

## **WHY GOVERNMENT SUPPORT IS NOT SO EFFECTIVE TO BOOST PERFORMANCE OF COOPERATIVES: A CASE STUDY OF SONLA PROVINCE, VIETNAM**

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### **ABSTRACT**

Cooperative play an important role in agricultural and rural development, especially in developing countries including Vietnam. To develop this model, numerous support programs have been carried out by central and local governments. In order to understand the effect of government support, this study examines the case of Sonla Province, which had explosive growth in the number of this model recently. The results shown that the cooperatives in Sonla have grown fast in terms of quantity but slowly in terms of performance. The study found major reasons for the (partial) failure of some supports, including: (1) the barrier created by resource-based requirements from the support programs; (2) inadequate training programs, which have not met the needs of cooperative; and (3) some support activities that created a money-incentives driver for setting up cooperative and distorted the mission and vision of cooperatives. Some implications are recommended for policymakers and local governments in developing and implementing more appropriate and effective supports, which will be based on principle compliance-based requirements; be tailored to each stage of the cooperative's development; and be carried out on the basis of upholding the principles of this model, towards to the sustainable development of the cooperative in the coming time.

**Key words:** economic collective, intervention, agriculture, developing country

### **INTRODUCTION**

In Vietnam, the cooperative model was formed in the 1950s but had to go through many ups and downs. Since 1955 to 1986, cooperative model was identified as one of the two official economic forms in Vietnam (besides state-owned enterprises), which promoted collective strength to bring benefits for farmers. However, since 1986, this traditional cooperative model no longer played a key role as it was not suitable with the transformation economy context. In early 2010s, when the Cooperatives Law 2012 was issued which reflected innovative thinking about a new cooperative model and contributed to improve production relations following market orientation, the development of cooperatives has entered a new stage. Based on advantages of economies of scale and scope, cooperative production is generally seen as a the way to group of small-holder capacity to improve product quality, as well as capital investments and management skills (Coles and Mitchell 2013; Segismundo and Ralleta-Navarro 2009). Purchasing in the form of bulk sales helps the cooperative member to reduce transaction costs (Blandon et al. 2009; Hellin et al. 2009; Holloway et al. 2000; Markelova et al. 2009; Valentinov 2007). Simultaneously, collective power helps improve the standing of farmers when they are negotiating in the market to gain more competitive prices for both inputs and outputs (Deng et al. 2010; Padilla-Fernandez and Nuthall 2012). Furthermore, the research of Altman (2015a) has shown that production in cooperative would also expect higher levels of effort inputs (x-efficiency) than that of corporate employment or large investor-owned firm, given cooperative governance. More importantly, via cooperatives, farmers and small businesses cooperate with each other to strengthen their cooperative efforts to cope with difficulties and avoid high risk of losses. For the purpose of fair trading, cooperative also support peasants by reducing information asymmetry between them (the poor farmers) and the external market (Bijman and Hendrikse 2003). Finally, cooperatives can facilitate the support programs of governments by establishing extension networks that can provide better information on technology and information services to their members (Fock and Zachernuk 2006). The attractiveness of the new cooperative model is evidenced by the rapid growth in the number of cooperatives, as well as the voluntary participation of the members in this model. By the end of 2019, Vietnam had 24,618 cooperatives and 85 cooperative unions with more than 7 million members (Vietnam Cooperative Alliance 2020).

Sonla is a northwest mountainous province of Vietnam with many potential advantages in agricultural production. Like many other agriculture-based provinces, cooperatives are considered as the core model to organize the implementation of the association to overcome the shortcomings of current agricultural production in Sonla, such as risk production, quality management, market connection and so on (Vietnam Ministry of Planning and Investment 2020). Actual activities of the cooperatives in Sonla over the past time shown that the models of cooperatives have partially contributed to the process of economic structure transformation and created benefits for the farmers. One of the important factors affecting the development of the new cooperative model in Vietnam in general and in Sonla Province in particular is the support programs of the government from the central to local levels, in various forms including start-up support, resource (financial, land, technology) support and enhancing management capacity support programs. However, in reality there are still gaps between the intended (i.e. to effectively boost the performance of the cooperatives in Sonla province) and the actual effects of these supporting programs (i.e. the average level of the performance of cooperative in Sonla is lower than national average level). The cooperatives in SonLa received support from government only, nothing from non-government organizations and private firms.

This above paradox raised the question why government support is not so effective to boost performance of cooperatives in this province. To answer the question, this study sought to review the performance and the obstacles in the development of the cooperatives in Sonla Province since 2012, review the cooperative support programs of government from central to local levels since 2012, and find the reason why these support systems are not so effective in reality, then draw lessons learned from the case study to improve the effects of those activities on the performance of cooperatives.

## METHODOLOGY

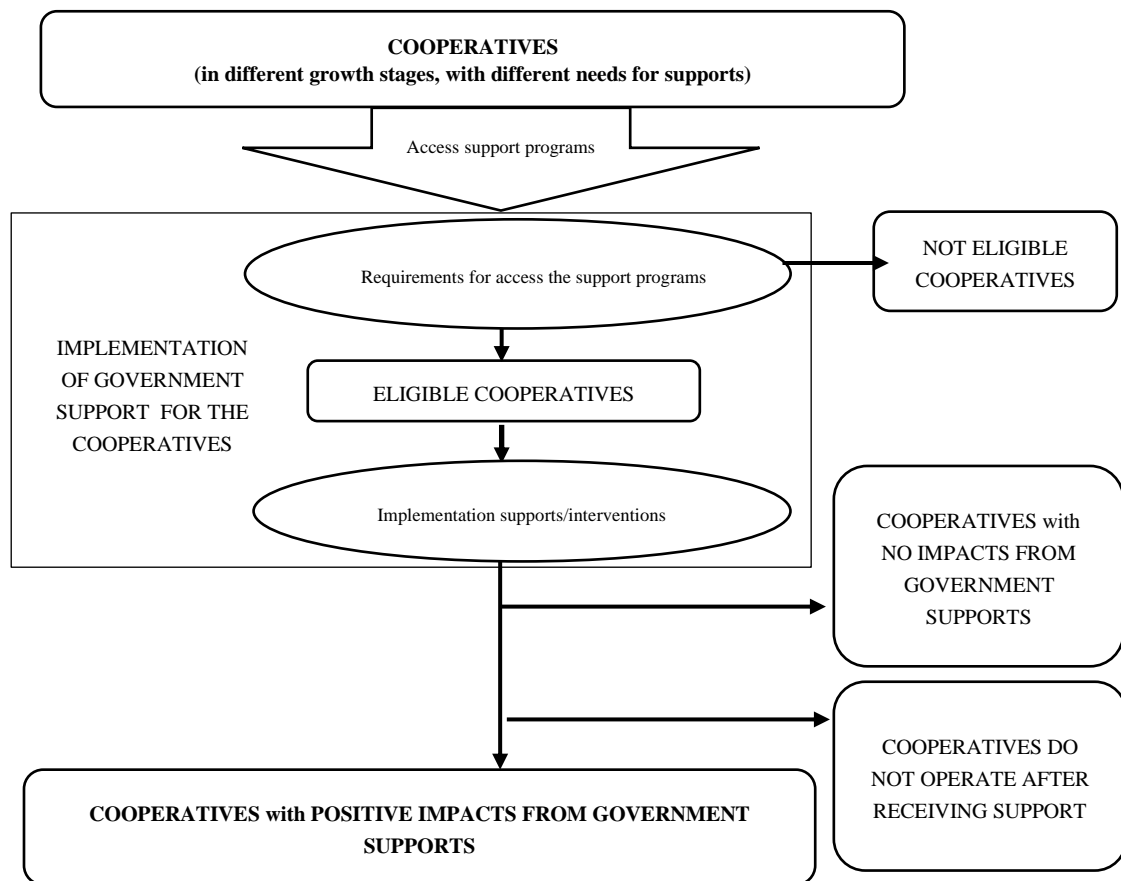
**Analytical framework.** Critical contribution to the growth of the cooperative is the government's role with a set of rules, regulations and policy support (Altman 2015; Deng et al. 2010). In many countries, it is necessary that governments be involved to support the development of cooperatives in one way or another (Ribašauskienė et al. 2019). For instance, some government agencies in the US supply the extension service to support the work of cooperatives. In Japan, the government sets up a special ministry level cooperative commission for the purpose of aiding this type of organization (Fulton 2005).

Currently, in China, policy supports not only account for most of the growth of the farmer professional cooperative but also for promoting and fostering those organizations (Deng et al. 2010). However, due to the problems arising in the implementation, the purpose of those support policies are not always achieved. It could be the issue of eligibility of cooperative in accessing public policy support programs which may lead to situation of inappropriate beneficiaries (Iliopoulos 2013).

During the implementation process, the policies have not been consistently implemented across agencies or at different administrative levels (Cox and Le 2014); or the government over-intervention could negatively affect the self-autonomy of these cooperatives (Garnevska et al. 2011). The reality in many developing countries even show the phenomenon that the direct government intervention with cooperatives has led to cooperatives becoming political instruments and/or cooperatives being inefficient due to incompetent managers (Hussi et al. 1993). Therefore, it can be seen that the support/intervention of government have both positive and negative impacts on the development of cooperative, despite its original purposes.

Specifically, in term of training support programs, the research of Ford & Hoyt (2017) has proved that those programs can be effective only if the training designed to meet the cooperative boards' specific needs in different development stages. The research developed a three-stage model (Creation/ Start up; Direction/ Establishment; and Delegation/Institution) that describes many characteristics of cooperative boards at each stage, including board culture and composition, director attributes, board focus and decision making style. Research has shown that cooperatives experience many changes as they grow from start up to maturity. Therefore, it will be ineffective if government supports the same training programs for all cooperatives.

The analytical framework designed for this study is presented in Figure 1. Following this framework, cooperatives selected in samples have been divided into different groups resulting from the implementation of support programs, including eligible/non-eligible cooperatives; groups of cooperatives that do not operate after receiving support; cooperatives with positive impacts/no impacts from government supports. Lessons learned are drawn from the reasons which affected the proportion of cooperatives in each group, as well as if the training support program match the actual needs of cooperatives in the different growth stages.



**Fig. 1.** Research analytical framework

**Research site.** Sonla is a province located in the center of the Northern mountainous areas of Vietnam. According to Sonla Department of Statistics, total Gross Regional Domestic Product (GRDP) of Sonla in 2020 reached \$ 1.432 mil. The economic growth rate in 2020 was 6.23% compared to 2019; in which agriculture, forestry and fishery increased 4.26%; industry - construction increased 9.18%; the service sector increased 5.34%. The service sector accounted for a high proportion (39.1%) and continues to contribute the most to the economy; followed by industry – construction sector, which accounted for 30.3%; agriculture, forestry and fishery sector accounted for 23.6% (Diep 2020). The cooperative model started in the 1970s, with a small number of cooperatives for a long time. However, since 2012, the development of cooperatives in Sonla has changed dramatically with 661 cooperatives in 2020. Sonla had the highest growth rate of the number of cooperatives in Vietnam in the period 2015-2019 (Vietnam Ministry of Planning and Investment 2020). This is also the reason why Sonla was chosen as sample site.

As the survey started in 2019, the sample included 105 cooperatives selected randomly from 555 cooperatives in Sonla province in 2018. The sample size of cooperatives for the survey was calculated using the formula below (Slovin 1984):

$$n = \frac{N}{1+N \cdot e^2} \quad \text{Equation (1)}$$

where “n” is the sample size, “N” is the total number of cooperatives in the research site in 2018) = 555, and “e” is design margin of errors = 0.1 (with a 90% confidence level). From the calculation, the result of n is 87. The actual sample size then needed to be increased from 85 to 105 in order to have a sufficient number of cooperatives which have existed for long time, because in the period 2017-2019, nearly 300 cooperatives were established.

The key information about the cooperatives in the sample is presented in Table 1. In these samples, agriculture cooperatives mainly operate in the following activities: collective purchasing of agricultural inputs (seed, fertilizer, feed..) to reduce input cost; carrying production in the same standard to get uniform agricultural products; bulk selling agricultural product to reduce transaction cost and strengthening in bargaining power. Meanwhile, non-agriculture cooperatives mainly involve in transporting or providing services of community-based tourism or non-agriculture services such as electricity or gasoline, etc.

**Table 1.** Basic information on selected cooperatives

Type of cooperative	Number of sample unit (coop.)	Average number of operation years (year)	Average number of members (person)	Average of business capital (\$)
Agriculture cooperative	82	3.92	15	36,341.92
Non-agriculture cooperative	23	6.21	10	72,370.81

*(Source: Cooperative Survey in Sonla 2019-2020)*

**Data collection.** Fieldwork was carried out in the study site from August 2019 to August 2020. Secondary data regarding support programs for cooperatives in Sonla was gathered from different local government offices and published papers/reports. Primary data was collected by using different research tools. Data on basic information, performance and difficulties of cooperatives were collected, and combined to identify the development phase of the cooperatives and the impacts of support programs.

The two research tools used for field research were:

**Key Informants’ Interviews (KIIs):** Several key persons from local governments at three administrative levels: province, district, and commune, were interviewed in order to obtain information about the support programs of government enforcement related to those programs.

**Survey in cooperatives:** 105 managers (on behalf of 105 cooperatives in sample) were involved in interview with assistant of questionnaire about the performance of his/her cooperative, the obstacles/difficulties in running cooperative, as well as their evaluation of the impact of the support programs of government on the cooperative. The small sample size coupled with the unsuccessful contacting of cooperatives in difficult mountainous areas are limitations of this study. Due to sampling bias, it has some limitations when generalizing the results to larger groups.

**Data analysis.** In this study, a comparative analysis was applied to evaluate the match between the implementation support programs and the actual needs of cooperatives. Actual needs of cooperative was found based on the model three stages of development following the instruction of US Overseas Cooperative Development Council – OCDC (Ford and Hoyt 2017), several questions about (1) *Product and service of Cooperatives*; (2) *Board focus*; (3) *Decision making process*; (4) *Organizational culture*; (5) *Board composition*; (6) *Director attributes*; (7) *Committee structure*; (8) *Planning*; (9) *Organization growth issues*; (10) *Board growth issues*; (11) *Organizational systems*; (12) *Resources (Financial and non – financial)*; (13) *Top leadership*; and (14) *Staffing* were given, each with a different score (1, 2, 3). Upon answering all of the questions, the total calculated score provided a numerical identification of a cooperative’s governance development stage based on the following ranking.

Attributes of cooperate governance was used to evaluate the actual needs for training support of cooperatives.

- Score 20-32 = Development Stage 1: Creativity/Start up
- Score 33-46 =Development Stage 2: Direction/Establishment
- Score 47-59 =Development Stage 3: Delegation/Institution

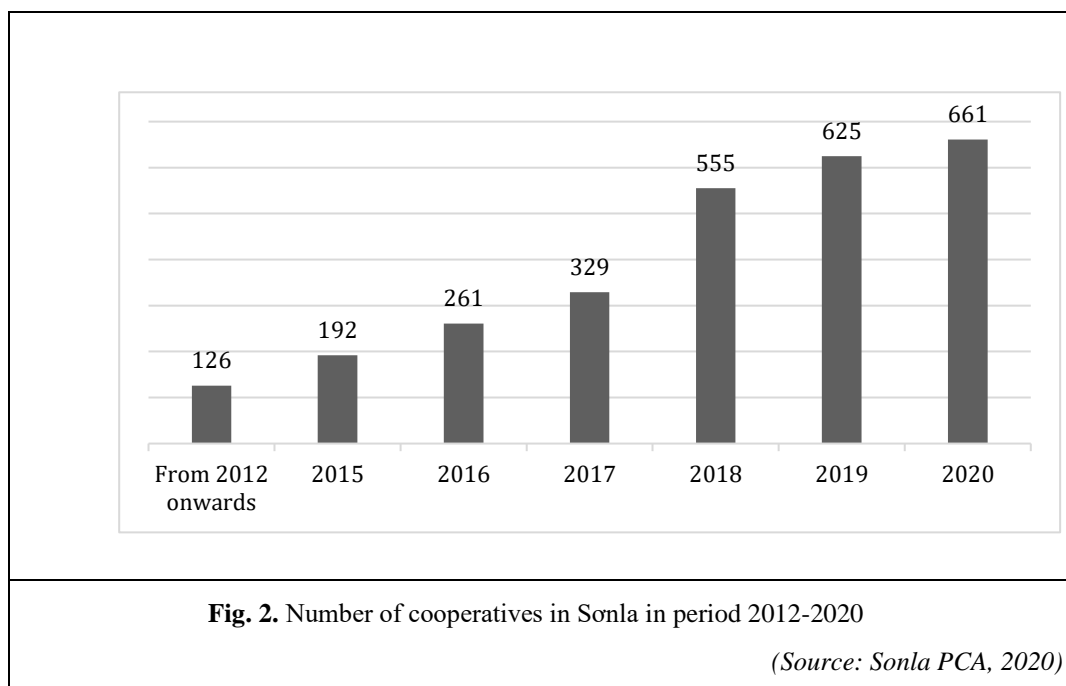
In addition, cause-effect analysis was used to identify the reasons which impacts on the effectiveness of the support programs of government for the cooperatives in Sonla.

## RESULTS AND DISCUSSIONS

**Performance of cooperatives.** Cooperative model has existed in Sonla since 1970s. In 2012, after two decades, as the result of the “top-down approach” in establishing cooperative, there were 126 cooperatives in this province (Lai 2008). However, since 2013, the issuance of 2012 cooperative law together with many policies/interventions of government from state to the provincial level had created a rapid growth in the number of cooperatives in Sonla, which was 3.33 times higher than the national average growth level (Vietnam Ministry of Planning and Investment 2020), with 661 cooperatives in 2020 (Sonla Provincial Cooperative Alliance 2021) (Fig. 2). Contrary to the first

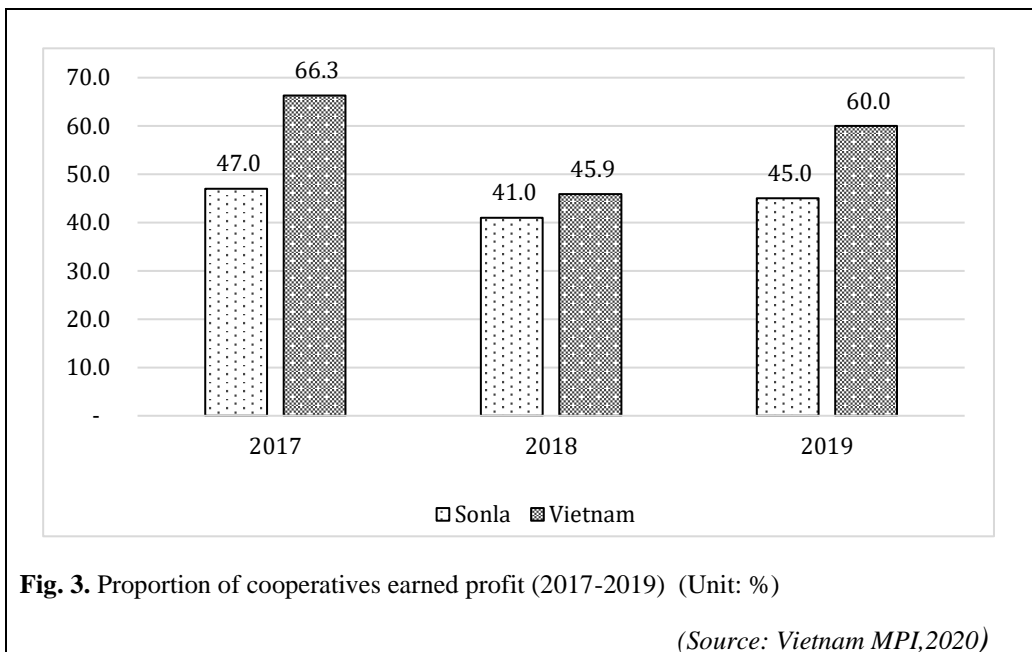
period, these cooperatives were established by the “bottom-up approach” -mainly based on the willingness of the cooperative members. Following 2012 Cooperative law, those new model cooperatives’ sizes (7 members to 70 members) are smaller than previous ones (over 100 members). The reason was the conventional cooperative was set up for the whole commune whereas the new model consists only a group of members in the small village/community who have the common interest. In 2020, one commune in Sonla may have more than one cooperative, some even have 12 to 17 cooperatives.

Given the natural and social condition of this mountainous province, agriculture cooperatives account for 86% of total cooperatives of Sonla, while non-agriculture cooperatives account for 14%. From 2012 up to present, the positive contribution of the cooperatives to the economic and social development of Sonla in general as well as of the cooperative members’ household has been stated in many previous studies (Lai et al. 2019; Le et al. 2020; Nguyen 2020).

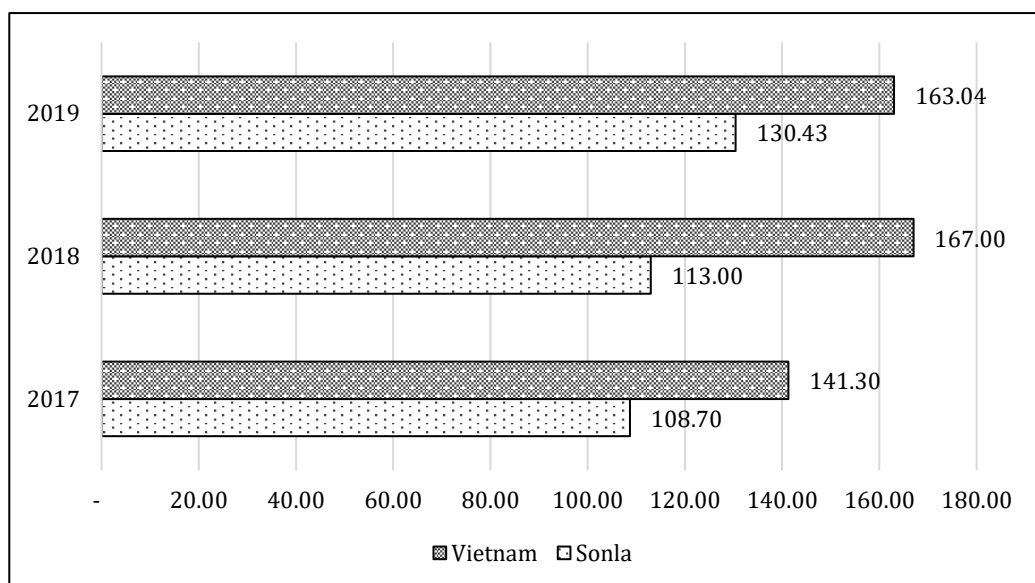


Despite the fact that Sonla has been ranked 11<sup>th</sup> among 63 provinces of Vietnam in terms of the number of cooperatives, the performance of this model in this province was below the national average. According to the survey of Vietnam Ministry of Planning and Investment (Vietnam MPI) and the report of Vietnam Cooperative Alliance, the percentages of cooperatives in Sonla which earned profit in 2017, 2018 and 2019 were 19%, 6% and 15% lower than those of national average, respectively (Fig. 3). Similarly, the average monthly labor income in cooperatives in Sonla were \$30-40 lower than national level (Fig. 4). According to the evaluation measures framework of Vietnam MPI, in 2019 only 30% of cooperative in Sonla performed effectively (Sonla Provincial Cooperative Alliance 2021; Vietnam Cooperative Alliance 2020; Vietnam Ministry of Planning and Investment 2020).

Following the guideline of US Overseas Cooperative Development Council – OCDC (Ford and Hoyt 2017), using the data collected from the survey of this study, 90 cooperatives which were established more than one year have been classified into 3 stages based on the criteria about cooperative governance. The analysis based on the model of OCDC shown that 35% of cooperatives were in stage 1 – stage of creativity/start up; 57% of them were in stage 2 – stage of direction/ establishment; and the minority, only 8% of them, were in stage 3 – stage of delegation/institution (Table 2). This result indicated the fact that majority of the cooperatives was still in start-up and setting up direction phase of the development process, after nearly ten years of explosive growth of cooperatives in Sonla. In addition, against the general trend of the world which was analyzed in the report of Gotz (2017): “*The analysis of the highest ranking businesses per sector in the World Cooperative Monitor database proves not only that cooperatives can succeed even as large businesses, but that for the most part the economic leaders of the cooperative sector remained strong throughout the years of the global economic crisis.*”, the proportion of cooperatives dissolved over the years 2018, 2019 and 2020 in Sonla was 10%; 12%; and 7%, respectively.



(Source: Vietnam MPI,2020)



For a deeper view, a question about the difficulties challenging the cooperative has been included in the survey. Similar to the opinion of Simmons & Birchall (2008), the data collected from our survey indicated numerous obstacles existing in the running process of this kind of entity, including difficulties in the start-up activities; the lack of resources for business activities (*i.e. land, capital, technology*); the lack of access to the market beyond their locality ; and the most serious one being the poor management capacity. Remarkably, the weakness of management capacity appeared differently in each phase of development (Table 2) while the other issues may happen in any phase.

In general, the overview picture about the performance of cooperatives in Sonla presented not only the speedy growth in the number of cooperatives in the period 2012-2020 but also the imbalance between the escalation in quantity and the increase in quality of this model. During the running process, several obstacles and difficulties have occurred and affected the performance as well as the role of cooperatives in rural area, which definitely need the supports/interventions from government for those entities to cope with them and develop sustainably.

**Table 2.** Management capacity weakness of cooperatives in Sonla province

<b>Stage 1:</b> <b>Creativity /Start-up</b> <i>(accounted for 35% cooperatives)</i>	<b>Stage 2:</b> <b>Direction/Establishment</b> <i>(accounted for 57% cooperatives)</i>	<b>Stage 3:</b> <b>Delegation/Institution</b> <i>(accounted for 8% cooperatives)</i>
<ul style="list-style-type: none"> <li>• Lack of the knowledge about nature and principles of cooperatives</li> <li>• Lack of the business management skills.</li> <li>• Lack of business resources (capital, land...)</li> </ul>	<ul style="list-style-type: none"> <li>• Lack of business planning and resource monitoring skill.</li> <li>• Inadequate marketing and financial accounting experts</li> <li>• Weak internal control system</li> <li>• Weak skill to attract the loyalty of members</li> </ul>	<ul style="list-style-type: none"> <li>• Lack of long-term planning skill, monitoring, evaluating and responding to risks.</li> <li>• Lack of knowledge about opportunities for fair trade</li> </ul>

*(Source: Cooperative Survey in Sonla 2019-2020)*

**Government support for cooperatives in Sonla Province, Vietnam.** With the purpose to help the cooperative to overcome the obstacles in business process, several support programs for the cooperatives in Sonla were launched by governments from central to provincial level since 2015, three years from the establishment of the new model. Although the programs were designed to address most the difficult issues, only a few cooperatives received those supports. Except for the programs focused on start-up supports and enhancing management capacity, the remaining ones received by less than 30% of surveyed cooperatives (Table 3).

Besides, the assessment of the beneficiaries also revealed that the impact of those programs was not rated highly by them (Table 3). For example, in evaluating the management capacity supports programs, 28 percent of interviewers said “*this was ineffective*” and 54 percent said “*it had impact but lower than expected*”, whereas only 18 percent considered “*it created positive impact*”. More specifically, they found that some training courses were not necessary, some other courses lasted too long, or the contents of the course were so theoretical while they needed to learn more practical experiences. Another example concerned technology support. Eleven percent of respondents valued the impact of the programs, while 89 percent of them said that “*having impact but not as expected*” due to problems arising after receiving technology, for example, limited capacity and financial capacity to maintain these technologies. Obviously, although all the programs targeted to resolve the current issues of cooperatives, they seemed to be far from reaching their purposes. The next part discusses why and whether there was the gap between the hard effort of the government at different levels and resources focused to support the cooperatives and the low benefits received by the beneficiaries.

**Lessons learned from the case study of Sonla Province, Vietnam**

**Lesson 1:** Resource-based requirements from support programs created barriers for targeted cooperatives to access

The first lesson was learned from the fact that technology, land and capital supports of the programs were received by very few cooperatives (Table 3) although capital, land and technology are the big problems for the majority of Sonla cooperatives (Le et al. 2020). Like other firms, these three resources are necessary and desirable for co-operatives to conduct business, grow, and meet the demands of key stakeholders, especially for the agriculture ones (Sultana et al. 2020). Meanwhile, it is generally argued in economic theory and proved by many researches that cooperatives have more difficulties raising capital than other types of firms, then consequently have obstacles in land and technology issues (Poungchompu and Chantanop 2017; Ramanauskas et al. 2017; Theron 2010; Warlow and Kasabov 2014)

**Table 3.** Support programs for the cooperatives in Sonla Province since 2012

Name & starting point of the support programs				Proportion of cooperatives that received supports	Proportion of cooperatives received positive impacts from government
Management capacity supports programs <i>(provides training courses in production technology, market access and cooperative management skills)</i>				100%	18%
Technology support programs <i>(partly financial supports for hi-tech application)</i>				15%	11%
Market access support programs <i>(support in connecting to markets, trade-mark registration, trade, traceability stamp printing ...)</i>				29%	25%
Land support programs <i>(provide land for building office of cooperative)</i>				2%	2%
Start-up support programs <i>(administration and cash supports for new established cooperative)</i>				72%	60%
Financial support programs <i>(provide loans at low interest rate)</i>				11%	10%
Vietnam 2012 Cooperative Law					
<b>2012</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2020</b>	

(Source: Cooperative Survey in Sonla 2020)



The requirements for the cooperatives to receive the support of government are the key explanation for the above paradox. Resource-based requirements created high barriers for the cooperative to be given and then fully benefit from these support programs (Table 4). That is, in order to receive the technology sponsorship program, the beneficiary entity needs to pay money in advance for the suppliers, then will be refunded later when they submit the full proven records. Together with the problems in administrative procedure, the majority of agriculture cooperatives cannot benefit from this aid because they are not able to raise enough capital for the advance payment or have reserve financial resource during the time waiting for refund. Next, in terms of financial support, several programs offer loans to these entities at low interest rate. However, to be entitled to these offers, cooperatives need to own a collateral, such as land or other valuable assets. Ironically, having land as a cooperative-owned asset is also another obstacle of cooperative. To deal with this issue, provincial government supports in the procedure of transfer land use right so that it becomes the asset owned by cooperatives, but again, with the conditions about the contribution land from the members and the cooperative's own approved business plan. Given the fact that most members of agriculture cooperatives are farmers, it is really difficult for them to satisfy the requirements. As a consequence, due to the lack of collateral, most cooperatives, especially agriculture ones, cannot access the supports if the programs are attached with the resource-based requirements. In other words, if the target of the programs is to aid the cooperative to develop, the conditions should be principle compliance-based requirements (*i.e., for the purpose to confirm this organization is truthfully cooperative in nature*), rather than resource-based requirements. Indeed, if they have enough resources as the requirements, they might do not need the support anymore.

**Table 4:** Obstacles encumbering cooperatives in accessing support programs

Support Programs	Resource based Requirement	Actual situation of cooperatives before the support programs have been carried out			
Technology support programs	<i>Financial resource for investment payment in advance</i>	<b>Limited financial resources</b>			
			Year		
			2017	2018	
		Proportion of small size cooperatives (<10 staff)	66%	63%	
		Average capital level of small size cooperatives (USD)	15,909	31,455	
Financial support programs	<i>Land or other valuable assets as collateral</i>	<b>Limited land resources</b>			
		Proportion of cooperatives owing land for office	36%	Proportion of cooperatives owing land for office	39%
		Average area for office per one cooperative (m2/cooperative)	153	Average area for production activities per one cooperative (m2/cooperative)	19,886
		<b>Limited resource for forming business plan</b>			
Land support programs	<i>Detail feasible business plan</i>	<ul style="list-style-type: none"> <li>• Lack of technology</li> <li>• Lack of financial resources</li> <li>• Lack of skill in making feasible business plan</li> </ul>			

Source (Cooperative Survey ; KPIs; Cooperative White book 2020, Sonla Provincial Documents)

This lesson is similar to the experience in cooperative development in Central Asia, which suggests that grants and subsidies should be made available to healthy, fundamentally viable cooperatives, which ultimately will have sufficient own resources to finance their business activity, although they may require temporary assistance to achieve sustainability (Lerman 2013). In the other words, like experiences from public policy support for agricultural cooperatives in developed countries namely USA, Australia, Canada, France, Germany and the Netherlands, the requirement for cooperative to ensure the basic principle “user-owned, -controlled, and -benefited” should be considered for the eligibility to participate any government support programs (Iliopoulos 2013).

**Lesson 2:** Abundantly of training support programs but were inadequate because they have not met the needs of the trainees

In the period 2017-2020, the Sonla provincial government invest more than \$ 200,000 expenditures in training support program, with the trainees from all cooperatives. The same training supports was applied for all, even though they met different issues in management, different training demand as they were in different phases (Table 5).

**Table 5:** Responsiveness of training programs compared to training demand of cooperatives in Sonla province.

Training demand of cooperative in each stage		Topics of actual training courses
		Trainees: Manager/ Accountant from all cooperatives
<b>Stage 1</b> <i>(accounted for 35% cooperative)</i>	Nature and principles of cooperatives*	
	Production Management	Production Techniques
	Marketing skills	Marketing skills
	Basic skill for business management	General skills for Business Management
<b>Stage 2</b> <i>(accounted for 57% cooperative)</i>	Short-term business planning	Short-term business planning
	Marketing skills	
	Accounting for accountant	Update accounting knowledge for accountant
	Accounting for management*	
	Internal control system*	Training course for “One Community One Product” Program
<b>Stage 3</b> <i>(accounted for 8% cooperative)</i>	Long - term planning skills*	
	Monitoring & risk management skills*	
	Opportunities for fair trade	

*Source (Cooperative survey 2020, KPIs)*

*Note:( \*): The training demand has not been addressed by any training course*

For that reason, the second lesson learned from the case is the training support programs should be tailored to each stage of cooperative's development. Cooperatives should be classified into different development phases before designing the training courses. By doing so, the training contents will help group of managements in each specific stages of development to learn knowledge and skills which can address the current problems of their own cooperatives. Furthermore, this activity will create a network of managers who have same interests, same difficulties so that they will share practical experiences to each other, effectively.

**Lesson 3:** Some support activities created the money-incentives driver for the cooperative in operation, which distorted the mission and vision of cooperatives

To illustrate, the first experience was the start-up support program of Sonla Provincial Government which finance around \$ 250 to a newly established cooperative. Starting in 2015, this policy had kicked off a boom in the number of cooperatives in the period 2015-2018 (see figure 2). When asked about the reason for establishing a cooperative, 40% of the respondents mentioned that this allowance was the main motivation. This reason shows insufficient awareness of the members about the fundamentals codes of this model. Meanwhile, the “lack” of training on nature as well as the principles of cooperatives (see table 5). Even though the purpose of the policies was to help the cooperatives in the setting up phase, it also created the money-incentive for the farmers to establish cooperatives without understanding the basic benefit of this model. To some extent, it also seemed to have bred a class of “false cooperatives”, i.e., established only for the purpose of gaining access to the aids, without any regard for true

cooperative principles. Moreover, it could also affect the sustainability of cooperatives, as cooperatives established based on government programs seldom survive, and only cooperatives created based on user initiative in rural areas are more likely to be sustainable. The world experience about similar cases has been noted in the research of Sedik and Lerman (2015). Another experience is about the impact of technology support activities and autonomy principle. Fifteen percent of cooperatives in Sonla received the finance aid from the government for setting the high-tech agricultural system. However, the finance aid was only enough to cover setting up and running cost for some first years. As the result, 50 percent of the systems had stopped as those cooperatives could not afford to maintain it, in terms of finance and management capacity. Government programs, when they provide support, focused on subsidies, rather than training the farmers on how to autonomously exploit those resources in the long-term and sustainable way. Principally, cooperatives are autonomous, self-help organizations controlled by their members (International Cooperative Alliance 2017). Obviously, when the cooperatives rely on external supports for their business, they cannot be regarded as autonomous and independent entity anymore. Furthermore, maintaining the operation of the principle of the cooperative model is also creating an opportunity to exploit X-efficiency gained from economics of scale and scope as well in transaction costs that can be captured by the cooperatives (Altman 2015). Therefore, support activities on the ground of implementation and practice of cooperative principles is vital to the success of the cooperative, especially in agriculture sector.

Generally speaking, the legislative frameworks and support programs are considered as the “sine qua non”<sup>1</sup> of cooperative development process in developing countries (Theron 2010). As a special economic entity with its own characteristics, core values and principles, the cooperative receives supports from the government and donor organizations to improve operational efficiency and create value for community. Therefore, if these support activities are not carried out on the basis of maintaining the principles, after receiving the support, these organizations will no longer be the cooperative model in nature. For that reason, governments need to develop a support/intervention program for helping cooperative sectors on the basis of upholding the nature the principles of the cooperative.

## **CONCLUSION AND IMPLICATIONS**

The cooperative model in Sonla Province has undergone an explosive growth in the period from 2012 to 2020. The formation and operation of cooperatives in Sonla has made noteworthy contributions to the socio-economic development of the community as well as stabilized the livelihoods of farmers in this area. In order to help the cooperatives to overcome these difficulties, the government from the central to provincial level has many policies and programs to support the development of new models of cooperatives. Nevertheless, in general, the performance of cooperatives in Sonla was still lower than national average level even under the various support efforts of government. The percentage of cooperatives receiving positive impacts from these support programs is still a minority and these programs still have many shortcomings in the implementation process.

Obviously, there is thus a need to review intervention/support programs on an ongoing basis, in the light of experience. In the scope of this research, a number of lessons are given to overcome the shortcomings and help policies reach more cooperatives and create higher efficiency, including: (1) Resource-based requirements from the support programs for the cooperative should be replaced by principle compliance-based requirements; (2) Training support programs should be tailored to each stage of cooperative's development; and (3) Support activities should be carried out on the basis of upholding the nature the principles of the cooperative. However, to be able to do so, it is necessary to have accurate assessments; thereby adding support policies and programs that better suit the characteristics of the cooperatives in their corresponding phase of development, as well as focus on innovating and developing the cooperative model in depth, with many diversified models emphasizing operational efficiency and bringing practical benefits to members as well as to the wider community.

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<sup>1</sup> The “sine qua non”: a necessary condition without which something is not possible

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