

Collective Action:

Make it Work Better for the Poor

The rural sector in Viet Nam is particularly significant in terms of poverty reduction. The agricultural sector accounts for over 70 percent of the employment in the country, and the vast majority of the poor are located in rural areas. While the agricultural sector will inevitably modernize and commercialize, the bulk of agricultural production in the foreseeable future will continue to be undertaken by smallholders. Given this context, organizing small farmers through collective action is important in Viet Nam. By working together, small farmers can increase their purchasing power to access better supplies and equipment and realize higher profits through increased economies of scale during production.

In order for collective action to be effective - especially in regards to improving the livelihoods of the poor - a number of "keys to success" are necessary. While the current debate about collective action's effectiveness tends to center around the legal form of the group, research undertaken by the Making Markets Work Better for the Poor (M4P)¹ project suggests that the factors behind collective action's effectiveness are more related to a group's internal governance and market orientation rather than to its legal form. Recommendations for improving a collective action group's "keys to success" include increasing the capacity of its members and leadership and increasing the legal recognition of multiple forms of such groups.

1. The Concept of Collective Action and Its Potential Advantages

In an increasingly commercial and global value chain for agricultural products, the only effective way for smallholders and poor farmers to participate actively is through organization and coordination, which increases their ability to purchase inputs at reasonable prices and to sell their products at attractive prices.

Collective action can be an important strategy for the poor to take advantage of economic opportunities. Groupings of small producers or consumers can increase their market and bargaining power by achieving economies of scale and by applying other market-oriented services, such as improved quality control, advertising, certification, branding, labeling, etc. There also may be other benefits in terms of social and political empowerment.

Purchasing Power

- **Affordability:** Poor producers are often at a significant disadvantage in negotiations about the price of inputs. Because individual producers tend to purchase small quantities of products, they are generally unable to negotiate significant discounts. In addition, the

cost of packaging as a proportion of the total cost of inputs generally increases as the quantity purchased decreases; this further increases the real price of the input material. Collective action can improve input affordability by enabling producer groups to negotiate discounts based on their purchases of relatively larger quantities of inputs.

- **Access:** The poor are often unable to purchase high quality inputs for a number of reasons, including: a lack of knowledge of quality standards, a lack of adequate incentives to upgrade quality, and a lack of credit to purchase better inputs and means of production. Grouping together can increase smallholder producers' ability to access higher quality inputs, and thereby increase the quality of output produced.

- **Availability:** The small scale and scattered nature of agricultural production by the poor makes many input suppliers unwilling to risk stocking high quality inputs, as there is a lack of certainty of demand for those products. Collective action can lead to greater regularity and certainty of production, which, in turn, can create better incentives for the development of higher quality input supply systems.

Selling Power

- **Affordability:** Collective action can

help poor producers overcome the disadvantages of low economies of scale and a lack of adequate infrastructure. By working together, they can realize productivity gains and reduce the unit costs of outputs.

- **Access:** The poor produce relatively low quality goods and services for a number of reasons, including: a lack of knowledge of quality standards, a lack of adequate incentives to upgrade quality, and lack of credit to improve their means of production. Additionally, even if the poor are able to produce higher quality goods and services, they are often unable to access the means to certify such quality or to promote their goods and services to a wider audience.

- **Availability:** Increased scale of production through collective action, greater certainty of demand, and effectively functioning contract systems can make the goods and services sold by the poor more available and deepen the poor's involvement in value chains.

2. The Current Situation of Collective Action in Viet Nam

There are many informal groups in the agricultural and industrial sectors in Viet Nam, including "clubs" and community

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This bi-monthly bulletin is published with support from the Asian Development Bank (ADB) and the Mekong Private Sector Development Facility (MPDF).

The Markets and Development Bulletin provides a forum for the discussion of issues arising from research work conducted as part of the United Kingdom Department for International Development - ADB cofinanced project "Making Markets Work Better for the Poor" (www.markets4poor.org).

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¹ The Collective Action study by *Making Markets Work Better for the Poor* project was undertaken by the Agrarian Systems Department of Viet Nam Academy of Agricultural Science (ASD). Details of the study can be found at www.markets4poor.org.

groups governed by representative boards. These are referred to below as "producer groups." In the formal sector, the cooperative is the most common form of a collective action group.

- *Producer groups:* It is estimated that there are currently more than 100,000 largely informal producer groups in rural areas, reflecting an increase of 26,000 as compared to 1998 and 10,000 as compared to 2002. The number of producer groups is higher in the Mekong Delta and in the northeast southern regions, which account for more than 60 percent of the groups.

Producer groups are generally formed as the result of the needs of farmer households and vary in form and function depending on the local production profile and socio-economic conditions. Around 25 percent of these producer groups have more formal organizational and management structures in place, are developing their own regulations, and possess capital and assets that have been contributed by members.

The remaining 75 percent are much less formal groups; their members assist each other with production but as groups, they have no official legal status. Members of these groups may help each other during harvesting seasons, borrow money from each other, establish agricultural and forestry extension teams, and share machinery, hiring and repair service costs, land tilling services, and/or irrigation services.

- *Cooperatives:* Presently in Viet Nam there are over 15,000 agricultural cooperatives that can be classified into two major types: "Old Cooperatives" (which were transformed from cooperatives/collectives operating prior to the 1997 Law on Cooperatives) and "New Cooperatives" (which were formed after the introduction of the same law).

Both "New" and "Old" agricultural cooperatives are involved in a number of different types of activities, including land preparation, seed production and provision, irrigation services, crop protection, agricultural product marketing, and input supply. One of the most common activities undertaken by cooperatives is the provision of irrigation services; in 2001, more than 80 percent were involved in this area.

- *Old Cooperatives:* In many cases, the activities of Old Cooperatives remained largely unchanged after the introduction of the Law on Cooperatives. Such cooperatives normally include local residents as members, and the production services that they provide,

including irrigation, electricity and pesticide provision, stem from existing infrastructure and assets that belonged to previous cooperatives. In general, Old Cooperatives have not developed input services (such as the provision of irrigation or fertilizer) or output services (such as the marketing of agricultural production) for members. These cooperatives often lack sufficient capital to operate, and their influence on the economic development of households is limited.

- *New Cooperatives:* In 2003, there were 5,717 newly-established cooperatives, making a total of 15,174 cooperatives of all kinds nationwide. New Cooperatives generally can be classified into two main types: (1) General Service Cooperatives, which constitute a small proportion of the total number of New Cooperatives and provide general services such as those related to electricity, fertilizer and pesticides; and (2) Specialized Cooperatives, which comprise the majority of New Cooperatives and focus on producing particular types of commodities and/or services, such as aquaculture, fruit trees, "fresh and safe" vegetables, cow-breeding, pig-breeding, and processing agricultural and forestry products.

New Cooperatives formed according to the Cooperative Law generally have more flexible methods of organization and operation, and members join them because of their production and trade development. However, after operating for a period, these cooperatives may face a number of difficulties, including: small scale of operations, a lack of management skills, and a lack of clear operational mechanisms. This can lead to the result that farmers who participate in a cooperative may not actually obtain any benefits.

3. Keys To Success

There are a number of factors that can contribute to a collective action group's ability to provide genuine benefits to its members, particularly to poor members. These success factors are generally applicable to different types of collective action groups, such as producer groups, clubs, New Cooperatives, and Old Cooperatives.

Leadership Ability

One of the vital ingredients for the success of collective action groups is the ability of their leadership. If the leadership of an organization is dynamic and well-connected to markets and information, then the organization

has a greater chance of accomplishing its objectives. Also, if the leaders themselves are members of the organization, they then have a stronger incentive to act in the membership's interests.

- *Genuine Involvement by and Interest of Group Members:* According to the Cooperative Law of 2003, "a Cooperative is a self-supported collective economic organization of members who have the same needs and interests. In accordance with legal regulations, members voluntarily contribute money and labor for the foundation of the cooperative so that it can improve their power, both as a group and as individuals, to help each other effectively carry out production and business activities, provide services that improve living standards, and contribute to the socio-economic development of the country."

Crucial to the success or failure of collective action, whether it occurs under a cooperative framework or under a more informal arrangement, is that members are genuinely involved in running the cooperative or group and that they have a genuine interest and stake in group's success.

Flexibility and Speed of Decision Making

In order to take advantage of the opportunities offered by a rapidly changing market environment and to survive in an increasingly competitive economic situation, a collective action group must be flexible in its operational activities and be able to make swift decisions regarding its operations and orientation. This implies that during formation, a group should consider flexibility and decision making mechanisms.

Linkages and Ability to Participate in the Market

One of the most important keys to success for a collective action group is the extent to which it is linked to, and aware of the behavior of, the supply of its inputs and the demand for its outputs. The importance of stable connections with markets through arrangements such as contract farming are discussed in more detail in the *Markets and Development Bulletin No. 2*.² Particularly since agricultural commodities are subject to significant fluctuations in value over time, a collective action group with greater awareness of market changes and trends will better be able to develop strategies that meet these challenges.

² See details in *Markets and Development Bulletin No.2: Linking farmers to market through Contract Farming*, which is available at www.markets4poor.org.

4. Recommendations

Two main recommendations can be made to increase the effectiveness of collective action as a tool for increasing smallholder producers' market power and incomes, thereby reducing poverty in Viet Nam. These are: (1) building the capacity of a cooperative's membership and leadership to meet the demands of a market economy; and (2) increasing recognition of multiple types of groups, both formal and informal.

Strengthening capacity

As discussed in Section 3, in order for collective action to be successful in the context of an active market economy, a number of conditions should be fulfilled: (1) the leadership of the group should be dynamic and willing to link with outside markets; (2) group members should have a genuine interest in and commitment to the group's success; (3) the decision making process should be fast and flexible; and (4) the group should actively seek to participate in both input and output markets.

While there have been consistently strong policies to support the formation of collaborative action groups, particularly cooperatives, what is also needed is a clear strategy that increases the capacity of group memberships and their leadership. This will enable cooperatives to understand the rights and obligations of collective action and increase their likelihood of achieving the "factors for success."

A program of capacity strengthening and knowledge sharing could potentially be undertaken through the Vietnam Cooperative Association, or be included as part of the training undertaken by the agricultural extension system (for agricultural products) or the industry promotion centers (for industrial products).

Increased Recognition of Multiple Types of Groups

The success or failure of a collective action group is largely independent of the legal form that it takes. Far more important to the effectiveness of any type of collective action are the "factors for success" described above. In practice, this means that while some cooperatives have had favorable results, others have failed.

In developing the "next generation" of legislation that will govern collective action in Viet Nam, attention should be paid to the lessons learned by both formal and informal collective action groups, including producer groups and cooperatives. In addition, consideration should be given to increasing recognition of more informal types of collaborative action groups particularly so that their members can access credit on a group basis.

Viewpoints

Potential advantages

At present, our union consists of seven cooperatives in which six are pig-breeding cooperatives and one is veterinary related which serves all the others. In this type of cooperation, the farmers can expand the access to input materials. Formerly, we could not buy first-ranked inputs but now the union can purchase this kind of input directly from the production factory at a lower price.

Prior to the establishment of the union, the cooperatives were small and could not meet the purchasing demand in large contracts. By becoming a community of cooperatives, the tasks with input supplies and demand for outputs became easier. The union also wanted to build a processing workshop, so that in the long run when the safe quality of our products is widely recognized, we can proceed with the consumption ourselves.

Mr. Mai Thanh Chinh, Chairman of the Board of Directors, Nam Sach Husbandry Cooperative Union, Hai Duong province



In the cooperative, we had techniques transferred from the Vietnam Institute of Agricultural Science; local authorities also created good conditions for us to borrow capital from banks. Formerly, we could only borrow 5 million VND and now we can have medium-term loan of 30 million VND with low interest rate. The loans are used to repair the breeding facilities and buy new breeding animals, as well as, input materials. Member households also grouped together to buy pig-feed. Besides, we can sell pigs to slaughterhouses in Hai Phong to export to Taiwan. Our family income has been improved, from 3- 500,000 VND/month formerly to 1 million VND/month presently, which is much higher than earnings from agricultural production.

Mr. Nguyen Huy Tuong, Member of Hop Tien Husbandry Cooperative, Nam Sach, Hai Duong province

Current situation of collective actions in Viet Nam

Presently, collective actions in our country are mainly those of a voluntary nature, with two main models, i.e., cooperatives and collaborative groups. There are many types of cooperatives such as service, sea-product cooperatives, etc. However, the largest amount are agricultural cooperatives under two groups: Old cooperatives founded in the 1960s in the North and 1975 in the South, and New Cooperatives. Collective action is an essential trend, representing the community spirit and helps by

improving the production efficiency. There are certain types of works such as agricultural irrigation or pest control which could not be carried out without collective actions.

Ms. Chu Thi Hao, Vice Director, Department of Cooperatives and Rural Development, Ministry of Agriculture and Rural Development



Our State's policies are very open, however, there lacks a detailed administrative process for local authorities to implement these policies. The regulation on the establishment of cooperatives is very supportive but in fact is unenforceable, for example, the regulation on free rent of land from the State, or the regulation that cooperatives have the right to borrow funds but they are unable because of specific policies of banks, or the regulation of assessing cooperatives based on their profits. Cooperatives must have profitable operations but that policy is contrary to the objective of collective actions which instead is to help economic entities to operate profitably, not the individual collective action. There are still ongoing debates regarding the theory that cooperatives are economic entities. This is very dangerous because in this case, cooperatives must act as economic entities and policies on cooperatives will thus be unrealistic.

Dr. Vu Trong Binh, Director of Rural Development Center, Institute of Policy and Strategy for Agriculture and Rural Development



Since 1995, the collective economic sector contributed nearly 8% of country's GDP. The groups, plus individual farmer members, contributed about 15% of the GDP.

This is a notable ratio; furthermore, this sector consists mainly of poor farmers and small-scale producers and serves nearly 15 million members of economic collective groups and their family members. This sector should not be neglected; instead, it should receive more attention because it does not only contribute significantly to the economic growth, but also creates jobs for a large number of laborers. These two positive attributes help contribute to reducing hunger and poverty levels, increase members' incomes, etc. The growth of this sector has been sending encouraging signals during the past three years with a continuous increasing rate from 3.43% in 1993 to 3.83% in 2004 and 3.98% in 2005 after a long period of decrease from 1995 - 2003.

Dr. Nguyen Minh Tu, Director of Department of Cooperatives, Ministry of Planning and Investment

Keys to success



First, it is necessary to identify the form and purpose of collective action. The scale and form of collective action are based on the scale of production and the professionalism of farmers. For small-scale farmers, collective action can be simple by grouping with loose organizations. The decisions of the small farmer household group can be changed flexibly based on the practical situation in order to reduce risks. For farmers with large-scale and professionalized production, collective action should be closely organized following closely the legal requirements. For the poor, collective action should focus on resource-sharing rather than participating in the market. If they want to participate in the market, their collective action should be carried out in the form of information sharing.

Dr. Vu Trong Binh, Director of Rural Development Center, Institute of Policy and Strategy for Agriculture and Rural Development

Our Cooperative Union is gradually getting into large-scale operations, with the widening of processing units, and the expanding of production inputs and outputs. The union has a specific scheme on job assignment, with a chairman and director in charge of general activities and two vice directors in charge of more specific activities. Farmers need to see their benefits before feeling interested in participating, several examples are, if they can purchase production inputs at a lower price as compared to the market price, or if they can receive consultation, technical training on husbandry, or if they can obtain the assistance by the cooperative in terms of output consumption. Regarding the market connection, a cooperative union also assigns personnel to be in charge of the relationships, production inputs and outputs.

Mr. Mai Thanh Chinh, Chairman of the Board of Directors, Nam Sach Husbandry Cooperative Union, Hai Duong province

In order to ensure the success of collective actions, there should be collective projects, and coordination abilities and mechanisms. The coordination mechanism must ensure

the actual participation by the group members in identifying their participation objectives, making collective decisions, and implementing collective actions. As for professional and closely-collective actions, there needs to be legal mechanism to control members. As for collective actions at a small scale, the actions should focus on sharing information and utilizing a flexible internal coordinating mechanism. With small-scale collective actions, market linkages should mean the building of a network between inputs, outputs and information among members. Professional and large-scale collective actions manifest themselves through the building of a collective project with vertical and horizontal coordinating mechanisms, or by forming contracts to ensure product quality, goods supplies, credit, etc.

Dr. Vu Trong Binh, Director of Rural Development Center, Institute of Policy and Strategy for Agriculture and Rural Development

Recommendations



Those who participate in cooperatives are those with high interests in doing business and high senses of self-motivation. Relevant authorities have provided much technical support and we have received lots of training. The only outstanding problem regards land and capital. If we have land, we will develop concentrated husbandry practices, establish large-scale farms, set up transaction offices, and build feed stores. Presently, the transaction office is located at a member's residence and our application for land has not yet been approved by the local authority.

Mr. Nguyen Van Doan, Member of Hop Tien Husbandry Cooperative, Nam Sach District, Hai Duong province

In terms of funds, the State management mechanism can be decentralized to the district level to reduce procedures and application time. Besides, business plans of individuals and household groups can be used as a prerequisite condition for capital borrowing. A transparent management mechanism over fund resources should be established to reduce "unnecessary costs" for farmers.

Mr. Bui Van Boi, Pig husbandry group of Kha village, Quy Hoa commune, Lac Son district, Hoa Binh province



The authorities at different levels have all recognized the difficulties of cooperatives, however in order to make a good support, it is necessary to understand why the support is needed. Firstly, the policies must be synchronous and there must be sufficient guiding circulars. In addition, a complete network of officials must be established, there should be an appropriate budget and the local authorities should pay enough attention in order to set up plans for management and supporting activities. Support for training is the most important thing which should include the support for training in service improvement, improvement in marketing and consuming activities, and help to disseminate good success models, etc.

Ms. Chu Thi Hao, Vice Director, Department of Cooperatives and Rural Development, Ministry of Agriculture and Rural Development

The greater the scale of the collective actions, the closer the binding mechanism is required. If we can promote a more opened state policy, then collective actions will be further developed. Another issue is that in order to coordinate collective actions and help farmers further participate in the market, there needs to be a process of building the coordinating tools in terms of economic, technical and technological aspects. Scientists should be the ones to support the agents in building up these tools.

Presently, it is especially necessary that the State recognizes the private traders as formal economic agents, as they do not receive any supports from the State, nor are they considered as formal agents. Eighty to Ninety percent of agricultural products is transacted via these channels and is out of the tax management control of the State and quality control then becomes impossible. Therefore, when discussing about the building of collective actions, they are still reluctant because they are afraid of the discrimination by the State. Collective actions by private traders will help us better organize the market and should help the market operate more efficiently.

Dr. Vu Trong Binh, Director of Rural Development Center, Institute of Policy and Strategy for Agriculture and Rural Development