high volume of share capital and reserves (i.e. own capital) helps to cover any risks involved. Therefore, it is the objective of the PCFs to increase the volume of own capital, either in accepting new members who subscribe additional share capital and/or in retaining a large share of the annual surplus as reserves.

Concerning agricultural co-operatives, particularly the transformed ones, the book value of assets is relatively high. When it comes to the volume of current assets available, however (and in particular that share of current assets which is readily available as cash for financing on-going activities), it becomes evident that in general this amount is quite modest. Rough calculations based on the survey findings reveal that, on average, just about 10 percent of the assets are readily available for financing service activities (or about 30 - 80 m VND per transformed agricultural co-operative). The newly established agricultural co-operatives have an accumulated share capital of about 20 - 100 m VND, which, however, is in general readily available as working capital.

Although PCFs in general distribute about 50 percent of their annual surplus as dividends, the build-up of reserve funds is very important. The relation of share capital to reserves comes up to about 1 : 1 (or at least 1 : 0.75), i.e. if the share capital comes up to 100 m VND there are also reserves of the same amount. Most agricultural co-operatives are starting to build up reserves as well. However, most transformed co-operatives did not show reserves at transformation, because all funds had been declared as share capital. Similarly, the newly established co-operatives had to start with their paid-up share capital, only. Both types of co-operatives have to build up reserves over time out of the annual surplus. Hence, the payment of dividends should not be of any concern for the time being as it will take a long time until such a healthy relation of share capital to reserves will be accomplished.

Role of dividends. This is closely related to the last point. When members have subscribed shares and mobilised their own money, they should be entitled to annual dividends, in case the co-operative managed to earn a surplus. The main objective of any co-operative, however, will be to provide needed services to its members, efficiently. Only those services are efficient which help the members to save production costs or to expand and improve production and, thus, to earn a higher income. The main objective of members to join is the option to make use of these efficient services which are otherwise not available at all or only at higher costs. It is never the main objective of members to receive high dividends. Other saving options will be definitely more remunerative.

Most PCFs distribute about 50 percent of the annual surplus as dividends among members. Many transformed co-operatives also pay out dividends although, in general, members have not contributed any cash as share capital. It is recommended to keep this capital with the transformed co-operatives and provide the services offered even more efficiently or to offer additional ones. Concerning the newly established agricultural co-operatives it is striking that the payment of dividends is not of any priority. In general, all surplus is kept as reserves.

Size / business capacity of co-operatives. All business operations of PCFs are restricted to their respective communes. Those living outside cannot join and make use of its services. The advantage has been that the members do know each other relatively well, i.e. they have an intimate knowledge about each other. On the other side, the minimum size to manage a PCF economically and for a healthy development in the future has not been met in many cases. Therefore, this restriction has been adopted flexibly at the local level. There are a few cases where one PCF is covering a larger area than just one commune. Whether this restriction will be waived in the future is under discussion.

Most agricultural co-operatives are operating on a village level. There are just a few on a commune level anymore. Many rural people still have in mind the bad experience from the past when consolidation of the agricultural production co-operatives had been enforced during the 1970s. Since the late 1980s many of them split up, again. Nevertheless, many transformed co-operatives will be too small in the long run to provide the essential services in an economic manner. Hence, many co-operatives at the local level have to be prepared to merge in the coming years. In addition, many services can only be offered economically if there will be co-operatives at a higher level, i.e. secondary co-operatives or co-operative federations at district or even provincial levels.

Role of audit / external supervision. In both types of co-operatives the functions of external audit and supervision are poorly developed. An effective control is needed to protect not only ordinary members, but also the management, including the supervisory board against intended and unintended mistakes. But an external audit should not be regarded as a simple external control, but should also provide advice to the management how to improve its services. The basic standards to be met are the same for both types of co-operatives. With respect to agricultural co-operatives MARD is in charge, with respect to PCFs the State Bank (SBV). Both organisations, however, lack the resources and manpower to fulfil this task efficiently and, hence, have not been very strict during the last years.

Similarly, the requirements and standards for proper and systemised book keeping, management and internal supervision are overlapping to some extent. Therefore, it is recommended to look into the options to provide common training courses for co-operative staff, managers and supervisors. Finally, it should be assessed whether specialised co-operative auditors will be trained who will be responsible for external audit of all types of co-operatives.

Internal and external autonomy of co-operatives. Internal autonomy or organisational autonomy is the basic pre-requisite for the practice of organised forms of self-help, such as co-operatives. External autonomy, mainly understood as economic autonomy, can be considered to be the goal of co-operative organisations, concentrating on economic activities and services.

The internal autonomy depends on functional internal democracy and co-operative leadership. A pre-requisite for this is the functioning of a co-operative society as a single stakeholder organisation, whereby the members with their common interest are considered to be the stakeholders. If special interest of leading members, employed managers and members of supporting institutions, such as government services and local party functionaries, are dominating the common interest of the members, the co-operative society will be changed towards a multi-stakeholder organisation.

The former collective organisations could be considered more or less as multi stakeholder organisations, dominated by the government and party officials. The transformation process analysed in this report supported a gradual development back to co-operatives organised as single stakeholder organisations. Keeping in mind the former multi-stakeholder structure with the officials dominating the membership, the re-establishment of internal autonomy has to be seen positively, even if the co-operatives do not correspond totally with co-operative systems, working in an environment with a well established civil society.

The external or economic autonomy depends very much on the existing of a co-operative system with federated structures and associations obeying the principle of subsidiary. In this respect, the co-operatives in Vietnam still have a long way to go. Particularly the agricultural co-operatives are not yet integrated as equal partners within the agribusiness still dominated by state-owned enterprises.

Hence, it can be concluded that co-operative organisations are just at the beginning to play a bigger role in economic development in the rural areas in Vietnam. So far, both agricultural co-operatives and PCFs are mainly concentrated on the lowland areas. There is an urgent need for efficient self-help organisations in the other areas as alternative organisations of service providers are either totally missing or very costly from the point of view of farmers and other rural entrepreneurs. It is safe to assume that the number and size of co-operatives will increase in line with economic development in the rural areas.

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ANNEXES

Annex 1: Check List for In-depth Interviews

Annex 2: Description of the six target provinces

Annex 3: Selected Case Studies

Annex 1: Check List for In-depth Interviews

(1) Decision-makers in the rural areas (from provincial, district and communal people's committees, Party officials, etc.)

- No. of "old style" co-operatives: 1988/ 1990
No. of "old style" co-operatives: 1996 (i.e. before transformation)
No. of new style co-operatives: now
all figures differentiate: village, inter-village and commune co-operatives
- Opinion about the transformation process in the respective administrative area; what has changed compared to the "old-style" co-operatives?
- No. of newly established agricultural co-operatives
- Average amount of registered capital per co-operative (fixed and current assets, share capital, funds, liabilities)
- Associations of agricultural co-operatives established already?
Would it be useful in the future? If yes, reasons; if no, reasons!
- No. of People's Credit Funds at commune (local) and regional levels
- Major problems with agricultural co-operatives in the area and what has to be done to solve these problems?
What can the respective people's committee do in order to help?
- Equitisation of agro-industrial state-owned enterprises (SOEs) ongoing or discussed?
If yes, is there a role for agricultural co-operatives?

(2) Chairpersons / Board members of transformed agricultural co-operatives

- Steps of the transformation process (from the start until it is registered as a "new-style" co-operative, i.e. as a unit which is allowed to do business activities)
- How long did it take?
- What problems have they encountered?
- Has there been any support? If yes, from which side and how?

- No. of members (male and female)
- Criteria for membership (i.e. household heads, each adult member of a family, each person entitled to land within a family including young children, etc.)
- Did all members join the "new-style" co-operative?
If not, what were the reasons?
- Activities provided by the co-operative, now:
 - services to support agricultural production (e.g. irrigation, input supply, marketing, etc.)
 - community services (e.g. electricity supply, etc.)
 - joint productionAre there activities for which members have to pay?
- Member and non-member business: Are there activities for members only?
If yes, which ones?
If no distinction, do non-members pay the same price like members?
- Who is eligible for the board? Who can be elected as chairperson?
Qualification criteria (i.e. with respect to status, reputation, income, etc.)
- Salary/compensation for the chairperson and other board members: amount per month
- Liability of chairperson/ board members for any losses? If yes, explain
- Taxes or any other fees to be paid? If yes, what type of fees/taxes and what amount annually?
- Besides the management board is there a supervisory board?
If yes, how many members?
How many meetings per year?
- Bank account of the co-operative, if any?
If yes, with which bank?
If yes, how much money in it?
- Capital value of co-operatives:
total, fixed and current assets, shares, undivisible funds, liability
- Debts of co-operative: if yes, how much?, Reasons of the debts

- Average value of individual shares (after transformation):
Shares distributed equally or depending on the number of working years?
If yes, explain the pattern adopted
Buying of multiple shares possible?
Is the management required to buy more shares than the average member?
Note: distinguish between "total value of assets per member" and "nominal share"
 - Outstanding loans by the co-operative to members (receivables):
If yes, total outstanding amount?
Loans for what type of activities available? (e.g. short-term loans only or loans not repaid since a number of years?)
 - Is the co-operative making profit/ losses during the last years?
 - Are there any reserve funds?
If yes, what type of funds and their respective volumes?
 - Did members have to contribute cash after transformation? If yes, how much? In one sum, or in instalments?
 - Dividends per share? If yes, what amount has been paid per share?
 - Major problems of the co-operative
Ideas how these problems can be resolved
 - Major plans for the future: what will be done.
- (3) Chairpersons/Board members of newly established agricultural co-operatives**
- Business activities
 - How long did it take to set-up the new co-operative?
 - Major problems encountered?
 - Has there been any support? If yes, from which side and how?
 - No. of members (male and female)
 - Criteria for membership

- Reasons for registering as a co-operative: (Why not as a closed joint-stock company or limited liability company or any other legal entity?)
- Member and non-member business: Are there activities for members only?
If yes, which ones?
If no distinction, do non-members pay the same price like members?
- Major business partners (e.g. other farmers, private traders, private companies, state-owned companies, etc.): specify
- Who is eligible for the board? Who can be elected as chairperson?
Qualification criteria (i.e. with respect to status, reputation, income, etc.)
- Salary/compensation for the chairperson and other board members: amount per month
How often does the management board meet per month?
- Besides the management board is there a supervisory board?
If yes, how many members?
How many meetings per year?
- Liability of chairperson/ board members for any losses? If yes, explain
- Taxes or any other fees to be paid? If yes, what type of fees/taxes and what amount annually
- Bank account of the co-operative, if any?
If yes, with which bank?
If yes, how much money in it?
- Capital value of co-operatives:
total, fixed and current assets, shares, indivisible funds, liability
- Debts of co-operative: if yes, how much?, Reasons of the debts
- Average value of individual shares:
Shares paid up equally per member?
Shares contributed in cash and/ or in kind? Specify!
Buying of multiple shares possible?
Is the management required to buy more shares than the average member?
Note: distinguish between "total value of asset per member" and "nominal share"

- Outstanding loans by the co-operative to members (receivables):
If yes, total outstanding amount?
Loans for what type of activities available?
- Is the co-operative making profit/ losses during the last years?: specify!
- Are there any reserve funds?
If yes, what type of funds and their respective volumes?
- Dividends per share? If yes, what amount has been paid per share?
- Major problems of the co-operative
Ideas how these problems can be resolved
- Major plans for the future: what will be done

(4) Chairpersons/Board members of local People's Credit Funds

- Amount of total share capital
- No. of members (male and female); total and of which founding members
- What people have been the founding members? (i.e. with respect to status, reputation, income, etc.)
How much money did they have to provide each to cover the share capital?
Amount of share capital paid up by founding members only
- Share per ordinary member; do they have to pay up more than the minimum amount of 50,000 VND?, If yes, up to what amount per member
- Deposits: Total amount and amount per member
- If non-members can save as well:
No. of deposits by non-members and average amount of deposit
Interest rates for deposits
- Loans provided:
No. of loans last year
Average size of loan
for what type of activities?
Repayment periods: up to 3 months; 3-6 months, 6-12 months; or even longer
Interest rates for loans

- Refinancing of funds:
Is it possible to borrow money from the Regional Credit Fund /Central Credit Fund or other banks to increase the amount of loans?
If yes, which source of finance? Up to what limit?
- Deposit of surplus funds if not so much money is borrowed by members:
Deposit this money with the Regional Credit Fund /Central Credit Fund or other banks possible?
Has it been done in the past?
If yes, what amount with which bank?
For how many months?
Interest rate for this deposit?
- Personal motives/reasons of becoming a founding member of the PCF
- How long did it take to set up the PCF? (from discussing the idea the first time up to the final registration)
- Who is eligible for the board? Who can be elected as chairperson?
Qualification criteria (i.e. with respect to status, reputation, income, etc.)
- Salary/compensation for the chairperson and other board members: amount per month
How often are there meetings per month?
- Liability of chairperson/board members for any losses? If yes, explain
- Taxes or any other fees to be paid? If yes, what type of fees/taxes and what amount annually
- Besides the management board is there a supervisory board?
If yes, how many members?
How many meetings per year?
- Is the PCF making profit/ losses during the last years?
- Are there any reserve funds?
If yes, what type of funds? How much money involved and their respective volumes?
- Dividends per share? If yes, what amount has been paid per share?
- Competition with the Bank of Agriculture (VBA), other banks or the informal sector in this area?
Specify

- Major problems of the PCF
Ideas how these problems can be resolved
- Major plans for the future: what will be done

(5) Ordinary members of agricultural co-operatives/ PCFs

- Reasons for becoming a member
- Participation at general assemblies:
Has there been one last year?
Participated: yes or no; reasons
- Changes compared to the agricultural co-operatives before 1990:
If yes, what changed?
- Decision-making process: opinion about having any influence as an ordinary member?
If yes; reasons!
If no, reasons!
- Need for further activities within the agricultural co-operative?
- Open to contribute own money in addition, if co-operative is doing a worthy investment? (as the co-operative does not get any credit)

Annex 2: Description of the six target provinces

Bac Giang (October 1998)

The economy of Bac Giang Province is characterised by agriculture. More than 90 percent of the population are farmers (amounting in total to 1.5 million) which provide more than 50 percent of the provincial GDP. More than 300,000 farm households cultivate about 100,000 ha. Hence, the average farm size comes up to just 0.3 ha which is spread over 14 plots. The main areas for future investments will be the improvement of the irrigation systems and rural road network. Irrigation systems just cover 30 percent of the potential area.

Before 1997 there have been 135 old-style co-operatives. Up to now 66 have been transformed out of which 62 have been legally registered already. However, in some districts (e.g. Yen Dung or Viet Yen) there are no co-operatives at all, anymore. In addition, 7 agricultural co-operatives have been newly established under the Co-operative Law.

Usually, a co-operative covers either a village (hamlet) or a whole commune. This fact might be decided politically to some extent, but more important seems to be the size of the catchment areas of the respective irrigation system and/or the size of the service area of the electricity facilities. Depending on the service area, membership varies between about 200 in a village co-operative to about 1,000 in a commune co-operative. On the provincial level, the average number of members stands at about 500 and 600. With respect to the newly formed and registered agricultural co-operatives membership is much smaller. On average, it comes up to 15 and 20 members.

The registered amount of assets of the 66 co-operatives stands, on average, at 546 m VND, out of which 490 m VND are fixed assets and 56 m VND as current assets. Most of the assets has been transferred from the old-style co-operatives. In general, members did not contribute additional cash or funds. On the other side, each co-operative is burdened by debts coming up, on average, to 58 m VND. During the last years, however, neither interest nor principal had been paid back. In this respect, this debt can be termed as an irredeemable interest-free loan.

Membership in one of the transformed co-operatives seems to be very attractive. About 90 percent of all families living in the areas covered by the respective co-operative have joined. This is considered as quite high. In general, membership is assigned to the household.

In most co-operatives the share value is not always properly understood. Very often, the average value of equity per member is termed as share value. But the equity includes reserves as well which will not be paid out to members in case they cancel their membership, i.e. come under the indivisible funds. The business share of each member represents both, the average value of the current assets plus an optional cash contribution. In Bac Giang Province, there has been the rule that a

cash contribution should not be more than 40,000 VND per member. But so far, not many co-operatives have enforced their members to put up some cash.

The co-operatives concentrate on the management of irrigation systems, the provision of electricity, input supply and extension (technology transfer). Due to lack of funds and the limited capabilities of the management the emphasis of the activities is laid on, for the time being, the organisation of input supply. Most of the activities are done by specialised groups under the umbrella of the co-operatives. In addition, there is a large number of self-help groups working outside the co-operative system within the province.

In many areas where the old-style co-operatives have collapsed, the assets have been transferred to the respective communes. Sometimes it had been a political decision to dissolve old-style co-operatives. For example, the people's committee of the District of Việt Yên decided in October 1991 to abolish and dissolve all old-style agricultural co-operatives as no one had been active anymore. Before 1990 there had been 9 co-operatives on the commune level and another 90 on the hamlet/village level. In total, the district is made by 1 town, 17 communes and 145 villages. The farmers and members had been in support of this decision.

Following the decision of the District People's Committee all assets of the co-operatives had been transferred, wherever applicable, to the respective village. The village headmen, in addition to their administrative tasks, were actually becoming the executive manager of all activities which used to be done by the co-operatives. They are supported by village committees elected by the village people. In addition, in all 145 villages self-help groups have been set up to carry out the necessary support services for the farmers, i.e. management of irrigation and electricity systems, provision of input supply and/ or plant protection. All village groups are specialised on one activity only. Hence, there are up to four different groups in a village. For all these services fees have to be paid by the households. In general the fees are paid in kind, i.e. in paddy. It is actually one of the tasks of the village headmen to ensure that the fees are paid properly.

The experience with this approach had been mixed. On the one side, it showed that proper services can be provided to the farm households without co-operatives. In general, small groups have been entrusted in doing the respective activities. These informal groups often formed on a self-help basis, might form the nucleus for future co-operatives. On the other side, it became clear that the dual function of the village headmen, responsible for public administration and in charge of managing the necessary services at village level, had become a disadvantage. For most of the population it had been difficult to understand when they paid their taxes and fees for which item the money had actually been used although there had been the decision by the district people's committee to strictly separate these two different sources of funds. As the standards of book keeping are not very high, there was a constant suspicion that the fees were spent for other things or misappropriated.

At the district level, it was finally realised that the administrative and economic functions of the village administrations had to be separated again in the long run and new co-operatives were needed. There had been support from the

provincial authorities in setting up new co-operatives, but it was felt that the general rules and guidelines were not properly adjusted to the local situation. At the district nobody wanted to rush in order to implement the new system, but they wanted to learn from others, first. It is aimed to set up agricultural co-operatives in a very cautious manner. In case new co-operatives will be established they will take over the remaining productive assets from the communes.

With respect to the PCF-system, there are 10 local PCFs operational within the province. They comprise a membership of 3,420 persons. Compared to other provinces, they are relatively small. The total working capital came up to 7,662 m VND comprising 887 m VND as share capital, 361 m VND as reserves, 5,564 m VND as savings and another 850 m VND as a deposit from SBV. The total volume of loans came up to 9,079 m VND borrowed by 2,669 members. Hence, the average loan amount stood at 3.4 m VND. In total, the 10 PCFs managed to earn a gross profit amounting to 206 m VND. Concerning taxes, all PCFs are treated like banks. Hence, the tax rate of 45 percent of gross profits applies after the third year of operation. During the first two years no taxes have to be paid.

(b) Quang Binh (October 1998)

The province comprises one provincial town, 7 districts and 149 communes. In 1988 there had been 354 agricultural co-operatives. Their regional coverage is not uniform. 101 of them just covered one village only, another 225 had been inter-village co-operatives, while the remaining 28 were in charge of the whole commune. The main reason of the various size of the co-operatives refers to the various size of the catchment areas of the irrigation systems. But it also depended on the type of economic activity pursued, the skills of the management staff ("cadre") and the social coherence and harmony among the members. The members preferred the smaller type of co-operative while some economic activities required larger units. During the 1970s there had been a policy to amalgamate smaller co-operatives. But it was soon realised that the management capacities of the cadre was quite low and these newly formed units were no more manageable. Hence, most of these co-operatives were split again.

During the following years 146 co-operatives had collapsed already. When the Co-operative Law became effective at 1 January 1997 just 208 were registered. Concerning the rate of collapse it is striking that it had not been equal. While still 98 village co-operatives are operational, the number of inter-village co-operatives declined to 92 and the one of the commune co-operative to 18. Hence, the collapse of co-operatives had been most remarkable at the inter-village level. Among that type their number declined by about 60 percent. The number of commune co-operatives declined by about one third, while just 3 out of the 101 village co-operatives collapsed. MARD officials do not have any explanation, but it seems that social factors are very important in ensuring the survival of the co-operative.

Based on these 208 remaining agricultural co-operatives their total assets are valued, on average, at 318.2 m VND, of which 256 m VND are of a fixed nature. The problem of debts to the banks is of minor importance within this province. On average, outstanding debts come up to 6.7 m VND. Nevertheless, the co-operatives are in different shape. 55 of them are classified as well-operational, i.e. they offer up to 5-6 different services to their members. Another 80 co-operatives offer just a few services while the remaining 73 do not operate at all, anymore. These will be the first ones to be closed down in line with the transformation process.

Right after the adoption of the Co-operative Law the provincial people's committee established a supervisory ("guidance") board to support the transformation process at the local level. The vice-director of the people's committee had been appointed as chairman, while officials from MARD and mass organisations had been members. Their main function had been the dissemination of all information concerning the transformation process to the districts and co-operatives, e.g. to familiarise them with the Co-operative Law and Decrees 2, 15, 16 and 43. In addition, training courses were offered. In general, it had been the management staff of the old-style co-operatives who had been targeted. Similarly, in each district a supervisory board had been established. In these days, it is the staff of MARD at provincial and district level who is giving guidance to the co-operatives, e.g. offering short-term training courses for co-operative chairpersons, or in-depth courses in accounting.

So far, 75 out of the 208 agricultural co-operatives had started the transformation process. 63 of them had already finalised the process and had been registered as new-style co-operatives. The other 12 co-operatives had been closed-down and their assets transferred to the communes. Not one newly established agricultural co-operative has been registered in this province, so far.

When it comes to the transformation, more or less all members of the former co-operatives wanted to join the transformed ones. Nobody wanted to be an outsider. In addition, there are some incentives to become member e.g. in form of lower prices for irrigation water or electricity. Members might also get some inputs on credit with a low or even without interest. In this province it had been decided that individual persons and not households will be registered as members of the transformed co-operatives. Hence, one household might comprise several members. The main reasons for this decision have been that in the old-style co-operatives all active labourers had been members. In addition, household members are becoming a bit more independent: In case one household member moves away the others are not affected.

Within the transformation process the rights and obligations of the members had been codified in the bylaws. The value of individual shares has been calculated, only. Members did not have to contribute any cash in the transformation process. In case a transformed co-operative is making profit, these should be distributed among members in two ways. On the one side, members are entitled to dividends on the shares they own. In addition, members will be entitled to a special refund according to the size of business turn-over they had with their co-operative ("patronage refund"). In this way members should be encouraged to

do most of their business activities (e.g. purchase of inputs) with the co-operative and not with private competitors.

One of the major outcomes has been the significant reduction of management staff. While management boards used to comprise 16-18 members before transformation, their number has been cut down to a maximum number of 7 persons. Out of them just 2-3 persons are elected by the general assembly, i.e. the chairman, his deputy and one more member. These elected persons form the executive board ("inner management board") which is in charge of the day-to-day business. They are supported by - up to 4 - appointed employees. These are e.g. the cashier, accountant and book-keeper. These persons have to be member of the co-operative. The daily activities are managed by specialised groups comprising members of the co-operative. The executive board is just looking into all aspects referring to outside relations, e.g. signing of a contract with the pumping station. In Quang Binh Province, it was decided that one person is enough to be elected as supervisor, i.e. there are no supervisory boards. However, if there might be a bigger problem to be solved the supervisor is free to appoint other persons to a temporary supervisory board. This board will look into the problem in more detail. Once a decision about the problem has been taken the board will be dissolved.

All administrative and social functions of the former co-operatives had been transferred to the people's committee of the communes. The co-operatives will concentrate on economic activities only. The main activities are (a) the management of irrigation systems, (b) the management of electricity supply, (c) extension ("technology transfer"), and (d) provision of input supply, mainly seeds. Input supply is mostly done on a credit-in-kind basis whereby the co-operative itself gets the seeds from the company and distributes the seedlings among the members. The outstanding sum is settled after harvest by the members with their co-operative and the co-operative with the company. Some co-operatives still have some funds to finance this type of business. In that case, the company is paid right after the delivery of inputs. It is envisaged that each transformed co-operative should set up a special fund to finance input supply amounting to about 50-70 m VND.

In case the co-operative is dissolved the respective commune will continue to organise the most important activities, i.e. irrigation facilities and electricity supply. Then, the commune or village headman will appoint groups to perform the respective activities. In general, contracts are signed with private companies who are providing the staff. The commune will sign a contract with the pumping station or the electricity supply station, mostly at the district level. The day-to-day management is with the contracted groups. For the clients at the local level there is no difference in the type and quality of services provided. However, the fees they have to pay are usually higher compared to the situation when a co-operative is managing these activities. To employ the specialised groups is more expensive. In addition, there are some administration costs with the village and commune. For example, the irrigation fees with a co-operative, on average, come up to about 250 kg of paddy per ha and season while under village management farmers have to pay about 300 kg (or about 20 percent more).

Based on first experiences, the agricultural households seem to profit from the transformed co-operatives. But there are a number of problems: (i) Management seems to focus on the quantity, but not on the quality of the services offered. (ii) There is a lack of working capital. While, on average, the value of assets stands at 318 m VND, this is just a figure. Assets are fixed in rather old buildings, pump, etc. In reality, the co-operatives do not have much capital to work with.

There are 17 local PCFs operational within this province. In addition, a Regional Credit Fund (RCF) has been established recently which is located in Dong Hoi, the regional capital.

(c) Nam Dinh (February 1999)

The Province of Nam Dinh is made up by 10 districts, one provincial town and 225 communes. Agricultural production is by far the most important economic activity. The main agricultural activities are paddy and upland crop cultivation (e.g. sweet potato, cassava, soybean, vegetables), animal husbandry (particularly pig and poultry raising), and aquaculture. There are several traditional off-farm activities in the province such as knitting, carpentry, embroidery, lacquer ware, metal casting and other handicrafts. About 98.5 percent of the labour force see agriculture as their main occupation. With an average population density of about 1,000 persons per km² the province is highly overpopulated. Therefore, average agricultural area per capita is very low amounting to about 700 m².

Up to 1997 there used to be 313 agricultural co-operatives in the province, of which 125 were operating at commune level and the other 188 at village level. 93 co-operatives (or about 30 percent) were classified as well-functioning, another 147 (or about 47 percent) as medium well, while the other 73 (or about 23 percent) were classified as badly operating. The number of co-operatives did not change much since 1997. Almost all of them have been or are still in the process of being transformed in accordance with the Co-operative Law. So far, 205 have already been registered while another 97 are in the process of fulfilling the necessary requirements. Just 11 co-operatives have been dissolved, so far.

It was decided that all local residents in working age could become members of the transformed co-operatives (i.e. 16-60 years old for male and 16-55 for female persons). In general, a list of the old members had been signed again by all eligible persons without filling individual application forms. Therefore, for most members joining was just a formality. On average, the value of capital of a co-operative stands at around 1 billion VND, of which about 70% is invested in fixed assets. In general, these assets represent the value of electricity and irrigation construction and equipment. In general, the value of the individual shares has been set according to the agricultural land under cultivation. Mostly, it stands at 100,000 VND per sao (which equals 360 m²). Depending on the size of the land the individual share value might be higher or lower. Debts are of a minor importance, although its size increased somewhat during the 1990s.

Most co-operatives concentrate their services on the management of irrigation and electricity facilities. The support in crop protection activities and the organisation of input supply, particularly of fertilisers and pesticides, are important activities in many co-operatives. A few are active in the provision of seeds, but none has developed any marketing activities, so far. Most services are made available to the members through specialised servicing groups, e.g. water groups, electricity groups, crop protection groups, etc. These groups work under contract signed by the management of the co-operatives. The members have to pay fees for the services used. All co-operatives are calculating the fees in such a way to ensure a full recovery of the costs. Most activities should ensure a profit by the end of the year. In 1997, about three quarters of the co-operatives showed a profit, amounting to 20.6 million VND, on average.

In line with the transformation process the organisational structure has been streamlined. In general, 2 - 3 persons are elected to the managing board and another 1 or 2 to the supervisory board. In addition, 3 - 4 professional staff members are needed, e.g. accountant, cashier, planner. Depending on the co-operative, the team leaders of the various service groups might be counted as members of the enlarged management board. In total, the number of decision-making persons comes up to about 10. This number is much lower than the one co-operatives used to have during the 1980s. In general, all elected and employed staff is working on a part-time basis. Hence, their monthly compensations are rather modest and range between 150,000 and 200,000 VND.

The agricultural co-operatives now focus on economic activities, i.e. to provide services to their members on a self-financing basis. Many activities, like the collection of various fees which used to be very important in the past have been passed on to the local administrations. However, their support is still very important to become more self-reliant as economic entities. In sum, the transformation of agricultural co-operatives has helped farmers much to cope with the new economic conditions. However, their further development is hampered by several constraints, as for example the low level of working capital in order to expand the services offered, the rising indebtedness of members to their co-operatives which limits their working capital as well, or the low contributions by members in form of share capital.

With respect to the PCF-system, there are 29 local PCFs operational within the province. All have been established during 1995. On average, membership comes up to 520 persons. The average share capital comes up to 95.6 m VND. During the last three years the number of members per PCF increased by about 5 times and the mobilised share capital doubled. Since 1995 there is also a Regional Credit Fund operational. The most pressing problems have been the relatively low level of know-how and skills of the decision-making members in loan assessments, the low level of technical equipment available and the high tax rate of 45% on gross profits. This high tax rate is draining the capital to make necessary investments or to pay the staff a decent compensation.

(d) An Giang (March 1999)

The province is made up of 11 districts and 138 communes. No old-style co-operatives had been registered in this province in the late 1980s, anymore. However, there has been a quick expansion of newly formed co-operatives. While at 30 June 1998 20 newly formed agricultural co-operatives have been registered, its number expanded to 63 by the end of February 1999. Hence, just 17 agricultural co-operatives operated longer than one year. Out of these 63 co-operatives 2 are specialised in aquaculture while the rest is engaged in the promotion of crop production, in general paddy production.

The 61 co-operatives promoting paddy production have a combined membership of 7,165 persons cultivating 14,634 hectares in total and a combined equity value of 6.7 b VND. On average, a co-operative covers about 120 members and represents an equity of about 110 m VND. The value of a minimum share is not fixed, but fluctuates from co-operative to co-operative between 100,000 and 300,000 VND. The annual turn-over stood at 30 - 300 m VND per co-operative. The main activities are concentrated on the organisation of irrigation (since the connection to the national power grid, the costs of irrigation could be reduced by 30-40%), the supply of inputs and the threshing, drying and transportation of paddy. Farmers seem to benefit economically from their co-operatives, as they get dividends. The dividends are relatively high. Based on the share capital, the value of dividends represents an interest rate of 4.5 to even 10 percent per month. In general, 60-80% of all surplus funds are distributed as dividends among members. The rest is allocated to various reserve funds, including investment funds, risks funds and social or welfare funds.

Membership of the two aquaculture co-operatives is much smaller. They just comprise 12 and 17 members, respectively. This reflects the fact that only those persons are accepted as members who are actively pursuing fish fattening. The activities are concentrated on three services: the supply of seedlings or fries, the supply of fish feed and on marketing of the fattened fishes. The fattening of fishes is done individually. The annual gross income of each member of the co-operative is estimated to stand at about 80 m VND.

In general, the co-operatives elect three persons into the management committee including the chairman who might also take over the function of the general manager. Another one to three persons are elected into the supervisory committee. The management committee is employing some staff, in general a chief-accountant, cashier and book-keeper. In general, these people are also members. In total, between 6 to 10 persons are actually running a co-operative. All these jobs are done on a part-time basis as all members are farmers in the first place. The elected and employed persons are entitled to a compensation or salary. In total, personnel expenditures may come up to 20 percent of total income. The payment is not done on a monthly basis, but after each season, i.e. twice a year.

Since, on average, an agricultural co-operative comprises about 120 members, not all farmers in the communes seem to join. The landless farmers cannot join since for them a membership does not make sense as the provision of irrigation water is the main activity. Other farmers have been reluctant to join due to the bad experience with co-operatives in the past. But now the land-holding farmers in general do want to join as they see the economic benefit. With an average farm size of about 2 hectares per member they belong to the better-off of the rural society. The co-operatives actually correspond more to the water channel system or water catchment areas than to the administrative structures. Therefore, in some communes there is one or even two co-operatives while in others is none. Up to the set-up of agricultural co-operatives as well as in those communes where no co-operative has been established so far, specialised groups or water user groups are managing the irrigation system. However, they cannot do the job that effectively as these groups can just do the simple tasks. All those tasks which require machines and hence capital have to be done by private companies (sub-contracting) which have to be hired by the respective commune as the informal groups cannot conclude any contracts. Therefore, prices for the provision of irrigation water have been relatively high. Once a co-operative has been registered and members have subscribed share capital the necessary equipment can be bought by it. Then it is cheaper to do the job within the co-operative than to hire private people.

While the co-operative is offering its services to both members and non-members, non-members have to pay a higher price (price differential). In this way, these farmers are encouraged to join the co-operative. Concerning the provision of irrigation water the general picture in the province looks as follows: On average, members are just paying 350 kg of paddy per season or 700 kg per year. Non-members have to pay 430 kg of paddy per season. This amount is still lower than the one provincial farmers had to pay, in general, before the set-up of agricultural co-operatives. Up to then, all farmers had to pay, on average, 450 kg of paddy per season.

Besides the subscription of share capital, the newly formed agricultural co-operatives do not have other sources for mobilising capital. So far, they are not eligible for bank credit. They cannot offer any collateral. But co-operatives are required to open bank accounts. In this way, first contacts with banks are established. Some co-operatives offer inputs as credit in kind, i.e. the inputs have to be repaid after harvest. Farmers get credit as individuals from banks if they can offer the "red book" as collateral.

It is one of the tasks of the provincial office of MARD to support and guide all people who are interested in setting up agricultural co-operatives. Training courses and background material are offered. In the future, more agricultural co-operatives will be formed. However, there seem to be problems in the remote areas. Here, it is difficult to find persons who are willing to act as promoters of an agricultural co-operative. There is lack of management staff and management skills, but also of financial resources among the farmers. Similarly, state enterprises are not eager to support these farmers as they do in other, more

prosperous parts of the province, e.g. in providing inputs on credit basis which has to be repaid by the co-operative after harvest.

There are 32 **local PCFs** spread over all 11 districts within the province. In addition, there is one RCF at the provincial capital. The total membership comes up to 60,500 persons, or about 1,900 persons per PCF. However, the number of members is quite different. While the smallest PCF just comprises 136 members, the biggest one is counting about 7,000. Since 1997 the minimum amount of share capital needed comes up to 100 m VND. In addition, at least 7 founding members are required. On average, the total share capital amounts to 11.6 b VND or 362 m VND per PCF, ranging from 116 m to 1.2 b VND. In addition, all PCFs have mobilised 114 b VND in savings, or about 3.2 b VND per PCF. The average interest rate on deposits stood at 1.1 percent per month in early 1999. Finally, about 26.3 b VND are made available to the PCFs through the RCF. Hence, the total capital available within the PCF-system in the province comes up to about 150 b VND (i.e. 11.6 + 114 + 26.3 b VND), or about 4.75 b VND per PCF, or about 2.5 m VND per member.

On the other side, total outstanding loans come up to 132 b VND (which is the equivalent of 88% of the total capital), or 4.2 b VND per PCF, or 2.2 m VND per member. The overdue debts stand at 5.9 b VND (out of 132 b VND), or at 4.5%. It is supposed that about 5.5 b VND, or 92% of the overdue debts will be repaid within the foreseeable future. The interest rate on credit comes up to 1.5 percent per month.

Most credit is given in order to promote agricultural production. Almost 82% of all credit is devoted for this sector. Another 12% of all loans can be classified as loans for covering needs of daily life and social activities. Just a small portion, or the final 6%, is asked for the promotion of non-farm activities in the rural areas like small and medium-scale enterprises. Most of the credit is granted on a short-term basis only, i.e. for a period of 3-6 months. Now the PCFs of the province are included in a multilateral aid project financed by ADB which is encouraging medium-term loans. However, for the time being the project has not started yet. Later-on in 1999, there might be the opportunity to hand out credit for longer periods up to 24 months.

Since three years all loans require the provision of collateral. In February 1999 there has been a decree in the province that the title deeds of the land use rights, or the "red book" of agricultural land, can be used as collateral. However, the maximum amount of money which can be secured with a title deed is quite small. Just up to 5 m VND can be borrowed per one hectare of land. The banks have the option to sell the title deeds in case of default. According to the procedure, farmers might be put into jail after three months of non-payment. Then, it is supposed to take another 6 months until the banks including PCFs can sell the land. As this decree has been adopted quite recently, there has been no experience with it, so far.

In order to receive a credit an application has to be filled which includes a rough business or cultivation plan indicating what is planned to be done with the

money. If the applied credit is higher than 5 m VND and the title deeds of the land use rights just cover one hectare, other types of collateral have to be submitted.

Three years ago the general rule for getting credit had been changed. It was no more necessary to save but to have collateral at his/her disposal. Members in this province did not complain about the former rule. But nation-wide there had been cases of mismanagement and mishandling of funds. Therefore, it was decided to look for collateral first. An alternative might be to encourage members to subscribe more shares which is a type of long-term savings and to waive the rule to show collateral. But in this province there are no dividends on qualification shares which discourages members to buy more. Actually, it is the decision of each general assembly whether to pay dividends on qualification shares or not. The main arguments for not paying are that the "ordinary" members joined later and that a small amount is involved, anyway.

The overall surplus (net profit) of all 32 PCFs came up to 1.5 b VND in 1998. But not every LCF has made profit. 5 PCFs showed losses while another two PCFs just managed to break even. Hence, 25 PCFs showed profits coming up to 46.3 m VND on average. These PCFs were in a position to pay dividends ensuring an interest rate on the permanent shares of, on average, 0.5 percent per month. Actually, that level has been the objective for all PCFs in the province.

Up to 40% of the gross income has been spent on salaries for the staff during the last year. Up to another 5% have been used for compensation and bonuses of the management. Nevertheless, the number of personnel is very small. The management board comprises 3-5 persons who are elected by the general assembly. Out of the members of the management board an executive committee comprising 3 persons might be formed in order to run the day-to-day business more effectively. Another 1-3 persons are elected into the supervisory board. The staff is appointed by the management board. In general, the staff is recruited among the members.

In many communes there are both PCFs and agricultural co-operatives. Membership might overlap. While theoretically loans could be granted to agricultural co-operatives, it has not been done so, so far. Credit is always given to individuals, only. PCFs cannot become a member and shareholder of an agricultural co-operative. As in the rural communities the people all know each other very well, there is some informal collaboration, e.g. informal checking of loan applications by the agricultural co-operative. Similarly, there is always support from the people's committees at the commune level.

In 1995 a Regional Credit Fund (**RCF**) has been set-up. Its main function is to co-ordinate the flow of funds within all LCFs of the province. The RCF is organised according to the Co-operative Law. Each PCF within the province, i.e. 32, are represented in the general assembly of the RCF. In addition, the regional office of SBV is represented with one vote. The management board comprises 7 members, one of them is the representative of the SBV. The supervisory board comprises two persons, one of them is an official of SBV. The office of RCF employs 14 staff members although half of them are seconded from SBV.

(e) Quang Tri (March and November 2000)

This province covers 7 districts and 2 townships, comprising 133 communes. Agricultural production dominates the economy of the province. About 80 percent of the population depend on this activity. About 60 percent of the provincial GDP are made up by the agricultural sector. However, there are two clear-cut agricultural zones, i.e. the lowlands dominated by paddy production and the mountainous uplands dominated by perennial cash crops. In the lowland, average farm size comes up to about 1-2 sao per person or about 5-10 sao per family, i.e. 0.3 - 0.5 ha per family (as 1 sao comes up to 500 m² in Central Vietnam). In terms of economic development the majority of the upland farmers seem to be better-off. Actually, a seasonal migration pattern can be observed that lowland farmers move to the uplands for some months and cultivate perennial crops. In addition, permanent migrants ("kinh") from other provinces move into the upland areas. On the other side, a share of people, many of them are from ethnically minority groups have not benefited from the cash crop boom. Most of them live in absolute poverty. In general, they are producing just enough to meet their most urgent subsistence needs. There is the danger that they will be driven out by the more dynamic kinh.

Up to the late 1980s, there had been 311 agricultural production co-operatives in the province. Already in the early 1990s 30 co-operatives covering two districts in the mountainous areas had been dissolved. In these areas mostly minority people are living who practise shifting cultivation under rainfed agriculture (i.e. no additional inputs are applied) and in general aim at meeting self-sufficiency (i.e. no surplus production is for sale). Co-operatives had no meaning for them. These people can be classified as very poor. Therefore, first poverty eradication programmes have been started aiming at teaching better production techniques and promoting perennial cash crops. In the future, it can be assumed that these people will be in need of agricultural co-operatives, again.

In early 1997, there had been 281 agricultural co-operatives. The far majority of them, or 220, have been transformed into new-style co-operatives by now (including the registration at the provincial Department of Planning and Investment) while another 18 are still in the process of being registered. In this respect, it can be concluded that most co-operatives undertook the transformation process successfully. Another 24 agricultural co-operatives have started the transformation process and it is assumed that they will be registered within the next months. Just 5 have been dissolved, so far. Another 14 will be dissolved in due course. So, there will be 262 transformed agricultural co-operatives in the future. Hence, on average, there are about two co-operatives per commune reflecting their general small size which limits their options to earn sufficient funds in the long run. In those areas where no co-operative is operational anymore, the commune provides the most important services. Sometimes knowledgeable persons can be identified who can act as a local extension agents. But, in general,

there are no funds available for compensating such persons. So far, no agricultural co-operative had been newly established.

The main problems of the transformed co-operatives can be summarised as follows:

(1) They lack financial resources. The value of the remaining assets has been re-assessed and, in general, their value is quite low. On average, the value of fixed assets comes up to about 366 m VND while the current assets comprise about 50 m VND. Hence, the average book value comes up to about 416 m VND. Many co-operatives are burdened with debts to banks from the old-style co-operatives. On the other side, many members are heavily indebted to their co-operatives but debts have been frozen for the time being. Only very few co-operatives opted to demand cash contributions from their members in increasing their individual subscribed shares at transformation in order to increase their working capital. In general, the value of all assets (equity) is divided among all members which is regarded as members' share capital. Its average value comes up to about 90,000 VND.

(2) Co-operative staff and members have a limited understanding of the market economic system. Many members still regard co-operatives as an organisation to receive support as in the former times. So, they still adhere to a "subsidy mentality". The technical and managerial skills of the management needs to be further up-graded.

(3) Most co-operatives are characterised by a low value of assets and by a quite small size. In general, they just cover one or two villages within a commune. Average membership comes up to just 250 persons only. Therefore, their potential to earn income through their activities is limited. Hence, they are not in a position to improve their financial position significantly. Just a few forward-looking managers asked their members at transformation to contribute additional cash in order to increase the value of the shares. In general, the members had to pay up another 60,000 - 200,000 VND each. For example, in one co-operative all 570 members had to contribute another 200,000 VND each in cash. Thus, the available working capital needed to finance the on-going activities could be increased by about 114 m VND. The management said it had been no problem to convince the members for this share contribution in cash as they all realised that without a certain financial strength the co-operative would not be viable in the long run.

(4) Although most social and cultural assets have been transferred to the communes, there is still some ambiguity and overlapping what the commune and what a co-operative is supposed to finance. Co-operatives are still directly supporting community development activities despite their meagre resources. In general, the electricity facilities have been left with the co-operatives.

(5) The co-operation between the agricultural co-operatives and VBARD is rather limited. Most co-operatives do have a bank account, but actually no funds deposited. The managers complained that when doing daily business they could not use the bank account effectively. It took too much time to withdraw funds for doing payments. Hence, almost all of them preferred to keep all cash at home or with the treasurer's home. In case of need it was readily available. This advantage by far outweighed the danger of losses or thefts, or the non-existence of any track

record with a bank. So far, only a few of them had received credit from VBARD. The managers saw the main reason in the fact that they, as a co-operative, did not have any "red book" for the land which was in their position. Some of them had forest land or owned the land of their office buildings. VBARD staff saw the main reason in not providing credit to agricultural co-operatives in the fact that the figures given in the financial statements and balance sheets could not be relied on easily. They are not transparent. It takes a lot of efforts to deduce the real value of the assets. Once the figures had been checked in more detail, it often becomes evident that the potential value of the assets to be eligible for collateral is rather small. Agricultural co-operatives are not audited by independent auditors or an audit association. In addition, no co-operative has any track record with it. Hence, the transaction costs from their side are extremely high.

Since transformation the number of management staff has been reduced significantly. In general, just 5 persons are running a co-operative. The internal discussion process has become more open. Work plans are presented and critically scrutinised. Similarly, there is an open debate about tariffs and fees. These are known by the members well in advance, and there are no arbitrary changes as it happened in the past. On average, farmers are required to pay an irrigation fee amounting to 140 kg/ha/ season or 280 kg/ha per year. Besides irrigation and electricity fees, co-operative members have to pay is the service fee coming up to 5-7 kg of paddy per sao and season (100-140 kg/ha/season or 200-280 kg/ha p.a.). This fee includes plant protection activities, agricultural extension, veterinary services, organisation of field guarding services during harvesting times and participation at (support by) the welfare fund, e.g. in case of sickness.

The services concentrate on the management of the irrigation and electricity systems, input supply and extension. Some agricultural co-operatives, however, are running informal savings and credit schemes for their members. The main reason had been the need of the members to have a safe place for their cash surpluses of which they could easily make use. With respect to SBV this activity is actually illegal as there is no supervision and control. All cash business has to be strictly under the guidelines of SBV. MARD is tolerating it as long as members only are involved. For example, one AC has mobilised about 200 m VND in savings from its 570 members. Interest rates on savings were set at 0.5 percent p.m., while loan applicants had to pay 1.0 percent p.m. These rates are more or less in line with the on-going rates charged by VBARD. In reality, however, it might be difficult to check whether non-members are participating but given the fact that, in general, all households of the village or commune are members this aspect is just theoretic for the time being.

Almost all former members joined the transformed entities. As, particularly in the lowlands, the common management of irrigation facilities is of utmost importance, there is no option to stay outside. Closely linked to this, co-operatives are vital in a joint crop management in the (lowland) areas. As typhoons and floods are common phenomena in this province, harvesting periods are very short and, hence, crop varieties and planting periods have to be synchronised among all farmers of the locality. Besides irrigation and land management, co-operatives are

active in the provision of seeds and other inputs. In general, they also manage the electricity systems at commune level and are active in agricultural extension, in general through key persons ("technology transfer"). Usually, these persons are members of the management board.

In the uplands areas not that many co-operatives have been established since unification. State farms were predominant here. In addition, while in some areas co-operatives had been established during the late 1970s, most of them were amalgamated in the state farms. In these days it can be observed that almost all agricultural co-operatives are located in the lowlands while there is almost none in the upland areas. Hence, almost all existing agricultural co-operatives are concentrating on paddy cultivation and irrigation/drainage. The promotion of perennial crops is just a sideline activity, if at all. However, starting from 2001 it can be assumed that a number of co-operatives will be newly registered in the uplands which are concentrating on the promotion of perennial crops, i.e. in particular coffee, pepper and rubber. Some groups are already actively promoting the idea of forming co-operatives within their commune. The anticipated membership will be smaller compared to the transformed ones, i.e. about 50, and the value of the individual share far higher, i.e. between 1 - 2 m VND which will have to be paid up in cash.

Agricultural co-operatives have very good relations with the state-owned irrigation companies in order to make best use of the irrigation systems. In addition, the links are quite good to the SOEs specialised in seed multiplication and fertiliser production. However, competition with the private sector is increasing particularly with respect to the provision of fertilisers to the farmers. Private traders seem to be more flexible and do not charge some fees which co-operatives seem to do (e.g. management fees). Hence, they seem to offer their products at lower prices.

Concerning perennial crops, there are some first ideas about strengthening vertical integration of farmers with agricultural processing units. With respect to coffee the area presently cultivated is too small to allow an economically effective use of the present capacity of the three factories (besides Tan Lam Company owned by the province, there is one company owned by a district and another private one). Therefore, more farmers will have to be encouraged to grow coffee and to sell to the existing companies in the province. So far, the companies just establish links with farmers (who used to be their former workers) on an individual basis, but in the future there is a need of agricultural co-operatives in these areas as well. But such linking schemes with the downstream sectors seem to be even more urgent in the lowlands as farmers there are usually not so well off and prices are very low at harvest times. Marketing systems are not well developed. In general, farmers in the lowlands manage to produce a little surplus paddy for sale. Maize and sweet potatoes do have a potential for export.

There is a Federation of Co-operatives at provincial level which is the provincial branch of VICOOPSME (VCA). As about three quarters of all co-operatives are agricultural ones, the federation is focussing on agricultural issues. Since the individual co-operatives are quite small, there are first plans with support

of the provincial DARD to develop secondary co-operative structures among agricultural co-operatives. In a first trial step, 5 agricultural co-operatives in Hai Lang District have agreed to do jointly (a) paddy marketing, (b) pig production and marketing, and (c) common purchase of inputs from SOEs. It had been agreed that each co-operative will subscribe shares of 5 m VND. In the District of Linh Dinh 10 agricultural co-operatives were ready to form a secondary co-operative in order to improve the input supply activities. They were ready to subscribe share capital, but at that stage they have not made up any details. Hence, no secondary co-operative has been registered, so far.

There are 11 **local PCFs** operating within the province, of which two in the township of Dong Ha. The remaining 9 are spread over five different districts (out of seven in total). The PCFs had been established since late 1995. Due to their small number there is no RCF, but the provincial branch of SBV is their main link to the CCF. In the future - in line with the national policy to develop a two level network within the PCF-system - it is planned to set-up a regional branch office of CCF.

The 11 PCFs comprise a membership of 7,750 persons by the end of 1999. While the two more diversified PCFs from Dong Ha City comprise about 900 members each, the membership in the other more rural PCFs is somewhat smaller. With respect to these 9 PCFs the average membership comes up to 650 persons.

The total share capital of all 11 PCFs comes up to 1.742 b VND out of which 1.356 b VND are classified as permanent shares while the other 0.386 b VND is made up of qualification shares. In Quang Tri Province the value of one permanent share has been set at 100,000 VND. The total amount of reserves comes up to about 400 m VND. In this respect, the PCFs are relatively small with an average share capital of just 158.8 m VND and average reserves of 36.4 m VND. About 13.448 b VND have been mobilised in savings by members and non-members alike (or about 1.22 b VND per PCF). About 15 percent of the members (or about 1,000 persons) have a savings account. Their savings are making up about 60 percent of all savings. The average amount of savings per account stands at about 5 m VND.

The total capital available at provincial level have been about 20.4 b VND (or about 1.85 b VND per PCF on average), out of which 1.742 b VND is made up by the share capital, 13.448 b VND had been savings, about 3.263 b VND had been made available through the CCF and 1.928 b VND from other sources including reserves. In 1999, about 31.133 b VND have been handed out as loans to members. The average loan amount comes up to 3.5 m VND. About two thirds of the loans is for agricultural purposes. Another 10 - 15 percent is for financing off-farm activities, which are more important in the two PCFs located in Dong Ha City. The rest is needed for covering daily necessities of life. The repayment rate is very satisfactory coming up to 99.1 percent.

The upper ceiling set by SBV for interest rates on credit stands at 1.35 percent p.m. in March 2000. But the actual rates asked by the PCFs are somewhat lower. Although any competition with other formal financial intermediaries cannot be observed so far, their rates have to be seen in light of other sources of credit. On

average, the interest rates on credit stand at 1.1 - 1.2 percent per month within the PCF-system, while VBARD charges 1.0 percent and loans of the Flood Recovery Fund are attached with a very low rate of 0.3 percent.

All PCFs within the province managed to earn a little (gross) profit in 1999. It comes up to 661 m VND in total or about 60.1 m VND per LCF. While this has to be evaluated as a positive development, the level of profit is still too small for a significant expansion. In line with the recommendations of the PCF-assessment conference in March 2000 the present system has to be strengthened first before it will be expanded. Within the next one or two years those farmers not served by an PCF will have to find other sources of finance.

Up to now, audit and control is mostly done internally. Only at the national level there is an inspection division of SBV which has the right to do external audits, either by itself or by recruiting external audit companies. However, no external audits have been executed within the province so far.

(f) Phu Tho (December 2000)

The province covers 12 districts, comprising 270 communes. Agricultural production dominates the economy of the province. While in the lowlands annual crops, and particularly paddy cultivation, are predominant, farming in the uplands is characterised by tea production. The average farm size per household is very small, amounting to 0.14 ha in the lowland, 0.35 ha in the hilly areas and 0.42 ha in the mountain areas. Besides agriculture most farm households have to rely on other activities as well in order to earn an adequate income. Many work in one of the processing plants for food and agricultural products or in the paper mills. But many, especially younger persons, migrate to the more industrialised Hanoi-Haiphong area in search of employment.

The number of agricultural co-operatives has fluctuated significantly during the last three decades. During the early 1970s their number had been higher than 700. Up to the mid 1970s a heavy concentration process had been introduced, so that their number declined to 275. At that time one agricultural co-operative covered one commune. During the 1980s more and more co-operatives split up again. By the late 1980s their number had increased to 403. These co-operatives still existed, at least pro forma, at the time of implementing the Co-operative Law. During the transformation period, the number of co-operatives declined rapidly. By the end of 2000, 253 agricultural co-operatives had been officially dissolved. Another 20 were supposed to be dissolved as well, but there had been no records left anymore which complicates the closing-down procedure. It is planned to dissolve them in due course.

The remaining 130 agricultural co-operatives have been transformed and registered. The members of three of them decided to split up during the transformation process. Hence, the number of transformed co-operatives stand at 133. Finally, one co-operative had been newly founded so far. In total, the number of agricultural co-operatives stands at 134 by now. Of these co-operatives, 82 are

responsible for the whole commune while the other 52 just cover the village or inter-village level.

With respect to membership it was up to each co-operative itself which model they preferred. Finally, it had been decided in 131 of the 133 transformed co-operatives that each farm household could become member to be represented by the household head. The average number of members in this group comes up to about 400. The other two co-operatives decided that all labourers in working age could join the transformed entity. Here, the average number of members stands at about 2,000. Almost 95 percent of all persons eligible for membership in the transformed organisation joined it. Some stayed outside as some co-operatives asked their members to make obligatory cash contributions as shown below.

The transformation process had been supported by the respective people's committees at provincial, district and commune levels. In those communes where the co-operatives had been (i.e. 253) or are being (i.e. 20) dissolved the remaining assets had been transferred to the respective people's committee. The most important tasks have been taken over by informal groups or para-cooperatives. These groups just concentrate on executing one activity, e.g. irrigation, electricity supply or agricultural extension. They are under the supervision of the respective people's committee and not under DARD's. DARD is supporting this movement as many of these groups might form the nucleus of future co-operatives. Most of these groups are working in the hilly areas. For the time being there are about 300 operational.

At transformation, assets of a value amounting to 68.4 m VND, on average, had been transferred to the people's committee of the respective commune. The remaining assets were valued at 632.6 m VND, of which 470.8 m VND were made up by fixed assets and the remaining 161.8 m VND by current assets. The fixed assets, in general, comprise irrigation and drainage facilities and electricity systems. Just the electricity systems and, if available, other equipment are of some small resale value. These assets might be cashed-in in case of having to repay debts. The irrigation facilities cannot be sold at all, but remain collective property even if the transformed co-operative might collapse. The current assets are almost exclusively made up by debts of the members to their co-operatives (receivables). The value of stocks and/or of any cash is almost negligible. The average value of assets per individual member had been calculated at 121,700 VND.

In general, all co-operatives are handicapped by the fact that there had been almost no investment funds available at the time of transformation. In about one fifth of the co-operative, or 27 out of 133, the management tried to overcome this disadvantage. With respect to these co-operatives, members have been asked to contribute 20,000 - 50,000 VND each at transformation. In two co-operatives the members of management board even took the lead in showing their commitment to the co-operative in subscribing "responsibility or permanent shares" amounting to 500,000 - 2 m VND, each. Other members could be easily convinced to pay up their cash. In this sense, these last two co-operatives adopted a similar approach like People's Credit Funds (PCF). Again, it shows that co-operatives at the local level can be very pragmatic in implementing the Co-operative Law.

The agricultural co-operatives are managing 4 - 7 activities. In general, the transformed co-operatives continued with those activities which they pursued in the past already. According to their importance the main activities can be classified as follows: (1) the management of irrigation and drainage facilities, (2) the management of the electricity network at local level, (3) the support and even organisation of plant protection; (4) the organisation of agricultural extension; and (5) the organisation of supply of agricultural inputs, like seeds, fertilisers and pesticides for their members. For the time being, just about 20 of the agricultural co-operatives were pursuing this activity, only. These co-operatives are acting like agents for the provincial input supply companies, as they receive the inputs as credit-in-kind and distribute them in the same manner among their members. The payments are done after harvest. The participating co-operatives just earn a small commission. Some co-operatives offered field protection services at harvesting times, and/or financial services. However, none had taken up any marketing services for their members, so far.

According to DARD, there are no good links between the transformed agricultural co-operatives and the banks, specifically with VBARD. Many co-operatives might have deposit accounts but, in general, they do not use it often. About 20 transformed co-operatives, actually those which could draw on some cash funds at transformation, offer financial services to their members. Members can ask for cash credit according to the availability of funds. In general, however, the members as individual farmers have their own relations as clients to VBARD and VBP in order to get credit.

Seen from the provincial level the financial situation of the agricultural co-operatives is not very satisfactory. Just 43 of the 134 co-operatives managed to earn profits last year. The total amount of profit came up to 993.3 m VND, or about 20 m VND on average. The majority of them, or 87, managed to avoid losses, but did not show profits either. They just survive, but lack funds for any investments. Just 4 co-operatives showed losses last year, amounting in total to about 8.3 m VND or about 2 m VND each. Hence, not many co-operatives were in a position to pay dividends to their members since transformation.

As observed all over Vietnam, the number of elected and employed persons in decision-making positions has been cut significantly. Most management boards just comprise three members, i.e. the chairperson, his/her deputy and a third member. The supervisory board is made up by 1 - 3 persons. In general, members of the management board are handling the day-to-day business. They are supported by some employed persons, like an accountant, cashier and book-keeper. In total, the number of elected and employed staff comes up to 7 - 10 persons. All are working on a part-time basis and are entitled to a monthly compensation. The amount paid has to be agreed upon in advance in line with the respective post, i.e. fixed amount. For example, the monthly commission of the chairpersons varies from 150,000 to 250,000 VND. So far, no co-operative has introduced a payment system based on some specified incentives.

Only one agricultural co-operative has been newly set up, so far. It had been registered in 1998. The number of members comes up to 36. The co-operative is

specialised in producing and marketing "environmentally clean or ecological" vegetable. The members have to observe certain environmental standards in production. Unfortunately, officially defined and accepted standards are still missing. Hence, the vegetable can only be sold as "ordinary" vegetable for the time being. Nevertheless, the co-operative had been successful in marketing. The products are sold to the canteens of two state-owned companies in the province and the general public in Viet Tri City.

All agricultural co-operatives are supervised by DARD. In general, the co-operative staff is offered training courses about the accounting rules to be observed. These courses are organised at the provincial level which can be followed up at the national level. External control is practised by DARD to some extent only. One staff member at the provincial level as well as one at each district office is responsible for this. It is aimed to visit each co-operative once a year. In addition, the staff relies on the obligatory annual reports of the co-operatives.

There are first ideas about the potential of secondary co-operatives. There might be options with respect to input supply services and marketing. But for the time being there are doubts whether such an organisation will become economically viable. But, up to now, no serious analysis has been done.

There are 28 **local PCFs** and 1 RCF in the province. They are operational in 9 out of the total number of 12 districts. The PCFs have been established since 1995. Up to the end of October 2000, the total membership came up to 19,519 persons or, on average, 697 persons per PCF. Hence, membership is quite small and just three of them comprise more than 1,000 persons.

The total share capital of all 28 PCFs comes up to 2.834 b VND of which 1.923 b VND are classified as permanent shares while the other 911 m VND is made up of qualification shares. The average amount of share capital stands at 101 m VND. Hence, on average, all PCFs meet the SBV-stipulation of a minimum share capital of 100 m VND. However, for the time being, just 13 of them meet this requirement and the others are busy to increase their share capital. In Phu Tho Province the value of one permanent share has been set at 500,000 VND. While the amount of share capital is relatively low, the PCFs have been successful in setting up reserves. The total volume of reserves stood at 4,497 m VND (or about 160.6 m VND per PCF). Hence, the capital base is not that bad.

About 31,151 b VND have been mobilised in savings from members and non-members alike. On average, savings come up to 1.112 b VND per PCF. Just two of them manage to mobilise savings higher than 2 b VND, but 13 less than 1 m VND. Unfortunately, more detailed figures about savings and the number of savers could not be given.

The total capital of all 28 PCFs comes up to 50.372 b VND, or, on average, 1.799 b VND. Just 9 PCFs manage funds of a higher volume than 2 b VND, just two PCFs funds of more than 3 b VND. The total capital available is made up as follows: share capital amounting to 2.834 b VND (or 5.6 percent), reserves amounting to 4.497 b VND (or 8.9 percent), savings amounting to 31.151 b VND (or 61.9 percent), loans channelled through the RCF amounting to 10.89 b VND (or 21.6 percent), and, finally, a special fund under a loan of the Asian

Development Bank (ADB) targeted at the poor members amounting to 1 b VND (or 2.0 percent).

During the first 10 months of 2000, about 46.459 b VND have been handed out as loans to members. On average, each PCF provided credit to its members amounting to 1.659 b VND. Seen from the provincial level, credits are fairly well spread over the various sectors. About 42 percent of the credit volume was devoted to the agricultural sector, 29 percent had been allocated for the promotion of services like trading, 18 percent for investments in small-scale industries, 7 percent for consumption and daily necessities, and finally about 4 percent could not be allocated strictly to a specific sector.

Compared to figures in other provinces the amount of outstanding loans is relatively high amounting to about 1.213 b VND or coming up to 2.61 percent. The average figure is that high due to 5 PCFs where the share of outstanding loans comes up to 8 - 10 percent and in one case, even, up to 19 percent. These PCFs did not closely follow the standard rules and regulations for extending loans due to interference by local authorities and the preference of close relatives of some members of the management boards. But still most PCFs are confident to recover the major share of the outstanding loans within the following year, so that the amount of overdue debts which might have to be written off will be very small.

With respect to the ownership of assets not much information is available. It has been just stated that 15 PCFs already own the land and office building from which they operate, while the other 13 have to rent it.

On average, the PCF-system within the province is profitable. The overall gross profit for all 28 PCFs stood at 1.092 b VND in 1999, or at 39 m VND on average. While this is a positive statement as such, the volume of gross profit is relatively small, actually too small for financing much needed investments in the future. But when looking at these figures it has to be stressed that 5 PCFs actually recorded a loss during last year. For the year 2000, the financial situation looks much better. Already, by the end of October the aggregated gross profit stood already at 1.693 b VND and therefore, it is anticipated that the gross profits will almost double. Similarly, the number of PCFs recording losses will decline to two only. The PCFs are encouraged to pay dividends to their members, but its level should be in line with the level for the interest rates on deposits, i.e. up to a maximum of 0.5 percent per month for the year 2000.

There is a rather dense network of VBARD-branches within the province, hence there is some competition. The interest rates on credit asked by VBARD are lower compared to those asked by LCFs, on average, i.e. 1.0 percent per month to 1.2 percent. In addition, there are a number of programme loans handled by banks and/or mass organisations and NGOs. These loans are focusing on poverty reduction and employment creation and are attached with low or even no interest rates at all. Although the volume of these loans will not cover the demand within the province, it is realised that they might undermine the healthy development of the PCF-system. In this respect, there is some ambiguity about the handling of the ADB-fund to reduce poverty among PCF-members themselves. This fund is attached with a lower interest rate compared to the "normal" interest rates for

credit within the system: In November 2000, the PCFs borrowed from this special fund at a rate of 0.6 percent per month and provided loans to poor members at a rate of up to 0.8 percent. In comparison, the refinancing rate for funds from the RCF stood at 0.7 percent and the interest rate for the members at 1.2 percent. On the other side, the interest rates for deposits at PCFs oscillated between 0.15 percent for daily deposits to 0.5 percent for fixed-term ones up to 12 months.

Hence, when summarising the general situation of the PCF-system in Phu Tho Province they are doing rather well and operate effectively. Up to now, they just provide basic financial services within the commune on a mutual basis. While already started during the last year, the system has to be stabilised and strengthened further on before it will be expanded over the province.

The problems observed within the system at provincial level reflect the findings of other provinces. (1) In general, all elected and employed staff members are not professionals in banking and work on a part-time basis. Their know-how and skills are low as they have attended some short-term training courses, but acquire them through a learning-by-doing-process. The training courses offered by SBV for the time being do not qualify the staff well enough to do the job properly. (2) The proper rules and regulations with respect to handing out credit have not been observed. In some cases credit had been provided to non-members. In some cases due to outside pressure and interference by the local officials 5 PCFs have been asked to provide loans to the respective commune for the construction of schools or high voltage lines. As in an economic sense the internal rates of return are almost zero, i.e. these infrastructure loans have not been income-generating and repayments are outstanding. Another two PCFs have borrowed funds to the local agricultural co-operatives although these two co-operatives have not been members as well. Again, there are problems with repayments. Hence, all these PCFs have lost money. For the time being there are 5 PCFs within the province which have deep economic problems and it is not for sure that some of them might have to be dissolved. It has to be stressed that the RCF is not liable for any losses of any PCF. (3) The co-operation within the PCF-network is not working smoothly. The needs of funds for refinancing or depositing surplus funds within the system is expensive and, sometimes, cannot be managed at all. Often, PCFs have to make use of VBARD or another commercial bank.

With respect to liability of the loss making PCFs it has been stressed that each PCF is liable with its own reserves and shares. In addition, those persons of the management board who signed defaulting loan contracts are liable with their personal property. In reality, however, no person had to contribute money out of his/her personal assets and belongings, so far. At SBV it is planned to establish a special insurance fund to compensate at least a part of the losses due to non-repayments. But this fund is still in the planning stage.

Each PCF and the RCF are supervised by SBV. The provincial Inspection Department is auditing them once a year. All critical cases are regularly monitored by the Department of Credit Management. The book-keeping is based on the double-entry system which is actually the same requirement for agricultural co-operatives. But, so far, no joint training course had been organised. Up to now,

SBV is planning and executing the courses for the PCF-staff and MARD for the staff of agricultural co-operatives.

The advantages of the system can be summarised as follows: The PCFs are well known among the population and they enjoy a good reputation. The members know each other well. Credit applications are processed at a speedy manner, i.e. things are done quickly. The system should be expanded in a prudent manner over the next years. In the long run, the PCF-system should not act like a rural bank, but should emphasise the co-operative principles as a self-help organisation based on a specific, well-known locality. For the time being and for the coming years it is enough to provide basic financial services to the rural membership.

In 1995 a Regional Credit Fund (**RCF**) has been set-up. Its main functions can be summarised as follows: (1) to balance the flow of funds among the 28 PCFs, i.e. to provide a balancing function between those who have surplus of funds and those in demand; (2) to mobilise additional funds from the CCF, in case of need; and (3) to mobilise funds from the local population and lent it on. The RCF is organised according to the Co-operative Law. Each PCF is represented in the general assembly. In addition, all elected and recruited staff have the right to participate and to vote. The managing board comprises 7 members. The vice-chairman cum general manager is seconded from SBV. The supervisory board is made up of three persons. In addition, 9 staff members have been recruited for the daily work. Within the year 2001 it is foreseen to close down the RCF as a separate co-operative, but to continue as the provincial branch office of CCF.

Annex 3: Selected Case Studies

(a) Transformed Agricultural Co-operatives

Case Study 1: Bac Giang Province, October 1998

In April 1998 this co-operative had been transformed according to the Co-operative Law. Total membership comes up to 1,726 persons. One household is represented by one member only. As the total number of households in this commune stands at 2,010, the share of organised inhabitants is very high. Actually, all former members joined the transformed co-operative.

The total capital and reserves come up to 778 m VND of which about 729 m VND are fixed assets which have been booked as indivisible reserves. The other 49 m VND comprise current assets which formed the basis for calculating the value of individual shares. So far, there have been just a very small amount paid out as dividends. On the other side, members have not been asked to contribute cash in order to fill up their shares. In the long run, the management plans to set the value of individual shares at 300,000 VND. Once it is agreed upon the new activities to be implemented there will be an urgent need to increase the capital base of the co-operative. The co-operative is one of the lucky ones as it is not indebted to anybody. But its financial position would be much healthier if all those members who are indebted to the co-operative were repaying their debts. For these members the co-operative seems to be a major source of interest-free long-term credit.

Seven persons have been elected as members of the management board. Three of them are forming the executive committee which is responsible for the day-to-day management. The supervisory board comprises three persons. The chairman voiced the opinion that the technical and managerial capacities of the management is relatively low. The chairman is paid a monthly compensation coming up to 120,000 VND.

The co-operative is concentrating on the provision of the following services:

(1) The management of the irrigation system is the most important one with respect to farming. This includes the cleaning of canals and exact distribution of irrigation water. Farmers have to pay irrigation fees which come up to 200 kg of paddy per hectare and season. In general, this fee is still paid in kind.

(2) The management of the electricity facilities is an important activity as it is a very reliable source of income. Actually all households of the commune are served by the lines. The transmitter had been built in 1990 and its running has been entrusted to the co-operative. The price for the customer stands at 630 VND/KW/h.

(3) The co-operative is actively supporting extension activities. Farmers are trained in a number of farm activities, e.g. adoption of new high-yielding varieties, seed multiplication, plant protection, or animal husbandry. An extension group has been set-up once the transformation process had been completed. The group comprises 13 persons, i.e. one person is responsible for the overall co-ordination at the commune level while the other 12 are responsible for one of the 12 hamlets, respectively. The participants just have to pay any material costs while the trainers are paid partly by the co-operative partly by MARD. The co-operative pays each of the 13 group members a monthly compensation coming up to 30,000 VND.

(4) While no activities in marketing agricultural products have been started so far, there are some small-scale marketing activities with respect to vegetables and flowers. Since the co-operative is located at the suburb of Bac Giang City it has set-up a stall at the market which is supplied daily. This is a first step in doing self-marketing of their products. This start has only been possible due to the regular surplus income from the electricity supply.

In addition, the co-operative is providing letters of recommendation for the members if they want to apply for credit at the local branch of VBARD. The co-operative itself does not get credit. Credit is provided to individuals. In general, they have to own any property which is accepted as collateral.

For the time being the co-operative is not active in organising the input supply of their members. The irrigation system is a bad condition and needs quite some investment to improve it. Unfortunately, the co-operative has no funds for doing it and it is difficult to ask members for a higher contribution. The management fears that many members might leave the co-operative if the irrigation fee is increased.

Case Study 2: Quang Binh Province, October 1998

This agricultural co-operative has been transformed in March 1998. It is covering one village. The number of households comes up to 319 and the agricultural area amounts to 121 ha. Double-cropping is the rule and almost all land is devoted to paddy production.

The value of total assets comes up to about 788 m VND, out of which 524 m VND are fixed assets and 264 m VND are classified as current assets. The whole amount of equity had been calculated as share capital, i.e. no funds have been set aside for reserves. The shares have been distributed equally among all eligible persons, i.e. no provisions have been made for the number of working years with the co-operative. It was stated that it is too complicated to calculate the value of shares for each individual according to the number of working years. This approach seems to be adopted by the majority of the transformed co-operatives.

The number persons eligible for a share was set at 1,346. This is the number of land holders in the village. Based on the Land Law from 1993 and Decree 64

from 1994 all agricultural land had been distributed among all living residents in the village regardless of their age. They got the land use rights of their respective plots ("red book"). The general assembly of the co-operative decided that all land use holders should get an equal share. The value of one share was set at 585,593 VND (i.e. 788 m VND/1,346 persons). However, the number of members, i.e. those with voting rights, was restricted to all active and retired registered workers. Their number stands at 733 persons. In this respect, there are two types of members; i.e. members without (i.e. in general they are younger than 18 years old) and members with voting rights.

In case a member dies or wants to leave the co-operative, only the respective part of the current assets will be paid out, i.e. about 196,000 VND (or 264 m VND/1,346 persons). If a new member wants to join, he/she has to contribute the total share value. This option is, however, theoretical for the time being, as only those persons born after 1994 might join in the future. Members have the option to transfer their share to somebody else in the village. Eligible persons are those without a share as each member is allowed to own one share only.

It is assumed that there will be some profits during 1998 despite a severe drought. As there are no taxes to be paid profits will be used as follows: 10 percent will be distributed as a bonus among the elected and appointed staff. Another 20 percent will be spent for training and skill development of the staff. The final 70 percent will be allocated for reinvestments and dividends. The chairman stated that most of these funds are needed for reinvestments and the payment of dividends is not that important for the time being. Actually, according to him, if reinvestments are done the value of shares will increase, so that all will benefit. A certain percentage has to be allocated for reserve funds. The chairman acknowledged that at the time of the transformation no need for a reserve had been seen. Now they are required by law to set them up.

The co-operative is pursuing a number of activities which are to some extent interrelated. The most important ones are the (a) the management of the irrigation system and (b) the preparation and supervision of a common cropping pattern on village land. Due to the high dependence of irrigation and the unpredictable natural conditions farmers have to agree on a common cropping pattern. Transplanting, weeding and plant protection measures have to be done synchronically. If someone drops out, all others are negatively affected. The cropping plans are adopted at the general assembly of the co-operative. In order to cut labour peaks traditional mutual assistance groups are of vital importance.

In addition, the co-operative supports (c) land preparation activities. It owns a tractor which is subcontracted to one member. Members directly approach the tractor driver. Similarly, the co-operative has set up standard contracts for renting buffaloes among the members. Other activities include (d) the supply of paddy seeds and (e) the support in plant protection measures. Finally, the co-operative manages the electricity system within the village.

Case Study 3: Quang Tri Province, March 2000

This co-operative has been established in 1978. The decollectivisation process had been observed very early with the adoption of Directive 100 in January 1981. Following Resolution 10 from 1988 land had been redistributed among the members which was finalised in 1994 when all living persons within the jurisdiction of the co-operative got allocated agricultural land on an equal basis. The total lowland area comes up to 130 ha of which 115 ha can be irrigated while the remaining 15 ha can be cultivated under rainfed conditions only. In addition, the upland area is coming up to about 46 ha.

In October 1997 the transformation process had been started. It took about six months to implement all steps. At 16 March 1998 the transformed co-operative has been registered. This co-operative covers two villages of the commune. Entitled to join were all those persons who used to work in the co-operative before transformation. 998 persons were entitled to join the transformed organisation and all did so. These 998 members live in 466 households, i.e., on average, each household comprises two members.

All assets had been assessed at the transformation period. The social and cultural assets amounting to 77 m VND had been transferred to the commune. The major item has been the kindergarten. The remaining assets were valued at 1.05 b VND, of which 878 m VND were classified as fixed assets and the remaining 172 m VND as current ones. The major item of the fixed assets is a pine and eucalyptus forest covering 466 ha which is owned by the co-operative. The value of this asset alone comes up to more than 800 m VND. In addition, the co-operative owns some buildings and the irrigation scheme for feeder irrigation. The operational funds of the co-operative are relatively small as about 126 m VND out of the 172 m VND of the current assets are debts by the members which still have to be repaid in the future. On the other side, the co-operative had not been indebted to banks or other companies.

The distribution of shares among the members had been based on the working days worked by each individual on the collective farms from the beginning up to decollectivisation. During all these years there had been very detailed records about the labour days and respective work points of each individual. The sum of the labour days was multiplied by the price of each day (work points) which had been done in kg of paddy. Already in the past the labour days had been adjusted as males usually got their labour days multiplied by 1.0 while females only got the multiplication factor of 0.8. Hence, for each individual the total labour points in kg of paddy had been calculated. Similarly, the total sum of the labour days of all members was calculated.

In the next step it was decided that the value of one share will be equivalent of 500 kg of paddy in work points. Hence, 3,231 shares could be deduced. The number of the individual shares depended on the individual amount of work points in kg of paddy. If, e.g. a long time member had accumulated work points of 1,400 kg of paddy he/she got 2.8 shares. In this scheme the work contribution of all those who had been deceased already at the time of transformation were not left outside.

Rather, these points were transferred to their respective heirs. The monetary value of each share had been set at 325,000 VND which represents the value of all assets as it had been calculated by dividing the total value of assets coming up to 1.05 b VND by 3,231 shares.

It had been decided to keep the value of each share at 325,000 VND. The major part of the profits made during the last two years have been allocated to the indivisible reserves. In that respect the value of assets and operating funds increased, but contrary to many agricultural co-operatives the value of the individual share remained constant. This is in line with the general practice of co-operatives in market economies that an increase of the equity value and the reserves will not automatically translate into a higher value of the individual shares. Therefore, each person who might be interested to join in the future will have to pay up the constant amount.

During the last two years the co-operative managed to earn profits. In 1999, the total profits came up to about 29 m VND. No taxes had to be paid. 5 percent were allocated to the obligatory risk fund. Another 20 percent were put into the social and welfare fund. The major part, i.e. 50 percent were kept for the development and investment fund. Out of this fund any staff training will be paid. The final 25 percent amounting to 7.25 m VND had been redistributed among members as dividends. The dividend per share came up to 2,321 VND or about 0.7 percent p.a. which quite low compared to the rates of any savings accounts. On the other side, the members did not have to contribute their shares in cash so that this small amount has been regarded as a pleasant additional source of cash income.

The number of elected staff has been kept quite small. The management board comprises three members, i.e. the chairman, the vice-chairman and one member. Another three persons have been elected to the supervisory board of which the chief-supervisor is working full time while his two deputy are working on a part-time basis. In addition, two persons have been employed as accountant and cashier respectively. Except for the two deputy members of the supervisory board, all these persons are working full time for the co-operative while their wives and other family members are looking after their farms. The payment is done in kind, i.e. in kg of paddy. The chairman is entitled to 1,800 kg of paddy p.a. which comes to about 240,000 VND per month based on the present farm gate price of 1,600 VND per kg of paddy. The vice-chairman, the other member of the management board and the accountant get 95 percent of the compensation of the chairman, the cashier 80 percent and the chief-supervisor 35 percent. When it comes to business activities the chairman is not allowed to act on his own. In these cases, the counter-signature of the accountant is needed.

The co-operative concentrates on some activities while others are pursued not that intensively:

(1) provision of irrigation services: The co-operative owns a water reservoir which can be used for gravity irrigation. It does not own any pumping equipment. With that reservoir about 50 percent, or about 55 ha of the total area under irrigation can be irrigated. The remaining 60 ha are served by the Irrigation Station of the

District which is an SOE. Due to their better equipment and the ownership of the main canals, the irrigation company offers better services, i.e. a better fine tuning of the distribution of water. In addition, part of the area served by the co-operative cannot be double-cropped with paddy but an upland crop has to be grown during the second season. In those areas which can be double-cropped with paddy the irrigation fee of the co-operative looks as follows: Farmers have to pay 25 kg of paddy per sao and year, or about 500 kg per ha. The irrigation system of the co-operative is managed by the irrigation group comprising 10 persons. They are paid a small compensation (about 0.5 - 1.8 kg of paddy per sao and year). The fees of the irrigation company are a bit higher coming up to 29 kg of paddy per sao and year, or about 580 kg per ha.

(2) provision of input supply: The co-operative owns two stores for keeping fertilisers. Members can get inputs, i.e. fertilisers, pesticides and seeds under two schemes, either as a credit-in-kind or they pay directly in cash. If they chose the option as a credit-in-kind they have to repay the principal with interest according to the prevailing bank rate. The co-operative has to compete with three private traders. Its market share comes up to about 70 - 80 percent, but it is aimed to increase it in the future. The private traders also offer inputs under credit-in-kind, but they charge higher interest rates.

(3) provision of extension services or technology transfer: The extension activities concentrate on the improvement of paddy production. This activity includes the management of the forest areas. Three persons are in charge of looking after the forest and the eucalyptus plantations. As this soil is very sandy there are not many other options to use it economically. Once the eucalyptus has been cut after 5 years it has been replaced by other wood species. During the last years this activity has been quite profitable.

Besides these activities the co-operative manages the electricity system. In addition, it supports the organisation of land preparation, plant protection and veterinary services on a small scale. It does not pursue any marketing activities as private traders do the job very efficiently and the co-operative could not organise it better. The surplus in paddy production is very small as farmers keep most of the harvest for home consumption. The marketing of other crops is too risky for the time being as the quality criteria and marketing channels for the respective products are not known.

The co-operative has a bank account with VBARD. So far they have not applied for credit as there had been no need. Since the co-operative owns the title deed of the forest land ("red book"), the chairman thinks that it will be not very problematic to get credit. But up to now, they could operate with the working capital they had in hand.

The chairman knows that the irrigation company of the district will be equitised in the near future. He is hoping to buy shares of the company in order to

improve the access to irrigation water within the area of the co-operative. So far, he has not given any thought about the issue how to finance such an investment.

Case Study 4: Quang Tri Province, March 2000

This co-operative had been established in 1978. At 6 February 1998 it had been registered according to the regulations of the Co-operative Law. This co-operative is one of the few which required additional cash contribution by the membership at transformation. In addition or closely connected with this fact, it is one of the few co-operatives where not all entitled persons choose to join the transformed entity and which had experienced a fluctuation of membership during the last years. As will be shown below, even not all households engaged in agricultural production joined the transformed unit. The co-operative covers the area of one village. The village looks a bit more prosperous and there are inhabitants specialised in off-farm activities. The average area of irrigated paddy land comes up to about 0.3 ha per household.

At the eve of the transformation it comprised 426 members living in 296 households. However, 91 members (or about 20 percent) living in 54 households did not want to join the transformed organisation. Most of these persons were either totally specialised in an off-farm activity or, if still in agriculture, had quarrels with the management in the past. So, the present chairman remembers many of them as trouble makers. In addition, all those who stayed on had to contribute 100,000 VND in cash as an increase of the share capital. Those who wanted to leave received their share in cash based on the working capital. At transformation, the number of members came up to 335 persons living in 242 households. On the other side, another 10 persons who had moved in or had not worked in agriculture before but had some land joined the transformed co-operative during 1998. During 1999 another 5 persons re-joined the co-operative, i.e. these 5 are from the group of 91 who did not join the transformed unit. In this respect, the total number of co-operative shares comes up to 350 by now. However, after transformation it was decided that each household can only be represented by one member amounting to 257 by now. Hence, some households own two shares.

After the assessment of all assets belonging to the predecessor co-operative, all those assets which are not directly related to agricultural production had been transferred to the commune. However, the management of the electricity network was kept as one activity after transformation and, hence these assets were kept. Assets of a value of about 560 m VND had been transferred. While the co-operative itself had no debts, all members who were still indebted to the co-operative were asked to repay before transformation. Some debts were cancelled. At the eve of the transformation the total value of the remaining assets stood at about 720.6 m VND of which about 614.8 m VND had been fixed assets while the other 105.8 m VND had been current ones. All fixed assets were classified as indivisible capital which cannot be distributed among members, only in case of dissolution. The value of the current assets had been divided equally among all

426 members. The share of each member came up to about 250,000 VND. Those 91 members who did not want to join the transformed co-operative got their share in cash. In total, about 22.6 m VND were paid out. On the other side, the remaining 335 members were required to pay in another 100,000 VND each to increase the share capital. Hence, the value of one share comes up to about 350,000 VND each.

During the last two years 15 persons representing one household each joined the co-operative, i.e. in 1998 10 persons and in 1999 another 5. The last 5 persons, however, used to be members of the former collective farm. While they did not want to join at transformation, they soon realised the benefits of membership. They all were required to subscribe and pay up a share amounting to 350,000 VND. While all members are equal as stipulated in the Law, there is a slight differentiation among them. In case the co-operative has the option to distribute some or all indivisible capital, only those who used to be member of the former collective farm have a right to a share. This right even includes those persons who rejoined after some time. Those 10 persons, however, who joined as completely new members have no right to get a share of these assets.

During the last two years the co-operative managed to earn a profit. In 1999, the total profits came up to about 38 m VND. As no taxes had to be paid they were distributed as follows: 10 percent (or 3.8 m VND) had been put in the risk fund although just 5 percent are obligatory. 15 percent (or 5.7 m VND) were allocated to the social and welfare fund while another 25 percent (or 9.5 m VND) was reserved for the staff training and investment fund. The remaining 50 percent (or 19 m VND) are been redistributed among the members. There are two forms in redistributing the financial surplus: (a) in form of dividends and (b) as a patronage refunds for the members using the irrigation facilities.

(a) 10 m VND have been refunded to the members in form of dividends. As there are 350 shares of a value of 350,000 VND each, the dividend per share comes up to about 28,700 VND per share or about 8 percent interest p.a. If, however, the dividend is put into relation to the 100,000 VND paid up in cash, the annual interest rate comes up about 29 percent which can be called a very profitable investment.

(b) While the total land covered by the irrigation system comes up to 84 ha, just 70 ha are owned by members. Only members are entitled to the patronage refund. As about 9 m VND were available for redistribution, members were refunded about 128,000 VND per ha. Based on the average size of the irrigated area per household amounting about 0.3 ha each member household got a refund of almost 38,000 VND, or about 29,000 VND per individual member. Hence, in total, each of the individual members got dividends including patronage refunds of about 57,000 VND, on average.

When it comes to participation in the decision-making process each of 257 households is represented by one member only. Again, just one out of every third

household is represented in the general assembly. For the time being, it comprises 85 members. The number of management staff is kept to a minimum. 5 persons have been elected to the management board, i.e. the chairman, two deputies, one accountant and one cashier. In addition, one supervisor has been elected. All these 6 persons are working full time. No additional staff is employed for the administrative work. The remuneration is relatively small. The chairman is paid a monthly compensation of 200,000 VND, the two deputies and the accountant get 160,000 VND per month, the cashier 150,000 VND and the supervisor 100,000 VND. The chairman is in his position since about 15 years. Before that time he used to work as a team leader of a brigade.

The co-operative provides a whole range of services to its members and non-members alike. The most important ones are the following:

(1) provision of irrigation services: The total area under irrigation comes up to 84 ha of which 58 ha are covered by the canal irrigation system owned by the provincial irrigation company and managed by the co-operative and another 26 ha served by electric pumps. The total area can be double-cropped. The paddy yield comes up to about 4 t/ha in both seasons. The irrigation fee for farmers is quite high amounting to 440 kg of paddy per ha and season. Members and non-members are charged the same fee but members are entitled for a refund. A group of 10 members is looking after the irrigation system. Each of them gets a compensation amounting to 18 kg of paddy per ha and season. In addition, the head of the group is entitled to another 250 kg of paddy per season.

(2) provision of electricity: This is a very attractive activity for the co-operative as it buys electricity at 360 VND/KW/h from the Provincial Electricity Company and sells it on to the members and non-members at 550 VND/KW/h. Internally, the co-operative has auctioned the whole electricity business to one of its members who is looking after the system, including maintenance, repairs and fee collection. It gets an annual payment consisting of a flat rate amounting to 2.4 m VND and another 20,000 VND for each user household.

(3) provision of input supply: The co-operative is active in the supply of seeds, pesticides and fertilisers. Its market share compared to the private traders comes up to 60 percent, 100 percent and 50 percent, respectively. It gets its supplies from various SOEs in the province. The inputs have to be paid in cash while the members depending on their respective situation might repay after harvest. During the last year this has not been a profitable activity. Due to the heavy floods many members got a reduction of the final price.

(4) forestry: The co-operative has the title deed ("red book") of about 53 ha of forest land. One member has set up a nursery and sells the young trees to the co-operative. Since 1996 an intensive replanting has been undertaken under a contract system. So far, no trees have been cut down and sold. Hence, there has been no income up to now.

(5) aquaculture: The co-operative invested in the necessary infrastructure to make effective use of a lagoon nearby which is quite suitable for fish fattening. The use of the lagoon has been auctioned among the membership. A group of 6 persons is now managing it. They have a three-year contract and have to pay an annual fee of 5 m VND.

In addition, the co-operatives provides some services with respect to plant protection and agricultural extension. Similarly, night watchmen services during harvesting periods are organised. But there are no plans to provide any marketing services within the future.

The co-operative has a bank account with VBARD. It is not indebted but it has not been provided credit so far. Its assets are not accepted as collateral. The co-operative is in need of credit, not so much for investments but as bridging loans to smooth cash flow problems. Due to its limited capital base it cannot provide its services that effectively.

The main objective for the future is to improve its services as much as possible in order to increase its own income or to cut costs of its members. Therefore, it is not aimed at expanding the type of services offered but at increasing efficiency. In addition, the chairman regards the level of compensation as by far too small. It has to be increased in the future, otherwise board members will be reluctant to continue to work for the co-operative as they might find more remunerative work elsewhere.

Case Study 5: Phu Tho Province, December 2000

This agricultural co-operative has been set up in the late 1950s. The transformation process had been started in March 1998 and transformed entity had been registered in October 1998. It covers one commune of Viet Tri City, the provincial capital, made up by 7 villages. Since this commune is highly urbanised the agricultural population forms a minority among the inhabitants. Out of the total number of 3,460 households comprising 13,459 persons just 627 (or 18.1 percent) are counted as agricultural households made up by 2,123 persons. All households who have access to agricultural land are classified as agricultural households regardless of the size and importance of any additional activities. Before transformation the co-operative comprised 1,113 members, i.e. actually all those in working age among the agricultural households. The respective number of households stood at 612. Up to the transformation, their number increased slightly as a few just married couples had set up their separate households and a few non-agricultural households got access to land and were reclassified.

All 627 households eligible for membership joined the transformed organisation. Their number will not increase in the future anymore. Due to the very small average farm size, it had been decided that no agricultural household is allowed to split up the land under its cultivation anymore. If the household head dies just one child is allowed to take over and he/she will keep the membership.

Similarly, no outsider, e.g. somebody who moves in will be able to become member as there will be no more land available. The total agricultural land available comes up to 120 ha. About 20 percent, or 24 ha, can be double cropped with paddy. The major part of the area can only be cropped with paddy once and the remaining part of the year this land is used for aquaculture. However, just 100 ha (i.e. 15 ha feasible for double cropping and 85 ha for paddy-fish production) have been distributed among the agricultural households. Hence, the average farm size comes up to 0.16 ha only. Since March 1999 all households have received the proper title deed for their land, i.e. the "red book".

The remaining 20 ha, of which 9 ha is suitable for double cropping with paddy and the remaining 11 ha for paddy-fish production is under the ownership of the commune. The commune, however, has assigned this land to the agricultural co-operative for the proper use. It reflects the smooth relation between the management of the co-operative and the people's committee of the commune that there is no written contract but just an oral mutual understanding. The co-operative is renting this land under a tendering process among its members. The paddy-fish land comprising 11 ha is rented in three-years contracts to 7 different households. The annual rent comes up to 8.33 m VND/ha. The urgent need for land among the agricultural households is reflected in the fact that the 9 ha of paddy land are rented among 250 different households. With respect to this land the contract lasts just for one year. The rent comes up to 60 kg/sao/season or about 1667 kg/ha. Based on the present land-tax conversion factor of 1,800 VND/kg of paddy the rent comes up to about 3 m VND/ha and season or about 6 m VND per year. Hence, the total rent income amounts to 145.6 VND, i.e. 11 ha multiplied 8.33 m VND/ha plus 9 ha multiplied by 6 m VND/ha. This income is equally split between the co-operative and the commune. Therefore, the co-operative manages to earn an additional gross income of 72.8 m VND out of land rent. As it will shown below this income enables the co-operative to offer some of its service at or, even, below cost-recovery rates.

Before transformation the value of all assets had been set at 596 m VND. Fixed assets of the social and cultural sphere, like the kindergarten and rural roads were transferred to commune. These assets amounted to 98 m VND. The remaining assets whose value stood at 498 m VND were made up of fixed assets amounting to 360 m VND and current assets amounting to 138 m VND. The fixed assets comprised the feeder canal system and the office building whose ground floor is rented out to various small-scale businesses. The current assets could be divided into outstanding debts (receivables) of members and other organisations amounting to 54 m VND and cash-in-hand amounting to 84 m VND. Of the receivables just 22 m VND had been with members while 32 m VND are still owed by the provincial department of culture. These latter debts are still outstanding since more than 10 years. It had been decided that all outstanding debts will be used to increase the development fund. So far, just 3 m VND have been repaid. At transformation, the co-operative had no debts to banks, other companies or its own members, i.e. it had been free of debts.

At transformation the co-operative introduced the modern concept of shares. Only the current assets quickly available as cash-in-hand had been booked as share capital, i.e. the share capital amounts to about 84 m VND. All other assets were allocated as reserves. The members have not been asked to contribute additional cash. Out of the total sum available as share capital individual shares had been deducted. The management wanted to be as fair as possible to all those who had contributed to the wealth of the co-operative in the past. Therefore, shares have not been equally distributed among the members, i.e. the agricultural households, but according to the status of the working household members. These household members became the individual share holders. Actually, two categories of share holders have been distinguished at the time of transformation: (a) "old" share holders, and (b) "new-ones". Under the first group all those had been classified who were in working age in 1993, i.e. at the time when the Land Law had been implemented and the agricultural land distributed. In total, there have been 1,252 persons who qualified for this category and each of them had been entitled to an individual share amounting to 65,000 VND. Under the latter group all those persons were listed who reached the working age between 1993 and the actual date of transformation. This group also includes those whose household status had been reclassified as an agricultural one during these years. In total, 179 persons qualified for this category and each of them had been entitled to an individual share amounting to 20,000 VND. Hence, on average, each member household comprises a bit more than two shareholders.

This co-operative is in an enviable position. Due to (1) the availability of a relatively high amount of cash at transformation, which is used wisely as working capital, (2) the ownership of a building which can be easily rented in this urban environment ensuring an annual income of 10 m VND, and (3) the income through managing agricultural land for the commune, it has some reliable sources of cash income at its disposal. These sources of income are used to balance losses of other activities or, to put it differently, to charge the members a low price for the respective service. Nevertheless, the co-operative managed to earn a handsome net profit in 1999 amounting to 72.05 m VND. No taxes had to be paid during the first three years. The net profit had been allocated as follows: About 30.8 m VND (or 42.7 percent) had been allocated to the welfare funds while the remaining 41.25 m VND had been redistributed as dividends among members. It is surprising that no funds had been put into the obligatory reserve fund. The chairwoman emphasised that this co-operative had no reserve fund and did not need one in the future. If there were a disaster in the future, the government will have to reduce the irrigation fees in order to support the farmers. Some support is given through the welfare fund. Member families are supported in case of death, marriages or in old age. For example, all persons of members households older than 80 years receive a savings passbook amounting to 100,000 VND as a birthday present. It reflects the good links to the local PCF that the passbooks are with it.

In relation to the total share capital the level of dividends is extremely high. It makes up the equivalent of an interest rate of close to 50 percent per year. Although the by-laws state that the co-operative is obliged to pay dividends each

year, it does not have to be that attractive keeping in mind that the members did not contribute any cash as share capital. More funds should be reserved for future investments. Dividends are distributed according to two criteria in order to be as fair as possible. Less than 10 percent (or 4.09 m VND) are paid out according to the individual shares. The major part (or 37.16 m VND) is distributed according to the area cultivated. Hence, on average, each hectare cultivated is allocated 3.7 m VND and each member household about 600,000 VND. In this respect, the membership itself provides an attractive source of income.

Although the chairwoman is an accountant herself by training and used to work as the accountant of the co-operative for a long time, the financial statements seem to reflect some discrepancies. Unfortunately, the annual report and the balance sheet of 1999 could not be checked more intensively as they were not available. This confirms the complaints of the banks that the financial statements of the agricultural co-operatives are not up to standards and need to be improved significantly. Otherwise it will be impossible to establish a business relation with them.

As the total number of members stands at 627 the representative system has been adopted when deciding at the general assembly. One out of 7 members will be elected for a three year period. Hence, the general assembly comprises 89 members. It meets once a year. It is looked at the issue that all villages are equally represented. The number of persons elected to the self-governing bodies has been kept to a minimum. The management board comprises two persons only, the chairwoman and her deputy. One person has been elected as supervisor. Just two persons have employed who handle the day-to day activities, i.e. one accountant and one cashier. However, each of the 7 villages have elected their representative, officially still called "production brigade leaders", who are participating at the management board meetings.

The co-operative profits from the driving power of its charismatic chairwoman and its close links to the decision-makers at commune level. Although at her early forties and relatively young for Vietnamese standards she has been elected to this position at transformation. Before that time she used to work as the accountant for almost 15 years. Besides this position, she is the chairwoman of the commune branch of the Farmers' Union and member of the management board of the local PCF. She has a degree in accounting and is eager to improve her management skills. Since two years she is participating at a part-time course to get her B.Sc. in agriculture. The deputy chairman got elected to this position in 1995 already. Before that time he used to be with the army. Besides being deputy chairman of the co-operative, he is also vice-secretary of the local branch of the Party. The good links of this co-operative to the local commune administration is underlined by the fact that the former chairman of the co-operative is the present chairman of the People Committee.

All elected and employed staff are working on a part-time basis for the co-operative. They are entitled to a compensation. The chairwoman receives 300,000 VND per month and the others a percentage share of this amount. The deputy chairman and the accountant are entitled to 90 percent and the supervisor and

cashier to 80 percent. The chairwoman regretted that the level of compensation is lower compared to the one with the local PCF. Its chairman is entitled to a compensation amounting to 400,000 VND per month.

The co-operative is concentrating its services on the following ones.

(1) provision of irrigation and drainage: The provision of the adequate level of water and the drainage is managed by the Water Company of Viet Tri City. The water fee comes up to 300 kg of paddy per hectare and year regardless whether the land can be double cropped with paddy or cultivated by a paddy-fish rotation. The average yield comes up to about 5 t/ha during the spring season and to about 5.5 t/ha during the autumn season (although during that time just a small share of land can be cultivated with paddy). In this respect, it has to be agreed to the chairwoman that the water user rates are relatively low. The co-operative does not earn any income on this activity. It just collects the fee in cash and hands it over to the company. The management of the feeder canals are done by the members themselves. There are no groups. Each person in working age is obliged to work for up to 10 days annually in cleaning the feeder canals. The 7 representatives look after the persons within their respective villages. They are not specifically compensated for this task, but are entitled to a compensation due to other activities they perform (see below).

(2) plant protection: The 7 representatives are responsible for their respective villages. They check the plants on the fields, forecast potential damages and monitor the diseases. They work closely with the Centre for Plant Protection in Viet Tri City. Staff members of this centre monitor the fields as well, but their main task is to give advice to farmers what type and quantity of chemicals have to be applied to fight the spread of diseases. The members have to pay 0.6 kg of paddy per sao and year, or about 16.7 kg/ha. Of this fee one sixth is used for the compensation of the 7 representatives while the rest is reserved for paying the Centre. The representatives are entitled to a compensation amounting to 120,000 VND per month. This includes their work organising the members to clean the feeder canals.

(3) provision of inputs: The co-operative is organising the supply of seeds, fertilisers (i.e. NPK) and pesticides. At a special meeting members are asked about their needs of inputs. In addition, members must be sure that they have the necessary cash available once the inputs will be delivered. With respect to pesticides the members have to pay in cash right at delivery, with respect to fertiliser and seeds 50 percent. During the last year the co-operative bought 600 bags of pesticides at 600 VND/bag and handed them over to the members for the same price. Concerning this input the co-operative did not earn anything at all. Actually it had to cover the costs in organising the deal by other sources of income. With respect to fertiliser the co-operative organised the purchase of 20 t of NPK at 1,120 VND/kg from the factory. The factory is located in Viet Tri City. The co-operative hired its own truck as they regarded the transport costs charged

by the factory as too high. The factory has been paid straight in cash, i.e. about 22.4 m VND. The price of the members to their co-operative stood 1,250 VND/kg. Half of their bill they had to pay in cash, the other half they received as credit-in-kind and have to repay after harvest. In order to facilitate this purchase in bulk the co-operative has put in about 11 m VND of its own cash funds.

Through this deal about 70 percent of the total demand of the members can be met. Those who do not participate pay about 1,300 VND/Kg of NPK to private traders or factory agents. They have to pay in cash. Some members are not making use of this co-operative service because (a) the traders or agents are more conveniently located to their house or plots, (b) they have missed the meeting when the applications had to be made, or (c) do not have any storage facilities themselves and just buy fertiliser when it can be put to the fields immediately. The co-operative itself does not have any storage facilities.

The seeds are bought in bulk from the provincial genetic institute to make sure that high yielding varieties will be applied. Only paddy seeds have been bought so far. Last year, the buying price stood at 3,400 VND/kg and the members had to pay 3,800 VND/kg to the co-operative. All member households participated, so that the co-operative bought about 3 t. Again, the transport had been organised by the co-operative. Like with fertiliser the members had to pay up 50 percent of their bill in cash straight away and the rest after harvest. The co-operative had put in about 6 m VND of its own cash funds.

(4) provision of field protection services at harvest times: One team consisting of 5 persons is responsible for this activity. The farmers have to pay them 1 kg of paddy/sao or 27.8 kg/ha. The groups is paid by the farmers straight away so that the co-operative does not make any surplus at all.

(5) provision of cash credit: Since transformation, the co-operative is offering cash credits to its members. All funds available as cash-in-hand minus those funds committed for the input supply business will be borrowed out. Hence, a bit less than 70 m VND had been available during 1999. Loans are given for a period of up to 6 months. The minimum amount is 0.5 m VND, the maximum amount 2.0 m VND. In this respect, the loans are more attractive to the poorer segments of the co-operative members. Those who are in need of higher loans approach VBARD directly. In addition, about 200 of the 627 member households are members of the local PCF. These members are somewhat better-off than the others.

During 1999 40 loans got approved. Their volume stood at 1.5 - 2.0 m VND. The interest rate to be charged had been in line with the one of the PCF, i.e. 1 percent per month. There is no need for any collateral or for pledging any securities. Those members who apply for a credit have to sign a written commitment that they will repay which is countersigned by the representative of the respective village. The social pressure among the members is high enough that there had been no problems with repayment, so far. There have been no overdue debts. Since the funds available is small in relation to the demand, all poorer members are eager to get access to this source of finance. On the other side, the

chairwoman does not plan to increase the size of this activity. All income on interest is not used to increase the volume of the funds available, but are booked as profit. The management does not want to mobilise savings. The chairwoman stressed that they just want to complement the activities of the PCF, but not compete with it.

Since a long time the co-operative has a bank account with the Industrial and Commercial Development Bank (ICB). In addition, there are good links to the local PCF as about 200 members of the agricultural co-operatives have also joined it. The chairwoman is elected to the management board of the PCF. But as an agricultural co-operative they put their surplus funds on the ICB-account as the interest rates are higher. The co-operative has not applied for credit with the bank. They can manage well with their own funds. But, if there is a need for credit, the chairwoman thinks it will be no problem as they have the proper title deed ("red book") for the office building which they can pledge as security.

(6) agricultural extension: This service has just started since transformation. The co-operative is using some of its own funds to finance the set up of demonstration plots and of training courses for the members. This activity will become even more important in the future in order to improve the skills of the farmers. For the time being, there is no extra financial support by the commune for this activity, but perhaps in the future. The members do not pay anything for this service.

The chairwoman sees three priority areas for the future work of the co-operative: (1) The co-operative will support the members in diversifying their production pattern. Emphasis will be laid on aquaculture and the promotion of vegetable production. (2) Since the commune is already highly urbanised it is assumed that more and more agricultural land will be converted for industrial use. Even for the member households agriculture will decline gradually as a source of employment and income. The co-operative will support the members in starting non-farm activities. (3) Since members will diversify their production pattern, common marketing of agricultural goods has to be emphasised. So far, with mostly paddy to be sold, marketing had been relatively easy at the individual level.

(b) Situation without Co-operatives

Case Study 6: Bac Giang Province, October 1998

In this village the agricultural co-operatives had been dissolved in October 1991 based on a decision by the district people's committee. Since then, the most important services are managed at the village level under the responsibility of local groups. All members of the various groups are not elected by the people but selected by the village headman. He is supported by the village committee

comprising in total 5 persons. Four persons are elected by the population, i.e. the village headman, his deputy, accountant and cashier. In addition, the local chairman of the Party is member. Actually, village committees have been set up in all those villages where agricultural co-operatives are no more operational and dissolved. It is of a temporary nature. It is not an entity with its own legal status. As all over the country, the people's committee at the commune level is recognised as the only recognised legal entity at the local level.

The most important activities continued under the village administration comprise the provision of irrigation water and electricity. The irrigation system is managed by a group comprising 10 persons; one of them is the leader. All group members are appointed for a two-year period. Contrary to the former brigade-system all of them must have some experience in managing irrigation systems. They are paid by the village administration which also has concluded the water supply contract with the company running the pumping station. The farmers as the users pay an irrigation fee to the village administration amounting to 5 kg of paddy per sao and season (i.e. about 140 kg/ha and season). In the same manner, an electricity group is working in the village. It comprises 5 members. Private traders, in general households within the village, are organising the marketing of agricultural products and the provision of input supply.

The payment with respect to the various services is decided at the village meetings which are convened once a year. All household heads are represented. From the farmer's point of view, the meetings are organised in more or less the same manner like the general assemblies of the now defunct agricultural co-operative. There is a certain level of control on the village headman so that, according to their opinion, there is no need of separating administrative and economic functions in the village again.

One farmer stated that he was very satisfied in the way the services are provided in the village. Since most of the group members are not exchanged every second year, they are becoming more and more experienced and professional. Nevertheless, the level of services can be improved as he voiced the opinion that more on-the-job-training will be required in the future.

Case Study 7: Quang Binh Province, October 1998

This commune comprises 9 villages. The total number of inhabitants comes up to 4,800 persons living in 1,005 households. The total agricultural area stands at 850 ha. Formerly, there used to be three agricultural co-operatives which were in charge of irrigation systems, provision of input supply, land preparation and plant protection. But all of them were not very efficient. Due to Decree 5 in 1993 the co-operatives were no more allowed to collect fees from the farmers. When funds dried up, the work groups could not be paid anymore. At that stage members decided to close down the co-operatives. In late 1993 the dissolution had been applied and in 1994 it had been granted.

All assets amounting to about 400 m VND had been transferred to the commune. In addition, the commune took over the debts to banks amounting to 50

m VND. These debts have been paid off by now. On the other side, there were liabilities, i.e. debts by the member to their co-operatives, amounting to about 320 m VND. The members themselves decided in 1993 that the debts should be paid back but without any interest payments. During the last years the commune has been active in gradually recollecting these funds. By now there are still about 30 percent overdue.

Most of the former activities have been continued under the management of the people's committee of the commune. For the main activities, i.e. the management of irrigation and electricity facilities special groups have been formed. (a) With respect to electricity supply the group comprises 8 persons under the leadership of the chairman of the people's committee himself. In addition there is one person employed on a full-time and another 6 on a part-time basis. In total, there are three electricity stations within the commune which have been financed by the commune but managed by the former co-operatives. The organisation of electricity is quite attractive. The purchasing price stands at 360 VND/KW/h while the households are charged 650 VND/KW/h and rural enterprises a price ranging from 550 – 855 VND/KW/h depending on the amount supplied. The monthly net income from this activity comes up to about 1.5 m VND. (b) All irrigation activities are managed by one person employed on a full-time basis. He is supported by 1-2 part-time persons in each of the 9 villages. They can handle most of the necessary tasks. In case bigger jobs have to be done, e.g. cleaning of larger canals, repair of dams, the local population will be mobilised. (c) For both activities, crop production and animal husbandry one person each has been employed by the commune on a full-time basis. In general, these people do extension work.

In general, all these services are provided in timely and efficient manner. Input supply and marketing are well handled by the private sector. Similarly, about 70 percent of the household do get credit either from VBP or VBARD. Hence, people do not voice the wish to set up an agricultural co-operative. They do not see any need for it, so far.

(c) Newly Established Agricultural Co-operatives

Case Study 8: An Giang Province, March 1999

This agricultural co-operative has been registered at 31 March 1998. It has been formed out of three pre-co-operatives, i.e. irrigation groups. Actually, these three as well as another 8 groups were originally formed as agricultural production teams during the late 1970s. These other 8 irrigation groups still exist within the area of the commune, but they are responsible for other catchment areas. At the time of the registration 306 interested farm households joined the co-operative. During the last year another 10 households did so, so that the total number of members comes up to 316 by now. These households cultivate all the 219.6 ha

under irrigation within this catchment area. Hence, 100% of the farmers cultivating under irrigation have become members. There are another 17 households living in these villages but having their land in other ones, so that there is no reason for them to join. These farmers are somewhat richer than the members of the co-operative. They have invested some money in tractors and other agricultural machines. The number of all inhabitants within the whole commune stands at about 850 households. Paddy is cultivated as a cash crop in this area. There are two seasons. During the main season lasting from November to February the average yield comes up to about 8 tons per hectare. During the minor season, lasting from April to August, the average yield stands at 6 tons per hectare. Between August and November the fields are usually flooded.

The value of all assets taken over by the co-operative from the 3 groups stands at 419 m VND, all of which are classified as fixed assets. The co-operative does not have any operational capital or cash. Rather deliberately, or more or less like a rule of the thumb, it was decided that 40% of the fixed assets (i.e. 168 m VND) should represent indivisible reserves. The other 60%, i.e. 251 m VND were declared as share capital. The value of each share has been calculated on a hectare basis, i.e. one hectare of irrigated farm land gets allocated one share. Thus, the value of one share comes up to about 1.143 m VND (i.e. 251 m VND/219.6 ha). The value of shares for each member depends on the size of land he or she is cultivating. So far, no member has been asked to contribute cash for share capital.

The management states that there has been no need for working capital, so far. After one year of operation, the co-operative managed to earn a profit coming up to 148.6 m VND. Out of this amount about 16.7 m VND have been needed for staff payments. Of the net profit, i.e. 131.9 m VND, about 28.9 m VND have been put into reserves, mainly for planned investments in the extension of the electricity lines and in electric pumps in order to improve the irrigation system. The remaining 103 m VND (or about 78.1% of the net profits) have been returned to members as dividends and patronage refunds. These dividends and refunds have been distributed among all members on an equal basis and not on the respective value of shares.

All functionaries have been elected for a two-year period at the first general assembly. The management board just comprises three persons, i.e. the chairman and two deputies. Another three persons were elected into the supervisory board. The professional staff includes an accountant, a cashier and a store-keeper. In addition, there are three team leaders who are responsible for managing the irrigation system. The actual work in running the irrigation system is done by contracted workers who are being paid a certain sum which also includes the provision that, in case of emergencies, additional costs have to be covered by them. In this way, the co-operatives does not have to put aside some funds for emergencies. Finally, the co-operative employs two women who look after the shop where agricultural inputs are sold on a credit basis.

During the first two years, the chairman, his two deputies, the three professional staff members and the three team leader are all paid equally. The management argues that they are responsible in the same manner. They are paid in

kind, i.e. 900 kg of paddy per season. After two years, it will be discussed whether to continue with this system of equal payment or to change the pattern.

The co-operative manages quite a number of activities which are both, of a direct economic character and of a more supportive (social) character for the members. Actually, most of these services have been offered before, but they have been more costly. Similarly, the co-operative is offering them in a more reliable manner. So, it is the primary objective of the management to improve those services already done and, then, to enlarge the scope of them. The activities which support the farm activities of the members directly are the following ones:

(1) provision of irrigation water: The co-operative has six pumping stations at its disposal in order to irrigate the whole catchment area amounting to 219.6 ha. One pumping station is already powered by electricity, the other five by fuel. Since the set-up of the co-operative the irrigation costs of the members could be cut significantly. While farmers used to pay 560 kg of paddy per ha and season, they now just pay 430 kg. They saved 130 kg or about one quarter of these costs. Since the irrigation activities are now organised much more efficiently, the co-operative still manages to earn quite a surplus.

(2) support in input supply: The co-operative has signed contracts with the provincial farmers' union and the state-owned companies to distribute the necessary inputs to their members. All the inputs, mainly fertilisers and pesticides are sold on a credit basis. The system works as follows: The state-owned companies have delivery contracts with the provincial farmers' union. Within its catchment area the co-operative acts as the distributor (or like a middleman) for the farmers' union. It has its own shop. The farmers get the necessary inputs when needed. After harvest they repay the co-operative which pays back the farmers' union which, finally, settles the bill with the companies. In this respect, not much cash is needed. The co-operative gets a small margin for doing this service. It is not the objective of the management to make any profit with this activity.

(3) conclusion of summary contracts with private entrepreneurs: This helps to cut production costs mainly in respect to land preparation, threshing and transport of paddy from the road to the barn. Those 17 households which are living in the village, but have not become member have invested in agricultural machinery. Before the set-up of the co-operative each farmer had to bargain individually in order to get the services by these private entrepreneurs. Now the co-operative has bargained a general contract for all members. Due to this contract the prices for these service could be reduced significantly. The prices for land preparation, i.e. ploughing and land levelling could be reduced by about 10%, i.e. from 220,000 VND/ha to 200,000 VND/ha. The prices for threshing could be cut by about 30%, i.e. from 250 kg of paddy per ha and season to 170 kg. The transport prices from the roads next to the fields to the barns decreased by about 10%, i.e. 330,000 VND/ha to 305,000 VND/ha. In this respect, the production costs of each member declined due to the help of their own organisation. On the other side, this new

pattern is also cutting costs for the private entrepreneurs as the respective services can be done in a more effective manner.

(4) organisation of agricultural extension: This is mostly done in close co-operation with the district and provincial extension service. Extension workers are invited to work with farmers. For the members this service is free of charge. Sometimes the co-operative is even getting some refunds by MARD if the extension activities are part of a specific national programme, e.g. the organisation of integrated-pest-management courses for farmers. In this respect, it is of great benefit that one of the members is employed by the extension service.

Besides these production oriented activities the co-operative is also active in other spheres.

(1) support in family planning work: The co-operative is actively encouraging family planning activities among its members.

(2) support in financial services: When members apply for credit as individuals, they have to provide collateral. In general, they need a certificate issued by the people's committee that they are without debts, own some assets of value and have the "red book". This certificate they have to present to the banks (in general VBARD) together with their loan application. Since its registration, the chairman of the co-operative can issue such a certificate as well which is acknowledged by the banks. The farmers prefer this way since quite often they are reluctant to go to the office of the people's committee. Although they get the certificate relatively quickly at this office, they usually are asked all types of questions which they want to avoid. Similarly, the co-operative supports the banks in collecting the repayments. For this service it is getting a small commission.

(3) collection of land tax: The co-operative is collecting the land tax from its members directly for the people's committee of the commune. For the time being, the annual land tax comes up to 550 kg of paddy per ha.

All in all, the management is very optimistic about the development of the co-operative. Since its registration, it is felt that more support from the government was given. Similarly, the extension service is more active than during the time without the co-operative. The co-operative plans various investments in the future to cut the production costs of their members even further. The electrification of the all pumping stations is of first priority. In addition, it is planned to buy tractors to reduce the dependence on private entrepreneurs. Although the co-operative does not have any bank account it is offered credit by VBARD and other commercial banks from the town close-by. It shows that it has established quite a good reputation. However, the management is still reluctant so far to accept this offer since, it thinks, the interest rates are too high.

Case Study 9: An Giang Province, March 1999

This co-operative has been registered at 11 November 1997. It covers three villages out of 12 of the commune. There used to be a credit group formed out of three credit co-ordinating groups whose members formed the core of the new co-operative. This credit group used to negotiate the terms of credit with the bank for its members. Actually, it can be said that an informal group had become a formal one with a changed focus of its activities. The actual incentive of forming the co-operative had been the decision of the irrigation department to close down the District Irrigation Co. under its jurisdiction since it used to be very costly and no economic prospect had been seen in its equitisation. Therefore, farmers were encouraged to put the irrigation services into their own hands. Based on the Co-operative Law the farmers now saw an advantage in forming their own co-operative. Six farmers took up the idea and acted as founding members. It took just two months to get the co-operative registered. At the beginning it comprised 85 members. Now membership has increased to 101.

The catchment area of the irrigation system covers 184 ha spread over the three villages. This land is double-cropped with paddy. 80 of the 101 members are cultivating, in total, 50 ha. Hence, the average farm size stands at 0.8 ha. In addition, most farm households do have some garden land. The total number of households in the three villages comes up to about 500. Therefore, there is still a large pool of potential new members. However, many who are eager to join lack the money to buy a share. It seems that the members are a little better-off compared to the other households.

One interesting feature of this agricultural co-operative is the fact that not all members are farmers. Only 80 out of the 101 members are farmers while the others are rural non-farm entrepreneurs. The 21 non-agricultural members own 78 shares (or about 4 each, on average) while the 80 farmers own 168 shares (or about 2 each, on average). These 21 persons joined right at the beginning. Professionally, they are small-scale entrepreneurs and traders as well as carpenters.

At the beginning the co-operative issued 195 shares valued at 300,000 VND each. In the meantime, 246 shares have been subscribed so that the subscribed capital stands at 74.8 m VND. During 1998 the co-operative managed to earn a gross income of 210 m VND. The costs and expenditures came up to 141 m VND. The net profit amounting to 69 m VND is divided into two parts. 70%, i.e. 48.3 m VND, have been allocated to the reserves making up the development or investment fund with 43.5 m VND (or 90%) and the risk and welfare funds which both got allocated 2.4 m VND (or 5%), each. The remaining 30% of the net profits, i.e. 20.7 m VND, are distributed as dividends among the members. As some members joined later, only those 195 shares of the first 85 members are entitled to this dividend. The total dividend comes up to about 110,000 VND per share which equals an interest rate of about 3% p.m.

It is the deliberate policy of the co-operative to pay high dividends. The patronage refunds for using the irrigation system has been kept quite low compared to other agricultural co-operatives. This might reflect the influence of

the non-agricultural members who are more interested in getting a high dividend than a high patronage refund. They are more interested in a high “shareholder value”. Due to the good economic performance the value of the co-operative has increased significantly during the first year. However, the general assembly has decided to keep the value of one share at 300,000 VND, so that it is not too expensive for potentially new members to join. Long-term members will be compensated with bonus shares in the future.

The managing board comprises three persons, i.e. the chairman and his two deputies. In addition, one supervisor has been elected by the general assembly. One accountant and one cashier have been employed. Two members are subcontracted to look after the pumping station. Small repairs have to be done and financed by them, the bigger ones have to be borne by the co-operative. All elected and employed staff have an agricultural background. All work for the co-operative on a part-time basis. The chairman who is also the general manager gets a monthly compensation of 300,000 VND. Both vice-chairmen and the accountant are paid 250,000 VND p.m. The supervisor and the cashier are entitled to 200,000 VND p.m.

All 101 members have a say in decision-making at the general assembly. The rule “one member – one vote” applies. The non-agricultural members participate actively at the meetings. Actually, they are quite active in checking the management regularly.

The chairman has no experience as a group leader. He is relatively young, but has got a good education in Ho Chi Minh City where he earned a B.Sc. in biology. According to his opinion, doing business as a co-operative in these days is not so risky as acting as a private entrepreneur.

The co-operative is concentrating on a few activities only which are the following ones:

(1) provision of irrigation services: The proper organisation of this service had been the major incentive to set-up the co-operative as the irrigation department wanted to liquidate the District Irrigation Co. Right after its registration the co-operative bought the pumping station for 185.5 m VND from the irrigation department. It does not have to pay any interest. The principal has to be repaid in six instalments over three years, i.e. after each cropping season. Three instalments have already been paid and the management is confident to continue as agreed upon.

The members pay the fees in cash. While the District Co. used to charge 960,000 VND per ha and season, the prices could be reduced by more than 40%. Now, members pay 550,000 VND per ha and season while non-members are charged 650,000 VND. In addition, members are given a patronage refund of 10,000 VND per share in case the co-operative is making profit.

(2) conclusion of summary contracts with private entrepreneurs: The co-operative has negotiated summary contracts on behalf of its members with private entrepreneurs to cut production costs with respect to land preparation. While

farmers used to pay 250,000 VND per ha for tractor ploughing and land levelling, they now save 10% and pay 220,000 VND. The tractor owners are members as well as non-members.

(3) support of credit applications: The chairman of the co-operative certifies that the credit applicant has the necessary collateral at his disposal. This certification is accepted by the banks, i.e. VBARD.

The co-operative has its own bank account with VBARD.

The management plans to expand its activities. It wants to buy tractors to smooth the activities of land preparation. The tractors are supposed to be rented to interested members who will work with them on their own as contractors. A tractor will cost about 70 m VND. So far, it is open where the necessary funds will come from. In addition, it is planned to organise the supply of the most important production inputs. A small shop will be opened.

Case Study 10: Bac Giang Province, October 1998

This co-operative has been set-up out of one production team (brigade) from the former co-operative. The old-style co-operative used to have about 1,500 members but it became ineffective and, finally, collapsed. This co-operative has been established in 1995. While it is termed as a transformed co-operative it is in a strict sense a newly established one. It comprises 20 members. It is specialised in rice-seed multiplication. All members used to form a production team in the old days which was specialised in paddy production. All 20 members live in the same village/hamlet which comprises 45 households in total.

As the co-operative had been set up in 1995 it had to be transformed according to the Co-operative Law effective 1 January 1997. But, as the discussions about the drafts had been widespread and the provincial government had already issued a provincial decree on co-operatives (03/95), only very small adjustments had to be done to get (re-) registered. From the former co-operative no assets have been left. The irrigation system and the electricity facilities went into the hand of the commune which employs persons to do the actual job. There is the opinion that these services used to be more effective during the times of the co-operative than now.

When it came to establishing this co-operative, there has been a careful selection of members. The basic requirements were: (a) to have a certain technical knowledge about seed multiplication; (b) to have at least 0.4 ha available as a minimum multiplication area; and (c) to subscribe a share at 300,000 VND which has to be paid in two instalments. The first half had to be paid when the co-operative had been established, the other half after 6 months, i.e. when the first season had been over. Some members bought two or more shares.

During the last three years the co-operative has been very successful. The main source of income is in connection with the sale of multiplied rice-seeds. Of each kg sold 100 VND is kept by the co-operative. In total, share capital and

reserves already make up about 160 m VND. About 140 m VND can be classified as fixed assets and another 20 m VND as current ones. The total turn-over comes up to about 220 m VND per season, or about 440 m VND annually.

The number of elected persons has been kept to a minimum. The management board just comprises three persons, i.e. the chairman, the accountant and the cashier. In addition, there is one supervisor. All tasks are done on a part-time basis as all of them have to manage their own farms. The chairman gets a monthly compensation in cash.

All activities are concentrated on improving rice-seed multiplication. The activities are the following ones: (a) organisation of quality seeds for multiplication; (b) supervision of seed multiplication and quality control, and (c) marketing of the multiplied seeds. Just recently the co-operative has signed an agreement with a fertiliser company to ensure the timely delivery of fertilisers to their members.

In general, the co-operative has signed contracts with the National Institute of Seeds and other seed companies to get first generation seeds which have to be multiplied. This multiplied seed is then used at the farm level. Most of the seeds are multiplied under contract farming arrangements, i.e. the multiplied seed is returned to the companies which are organising the marketing or the final distribution to the paddy farmers. About 30 percent of the multiplied seeds are marketed by the co-operative itself. The co-operative is selling within the province and there is no problem in finding buyers. The price of multiplied seeds is fixed to the paddy price. The price of one kg of seeds is always the equivalent of the price of 1.3 kg of paddy.

As the members just own 0.4 ha of agricultural land, they are highly specialised in seed multiplication as a source of income. However, in between seed multiplication a quick maturing crop like maize or vegetables can be grown on the plots. Nevertheless, all members have to buy their rice for home consumption from neighbours or on the market.

A strong need was seen for a federation of co-operatives. In this district, there are already three more co-operatives specialised in rice-seed multiplication. The collaboration among each other should be strengthened institutionally.

Case Study 11: An Giang Province, March 1999

This co-operative has been registered just one year ago at 27 March 1998. It is specialised on aquaculture. It comprises 12 members who are specialised in fish production. There used to be a self-help group already coming up to 40 members in total. However, just 12 out of these 40 formed the co-operative. The others had been hesitant to join and are still members of the self-help group. The chairman of the co-operative attended a workshop in Hanoi where he was introduced to the advantages of forming a co-operative under the new law. With the active support of the MARD staff at the provincial and district levels, respectively, the idea of the co-operative had been promoted. Both, the chairman and the supervisor of the co-

operatives had experience in managing groups as they used to be leader and deputy leader of the self-help group.

The members are relatively wealthy. In total, they own assets valued 930 m VND, or about 77.5 m VND per member. The 12 members are managing 14 fish cages in total. On average, one cage comprises about 120 m³ in which about 13 t of fish can be fattened. The annual turn-over comes up to about 170 m VND per cage (i.e. 13 t of fish sold at about 13,000 VND per kg). The annual costs come up to about 100 m VND of which about 50 m VND are fixed costs for the cage and another 50 m VND comprise variable costs, mainly fish feed.

The fee for setting up a cage in the river is just nominal. It costs about 60,000 VND to be registered at the Department of Aquaculture of MARD. Since, the investment costs are very high there is not much competition in this field. Actually, the co-operative is eager that more persons take up aquaculture in this area. While most of the members have now specialised in fish production, some are still doing some paddy cultivation or small-scale trades in fruits and soft drinks. Fish production is a fairly young activity in this area. The supervisor started about 5 years ago while the chairman just began two years ago. Before that time they had been fruit and paddy farmers.

At the time of registration, the co-operative handed out 153 shares valued 100,000 VND each. Thus, the total amount of equity stood at 15.3 m VND. However, the shares are not distributed equally. The number of shares ranges from just one to 25 per member. The chairman has signed 25 shares while supervisor, accountant and cashier own 20 shares each. Hence, the four most important persons of the co-operatives hold together more than half of all shares.

The co-operative does not have a bank account. The cashier keeps any surplus cash at his home. As the budget year ends with the annual sale of fishes, i.e. May/June, there have been no income calculations for the first year in operation. So no decisions about dividends and compensation for the management have been taken so far. But the chairman has been confident that the co-operative will show profits after the first year.

Due to the small membership the official positions are kept to a minimum. There is just one chairman taking over the function of the management board and one supervisor. Both persons are elected by the general assembly which is meeting once a year. The election period comes up to two years. In addition, the accountant and cashier are confirmed by the general assembly. Due to the small size members and managers do meet very often. So far, no compensation or salaries have been paid to the functionaries. But it is planned that after the next annual sale of fishes they are entitled to compensation although it has not decided about the size.

The original self-help group just concentrated on two activities. It provided support to the members in getting credit from the bank as it is still quite difficult in getting loans as individual farmers. In addition, it organised extension in improving fish production. Right from the registration, the co-operative has expanded its scope of activities.

(1) common purchase of fish feed: This is the most important activity of the co-operative for the time being. All the share capital is invested in buying fish feed. With the amount of 15.3 m VND the fish feed lasts for about 10 days. Within that period members must have repaid their debts in order to buy new feed. Nevertheless, the co-operative is making a profit of about 100 VND of each kg of feed sold.

(2) common purchase of fish spawn and small fishes for fattening: In general, there is no cash involved ("payment in kind"). The members pay for the young fish with the fattened fish of the last season.

(3) common price negotiations for selling the fattened fish: Fish production or fattening is a highly seasonal business. The fattening periods takes about one year and selling season is about May and June. Three different types of fishes are fattened which are all destined for domestic consumption. Generally, the fish is sold at the market or to traders at the provincial capital (Long Xuyen City). Sometimes, traders come straight to fish farmers to buy.

(4) support of credit applications: The chairman of the co-operative certifies that the credit applicant has the necessary collateral at his disposal. This certification is accepted by the banks. Generally, the people's committee of commune has to certify the ownership of collateral. Thus, the procedure of applying for credit is much smoothed for the members. All credits are provided to the members individually. But the co-operative acts as a joint credit insurance group, i.e. in case one member cannot repay his credit all members will not get any credit anymore. However, they are not acting as a joint liability group, i.e. members do not have to repay for those who cannot. This is an important reason to select the membership very carefully. All financial activities are handled with VBARD which comes to credit only as no member does have a personal bank account.

(5) organisation of extension activities for the improvement of fish production

At the beginning it was planned that all members of the self-help were joining the co-operative. But at that time many were reluctant to do so. Later on these persons wanted to join but then the co-operative became hesitant. Now it looks as if the remaining members of the self-help group will form a second co-operative. Nevertheless, the co-operative is interested in broadening the membership in the future. Similarly, it is planned to raise the share capital to about 100 m VND.

(d) Local People's Credit Funds (PCFs)

Case Study 12: PCF, Quang Binh Province, October 1998

This PCF has been officially registered in late March 1996. Its membership comes up to 420 persons by 30 September 1998. Just 41 members are female. Eligible for membership are household heads. The total number of households in the commune stands at 998, so that about 40 percent of all have joined. Besides the LCF there are two transformed agricultural co-operatives operational within this commune. While membership might overlap there is no formal co-operation or link between these co-operative organisations.

In late 1995 the SBV undertook an analysis whether there is enough economic potential in this area to establish a PCF. Already in early 1996 a group of 11 interested members came together to discuss the set-up. These persons had been the chairman and his two deputies of the people's committee, the chairman of the Fatherland Front of the commune and the former chairman of the already dissolved supply and marketing co-operative. In addition, 6 village headmen out of the 7 villages participated. They drafted the bylaws and a work plan for the next two years. The six village headmen soon dropped out and two other persons joined, i.e. a retired tax official and a former book-keeper of an agricultural co-operative. These 7 persons held the founding assembly in February 1996 at which they adopted provisional bylaws and the work plan. In addition, they elected the provisional management board. Each of the 7 founding members committed himself to contribute 15 m VND in form of permanent shares. While 5 m VND had to be paid straight away the remaining 10 m VND could be paid in instalments over several years. The major reasons why the founding members put up the capital to make the PCF possible have been the following ones: (a) the expected dividends seemed to be quite attractive compared to other types of savings; (b) access to formal financial services had been bad as the distance to nearest branch office of VBARD in the district capital is far away; and (c) they had a great trust in this organisation as they themselves decide what is happening with their money.

Within the next weeks the founding members approached interested persons in the commune whether they were interested to join. These interested persons had to subscribe not just one, but at least six qualification shares. Hence, these persons subscribed shares amounting to 300,000 VND each. At the middle of March 1996, within two days, the provisional management collected all subscribed share capital in cash and deposited the money at the provincial branch office of SBV. The total amount came up to about 54.2 m VND (or $7 \times 5 \text{ m VND} + 64 \times 0.3 \text{ m VND}$), i.e. just a bit more than the minimum requirement of 50 m VND.

At 27 March 1996 the first general assembly had been convened. Besides the 7 founding members the other 64 members participated. At this assembly the bylaws and work plan was adopted. The management board had been elected. After this assembly the PCF had been registered by the provincial branch of SBV (operation license). In the following months more members were recruited. These

persons had the option whether they just subscribed one qualification share, which can be regarded as a type of membership subscription fee, or whether they subscribed additional shares. The management encouraged all new members to subscribe, at least, two shares. Actually, members are free to subscribe as many shares as they want to as long as one member does not own 30 percent of the total share capital. By the end of 1997 the number of members had increased to 401, already. In this respect, there are three types of members having subscribed different amounts of share capital. At the general assembly in March 1997 the transformation of the PCF according to the Co-operative Law had been approved. This was just a formal act, but based on that the PCF got registered by the people's committee of the district.

Members having subscribed qualification shares might cancel their membership easily, if they wish so. They just have to bring forward their wish in writing. At the next general assembly it will be formally agreed to that wish. Within the next three days the subscribed share capital will be refunded to that person. By the end of 1997 the total share capital stood at 89 m VND. The founding members had not started yet to pay up the remaining 10 m VND of their permanent shares.

During the last years the PCF has managed to earn small net profits, only. In 1997 the gross profit came up to 17 m VND. About 25 percent (or 4 m VND) were distributed as bonus among the elected and appointed staff members, i.e. the founding members. Since the PCF did not have yet to pay taxes in that year the net profit had been distributed as follows: one third (or 4.3 m VND) was allocated to the development and investment fund and about 5 percent (or about 0.7 m VND) to the capital reserve fund. The remaining 8 m VND were used as dividends. Their rate amounted to about 9% p.a. or 0.8% p.m., e.g. dividends for a qualification share came up to 6,900 VND. Compared to the actual saving rates they had been somewhat lower.

For 1998 a higher gross profit is expected. Up to 30 September 1998, the surplus stood at 14 m VND already. However, starting from this year, the PCF will become taxable. It will have to pay a business tax coming up to 45 percent of the gross profits which means that a large amount of capital will be siphoned off. Concerning taxes, a PCF is classified as a bank. Hence, net profits and dividends might decline. In late 1998 the government has realised this problems and the tax has been halved, i.e. to 22.5 percent.

All members have a savings account. The chairman is looking after the mobilisation of savings. So far savings have come up to about 250 m VND. Out of this sum, about 40 m VND are deposited by 5 non-members. Savings are all on a short-term basis. Most savings are on 6 – 9 months deposits. Interest rates on savings can be fixed by each PCF on its own. Interest rates increase with the length of the deposit period; i.e. there is a monthly interest rate of 0.9 percent on 3-months deposits, 1.0 percent on 6-months deposits, 1.05 percent on 9-months deposits, and 1.1 percent on 12-months deposits.

In case the PCF is short of own funds for handing out credit it can approach the PCF-system, i.e. the RCF and CCF for re-financing. The upper limit for

refinancing is set at the equivalent amount of savings and share capital, i.e. in this LCF up to 339 m VND as the share capital stands at VND 89 million and savings come up to 250 m VND. For the time being the interest rate on these funds stands at 1.0 percent per month. Hence, from the point of view of the management, this rate is more attractive than encouraging long-term deposits of the members. On the other side, if the PCF has surplus funds it can deposit them with the RCF/CCF for a monthly rate of 0.95 percent.

The total amount of outstanding credit comes up to 420 m VND. Most credits are on a seasonal basis, up to 6 months. The longest credit period goes up to 12 months. Regardless of the credit period interest rates come up to 1.5 percent per month. This is in line with the interest ceiling on credit announced by SBV. The executive director is responsible for the day-to-day management of the PCF. He is authorised to approve all credit applications below 3 m VND. Most of the credit applications come up to an amount between 1-2 m VND. Higher amounts have to be approved by the credit committee comprising the executive director, the chairman and one board member. All three have to examine these applications carefully as they will become liable for it in case of default. In case a member is not repaying a credit the management and then the people's committee of the commune are putting up pressure first. Then, it is looked for any items of value which can be seized. Only then the management becomes liable itself. But, so far, they have not experienced such a case.

The management board consists of five members, i.e. the chairman (who is at the same time the chairman of the people's committee), the executive director (who used to be chairman of the defunct supply and marketing co-operative) and three members. The election period comes up to two years. The bylaws stipulate that only those members can stand up as candidates to the self-governing bodies who have subscribed permanent shares of, at least, the same value as the founding members, i.e. 15 m VND. Similarly, the two positions as book-keeper and cashier have to be given to those members who have subscribed permanent shares of the same value. Hence, it is no surprise, that all founding members are either members of the management board or employed as book-keeper or cashier. (Nothing is said about a supervisor.) According to the management the employed staff might be recruited from the ordinary members in the future if these have the necessary skills.

In the bylaws it is emphasised that all members regardless of the value of their shares have the same voting rights ("one member – one vote"). All decisions at the general assembly and the management board are taken by majority. The chairman has no veto power. Based on the decisions of the board the executive director is entitled to represent the PCF with respect to third parties. All tasks are done on a part-time basis. Elected and appointed staff are paid a monthly compensation. The chairman is paid 50,000 VND per month, the executive director (manager) 230,000 VND and the three members of the management board 30,000 VND each. Both, the book-keeper and cashier get a monthly allowance of 200,000 VND. In addition, they are entitled to a bonus if the PCF is making profit

at the end of the year. The bonus will be distributed according to their compensation payments.

Case Study 13: PCF, An Giang Province, March 1999

This PCF had been established at 16 June 1994. It was the first PCF on a pilot basis within the whole province. It was realised that the demand for loans had been very high but the supply had been very short. SBV and the local authorities gave much support in promoting the idea of setting up this PCF. SBV also provided training and guidance during the first years. Finally, 35 founding members got the PCF registered. These members paid up 217 m VND, divided into 217 permanent shares valued at 1 m VND each. While the minimum number of permanent shares per founding members stood at three, the maximum number came up to 21. The founders had been retired government officials and retired management staff from a state-owned enterprise which had been closed down in 1994.

The reasons why people volunteered to act as founding members can be summarised as follows: As most of them used to be government officials they could not refuse the request by the local authorities to act as founding members. In addition, the risk of lending money directly to farmers was regarded as very low. The most important incentive seemed to be the fact that an PCF used to be a quite profitable business. At the beginning the margin between the interest rates of credit (i.e. 3.5% p.m.) and savings (i.e. 2.2 p.m.) was relatively high amounting to 1.3% p.m. Similarly, during the first two years no taxes at all had to be paid.

When the Co-operative Law became effective in January 1997, the PCF had to be transformed accordingly. Those founding members who were not living in this commune area could be no more members. Hence they withdrew their funds and set-up another PCF in their respective commune. In total, 19 founding members had withdrawn their shares amounting to 117 m VND. However, no other persons had been invited to join and subscribe permanent shares. Hence, the value of the permanent shares comes up to 100 m VND, only. Today, this PCF has 1,780 members, i.e. besides the remaining 16 founders, 1764 ordinary ones. Ordinary members could join in subscribing a qualification share, first valued at 30,000 VND, later increased to 40,000 VND and, since 1997, to 50,000 VND. Each ordinary members just had to subscribe one qualification share. About three quarters of the members are farmers, the rest are artisans, small-scale traders and other persons doing service activities.

The total value of the subscribed capital comes up to 173 m VND, i.e. 100 m VND from the founders and 73 m VND as common shares. During the last years the PCF has already accumulated 130 m VND as reserves, so that the total capital and reserves stand at 303 m VND. The total liabilities make up 1.9 b VND, out which 303 m VND are capital and reserves, 900 m VND are made up by deposits, 600 m VND loans from other financial institutions, most of which by RCF and, another, 140 m VND from other sources.

In 1998, a small profit only could be managed. The gross profit came up to 23 m VND out of which 10 m VND had to be paid as taxes. Out of the remaining net

profit amounting to 13 m VND. 6 m VND had been allocated for various funds (i.e. 4.5 m VND for investment fund, 0.6 m VND as legal reserves and 0.9 m VND for the welfare fund). The other 7 m VND have been distributed as dividends. However, dividends have been only paid on permanent shares. For these shares the dividends represent an interest rate of 0.7% p.m. No dividends have been paid on qualification shares, so far. The management sees the subscription of these shares as a membership fee for getting access to credit at relatively favourable conditions.

Out of a total membership of 1,780 just 22 (or 1.2%) have a savings account. In addition, some 18 non-members have a savings account. In other words, the savings coming up to 900 m VND have been accumulated by 40 persons only. The dependence on a small number of people who are mostly outsiders becomes more apparent if it is looked at the respective savings. The 22 members have saved 188 m VND (on average, 8.55 m VND per member) while the 18 non-members have saved 712 m VND (on average, 39.56 m VND per person). Since most of the savings are deposited on a short-term basis, the precarious situation of this PCF becomes evident.

The total outstanding loans in 1998 came up to 1.635 b VND. Most of it, i.e. 1.472 b VND (or about 90%) had been allocated for agricultural activities while the rest were asked by artisans, traders and service people. On average, a loan comes up to about 5 m VND per ha and runs for four months. In general, the farmers have the "red book" of their agricultural land which they can use as collateral. The interest rate of credit stands at 1.5% p.m. as stipulated by SBV. Hence, the margin amounting to about 0.3% is quite small. According to the management it is too small to cover all expenses and for the long-term it sees difficulties in survival. In addition, for each credit a disagio is charged amounting to 1.5% of the respective amount which is in line with the rules of SBV.

About 10% of all loans are overdue which, as the management admits, is too high. In this case the member has to pay a penalty surcharge of 50% to the interest rate, i.e. instead of 1.5% p.m. 2.25% p.m. The reasons are crop losses by the farmers, i.e. they have no money for repayment. But farmers also keep the harvest (mostly paddy) in their stores and wait for better prices. The most important reason seems to be, however, the still cumbersome procedure in applying for credit. First, the member has to buy an application form from the PCF for 1,500 VND. After having filled it in, he/she has to get the approval and certificate by the village headman and, then, by the chairman of the peoples' committee of the commune. Only, then, the PCF is reviewing his/her credit application. While this procedure can be executed in a very short period, i.e. usually one or two days, members are reluctant to approach both, village headman and commune chairman, as they will usually be asked whether they have fulfilled other tasks and duties. Many members prefer to pay the penalty interest rates than to apply for credit each season a new. There is no agricultural co-operative in this area which could approve the credit application. Hence, only the local administration can do it, so far.

The management is confident that all farmers will repay their loans, finally. As long as members pay interest the management is inclined to extend the maturity period of the loan. In case of non-repayment of a loan, the management has the

“red book” and the right to take the respective member to court. Then, the court will have to decide which items could be sold in order to pay back the loan. In case of agricultural land, there is the option that the farmer has to mortgage the land to other farmers to get the necessary money. Although it has not gone through such a procedure the management is confident that it will get its money back, finally, as the market value of agricultural land stands at about 50 m VND per ha.

The management board comprises five members, i.e. the chairman, his deputy and three other board members. The chairman assumes the position of the general manager. One supervisor has been elected by the general assembly. In addition, one chief accountant, one accountant, one credit manager and one cashier have been appointed. All elected and employed staff are from the founding members, i.e. 10 out of the 16 founding members are getting a compensation or income from the PCF. As the number of members is very high, only elected representatives of the members are forming the general assembly. However, this rule only applies to the ordinary members as all founding members are per se members of the general assembly. The ordinary members elect their representatives within their respective village. The commune comprises 14 villages in total, each village is represented by one or two delegates. In total, the ordinary members elect 24 representatives who together with the 16 founding members form the general assembly. The election period lasts for three years.

All elected and employed staff get a compensation and a salary, respectively. The chairman cum general manager is paid 600,000 VND per month. The supervisor, chief accountant and credit manager get 550,000 VND per month. The accountant and cashier are paid 500,000 VND per month. The three board members of the managing board receive 100,000 – 200,000 VND per month. Only the vice-chairman does not get a monthly compensation. He is paid an annual bonus depending on the overall profit of the PCF.

Although the interest margin nowadays is relatively small, the management plans to mobilise more savings and other funds. Similarly, they want to expand their business concerning credit. As private money lenders charge up to 8-10% p.m. for credit, the management sees a broad scope for expansion. So far, they do not see any other option for enlarging the financial services offered.

Case Study 14: PCF, Quang Tri Province, March 2000

This PCF has been set up by 38 founding members. It had been registered at 6 January 1996 and in line with the Co-operative Law had to be re-registered at 6 March 1998. Up to now, membership has increased to 906 persons, of which 504 (or 55.6 percent) are female. While at foundation the value of share capital stood at 180 m VND, it has increased to 317 m VND by now. Out of the present share capital about 272 m VND are subscribed as permanent shares while the remaining 45 m VND are made up by qualification shares. As usual in this province, the value of one permanent share has been set at 100,000 VND, but each member is free to sign as many as possible as long as they do not own more than 30 percent of the total share value. Usually, members subscribing permanent shares sign a

number of them. Out of all members 156 have subscribed permanent shares, or about 1.74 m VND, on average.

The total capital of this PCF stands at about 4.2 b VND comprising the share capital of 317 m VND, the reserves including social funds of 172 m VND, savings of 2.6 b VND and, finally, deposits (or bridging loans) by CCF amounting to 1.1 b VND. This PCF owns the office building and the respective land. The building has been constructed by the members themselves. The value of these assets comes up to about 300 m VND.

The more urban character of this PCF is reflected in the loan structure. The outstanding loans in 1999 came up to about 4.1 b VND, of which about 80 percent (or about 3.2 b VND) can be classified as loans for promoting small-scale industries (or off-farm activities) while the rest has been allocated for the improvement and expansion of livestock activities.

In 1999, the PCF managed to earn a gross income of 114 m VND. Out of this 32 percent, or 36 m VND had to be paid in taxes. The net profit amounting to about 77 m VND had been distributed as follows: About 3.88 m VND (or 5 percent) were put in the mandatory reserve fund, about 27 m VND (or 35 percent) were allocated to the staff development and investment fund and another 10 m VND to the welfare fund. The remaining 36 m VND (or about 47 percent) were redistributed as dividends among the members which equals an interest rate of about 1.0 percent per month. In this respect, the subscription of shares has been an attractive savings options for the members compared to the relatively low rates on saving account. It has to be noted that contrary to the statement in the regulations about the organisation and operation of PCFs both permanent and qualification shares were entitled to dividends.

Out of the 906 members just 180 members (or about 20 percent) do have a savings account. The value of savings per saving member comes up to about 14.4 m VND. However, there is not even one account by a non-member. The director argues that all potential savers within the area have been encouraged to join the PCF, already. In this respect, it can be concluded that the financial position of this PCF is highly dependent on a small number of members but to its advantage not on outsiders.

Up to now, all savings can be done on a short-term basis only. According to the period fixed the interest rates differ. At the end of 1999, the monthly interest rate for daily deposits stood at 0.25 percent, for three-months deposits at 0.5 percent, for six-months deposits at 0.6 percent and for twelve-months deposits at 0.7 percent.

About 1.1 b VND have been allocated by CCF to this PCF as bridging loans. The interest rate on these funds declined in line with the general decrease of interest rates. While in late 1999, a monthly rate of 0.9 percent had to be paid, it stands at 0.6 percent by now. Although the interest rate on these funds is quite close to the ones paid on savings, the director stated that the mobilisation of these loans is a very complicated matter. In addition, the amount of these funds is limited. He preferred to mobilise savings as much as possible and just to draw on these bridging loans in case of very urgent need.

As there are no long term savings options for the time being, it is still too risky to provide medium term loans. All credit has to be repaid within 12 months. Depending on the length of the credit period the monthly interest rate varies; from 1.0 percent for three month credits, to 1.2 percent for credit up to 6 months and 1.3 percent for credit up to 12 months. In this respect, it is not made use of the higher interest rate ceilings coming up to 1.35 percent p.m. established by SBV. Just 11 m VND out of the total outstanding loans amounting to 4.2 b VND are overdue (or about 0.3 percent). However, about 10 - 15 percent of all loans are extended from one period to the other without having to pay any additional fees. In general, it is quite uncomplicated to extent a loan as they all know each other very well. The director stated that there had been no big problems with repayments, so far.

The average amount of loans comes up to 5 m VND. Up to that sum no physical collateral is needed. It is just enough to present a statement signed by the people's committee of the town (letter of recommendation) when applying for credit. For any credit higher than 5 m VND physical collateral is required. There is not the option that one member guarantees for loans of another one and will be liable in case of non-payment. All credit up to 10 m VND can be decided upon by the director himself, who is also the chairman. Higher amounts have to be agreed upon by the credit committee comprising the director (chairman), the credit officer (who is also the deputy chairman) and the head of the supervisory (audit and control) committee.

Any surplus funds which cannot be handed out as credit are deposited at a CCF account with the regional SBV. There are no accounts with any other commercial bank.

Due to the large size of membership not every member can participate at the general assembly meetings but an indirect representation system is applied. The general assembly comprises 129 representatives (or 1 out of 7 members) who are elected by the membership. Before election time a list of candidates will be set up to ensure that both, members with permanent shares and those with qualification shares are fairly equally represented.

The general assembly elects the management board comprising 5 members and the supervisory (audit and control) committee comprising 3 members. Only those having subscribed permanent shares are eligible for these self-governing bodies of the PCF. The managing board comprises the chairman who is also the managing director, the deputy chairman who acts also as the credit officer, the chief accountant, an accountant and the cashier. All 5 persons are working on a full-time basis and do not have any other employment. There is no other staff employed. Decisions can be taken under short notice as the members of the management boards are in permanent contact. The chairman gets a salary of 700,000 VND per month. The chairman represents the PCF externally. In most cases he can do it by himself and does not need a second representative or a counter-signature. The other members of the management boards get salaries between 500,000 and 600,000 VND. The members of the supervisory board do their jobs on a part-time basis and are entitled to a small compensation.

The chairman got a relatively good education in economics. He used to work as a professional in the provincial export and import company. He is the main driving force in setting up and running this PCF. He saw the need for the financial services in this area and he thinks that the links between the PCF and their members is much closer in comparison to any bank. According to him, there is no competition with other banks as the amounts handed out as credit are too small for those. However, he would not tolerate if any member might apply for a credit with a bank. In that case he would ask the respective member to cancel his/her membership. For the future, the chairman aims at improving the economic situation of the members further. The knowledge and technical skills of the staff, i.e. of all board members has to be improved. With respect to membership he does not see much scope for further increases as almost all potential candidates have joined already.

There are regular meetings with the other 10 chairmen of the PCF within the province. They meet four times per year to discuss all aspects of common interest. The chairman stated the urgent need for at least a provincial branch office of the CCF as no RCF will be set up anymore.

Case Study 15: PCF, Quang Tri Province, March 2000

This PCF has been registered at 29 December 1995. Once the idea had been spread, the time up to the registration took just one month. At the foundation there had been 115 members. All of them subscribed one qualification share of 30,000 VND at that time, amounting to 3.5 m VND in total. In addition, 30 members had subscribed permanent shares of at least 100,000 VND amounting to about 45 m VND in total, or about 1.5 m VND on average. But the number of shares subscribed by these members differed significantly. While some just subscribed a few permanent shares only, one person got shares of a total value of 20 m VND. Hence, the total amount of share capital came up to about 48.5 m VND at that time.

Up to now, the number of members has increased to 980. This PCF is one of the few in Vietnam which has also institutional members which is an option as stipulated in the regulation about the organisation and operation of People's Credit Funds. Besides 325 female and 650 male members 5 organisations have acquired the membership right at the foundation already, i.e. two agricultural co-operatives of the commune, the local War Veteran Association, one private company and the people's committee of the commune. These legal entities had to subscribe permanent shares of at least 0.5 m VND. Actually, these five entities already joined as founding members to ensure that the minimum amount of share capital had been met at registration. By the end of 1999, the total amount of share capital has increased to about 178 m VND, out of which 129 m VND are made up by permanent shares and the remaining 49 m VND by qualification shares.

There is a relatively high fluctuation of membership. There are people moving in and out, others are concentrating on new businesses or some have become too sick or due to death. In case a member wants to withdraw his/her

membership there is a short grace period after the announcement. Those members with qualification shares will get their cash after 5 days. In case somebody having subscribed permanent shares wants to withdraw, which has not happened so far, he/she has to wait for the next meeting of the general assembly as higher amounts of money are involved. But the overall number of members keeps on increasing. Due to this high fluctuation the management decided to calculate the value of dividends on a monthly basis. For example, in May 1999 about 100 members newly joined this LCF. These members have been entitled for a dividend of 7 months for the year 1999.

By the end of 1999, the total capital of this PCF stood at about 2.25 b VND comprising the share capital of 178 m VND, the reserves including social funds of 49 m VND, savings of 1.827 b VND and, finally, a deposit (bridging loans) by the CCF of 250 m VND. While the present office building has been rented, this LCF got already a piece of land where it intends to build its own building. However, the chairman could not quantify the value of this asset.

The importance of agricultural production in this commune is reflected in the loan structure. About 80 percent of all loans are devoted for the improvement of agricultural production with a heavy emphasis on annual crops. In addition, credit is provided for financing animal husbandry, aquaculture and perennial cropping. The remaining size of credit has been applied for financing small-scale industries and services like food selling.

In 1999, the PCF managed to earn a gross income of about 80 m VND. Out of this 32 percent, or 26 m VND had to be paid in taxes. The net profit amounting to about 54 m VND had been distributed as follows: A bit less than 50 percent, or about 26 m VND were allocated into the reserve fund, investment and development fund and the welfare fund. The remaining 28 m VND (or about 52 percent of the net profits) were redistributed as dividends among members which equals an interest rate of about 1.2 percent per month. Hence, the subscription of shares has been an attractive savings option for the members in comparison to the lower interest rates on savings. Like in the other PCFs of the province members were entitled for dividends regardless of the type of share they had subscribed.

The total savings in 1999 came up to 1.827 b VND. However, there had been some fluctuations of its size over the year. Out of the total number of members amounting to 980 just 289 (or about 30 percent) of them have a savings account. Their total savings come up to about 1.562 b VND, or about 85 percent of the total savings. The average amount of savings per saving member comes up to about 5.4 m VND. In addition, some 49 non-members have put up some 275 m VND (or 5.6 m VND on average) in savings accounts. There is no significant difference in the respective volumes of savings between members and non-members. The management is eager to recruit these non-members as soon as possible. But compared to many other PCFs this one is not very dependent on the non-members when it comes to keeping its capital base.

Up to now, all savings can be done on a short-term basis only, i.e. the longest period for fixed-term deposits is 12 months. As all over Vietnam, the monthly interest rates declined rapidly during 1999. By the end of the year, they stood at

0.3 percent for daily deposits, at 0.6 percent for three-months deposits, at 0.7 percent for six-months deposits and at 0.8 percent for twelve-months deposits. Within the first three months of the year 2000 they declined even more, i.e. to 0.2, 0.3, 0.4 and 0.5 percent, respectively.

Although the volume of savings had been relatively high compared to the amount of credit asked by the members, the management had to make use of bridging loans by the CCF amounting to 250 m VND in total in order to cover the peaks in credit demand. These loans were totally repaid by November 1999. The respective interest rate declined from 0.8 to 0.7 percent per month over the year. Nevertheless, they were still at the same level as the interest rates on savings which might distract the management to mobilise more savings by the members. But again, it was stated that the access to these funds had been quite burdensome and the priority is laid on expanding their own capital base.

This is one of the few PCFs which had started in 1998 to provide medium-term loans to its members. For the time being, the management still regards this option as a trial to get experience. In order to minimise risks the amount of share capital and a certain percentage of the reserve funds which can be considered as long-term savings by the members has been set as the upper limit of funds available for medium-term loans. Out of the total loans distributed among members amounting to 1.972 b VND medium-term loans came up to 188 m VND (or a bit less than 10 percent). For the time being, 24 medium-term loans have been paid out to the members, so that a loan comes up to 7.8 m VND, on average. Most of these loans have been needed for investments in agricultural machines, including one truck, the planting of perennial crops (fruit trees) and the purchase of cattle. The interest rate on these loans is a bit higher than short-term one. During the year they declined from 1.45 percent per month to 1.05 percent.

The bulk of credit amounting to 1,784 m VND, is needed for short-term investments like the purchase of agricultural inputs, fries and fish feed for fish fattening, small-scale industries and some services, like food selling. During 1999, 876 short-term credits have been approved, i.e. on average, a short-term credit amounts to about 2 m VND. The interest rates declined over the year from 1.4 percent to 1.0 percent per month. Agricultural credit is even cheaper as interest rates on these loans just came up to 0.9 percent per month by the end of 1999. In this sense, these rates come close to those asked by VBARD which seems to indicate a certain degree of competition.

Although the management does not know the exact number of borrowers among the membership, it is evident that not all of them have applied for a loan. Some did not need one during last year, other do not need them at all but are supporting with their shares the PCF as they are in favour of the whole scheme. With respect to the five legal entities which are member just the private enterprise had asked for a credit amounting to 8 m VND. The others have just subscribed shares, so far.

Almost all credit has been secured by physical collateral. Starting from loans of a value of more than 600,000 VND collateral has to be provided. In general, the title deed on residential and agricultural land ("red book") is accepted after the

people committee of the commune has certified that the respective piece of land belongs to the loan applicant. When applying for loan, each applicant has to fill in an application form which costs 3,000 VND.

The management is very eager to ensure a high repayment rate. Overdue debts are a bit lower than one percent of the outstanding loans. In that case, the borrower has to pay 150 percent of the respective interest rate as a penalty fee. However, about 8 percent of the loans, in general short-term, loans, had to be extended due to the severe floods in November 1999. But the management is confident that most of these loans will be repaid in due course.

Due to the large size of membership not every member can participate at the general assembly meetings but an indirect representation system is applied. The general assembly comprises 140 representatives (or 1 out of 7 members) who are elected by the membership. Before election time a list of candidates will be set up to ensure that both members with permanent shares and those with qualification shares are fairly equally represented.

Up to the end of 1997 9 persons were in charge of running the PCF. This included the self-governing bodies: (a) the management board consisting of five members, i.e. the chairman, his deputy, one credit officer and two members and (b) one supervisor. In addition, three persons were employed forming an executive board who were in charge of the day-to-day management, i.e. the managing director, the accountant and the cashier. From 1998 onwards, the number of the decision-makers has been reduced to seven persons. The managing board just comprises three members by now, i.e. the chairman, the credit officer and one member who is at the same time managing director. One person remained the elected supervisor. The executive committee comprises four members by now, i.e. the managing director, the chief accountant, one accountant and the cashier. No other staff is employed. In this respect, some management costs could be reduced and the decision-making process speeded up.

Only those members are eligible for these positions if they have subscribed permanent shares of at least 4 m VND. Hence, it is ensured that those who have subscribed most of the shares have a large say in decision-making. All these 7 persons are working for the PCF on a full-time basis. Their salaries look as follows: Both the chairman and the managing director receive 400,000 VND per month, the chief-accountant 350,000 VND, the credit officer 340,000 VND, both the inspector and accountant 300,000 VND and the cashier 280,000 VND.

All these 7 decision-making persons of the PCF are not related to each other. Actually, most of them did not know each other in their youth, as they moved in from other provinces over time. They all had a strong feeling of responsibility to contribute with their own resources to the development of the commune. In addition, they got strong support and encouragement from the people's committee. Similarly, they received regular training by SBV. They all regard the PCF-system as a relatively low-cost approach to improve the well being in their community. As the credit costs should be as low as possible they have opted not to make fully use of the interest ceilings given by SBV.

There is a very close relation with the two transformed agricultural co-operatives within the commune. In addition, there are two more in a neighbouring commune just close by. Many members of the PCF are also members of an agricultural co-operative, including the managers. But they are not members of any self-governing bodies of these co-operatives. Although the two agricultural co-operatives do have bank accounts with VBARD they can deposit funds with the PCF. In addition, they could apply for credit, but have not done so far. This might be a future option as in this case credit could be given in bulk and the agricultural co-operatives distributes them among their own members. However, there is a limit up to the level this type of business can be expanded as each member is just allowed to receive up to 15 percent of the total volume of own capital, i.e. share capital and reserves. For the time being, this limit will come up to about 30 - 35 m VND.

The collaboration with the agricultural co-operatives is strong when it comes to credit applications. Besides asking for cash loans from the PCF many members also receive credit-in-kind loans from their agricultural co-operatives. There is a constant cross-checking to ensure that the individual member is in a position to repay both types of loans.

The chairman sees a huge potential for future development. He wants to concentrate on three aspects: (a) The quality of the management has to be improved on a regular basis. Particularly the knowledge of the credit officer in assessing loan applications needs further upgrading. (b) The number of members should be increased to about 1,500. But, he sees the problem, that the potential number within one commune is not large enough. Therefore, he proposes to enlarge the area of the PCF to the neighbouring commune as well. But, for the time being, this option contradicts the regulation of SBV. (c) The size of outstanding loans has to be increased to at least 2.5 b VND annually. In conclusion, the chairman is very optimistic about the future development.

Case Study 16: PCF, Phu Tho Province, December 2000

This PCF has been set up by 146 founding members. It had been registered at 13 June 1995. All 146 members subscribed one qualification share amounting to 30,000 VND at that time. In addition, 29 members subscribed at least one permanent share amounting to 1 m VND per share. Just 2 of them subscribed two permanent shares each. Since they regard their area as relatively developed and prosperous, the value of a permanent share had been fixed at 1 m VND in the by-laws. Each PCF had been relatively free to decide for itself as there had not been any model by-laws from SBV. Most other PCFs in the province opted to set the value of a permanent share at 500,000 VND, only. At registration, the total amount of share capital came up to 35.38 m VND, i.e. 31 m VND made up permanent shares and the remaining 4.38 m VND by qualification shares. The reason for this early registration, as the required minimum amount of share capital of 50 m VND had not been met, had been that this and various other PCFs had been selected to start as a pilot scheme.

During the following years the membership increased rapidly. By the end of 1995, their number stood at 482 persons, by the end of 1996 at 602 persons, and by the end of November 2000 at 820 persons. There is the rule of one member per household. In general, the household is represented by the predominantly male household head. Hence, most of the members are male. Just 135 (or about one sixth) had been female. All of them were widows. Nine of the female members had subscribed permanent shares as well. The total number of households at the commune level came up to 1,920 comprising about 9,000 persons. Hence, this PCF just counts less than half of the households as members. The number of potential recruits is still big. 67 (or about 8 percent) of all members have subscribed 70 permanent shares of 1 m VND each amounting to 70 m VND in total. The other members have just subscribed one qualification share. The total value of the qualification share capital came up to 30.78 m VND. Hence, the total share capital stood at 100.78 m VND which just met the required minimum amount of share capital as stipulated by SBV at that time, i.e. 100 m VND. Nevertheless, the management is eager to recruit new members and to enlarge the capital base.

In addition, the management had been very eager in accumulating reserves. By the end of 1999 budget year the total amount of reserves stood at 114.1 m VND. Again, the main reason is the decision of the government to cut the relatively high tax rate by half with the understanding that these saved funds are allocated to the reserves. Instead of 32 percent on the gross income just 16 percent have to be paid and the rest is booked as tax reserves. At the end of 1999, the tax reserves stood at 40.4 m VND, the development and investment fund at 33.9 m VND, and the risk fund at 39.5 m VND. A small amount of the welfare fund amounting to 0.24 m VND had been transferred to the next budget year. In the long run, the tax reserves will be combined with the development fund.

During last year, the total capital of this PCF came up to about 1,975.8 m VND comprising the share capital of 100.8 m VND, the reserves of 114.1 m VND, savings of 1,615.9 m VND and, finally, a deposit (bridging loan) by the RCF of 145 m VND. The PCF had its own building which is closely located to the office of the people's committee. In case of need the management can use the meeting room of people's committee free of charge.

While actually all households are classified as agricultural ones, i.e. they have the rights to farm a piece of farm land, non-farm activities are of utmost importance as a source of employment and income. This is reflected in the share of agricultural loans to those promoting the non-farm sectors. Out of a total amount of outstanding loans coming up to 2.062 b VND in the year 2000 just about 27 percent have been used for the promotion of agricultural production, including livestock. The major share, or about 42 percent, were needed to improve and expand private trading, like the supply of agricultural inputs or construction material. Another 30 percent of all loans went into the promotion and expansion of small-scale industries. A small percentage had been applied as consumption loans. All loans were available on a short term basis running up to 12 months. On average, they run for 9 months.

From its inception this PCF managed to earn a profit every year. During the last year, the gross profit amounted to 70.092 m VND. After reducing half of the tax rate, i.e. 32 percent or 22.43 m VND, of which half is refunded and booked as tax reserves, the net profit came up to 47.662 m VND. When deciding about how to distribute the annual surplus the management opted to spend a major share of the surplus as dividends. Attractive dividends had to be paid in order to motivate the membership to stay with the PCF, particularly those who are not in urgent need for a loan. In addition, high dividends are an incentive for outsiders to join in the future. Hence, the net profit has been distributed as follows: About 16.682 m VND (or 35 percent) have been allocated to the development and investment fund, about 2.383 m VND (or 5 percent) were put into the obligatory risk fund, and another 1.430 m VND (or 3 percent) to the welfare fund. The major share had been earmarked for dividends, i.e. 27.167 m VND, or about 57 percent. Dividends have been paid on both types of shares in an equal manner. The level of dividends equals an interest rate of about 2.2 percent per month. In comparison to the lower saving rates, the subscription of shares proved to be a very attractive form of investment for the membership.

The total size of savings last year came up to 1,615.88 m VND. Unfortunately, the management could not specify further about those who are saving. It is estimated that about 80, or one tenth, of the members do have a savings account. In addition, about 160 non-members have opened an account. There are some fluctuations over the year about the number of savers and the amount saved. The management estimates that both, members and non-members actually save a similar amount, or about 6.7 m VND on average. Besides the mobilisation of own funds, the PCF had to rely on bridging loans from the RCF. In 2000, however, this amount had not been very significant. It just came up to 145 m VND, only. The rate of refinancing stood between 0.7 and 0.75 percent per month. It is the objective of the management to rely as little as possible on this source of credit, but to mobilise own sources in form of savings. In case there are some surplus funds they are deposited with the RCF. During 1999 an amount of 50 m VND had been deposited with it for some time. In the following year there had been no additional funds available to put them into an RCF-account. At early December 2000, the interest rate for surplus funds at RCF stood at 0.35 percent per month for three-months deposits and at 0.4 percent for six-months deposits.

Loans are available for members only. Out of their total number coming up to 820, just 478 (or 58.3 percent) applied and received a loan during last year. Quite a large share of the members did not see a need for a credit but supported the system with their shares. They see a need in the system and still have the option to apply for a credit sometime in the future. The total amount of outstanding loans came up to 2.062 b VND. All loans are available for short-term purposes only, i.e. up to 12 months. However, if a loan is not repaid in time, there is the option to prolong the repayment period for another 6 - 12 months. Actually, about a quarter of all loans had been prolonged in the past. This is more or less in line with the experience of other PCFs in the province as confirmed by SBV. The average amount of loan

stood at about 4.3 m VND. The interest rate on credit stood at 1.0 percent per month regardless of the loan period or the anticipated risks involved.

The application process for a loan is relatively quick. In general, it takes about three days until a decision is taken. The applicant has to fill in the application form which he/she gets for a fee of 2,500 VND. In addition, he/she has to provide a letter of recommendation by the people's committee certifying that he/she has not asked for another loan at the same time and that he/she owns the proper title deed which will be used as collateral. The credit officer is checking the application and the personal background of the applicant. Besides the analysis of the intended investment, it is checked whether the applicant can provide the needed security for the loan. All applicants have to provide collateral or pledge their "red book" as security. The credit officer makes his recommendation. Loans up to a volume of 10 m VND can be decided by the general manager himself. Loans of a higher volume have to be agreed upon by the credit committee made up by three persons; i.e. the chairman, the managing director, and the credit officer. The decisions have to be taken by majority. In case of default the credit officer and the general managers will be liable first. But all loan applicants are well known and each loan, even if it had to be prolonged, had been repaid so far.

While the average loan size comes up to 4.3 m VND, there is no defined lower limit of the volume of credits. But a credit size lower than 300,000 VND is not economic, anymore. On the other side, there is a clear defined upper limit for an individual loan amounting to 23 m VND with respect to this PCF. The average loan size is quite different with respect to the three main sectors. Agricultural loans are relatively small amounting to 1.5 - 2.5 m VND, on average. The average loan to private traders stood at 4 to 8 m VND. Those loans promoting small-scale industries have been the biggest ones amounting to 5 - 15 m VND, on average.

The repayment rate has been very excellent during the last years. The share of overdue loans came up to 1.2 percent last year. Overdue debts are those outstanding loans which have not been repaid since 20 days. In that case the management is talking to the respective person and enquires about the reasons. In general, the reason is justified and the respective loan is prolonged. For the period of overdue debts, however, the penalty fee as to be paid which amounts to 50 percent of the interest rate. In this way, it is aimed at encouraging the delinquents to talk as early as possible with the management about their situation. Even if a number of loans had to be prolonged, all loans have been repaid so far. Hence, there had been no bad debts so far which had to be written off. Similarly, there had been no case that any collateral had to be sold by the PCF in order to get the money back. There is some slight competition with other banks, particularly VBARD and VBP. But the management did not see it as a disadvantage, as the PCF is the most important source of credit in this commune. Actually, it seemed to be good for the members to have alternatives. All formal credit institutions observed the rule that any client can only get one loan from one institution at the same time. Therefore, the letters of recommendation of the people's committee are so important. Through this service, all banks and the PCFs save a lot of costs in checking the applicant. On the other side, the PCF had been very successful in

decreasing the importance of the private money lenders. Before the establishment of the PCF there used to be quite a number of them in the commune who charged high interest rates. Today there are still a very few who just provide some cash on a daily basis. But most of them have given up. Actually some of them joined the PCF and subscribed permanent shares.

Due to the large size of the membership the members have to elect their representatives who are forming the general assembly. One out of seven will be elected as a representative for a three-year period. Hence, the general assembly comprises 120 members. When electing the representatives it has to be ensured that all 18 villages are fairly equally represented. Similarly, all 67 members who have subscribed permanent shares will be among the representatives. Hence, the election process just concerns the other 53 seats. In comparison to other PCFs, the share of those representatives who have just subscribed a qualification share is relatively high.

Only those are eligible for the self-governing bodies who have subscribed permanent shares. Those who have provided more of their own money have a larger say in decision-making. The management board just comprises 3 persons, i.e. the chairman, his deputy and one member who has also taken up the post of the managing director. They meet once a month. One person only has been elected as supervisor. The day-to-day management is in the hands of the executive board comprising the managing director and of the professional employed staff, i.e. the chief accountant, an accountant, the cashier (who is a female) and the credit officer. Like the elected staff also the employed staff must have subscribed permanent shares. In total, the number of decision-making persons comes up to 8.

There is a close relation with the people's committee of the commune. Both, the chairman of the management board and the supervisor are the chairman and the deputy of the people's committee at the same time. They see themselves as the representatives of the commune and the Party and their role more in monitoring the development of the PCF. Nevertheless they committed part of their own money in setting up the PCF as they understand that there had been a need in small-scale credit in the area and their had been no organisation anymore. The former credit co-operatives had collapsed, the people were suspicious in joining a similar type of organisation. That is why it had to be shown that such a system can work and be of benefit to the rural population. The elected and employed staff had a fairly good professional background. They all work as part-time farmers. The chairman has a B.Sc. in agriculture. The general manager and chief accountant have vocational degrees in accounting. Both, the general manager and the credit officer used to work with the army before retirement.

Although there is an agricultural co-operative covering the commune, there are no deep relations with it. Some of the members are also members of it, e.g. the chairman. The chairman and the general director agreed that some of the problems can be tackled together, e.g. improvement of the book keeping system. But they said it is up to other organisations to bring them more together.

All members of the executive board, i.e. 5 persons, are working full time for the PCF. They are entitled to monthly salaries which look as follows: The

managing director receives 380,000 VND, the chief accountant, the credit officer and the cashier 320,000 VND, and the accountant 270,000 VND. The chairman, his deputy and the supervisor are entitled to a small compensation of 70,000 - 100,000 VND per month.

The management is confident to improve the services of the PCF and to expand its size even further. It is envisaged to encourage more households to join and the main incentive will be the payment of high dividends. It is envisaged that within the next two years at least 50 percent of all households of the commune will join. More savings will have to be mobilised in order to have more funds available for credit. The staff will be encouraged to attend more training courses to improve their skills and to enable them to serve an increasing number of members. For the 2001, it is envisaged to increase the gross profits to more than 100 m VND.